



BLUGLASS

P R O S P E C T U S 2 0 0 6

453 8380

FOR THE OFFER OF UP TO 30,000,000 SHARES  
AT AN ISSUE PRICE OF \$0.20 EACH TO RAISE  
UP TO \$6,000,000. OVERSUBSCRIPTIONS OF UP  
TO A FURTHER 15,000,000 SHARES AT AN ISSUE  
PRICE OF \$0.20 CENTS EACH TO RAISE UP TO  
A FURTHER \$3,000,000 MAY BE ACCEPTED.

BLUGLASS LIMITED PROSPECTUS ABN 20 116 825 793

## IMPORTANT NOTICE

This is an important document that should be read in its entirety. If you do not understand it you should consult your professional advisers without delay. The Shares offered under this Prospectus should be considered speculative.

## IMPORTANT INFORMATION

This Prospectus is dated 27 July 2006 and was lodged with ASIC on that date. ASIC and its officers take no responsibility for the contents of this Prospectus nor the merits of the investment to which the Prospectus relates.

The expiry date of this Prospectus is at 5.00pm AEST on that date which is 13 months after the date this Prospectus was lodged with ASIC (**Expiry Date**). No securities may be issued on the basis of this Prospectus after the Expiry Date.

Application will be made to ASX within seven days after the date of this Prospectus for Official Quotation of the Shares that are the subject of this Prospectus.

The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law, and persons who come into possession of this Prospectus should seek advice on and observe any of these restrictions. Failure to comply with these restrictions may violate securities laws. Applicants who are resident in countries other than Australia should consult their professional advisers as to whether any governmental or other consents are required or whether any other formalities need to be considered and followed.

This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer.

It is important that investors read this Prospectus in its entirety and seek professional advice where necessary. The Shares that are the subject of this Prospectus should be considered speculative.

## WEB SITE—ELECTRONIC PROSPECTUS

A copy of this Prospectus can be downloaded from the website of the Company at [www.bluglass.com.au](http://www.bluglass.com.au). Any person accessing the electronic version of this Prospectus for the purpose of making an investment in the Company must be an Australian resident and must only access the Prospectus from within Australia.

The Corporations Act prohibits any person passing onto another person an application form unless it is attached to a hard copy of this Prospectus or it accompanies the complete and unaltered version of this Prospectus. Any person may obtain a hard copy of this Prospectus free of charge by contacting the Company.

## EXPOSURE PERIOD

This Prospectus will be circulated during the Exposure Period. The purpose of the Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds. Potential investors should be aware that this examination may result in the identification of deficiencies in the Prospectus and, in those circumstances, any application that has been received may need to be dealt with in accordance with Section 724 of the Corporations Act.

Applications for shares under this Prospectus will not be processed by the Company until after the expiry of the Exposure Period. No preference will be conferred on persons who lodge applications prior to the expiry of the Exposure Period.

## SUMMARY OF IMPORTANT DATES

Lodgement of Prospectus with ASIC	27 July 2006
Opening Date	4 August 2006
Closing Date	25 August 2006
Expected Date of Dispatch of Holding Statements	31 August 2006
Expected date of listing on ASX	7 September 2006

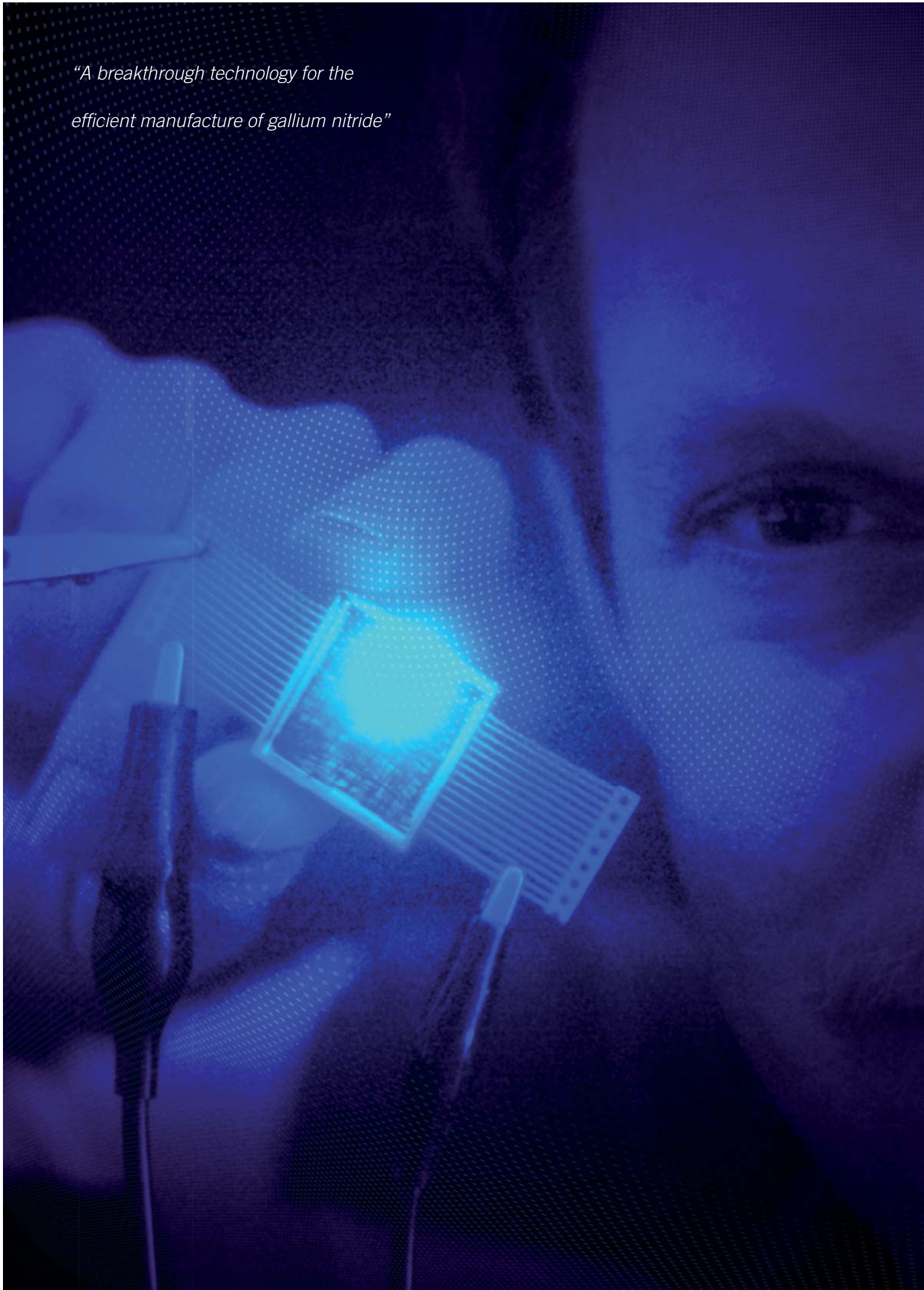
The above dates are indicative only and may change without notice. The Company reserves the right to extend the Closing Date or close the Offer early without notice.



**BLUGLASS**  
P R O S P E C T U S 2 0 0 6



*"A breakthrough technology for the  
efficient manufacture of gallium nitride"*



# INVESTMENT HIGHLIGHTS

## LARGE AND RAPIDLY-GROWING GLOBAL GALLIUM NITRIDE (GaN) MARKET

- Investment opportunity lies in the more efficient manufacture of GaN—the most commercially-important semiconductor material developed since silicon.
- Applications for GaN include blue and white light emitting diodes (LEDs) as backlights for mobile phones, large video displays, automotive instrument lighting, general lighting and traffic lights.
- GaN market has grown from less than US\$25 million in 1994 to reach US\$3.2 billion in 2004.

## EFFICIENT MANUFACTURING TECHNOLOGY OFFERS SUBSTANTIAL COMPETITIVE ADVANTAGES

- Breakthrough technology for the efficient manufacture of high quality layers of GaN.
- Process compatible with glass, silicon and other low-cost materials, as opposed to more expensive sapphire or silicon carbide.
- Characteristics of process together with current research results suggest process is scalable to 8-inch or greater wafer sizes, beyond current limits for GaN on sapphire or silicon carbide.
- Potential to reduce cost of GaN manufacturing process, opening up new applications for GaN materials and devices.
- Potentially substantial environmental benefits via application to more efficient lighting technologies.
- Process avoids use of highly toxic ammonia gas.

## PROTECTED TECHNOLOGY

- Technology covered by a series of patent applications.

## WORLD LEADING RESEARCH TEAM

- Technology being developed by world leading researchers from Macquarie University, inventors of a GaN LED grown at temperatures compatible with glass.

## EXPERIENCED BOARD AND MANAGEMENT TEAM

- BluGlass Board and management team offer a depth of experience and understanding in the important areas of technology commercialisation, innovation, semiconductor markets and corporate governance.
- CEO with 25 years' experience in semiconductor industry and extensive experience in commercialising semiconductor research and development.

## CLEAR STRATEGIES FOR COMMERCIALISING TECHNOLOGY

- Successful demonstration of technology on 2-inch wafers and currently scaling up to 6-inch and larger wafers.
- BluGlass to build a pilot manufacturing plant to fabricate GaN material and devices to further develop technology and facilitate licensing.
- BluGlass is continuing to develop relevant relationships and strategic alliances within the semiconductor and related industries.

The Investment Highlights set out above must be read in conjunction with the remainder of this Prospectus, including the risk factors set out in Section 9.





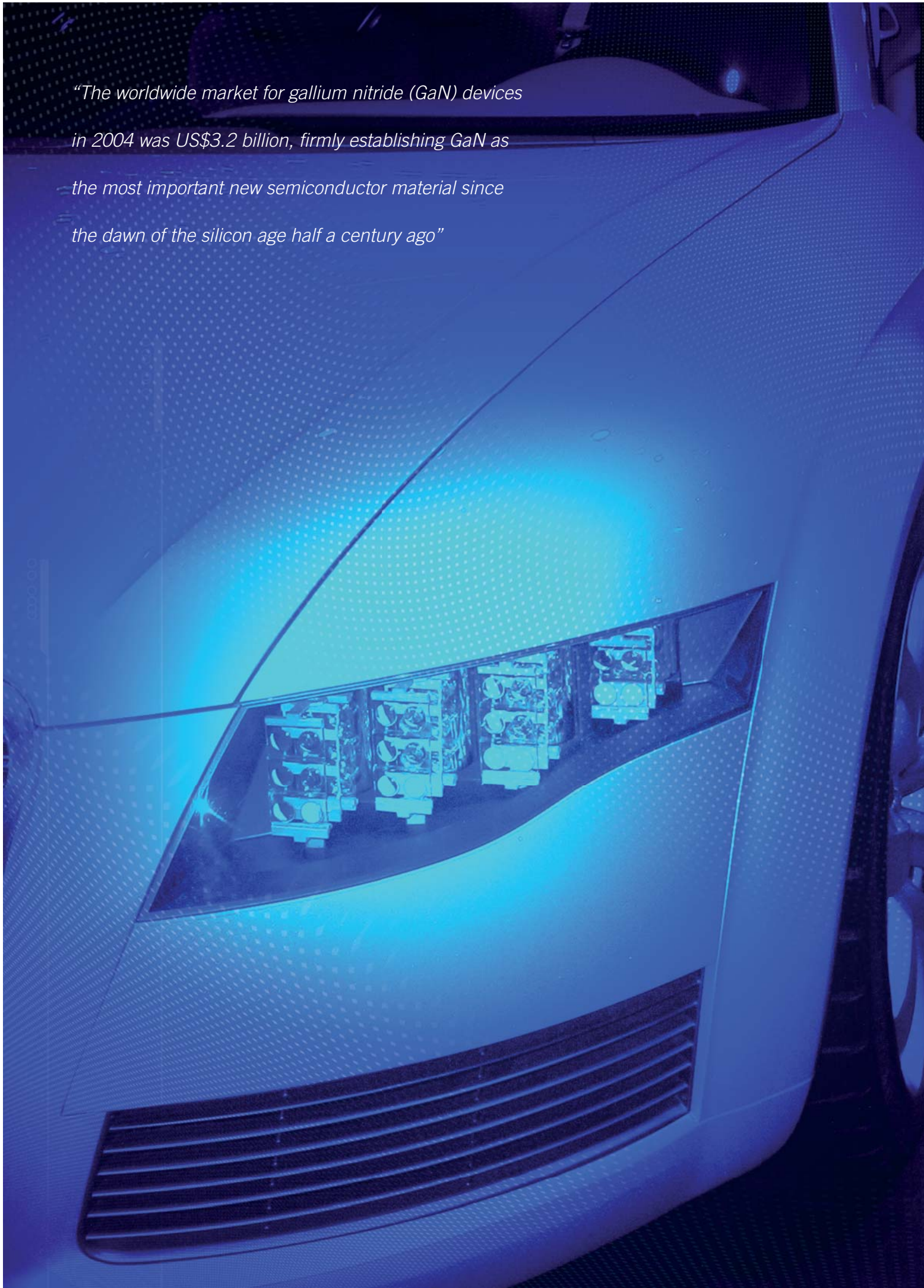
*“Potentially substantial environmental benefits via application to more efficient lighting technologies”*

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*“The worldwide market for gallium nitride (GaN) devices in 2004 was US\$3.2 billion, firmly establishing GaN as the most important new semiconductor material since the dawn of the silicon age half a century ago”*





# 01 CHAIRMAN'S LETTER



**MICHAEL TAVERNER**  
*Chairman*

Dear Investor,

BluGlass Limited (**Company** or **BluGlass**) is a newly-formed company planning to develop and commercialise a highly promising new technology for producing the semiconductor material gallium nitride (**GaN**). GaN is critical to the production of a range of high performance electronic devices, particularly high brightness blue and white LEDs. First invented little more than a decade ago, these devices have since found their way into an enormous variety of products, from backlights for mobile phones to traffic lights and household lamps. GaN is also used to make blue and UV laser diodes for the next generation of optical storage devices likely to succeed DVD.

The worldwide market for GaN devices in 2004 was US\$3.2 billion, firmly establishing GaN as the most important new semiconductor material since the dawn of the silicon age half a century ago.

BluGlass aims to fully commercialise a new process for producing GaN that offers substantial competitive advantages over current commercial processes. The process enables GaN to be produced at temperatures significantly lower than those used currently, allowing the GaN industry to move from deposition on sapphire and silicon carbide wafers to deposition on cheaper materials such as glass and silicon. Furthermore, the characteristics of the process together with current research results suggest the new process is scalable beyond the present size limits for sapphire and silicon carbide, offering substantial improvements in production efficiency over current processes.

If successfully commercialised, this technology offers a means of substantially reducing the cost of producing GaN material and devices, giving it a significant competitive advantage in current markets, and opening up opportunities for new applications and new markets for this semiconductor material. One such application for a cheaper

source of GaN is high-efficiency LED lighting. Current-day incandescent and fluorescent lights are based on relatively inefficient, century-old technologies, whereas LED lights use up to 80% less energy and last up to 100 times longer, with substantial economic and environmental benefits.

The GaN technology is being developed by world leading researchers from Macquarie University. To date, these researchers have successfully demonstrated a GaN LED grown at temperatures below 700°C, low enough to allow growth on glass. They are now working towards refining the process and demonstrating its expected scalability to 4-inch, 6-inch and larger wafers.

I am joined on the Board of BluGlass by CEO David Jordan, and non-executive directors Greg Cornelsen and Chandra Kantamneni. In addition to their industry profiles and contacts, these Board members possess an enormous depth of experience in the commercialisation of new semiconductor technologies, critical to guiding the Company during its early growth. David Jordan has worked for over 25 years in the global semiconductor industry, including many years with a major global solar cell manufacturer, managing the global link between diverse research groups and high volume semiconductor manufacturing in various countries. Greg Cornelsen is a successful business manager and company director, with extensive links within the Australian business community, while Chandra Kantamneni has over 25 years' experience with some of the world's largest semiconductor companies, and is currently vice president and general manager of Peregrine Semiconductor Australia.

The Board of BluGlass has established clear strategies for commercialising the Company's GaN technology using the funds raised by this Prospectus; principally the construction of a pilot manufacturing plant to demonstrate the technology and facilitate licensing.

Details of the Offer, including information on the Company's products, markets, management, risk factors and finances, are set out in this Prospectus, which I encourage you to read before making a decision to invest. On behalf of the Board, I am pleased to present this Prospectus to you and invite you to take part in this exciting investment opportunity.



Michael Taverner  
*Chairman* 27 JULY 2006

# 02 INVESTMENT OVERVIEW

## 2.1 IMPORTANT NOTICE

This section is not intended to provide full information for investors intending to apply for Shares offered pursuant to this Prospectus. This Prospectus should be read and considered in its entirety.

## 2.2 OBJECTIVES

The strategic objectives of the Company are to develop and commercialise its GaN technology and further expand relationships and strategic alliances within the current market.

On completion of the Offer, the Board believes the Company will have sufficient working capital to achieve these objectives.

## 2.4 PURPOSE OF THE OFFER AND USE OF PROCEEDS

If the minimum subscription of \$6,000,000 is raised from the Offer, these funds, together with the Company's existing cash reserves of approximately \$5.9 million, are intended to be applied as follows:

Description	Year 1 (\$)	Year 2 (\$)	Year 3 (\$)	Total (\$)
<b>Technology development</b>				
Development and construction of pilot plant	5,500,000	–	–	5,500,000
Research and development	220,000	220,000	220,000	660,000
<b>Total technology development</b>	<b>5,720,000</b>	<b>220,000</b>	<b>220,000</b>	<b>6,160,000</b>
<b>Other expenses</b>				
Protection of IP portfolio	80,000	150,000	250,000	480,000
Expenses of Offer (including transaction costs)	261,500	–	–	261,500
Broker handling fees	300,000	–	–	300,000
<b>Total other expenses</b>	<b>641,500</b>	<b>150,000</b>	<b>250,000</b>	<b>1,041,500</b>
<b>General working capital</b>				
Salaries	560,000	725,000	725,000	2,010,000
Rent and other overheads	540,000	640,000	1,035,000	2,215,000
Unallocated working capital	100,000	150,000	223,500	473,500
<b>Total general working capital</b>	<b>1,200,000</b>	<b>1,515,000</b>	<b>1,983,500</b>	<b>4,698,500</b>
<b>Total</b>	<b>7,561,500</b>	<b>1,885,000</b>	<b>2,453,500</b>	<b>11,900,000</b>

## 2.3 INDICATIVE TIMETABLE

Lodgement of Prospectus with ASIC	27 July 2006
Opening Date	4 August 2006
Closing Date	25 August 2006
Expected Date of Dispatch of Holding Statements	31 August 2006
Expected date of listing on ASX	7 September 2006

The above dates are indicative only and may change without notice. The Company reserves the right to extend the Closing Date or close the Offer early without notice.

If oversubscriptions of \$3,000,000 are accepted (taking the total amount raised under the Offer to \$9,000,000), these funds, together with the Company's existing cash reserves of approximately \$5.9 million, are intended to be applied as follows:

Description	Year 1 (\$)	Year 2 (\$)	Year 3 (\$)	Total (\$)
<b>Technology development</b>				
Development and construction of pilot plant	5,500,000	–	–	5,500,000
Research and development	320,000	420,000	520,000	1,260,000
<b>Total technology development</b>	<b>5,820,000</b>	<b>420,000</b>	<b>520,000</b>	<b>6,760,000</b>
<b>Other expenses</b>				
Protection of IP portfolio	80,000	150,000	250,000	480,000
Expenses of Offer (including transaction costs)	261,500	–	–	261,500
Broker handling fees	450,000	–	–	450,000
<b>Total other expenses</b>	<b>791,500</b>	<b>150,000</b>	<b>250,000</b>	<b>1,191,500</b>
<b>General working capital</b>				
Salaries	560,000	725,000	725,000	2,010,000
Rent and other overheads	940,000	1,140,000	1,435,000	3,515,000
Unallocated working capital	400,000	450,000	573,500	1,423,500
<b>Total general working capital</b>	<b>1,900,000</b>	<b>2,315,000</b>	<b>2,733,500</b>	<b>6,948,500</b>
<b>Total</b>	<b>8,511,500</b>	<b>2,885,000</b>	<b>3,503,500</b>	<b>14,900,000</b>

If the amount raised from the Offer is intermediate between the minimum subscription of \$6,000,000 and the maximum subscription of \$9,000,000, the funds raised from the Offer are intended to be applied as per the first table under Section 2.4 with additional funds applied to broker handling fees (5%) and thereafter in priority to research and development and other overheads, with the balance applied to general working capital.

The tables set out above confirm the intended use of funds as at the date of this Prospectus. However, it must be recognised that all budgets may change as the conducted programs provide encouragement or disappointment and new opportunities are identified elsewhere.

The Directors have sought and obtained additional funding from a government grant to assist with the development and commercialisation of the GaN technology.

The Directors believe the funds raised from the Offer will give the Company sufficient working capital to achieve its

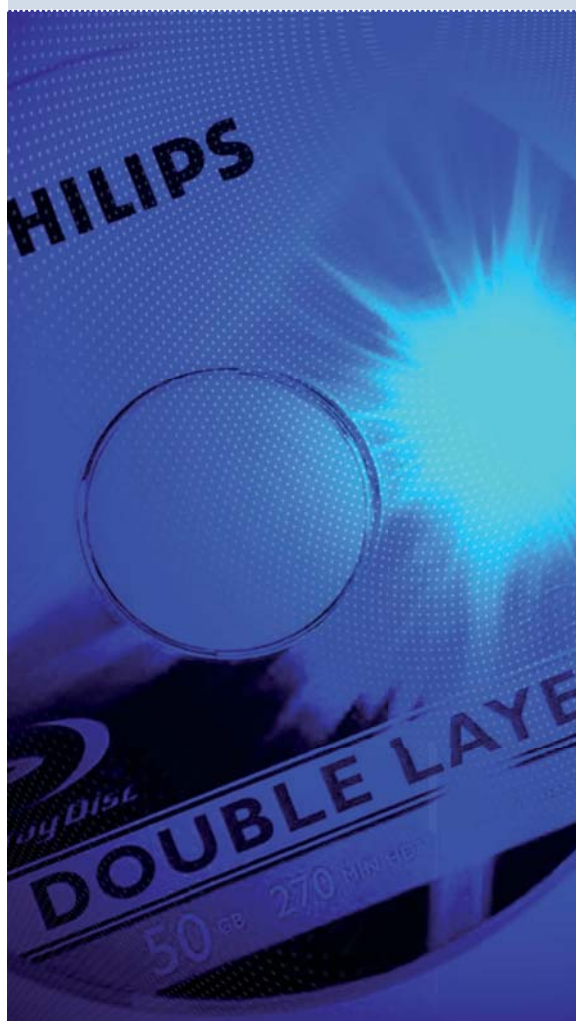
objectives as stated in the above tables. However, funds raised under this Prospectus are unlikely to be sufficient to enable the Company to fully commercialise the GaN technology through the construction of a commercial plant. As a result, the Company's strategy may include licensing the GaN technology when it has been demonstrated by the pilot plant. The Company may seek to raise additional capital in the future if suitable licensees cannot be identified and the Company seeks to commercialise the GaN technology on its own.

On completion of the Offer, 32,500,000 options to acquire Shares in the Company will be on issue. If these options are exercised, the Company may receive up to an additional \$6,500,000 prior to the expiry dates of the options. Any such funds will be used for general corporate purposes and ongoing development of the Company's GaN technology. The exercise of options is only likely to occur if the price of the Shares on ASX is higher than the exercise price of the options, which is \$0.20 for all classes of options.



# 02 INVESTMENT OVERVIEW

*“GaN-based laser diodes have a shorter wavelength than the laser diodes used in DVD recorders, enabling more information to be stored on each disk”*



## 2.5 CAPITAL STRUCTURE

The capital structure of the Company following completion of the Offer is summarised below<sup>1</sup>:

SHARES	NUMBER
Shares on issue at date of this Prospectus	59,404,002
Shares to be issued to Gallium Enterprises Shareholders	53,000,000
Share offered pursuant to this Prospectus <sup>2</sup>	30,000,000
<b>Total Shares on issue at completion of the Offer</b>	<b>142,404,002</b>

OPTIONS	NUMBER
Options on issue at date of this Prospectus	7,500,000
Options to be issued to Gallium Enterprises Shareholders	25,000,000
Director Options to be issued to Directors	2,000,000
Executive Options to be issued to the CEO	3,000,000
<b>Total Options on issue at completion of the Offer</b>	<b>37,500,000</b>

<sup>1</sup> Refer to Financial Information in Section 7.

<sup>2</sup> Assumes that the Offer is fully subscribed but no oversubscriptions are accepted.

## 2.6 RESTRICTED SECURITIES

Subject to the Company being admitted to the Official List, certain of the Shares and Options on issue prior to the Offer and certain of the Shares issued on the exercise of the Options on issue prior to the Offer, are likely to be classified by ASX as restricted securities and will be required to be held in escrow.

# 03

## DETAILS OF THE OFFER

### 3.1 THE OFFER

By this Prospectus, the Company offers for subscription up to 30,000,000 Shares at an issue price of \$0.20 each to raise up to \$6,000,000.

The Shares offered under this Prospectus will rank equally with the existing Shares on issue.

### 3.2 APPLICATIONS

Applications for Shares under the Offer must be made using the Application Form.

Payment for the Shares must be made in full at the issue price of \$0.20 per Share. Applications for Shares must be for a minimum of 10,000 Shares and thereafter in multiples of 1,000 Shares. Completed application forms and accompanying cheques must be mailed or delivered to:

Security Transfer Registrars  
PO Box 535  
APPLECROSS WA 6953

or;

Security Transfer Registrars  
770 Canning Highway  
APPLECROSS WA 6153

Cheques should be made payable to 'BluGlass Limited—Share Offer Account' and crossed 'Not Negotiable'. Completed Application Forms must reach one of the above addresses by no later than the Closing Date.

The Company reserves the right to close the Offer early.

### 3.3 OVERSUBSCRIPTIONS

The Company may accept oversubscriptions of up to a further \$3,000,000 through the issue of up to a further 15,000,000 Shares at an issue price of \$0.20 each under the Offer. The maximum amount that may be raised under this Prospectus is therefore \$9,000,000.

### 3.4 ALLOTMENT

Subject to ASX granting approval for the Company to be admitted to the Official List, allotment of Shares offered under this Prospectus will take place as soon as practicable after the Closing Date. Prior to allotment, all application monies shall be held by the Company in trust. The Company, irrespective of whether the allotment of Shares takes place, will retain any interest earned on the application monies.

The Directors reserve the right to allot Shares in full for any application or to allot any lesser number or to decline any application. Where the number of Shares allotted is less than the number applied for, or where no allotment is made, the surplus application monies will be returned by cheque to the applicant within seven days of the allotment date.

### 3.5 MINIMUM SUBSCRIPTION

The minimum subscription to be raised pursuant to this Prospectus is \$6,000,000.

If the minimum subscription has not been raised within four months after the date of this Prospectus, all applications will be dealt with in accordance with the Corporations Act.

### 3.6 ASX LISTING

The Company will apply to ASX within seven days after the date of this Prospectus for admission to the Official List and for Official Quotation of the Shares offered under this Prospectus. If ASX does not grant permission for Official Quotation of the Shares within three months after the date of this Prospectus, or such longer period as is permitted by the Corporations Act, none of the Shares offered under this Prospectus will be allotted or issued. In that circumstance, all applications will be dealt with in accordance with the Corporations Act.

# 03

## DETAILS OF THE OFFER

### 3.7 APPLICANTS OUTSIDE AUSTRALIA

This Prospectus does not, and is not intended to, constitute an offer in any place or jurisdiction where, or to any person to whom, it would not be lawful to make such an offer or to issue this Prospectus. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. No action has been taken to register or qualify these Shares or otherwise permit a public offering of the Shares the subject of this Prospectus in any jurisdiction outside Australia.

It is the responsibility of applicants outside Australia to obtain all necessary approvals for the allotment and issue of the Shares pursuant to this Prospectus. The return of a completed application form will be taken by the Company to constitute a representation and warranty by the applicant that all relevant approvals have been obtained.

### 3.8 UNDERWRITER

The Offer is not underwritten.

### 3.9 COMMISSIONS ON APPLICATION FORMS

The Company reserves the right to pay a commission of 5% (exclusive of goods and services tax) of amounts subscribed to any Australian Financial Services licensee in respect of valid applications lodged and accepted by the Company and bearing the stamp of the Australian Financial Services licensee. Payments will be subject to the receipt of a proper tax invoice from the licensed securities dealer or Australian Financial Services licensee.

### 3.10 CHESS

The Company will apply to participate in the Clearing House Electronic Subregister System (**CHESS**). CHESS is operated by ASX Settlement and Transfer Corporation Pty Ltd (**ASTC**), a wholly-owned subsidiary of ASX,

in accordance with the Listing Rules and the ASTC Settlement Rules.

Under CHESS, the Company will not issue certificates to investors. Instead, Share and Option holders will receive a statement of their holdings in the Company. If an investor is broker sponsored, ASTC will send a CHESS statement.

### 3.11 RISK FACTORS

Prospective investors in the Company should be aware that subscribing for Shares that are the subject of this Prospectus involves a number of risks. These risks are set out in Section 9 of this Prospectus and investors are urged to consider those risks carefully (and if necessary, consult their professional adviser) before deciding whether to invest in the Company.

The risk factors set out in Section 9, and other general risks applicable to all investments in listed securities not specifically referred to, may in the future affect the value of the Shares. Accordingly, an investment in the Company should be considered speculative.

### 3.12 PRIVACY STATEMENT

If you complete an application for Shares, you will be providing personal information to the Company. The Company collects, holds and will use that information to assess your application, service your needs as a Shareholder, and to facilitate distribution payments and corporate communications to you as a Shareholder.

The information may also be used from time to time and disclosed to persons inspecting the register, including bidders for your securities in the context of takeovers; regulatory bodies, including the Australian Taxation Office, authorised securities brokers, print service providers, mail houses and the Share Registry.

You can access, correct and update the personal information that we hold about you. If you wish to do so, please contact the Share Registry at the relevant contact number set out in this Prospectus.

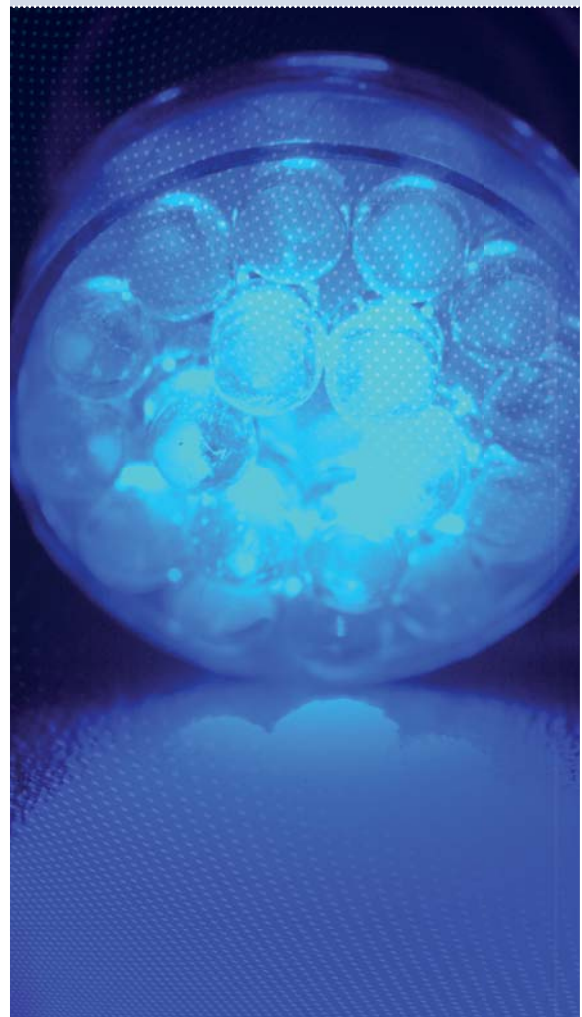


Collection, maintenance and disclosure of certain personal information is governed by legislation including the Privacy Act 1988 (as amended), the Corporations Act and certain rules such as the ASTC Settlement Rules. If you do not provide the information required on the Application Form, the Company may not be able to accept or process your application.

### 3.13 FINANCIAL FORECASTS

The Directors have considered the matters set out in ASIC Policy Statement 170 and believe that they do not have a reasonable basis to forecast future earnings because the operations of the Company are inherently uncertain. Accordingly, any forecast or projection information would contain such a broad range of potential outcomes and possibilities that it is not possible to prepare a reliable best estimate forecast or projection.

*“LED lights use substantially less energy for the same output and last up to 100 times longer than incandescent lights, offering significant reductions in cost, maintenance and greenhouse gas emissions”*



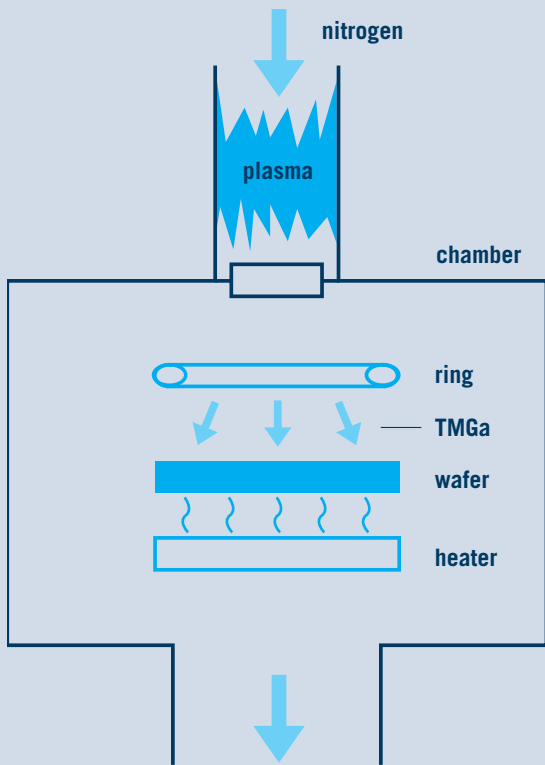


Figure 1. A novel process for producing gallium nitride (GaN). Inside a vacuum chamber, a wafer of glass or other substrate material is heated. Species of nitrogen are produced using a plasma and introduced into the main chamber, where they react with a vapour of trimethyl gallium (TMGa) to form a film of GaN on the wafer.

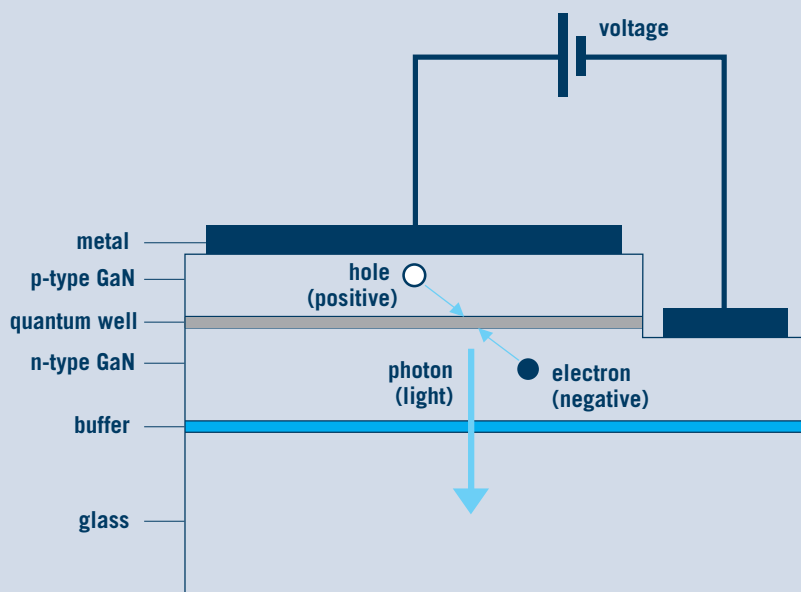


Figure 2. Envisaged structure of light emitting diode (LED) based on BluGlass technology.

# 04 COMPANY AND TECHNOLOGY OVERVIEW

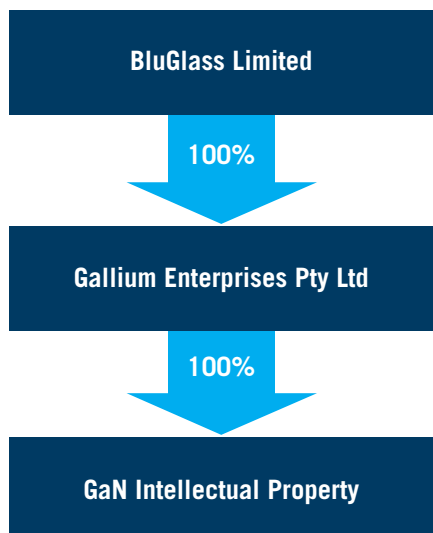
## 4.1 COMPANY OVERVIEW

Since the Company was incorporated on 24 October 2005, the Directors have been assessing opportunities to acquire technologies capable of generating wealth for shareholders.

At a general meeting of shareholders of the Company held on 24 July 2006, approval was obtained to acquire all of the shares in the capital of Gallium Enterprises Pty Ltd (formerly BluGlass Pty Ltd) (**Gallium Enterprises**) in return for issuing securities to the shareholders in Gallium Enterprises.

Gallium Enterprises is a private Australian company formed as a spin-off from research conducted at Macquarie University. The company was formed to develop and commercialise a breakthrough low-temperature technology for depositing high quality layers of the semiconductor material gallium nitride (**GaN**) onto glass and other low-cost substrates.

On completion of the acquisition of Gallium Enterprises, the group structure will be as follows:



## 4.2 TECHNOLOGY OVERVIEW

GaN is the most commercially-important semiconductor material developed since silicon. It is used to fabricate blue and white light-emitting diodes (**LEDs**), blue and UV laser diodes (**LDs**), and other high-performance electronic devices.

Current commercial techniques for fabricating GaN materials and devices typically involve growing layers of GaN on wafers of sapphire or silicon carbide at temperatures above 950°C, using a process known as metal-organic chemical vapour deposition (**MOCVD**). Owing to the high temperatures involved, special materials and techniques are required, making the process relatively expensive.

The GaN technology that will be owned by the Company upon listing on ASX uses a different process (see Figure 1, page 10), with a number of key competitive advantages over current commercial processes:

- Process temperatures are 500–700°C, making it compatible with glass, silicon and other low-cost substrates and so avoiding use of expensive sapphire or silicon carbide substrates.
- The characteristics of the process together with current research results suggest the new process is scalable to larger (8-inch or greater) wafer sizes, beyond the present limits for GaN on sapphire and silicon carbide, enabling substantial improvement in production efficiencies.
- The process has the potential to substantially reduce production costs for devices such as blue LEDs and laser diodes.
- The process does not use highly toxic ammonia gas.

In addition to GaN, the technology of BluGlass may also be applicable to several other semiconductor materials including indium nitride (**InN**), aluminium nitride (**AlN**) and alloys of GaN, InN and AlN.

A significant lowering of GaN production costs is likely to open up new applications for GaN devices and materials, including low-cost, high-efficiency lighting based on LEDs. The envisaged structure of BluGlass' blue LEDs is illustrated in Figure 2 (page 10).



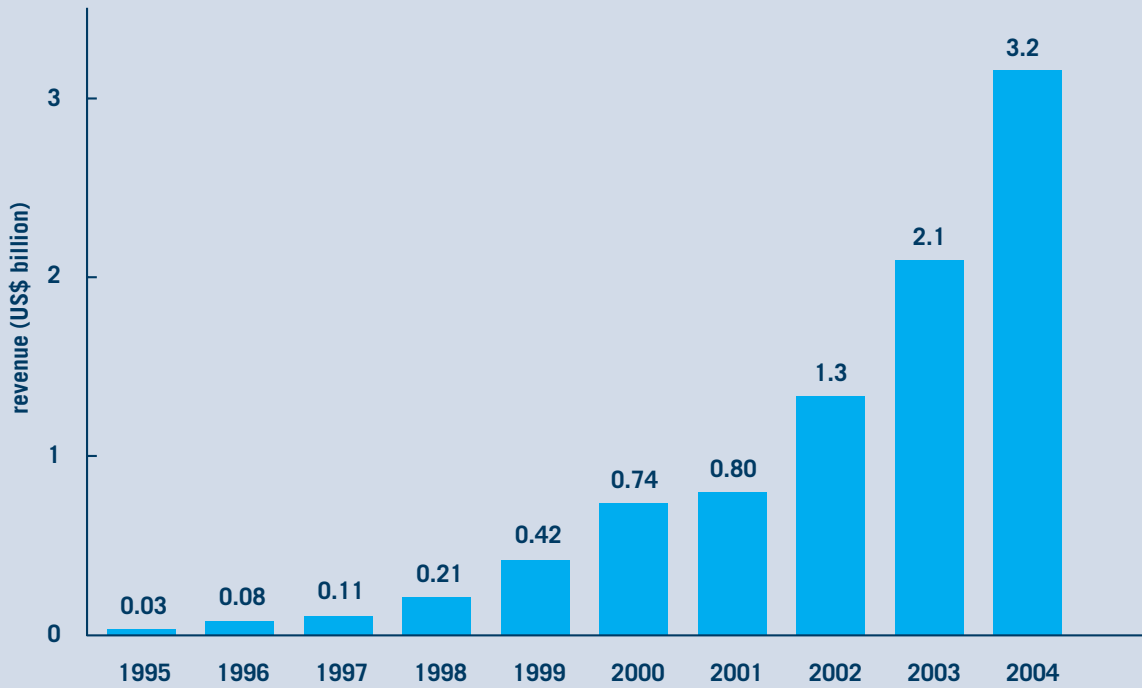


Figure 3.  
Size of the worldwide market for GaN devices from 1995 to 2004.

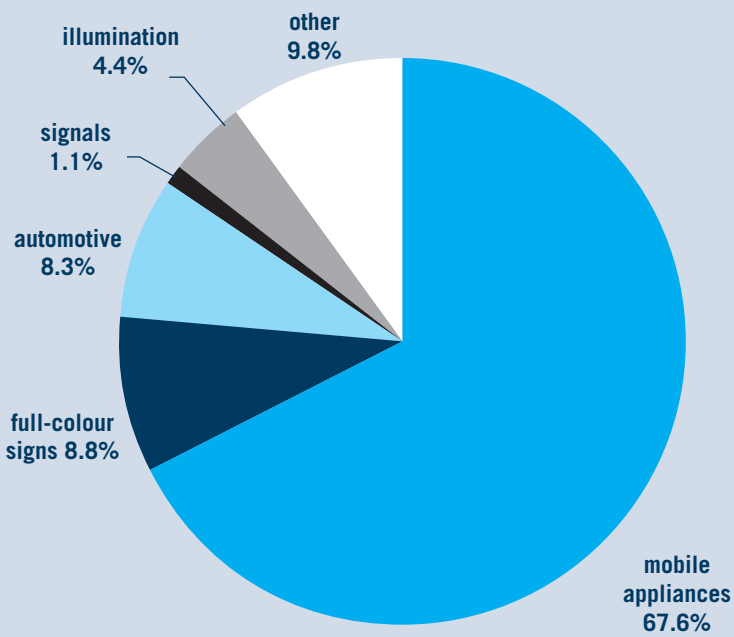


Figure 4.  
Distribution of GaN high-brightness LED market by application for 2004.

# 04

## COMPANY AND TECHNOLOGY OVERVIEW

### 4.3 INTELLECTUAL PROPERTY POSITION

Under the Intellectual Property Assignment Deed between Macquarie University and Gallium Enterprises summarised in Section 10.3 of this Prospectus, Gallium Enterprises will be assigned the GaN patent portfolio, materials and intellectual property that is currently owned by Macquarie University (and licensed to Gallium Enterprises). This assignment will take place immediately prior to the Company listing on ASX. The scope of the intellectual property covered by the patent portfolio is detailed in the Patent Attorney's Report presented in Section 6.

The key inventors of the technology, Scott Butcher, Marie Wintrebert-Fouquet and Patrick Chen, are employed by Gallium Enterprises. Their employment contracts ensure that any IP generated in relation to the GaN technology will be owned by Gallium Enterprises.

Under the Research Licence Agreement summarised in Section 10.4 of this Prospectus, Macquarie University has a research licence to the GaN technology under which all improvements to the GaN technology will be owned by Gallium Enterprises and any new but related IP will be made accessible to Gallium Enterprises for six years from October 2005.

### 4.4 THE GaN MARKET

#### 4.4.1 Market overview

Since the invention of the first high-efficiency blue GaN LEDs in the early 1990s, the market for GaN devices has grown from less than US\$25 million in 1994 to reach US\$3.2 billion in 2004, as shown in Figure 3 (page 12).

#### 4.4.2 Market segments

GaN can be used to manufacture a range of optoelectronic and electronic devices, including LEDs, laser diodes (LDs), heterojunction bipolar transistors (HBTs), high electron mobility transistors (HEMTs), photodetectors, rectifiers and thyristors.

In 2004, the market for GaN devices was overwhelmingly dominated by sales of high-brightness LEDs, which represented nearly all of the \$US3.2 billion in sales of GaN devices. GaN-based blue, green and white high-brightness

LEDs are used in a variety of applications, including:

- backlights for displays and keypads in mobile appliances such as mobile phones, digital cameras and PDAs;
- large full-colour video signs;
- automotive instrument cluster lighting;
- traffic signals;
- illumination applications; and
- other, including general-purpose indicator and display applications for electronic equipment, entertainment, and miscellaneous applications.

The relative contribution of each of these application segments to total LED market revenues in 2004 is illustrated in Figure 4 (page 12).

#### 4.4.3 Market segment trends

##### Light emitting diodes (LEDs)

In 2004, over 67% of the market for high brightness GaN LEDs was allocated to backlighting for displays and keypads in mobile appliances such as mobile phones, digital cameras and PDAs. Demand for LEDs from this sector is likely to reflect demand for these mobile devices into the future.

The use of high-brightness GaN blue and green LEDs in full-colour outdoor signs is a well-established market that began in Asia in the form of outdoor advertising and information signs. Emerging applications in this area include sports stadium signs and programmable advertising signs for shopping malls and high-traffic shopping districts of major cities.

White LEDs are also used in LCD display backlighting, where they offer significant technical advantages over the competing CCFL technology, including better colour saturation, lower power consumption, greater scope for reducing panel thickness and avoidance of toxic mercury. This is currently an emerging application limited to large, specialist and high-end products. Given the large size of the LCD monitor market (65 million units in 2005, excluding laptop computers) and the rapidly growing LCD television market, even a modest increase in penetration of this market would result in a significant expansion in demand for GaN LEDs.

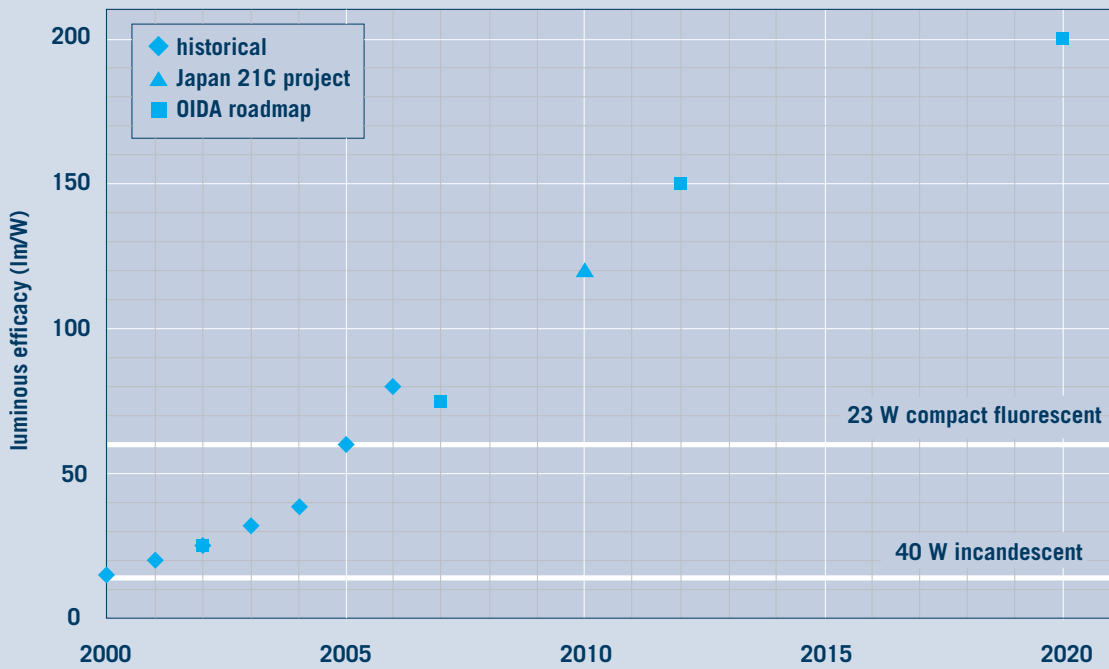


Figure 5. Historical luminous efficacy of best commercially-available white LEDs and roadmap performance targets developed by the US-based Optoelectronics Industry Development Association (OIDA) and the Japan 21st Century Lighting Project. The performance targets are not forecasts.

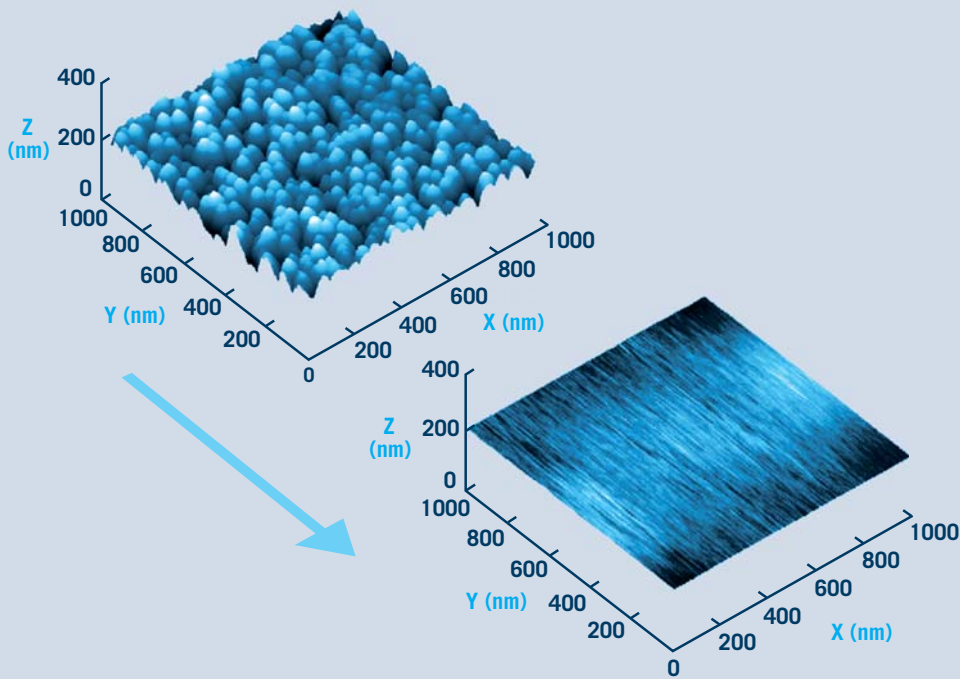


Figure 6. Process improvements have improved material crystallinity, reducing average surface roughness from 9–13 nm to less than 1 nm.



# 04

## COMPANY AND TECHNOLOGY OVERVIEW

Over recent years, LEDs have begun replacing incandescent bulbs in traffic signal lights around the world. LEDs are more energy-efficient and more reliable than incandescent bulbs, thus providing savings in energy use and maintenance. LED traffic signals have yet to make significant headway in Europe and Japan, although a few major projects have been undertaken in several European cities, and LED signals are being evaluated in Japan and have begun to be installed in Tokyo and a few other cities. There are also LED signal retrofit programs in China, South Korea and Taiwan.

High-brightness LEDs have been used for automotive interior lighting since 1997, and market penetration now exceeds 80% in Europe. High-power white GaN LEDs were introduced into automotive forward lighting at the beginning of 2004 in the form of daytime running lamps for the Audi A8 6.0L.

### Blue-violet laser diodes

Blue-violet laser diodes are a central component of optical disk recorders based on the Blu-ray and HD-DVD formats, the likely successors to today's DVD-based video recorders and rewritable storage drives. GaN-based laser diodes have a shorter wavelength than the laser diodes used in DVD recorders, enabling more information to be stored on each disk. These formats boast capacities of up to 50 GB, substantially more than current-generation DVDs or CDs, making them suitable for recording several hours of high definition digital video. Sony began shipping Blu-ray disk recorders in 2003 and has announced that it will include a Blu-ray drive in each PLAYSTATION®3 video game console (due for release in November 2006).

### Other electronic devices

The other main market segments for GaN-based electronic devices are in the areas of high power devices for communications (including mobile phone base stations and other wireless communications) and power conversion, control and protection for industrial, military, aerospace and automotive applications. Two promising communications markets identified for GaN radio frequency power transistors are power amplifiers for mobile and WiMAX base stations.

### 4.4.4 Lighting market

One of the most promising applications for GaN is in high-efficiency LEDs for the US\$12 billion general lighting market. Current-day incandescent and fluorescent lights are based on century-old technologies; they are relatively inefficient and require regular replacement. LED lights, however, are able to use substantially less energy for the same output and last up to 100 times longer than incandescent lights, offering significant reductions in cost, maintenance and greenhouse gas emissions. The efficiency of different lights can be compared using their 'luminous efficacy'—a measure of their visible light output for a given power input. Commercially-available lighting fixtures based on high-brightness LEDs have recently attained a luminous efficacy of 80 lm/W, about six times greater than for an incandescent bulb and comparable to a modern fluorescent lamp. As shown in Figure 5 (page 14), industry roadmaps are targeting commercial luminous efficacies well beyond this level over coming years—120 lm/W by 2010, 150 lm/W by 2012 and 200 lm/W by 2020, still well below the theoretical maximum of 300–400 lm/W.

In addition to the economic and environmental benefits resulting from their higher efficiency, LED luminaires possess a range of actual and potential features that make them a highly suitable replacement technology for conventional lighting. They can be easily dimmed, they can be spread over large areas for more diffuse lighting effects, they provide safety benefits such as lower operating voltages and temperatures, they are reliable, and they may contain LEDs of different colours, enabling overall colour output to be easily changed.

GaN-based LEDs are already displacing conventional lighting technologies across a range of niche and specialised lighting applications, including torches, portable lamps, renewable energy systems, and custom-designed commercial installations. More widespread adoption of LED lamps in the household and commercial lighting markets is currently limited by their high cost; a limitation that the Company's technology is expected to help overcome.

# 04

## COMPANY AND TECHNOLOGY OVERVIEW

### 4.5 BUSINESS STRATEGY

#### 4.5.1 Strategy overview

The Company's strategy for developing its business and commercialising its technology involves:

- further developing the technology to fully demonstrate its potential;
- further developing relationships and strategic alliances with current market players; and
- building a pilot manufacturing plant to fabricate GaN material and devices, demonstrate the technology and facilitate licensing.

#### 4.5.2 Technology development

To help fund its technology development and commercialisation activities, Gallium Enterprises has successfully applied for \$643,196 in funding from the Commonwealth Government's Commercial Ready scheme, with matching funding from seed investors. The project on which this funding is based runs from 1 November 2005 to 31 January 2007 and includes two major milestones:

- demonstration of a blue LED grown on a small (2–4 inch) glass substrate; and
- scale-up of the technology to enable fabrication of a blue LED grown on a larger (6–8 inch) glass substrate.

Gallium Enterprises has already achieved several intervening milestones, including:

- deposition of high quality layers of *n*-type and *p*-type GaN onto glass;
- improved material crystallinity, reducing RMS surface roughness from 9–13 nm to less than 1 nm (see Figure 6, page 14);
- formation of GaN *p-n* junctions on glass;
- metallisation of GaN layers; and
- fabrication of an LED from GaN material grown at glass-compatible temperatures below 700°C.

The company's researchers are now working towards optimising the process to improve device performance and scaling up the process to accommodate 4-inch

and later 6-inch and larger wafers to demonstrate its expected scalability.

BluGlass has established a co-operative relationship with Macquarie University, one of Australia's leading universities. Macquarie University currently hosts a number of research centres across a range of areas including biotechnology, lasers, conservation, cognitive science, ancient history and astrobiology. The University has committed to providing continued support to the Company, including the provision of access to its research facilities.

#### 4.5.3 Pilot manufacturing plant

To demonstrate its technology and facilitate licensing, BluGlass plans to build a pilot manufacturing plant to fabricate GaN material and devices using funds raised pursuant to this Prospectus. The pilot plant is likely to be located near Macquarie University's main campus in Sydney's north-western 'technology corridor'.

BluGlass has established a co-operative relationship with M+W Zander, a world leading service provider in all aspects of clean room technology for the electronics, solar, pharmaceutical and food-processing industries. M+W Zander employs 7,200 staff worldwide and generates annual turnover of about US\$2 billion. M+W Zander has agreed to assist the Company in designing and building the pilot manufacturing plant to help develop and commercialise the GaN technology.

#### 4.5.4 Licensing and manufacturing

GaN materials are manufactured under clean, ultra-high vacuum conditions, which require production of ultra-high vacuum chambers and the use of commercially-available ultra-high vacuum pumps, load locks, remote robotic handling equipment and associated electronic and instrumentation systems. The GaN technology also includes the application of specific materials, processing conditions, and processing and handling equipment in the GaN deposition chamber.

Once the GaN technology has been adequately developed and demonstrated, there are several possible revenue sources for BluGlass. These include:

- Sales of GaN deposition equipment—The Company may elect to manufacture its own GaN deposition equipment for direct sale to manufacturers of GaN devices and wafers;
- Licence fees—A manufacturer of GaN wafers or a manufacturer of GaN deposition equipment would be required to enter into a licence agreement with BluGlass and pay royalty fees to use the GaN technology;
- GaN wafers—The Company is likely to sell GaN wafers fabricated on its pilot manufacturing plant to device manufacturers; and
- Unpackaged GaN devices such as LEDs and LDs—The Company may fabricate devices from its GaN wafers for high value, small volume markets and sell these for packaging or product integration.

#### 4.5.5 IP protection strategy

The intellectual property position of BluGlass is detailed in the Patent Attorney's Report in Section 6 of this Prospectus.

The Company's IP protection strategy is to file patent applications, where appropriate, to protect the key aspects of its technology. Opportunities to further protect the technology arising from the Company's ongoing research program will be assessed by management as they arise.

Given the costs associated with patenting, patenting efforts will focus on territories with potential for licensing or production, or that are a threat to the Company's patent positions.

#### 4.6 PRINCIPAL RESEARCHERS

##### Scott Butcher *BAppSc PhD*

Dr Scott Butcher completed a Bachelor of Applied Science in Physics (Hons) from the University of Technology, Sydney and worked at the University of New South Wales in the fields of Biophysics, Biomedicine and Solid State Physics for four years before joining the Australian Nuclear Science and Technology Organisation (ANSTO).

At ANSTO, Scott concentrated on semiconductor radiation detector fabrication, gallium arsenide epitaxial growth and semiconductor materials evaluation. He later continued this work as a contractor under the umbrella of High Energy Physics.

In 1998, Scott received his PhD from Macquarie University with a Dean's Commendation. For his thesis, entitled *Aluminium Nitride Thin Films Grown on Damage Susceptible Semiconductors*, he was a finalist for the National 1998 Bragg Medal for excellence in a physics-based thesis. Scott has experience in semiconductor processing and radiation metrology, with his main interest in semiconductor-based research and detector technology. He has 13 years' experience in the development of nitride-based film growth systems and in the growth and characterisation of nitride-based semiconductor materials.

##### Marie Wintrebert-Fouquet *PhD*

Dr Marie Wintrebert-Fouquet graduated in 1995 from the University of Montpellier II (France) with a PhD in optoelectronics, electronics and systems, conducted on the topic of semiconductor-related noise measurements. Marie has worked for 10 years at Macquarie University in both the Electronics and Physics departments and has gathered considerable expertise in device processing technology, including the design and fabrication of sophisticated bipolar quantum tunnelling devices. These device fabrication skills are highly valued by BluGlass and provide a necessary link to LED device production. Marie has also developed materials characterisation skills essential to the Company's future research needs and comes to BluGlass with 15 years' experience in semiconductor technologies.

##### Patrick Chen *BTech MSc*

Mr Patrick Chen graduated with a Bachelor of Technology (Optoelectronics) in 2000 from Macquarie University and completed a Master of Science in 2003 on the properties and growth of GaN thin films using the RPECVD method. Patrick will be employed by BluGlass as a part-time research assistant, with the remainder of his time devoted to completing a PhD on the topic of indium nitride development.



# 05

## DIRECTORS AND CORPORATE GOVERNANCE

### 5.1 DIRECTORS



Dr Michael Taverner  
*B AgricSci MAgricSci*  
*PhD MAICD FAIAST*  
Chairman

Michael Taverner is a company director and scientific consultant. His expertise is in corporate governance, biotechnology, research and development (R&D), innovation, and training.

Mike is a non-executive director of both Biosignal Limited, a company listed on ASX in 2004 to commercialise novel antibacterial technology, and Medical Therapies Limited, a company listed on ASX in 2005 to develop anti-cancer and anti-inflammation drugs.

Mike's career started as a research scientist where, over 17 years, he developed a considerable international reputation. For the past 18 years, he has managed and directed national R&D investment organisations. Until last year, Mike was a non-executive director of both the Rural Industries R&D Corporation (RIRDC) and, for nearly two years, of the Australian Poultry CRC. For six years he was executive director of the Pig R&D Corporation. He has also served as chairman of national R&D advisory groups for the chicken meat and layer industries reporting to the board of RIRDC. For 10 years he has worked as a technology consultant to the Grains R&D Corporation, and he continues to work on program management for Australian Pork Limited and the Australian Pork Cooperative Research Centre.

Mike has developed and applied skills in leadership and human relations, which he has applied in his Taverner Minds consultancy and which have complemented his science and corporate activities. For example, he is a non-executive director of the Australian Rural Leadership Foundation. Mike actively supports the development of young scientists and for more than eight years has been the national coordinator of post-graduates for both the pork and poultry industries in Australia.

Mike now runs his own consulting business in Canberra, working with national and international clients on research, innovation and commercialisation. He is an internationally-accredited trainer in human resources and operates widely in public sector organisations around Australia.



Mr David Jordan  
*BSc BEE*  
Managing Director and  
Chief Executive Officer

David Jordan has over 25 years' experience in both business and academic environments, managing the research, development and commercialisation of semiconductor devices and engineering systems. David holds a Bachelor of Science degree in Chemistry and Mathematics, with Honours in Chemistry, from the University of New England (UNE), and a Bachelor of Electrical & Electronic Engineering from the University of Western Australia (UWA), with Honours in novel silicon device fabrication.

After several years of postgraduate research in nuclear magnetic resonance spectroscopy at UNE and graduation from UWA, David spent three years with Philips Microelectronics in Adelaide working on silicon chip and ceramic hybrid custom circuitry before moving to photovoltaics, the conversion of sunlight to electricity via semiconductor solar cells, and its use in globally sustainable development.

David has worked with a major global solar cell manufacturer for over 20 years in various countries, including Australia, Europe, the UK, Sri Lanka, India, China and the USA. His most recent role has been as senior manufacturing and technology advisor, with responsibility for managing the global link between diverse research groups and high volume semiconductor manufacturing in various countries, assisting with identifying and prioritising support for near and mid-term global R&D, auditing global technology implementation and manufacturing capacity expansion, and developing strategic alliances with vendors of manufacturing equipment. His previous responsibilities

have included project leader and technology team leader for various new technology implementations globally, process development, regional engineering practice standardisation, feasibility assessment, implementation, quality assurance and commercialisation of new silicon materials and solar cell production processes.

For two years, David was employed as Business and Technology Manager for photovoltaic devices at the University of New South Wales, where he managed technology program identification, prioritisation, development and delivery, IP commercialisation, research funding, business reporting, and contracted research.

David's other interests include the technology and practice of environmentally sustainable development. He is also owner and managing director of a small vineyard and cattle operation on the Central Tablelands of New South Wales.



Mr Gregory Cornelsen  
**BEC**  
Non-executive Director

For the past 16 years, Greg Cornelsen has been involved in several small businesses in southeast Queensland. In 1990 he formed Springbrook Natural Waters Pty Limited. As Managing Director, he developed a highly successful business and negotiated its sale to the ASX-listed company Palm Springs Limited. In 2003, Greg was a shareholder and non-executive chairman of digital media company Icons Inhouse Graphics Pty Limited.

Greg has previously worked in rural commodities trading within the Elders IXL group, where his roles included domestic and international trading of feed grains, as well as currency and futures trading.

Greg is a former international Rugby Union player, with 25 caps for the Australian Wallabies. He is president of the Australian Barbarian Rugby Club and a board member of

the Australian Schools Rugby Foundation. His Rugby and business backgrounds have allowed him to develop an extensive network within the Australian business community. Greg is an Ambassador for the Spinal Injuries Association of Queensland and is heavily involved in fundraising for the charity. He holds a Bachelor of Economics from the University of New England.



Mr Chandra Kantamneni  
**MSc MS MBA**  
Non-executive Director

Chandra Kantamneni has over 25 years' experience in the global semiconductor industry and is currently vice president and general manager of Peregrine Semiconductor Australia, a subsidiary of US-based Peregrine Semiconductor Corporation and one of the only semiconductor companies in Australia. As general manager of Peregrine's Australian operations, Chandra's responsibilities include managing a state-of-the-art semiconductor fabrication facility, transferring new technologies to the facility, establishing performance metrics to enable continuous improvement, and hiring and managing key personnel from around the world.

Chandra has worked for many years in senior management and engineering positions for some of the world's largest US-based semiconductor companies, including director of worldwide foundry operations and engineering manager for International Rectifier Corporation, director of engineering for GMT Microelectronics, manufacturing manager of the Fairchild Research Center of National Semiconductor Corporation, senior section manager and project manager of VLSI fabrication operations for TRW Microelectronic Center, and principal and process engineer for Control Data Corporation/VTC Inc. Chandra holds masters degrees in physics, materials science and business administration.

# 05

## DIRECTORS AND CORPORATE GOVERNANCE

### 5.2 COMPANY SECRETARY

#### Mr Emmanuel Correia BBus ACA

Emmanuel Correia has over 15 years' experience in public company accounting and the provision of public company compliance services in Australia across a diverse range of industries. Emmanuel also has extensive experience in corporate finance and equity capital markets. Emmanuel provides corporate advice to a diverse client base in relation to capital raisings, corporate strategy and structuring, prospectus preparation, due diligence enquires and various ASX and ASIC regulations and requirements.

### 5.3 CORPORATE GOVERNANCE

The Directors monitor the business affairs of the Company on behalf of Shareholders and have formally adopted a corporate governance policy that is designed to encourage Directors to focus their attention on accountability, risk management and ethical conduct.

#### 5.3.1 Board of Directors

The Company's Board of Directors is responsible for corporate governance of the Company. The Board develops strategies for the Company, reviews strategic objectives and monitors performance against those objectives. The goals of the corporate governance processes are to:

- (a) maintain and increase Shareholder value;
- (b) ensure a prudential and ethical basis for the Company's conduct and activities; and
- (c) ensure compliance with the Company's legal and regulatory requirements.

Consistent with these goals, the Board assumes the following responsibilities:

- (a) developing initiatives for profit and asset growth;
- (b) reviewing the corporate, commercial and financial performance of the Company on a regular basis;
- (c) acting on behalf of, and being accountable to, the Shareholders; and
- (d) identifying business risks and implementing actions to manage those risks and corporate systems to assure quality.

The Company is committed to the circulation of relevant materials to Directors in a timely manner to facilitate Directors' participation in the Board discussions on a fully-informed basis.

#### 5.3.2 Composition of the Board

Election of Board members is substantially the province of the Shareholders in general meeting. However, subject thereto, the Company is committed to the following principles:

- (a) the Board is to comprise Directors with a blend of skills, experience and attributes appropriate for the Company and its business; and
- (b) the principal criterion for the appointment of new Directors is their ability to add value to the Company and its business.

No formal nomination committee or procedures have been adopted for the identification, appointment and review of Board membership, but an informal assessment process, facilitated by the Chairman in consultation with the Company's professional advisors, has been adopted by the Board.

#### 5.3.3 Independent professional advice

Subject to the Chairman's approval (not to be unreasonably withheld), the Directors, at the Company's expense, may obtain independent professional advice on issues arising in the course of their duties.

#### 5.3.4 Remuneration arrangements

The remuneration of an executive Director will be decided by the Board, without the affected executive Director participating in that decision-making process.

The total maximum remuneration of non-executive Directors is the subject of a Shareholder resolution in accordance with the Company's Constitution, the Corporations Act and the ASX Listing Rules, as applicable. The determination of non-executive Directors' remuneration within that maximum will be made by the Board having regard to the inputs and value to the Company of the respective contributions by each non-executive Director. The current limit, which may only

be varied by Shareholders in general meeting, is an aggregate amount of \$200,000 per annum.

The Board may award additional remuneration to non-executive Directors called upon to perform extra services or make special exertions on behalf of the Company.

#### 5.3.5 External audit

The Company in general meetings is responsible for the appointment of the external auditors of the Company, and the Board from time to time will review the scope, performance and fees of those external auditors.

#### 5.3.6 Audit committee

The Company is to have a separate, constituted audit committee.

#### 5.3.7 Identification and management of risk

The Board's collective experience will enable accurate identification of the principal risks that may affect the Company's business. Key operational risks and their management will be recurring items for deliberation at Board meetings.

#### 5.3.8 Ethical standards

The Board is committed to the establishment and maintenance of appropriate ethical standards.

*“LEDs have begun replacing  
incandescent bulbs in traffic signal  
lights around the world”*





# 06 PATENT ATTORNEY'S REPORT

## BLAKE DAWSON WALDRON PATENT SERVICES

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### 6.1 INTRODUCTION

Blake Dawson Waldron Patent Services was engaged to prepare this report by BluGlass Limited (ACN 116 825 793) (**Company**). Specifically, we have been asked by the Company to list the details and status of patent matters in the patent portfolio referred to in this report for inclusion in a prospectus to be dated on or about 27 July 2006 and issued by that company. The patent portfolio consists of three patent families. The patent families are in the physical sciences area, and more particularly, pertain to a method and apparatus for manufacturing gallium nitride (GaN) film.

#### 6.1.1 Executive summary

The patent matters comprising the patent families are in various stages of progress. Some are patent applications before the applicable patent offices, while others are provisional patent applications or international (PCT) patent applications. This summary should be read subject to the rest of this report.

#### 6.1.2 Blake Dawson Waldron Patent Services

We are a patent attorney firm associated with, but separate from, Blake Dawson Waldron Lawyers. We did not prepare or file the various patent matters comprising the patent portfolio, nor do we currently have any responsibility for the management of any of the patent families in the patent portfolio.

#### 6.1.3 Ownership

We have not considered, nor provided any opinion on, any agreement purporting to effect the transfer of rights in any of the three patent families.

#### 6.1.4 Report scope

This report outlines the patent portfolio and sets out details of the various patent matters as well as their status.

For the purposes of this report, we have not undertaken any independent patentability searches nor provided any opinion on the patentability of the technology to which the patent families relate.

This report is subject to the limitations and qualifications set out in Section 6.5 of the report and in particular, the limited sources of information described in Section 6.5.1.

### 6.2 PATENTS GENERALLY

A patent is a statutory monopoly granted in respect of an invention that, in Australia at least, provides the patentee with the exclusive right to 'exploit' the invention, including the exclusive right to make, use or sell the patented invention, and to import or export products covered by the patent. As mentioned in Sections 6.4.4 and 6.4.5 of this report, this does not mean that exploitation of the invention will not infringe a third party patent. Nor does it mean that a third party does not have any rights in, or in relation to, any patent or patent application. We have not in this report advised on inventorship, or on the existence of, or any possible infringement of, others' patent rights.

The granting of a patent does not provide any rights outside of the jurisdiction in which the patent is granted. In most jurisdictions, a patent has a term of 20 years from the filing date of the patent application on which the patent is granted.

If it is desired to pursue patent protection in a significant number of foreign jurisdictions, a single international patent application can be filed under the Patent Cooperation Treaty (**PCT**) designating foreign jurisdictions of interest that are party to the PCT. To pursue patent coverage in jurisdictions that are not party to the PCT, it is necessary to file separate patent applications in those jurisdictions.

There is no such thing as a world patent, and an international (PCT) application must ultimately be entered in each jurisdiction originally designated in the international (PCT) application and that remains of interest. This is known as entry into the 'national phase' or, in the case of Europe, the 'regional phase'. Entry of the international (PCT) application into the jurisdictions of interest effectively converts the application into a bundle of national and/or regional patent applications. Each such application is then pursued before the national/regional patent office of the relevant jurisdiction.

Most national/regional patent offices around the world, including the European Patent Office, IP Australia and the United States Patent & Trademark Office (USPTO), conduct substantive examination on a complete patent application. All issues raised by the applicable patent office during this examination process must be overcome before a patent in the corresponding jurisdiction will be granted. The scope of the patent protection sought in a complete application is defined in the claims of the patent application. During substantive examination, it may be necessary to amend the claims to address issues raised by the patent examiner. This may result in the scope of patent protection sought being restricted. Therefore, the scope of protection for an invention that is provided by a granted patent may be less than that originally sought in the patent application on which the patent was granted.

*"Over 67% of the market for high brightness GaN LEDs was allocated to backlighting for displays and keypads in mobile appliances such as mobile phones, digital cameras and PDAs"*



# 06 PATENT ATTORNEY'S REPORT

## 6.3 THE PATENT PORTFOLIO

The scope of a patent or patent application can only be evaluated by reference to the specification for the patent or patent application.

As at the date of this report, specifications of the applications and patent can be obtained from the

applicable patent offices (see Sections 6.5.5 and 6.5.6). Copies of the specifications of US application no. 60/613,910 and Australian application nos. AU 2005903494 and AU 2005904919 can also be obtained from the International Bureau of the World Intellectual Property Organisation.

### 6.3.1 Patent family 1—Process for manufacturing a gallium rich gallium nitride film

**TABLE 1. DETAILS AND STATUS OF PATENT MATTERS IN PATENT FAMILY 1**

INTERNATIONAL (PCT) APPLICATION NO.	APPLICANT/PATENTEE	PRIORITY APPLICATION	COUNTRY/REGION	APPLICATION NO.	STATUS
PCT/AU2003/000598 filed 19 May 2003	Macquarie University	PS2404 filed 17 May 2002	Australia	–	International phase complete
			Australia	2003229094	Exam request due 19 May 2008
			Canada	2,486,178	Exam requested
			China	03813924.3	Exam requested
			Europe	03724623.8	Filing receipt received
			India	02813/CHENP/04	Exam request due 19 May 2007
			Japan	2004-505269	Exam requested
			South Korea	2004-7018558	Exam request due 19 May 2008
			Singapore	200406735-1	Grant fee due 17 November 2006
			South Africa	2004/9466	Registered 29 March 2006
			USA	10/514,772	Filing receipt received

At the date of this report, Macquarie Research Limited is the applicant of Australian provisional application no. PS2404. The remaining applications and patent of patent family 1 are in the name of Macquarie University.

### 6.3.2 Patent family 2—Method and apparatus for growing a group (III) metal nitride film

**TABLE 2. DETAILS AND STATUS OF PATENT MATTERS IN PATENT FAMILY 2**

INTERNATIONAL (PCT) APPLICATION NO.	APPLICANT/PATENTEE	PRIORITY APPLICATIONS	COUNTRY/REGION	APPLICATION NO.	STATUS
PCT/AU2005/001483 filed 27 Sep. 2005	Macquarie University	60/613,910 filed 27 September 2004	USA	–	National phase entry due 27 March 2007
		2005903494 filed 1 July 2005	Australia	–	
		2005904919 filed 7 September 2005	Australia	–	
			Taiwan	94133625	Pending

At the date of this report, Macquarie University is the applicant of all applications of patent family 2 including the priority applications.

6.3.3 Patent family 3—Method and apparatus for growing a metal nitride film of improved quality using a remote plasma enhanced chemical vapour deposition (RPECVD) process

**TABLE 3. DETAILS AND STATUS OF PATENT MATTERS IN PATENT FAMILY 3**

APPLICATION NO.	APPLICANT/ PATENTEE	COUNTRY	STATUS
2005904919 filed on 7 Sept 2005	Macquarie University	Australia	Filing receipt received

At the date of this report, Macquarie University is the applicant of all applications of patent family 3 including the priority applications.

## 6.4 FURTHER ISSUES

### 6.4.1 Patent opposition proceedings

Some jurisdictions provide for third party opposition once an application has been examined and found to be allowable. Australia, for instance, provides for pre-grant opposition to the granting of a patent. Europe, in contrast, provides for post-grant opposition. Opposition proceedings may result in the claims of the application or patent being held invalid, or claims of the application or patent being cancelled or amended in a way that may restrict the scope of the claims.

### 6.4.2 Enforceability

Once a patent has been granted, the patentee may initiate infringement proceedings against an alleged infringer of the patent. Patent infringement proceedings cannot be initiated on the basis of a pending non-provisional patent application. However, in many jurisdictions, once a patent is granted, damages may be awarded for any infringements occurring from the date on which the patent specification for the application was initially published (see Sections 6.5.5 and 6.5.6 of this report) provided certain criteria are met. We have not checked any public records nor advised on whether or not any of the patent matters in the patent portfolio are the subject of patent litigation.

### 6.4.3 Validity of a patent

The validity of the claims of a patent cannot be guaranteed and can be challenged in court during

revocation proceedings brought by a third party, or during infringement proceedings initiated against an alleged infringer by the patentee.

### 6.4.4 Rights of third parties

We have not undertaken any steps to confirm inventorship in respect of any of the patent families comprising the patent portfolio. Furthermore, we have not been asked to determine whether any third party may have any rights, title or interest in or to any of the patent families.

### 6.4.5 Infringement of third-party rights

A patent may be granted even though the technology in respect of which the patent has been granted falls within the scope of, and may thus infringe, a patent of a third party. We have not conducted any searches to identify any patents that may be infringed by the exploitation of any product or method referred to in the patent portfolio that is the subject of this report. Nor have we provided any patent infringement advice in respect of the technology to which the patent portfolio relates.

## 6.5 LIMITATIONS AND QUALIFICATIONS

### 6.5.1 Information source(s)

The details set out in Tables 1–3 are derived from documents provided by Spruson & Ferguson Patent & Trade Mark Attorneys acting in their capacity as Patent Attorneys for Macquarie University.



# 06

## PATENT ATTORNEY'S REPORT

### 6.5.2 Jurisdictional requirements

To obtain valid patent protection, an invention must be novel and constitute an inventive step (that is, be non-obvious). An invention must also have utility and be industrially applicable. More specifically, each jurisdiction has its own patent laws and particular requirements that need to be met for the granting of a patent. Accordingly, the assessment of novelty and non-obviousness varies from jurisdiction to jurisdiction, and subject matter that may be patentable in one jurisdiction may be excluded from patentability in another. Moreover, the different jurisdictional requirements may result in variation in the scope of patent protection obtained for the same invention in different jurisdictions.

### 6.5.3 Timing considerations

The outcome of substantive examination of a patent application by the patent office of one jurisdiction is not binding on the patent office of any other jurisdiction. Examinations of the patent applications of a patent family also occur at different times in different jurisdictions. As such, there is always a risk that a patent may be granted on a patent application in one jurisdiction, and that prior art relevant to the validity of the patent may be subsequently cited during substantive examination of another patent application in the patent family that has been filed elsewhere.

### 6.5.4 Patentability search limitations

A patentability search conducted by a patent office during the patent application procedure cannot be guaranteed to locate all prior art that may exist that is potentially relevant to the assessment of novelty and inventive step of a claimed invention. Such searches are generally computer-based searches and, as such, depend on the databases searched and the coverage provided by the databases used. Databases may, for instance, not include older documents and may only include information sourced from particular organisations or geographical areas. All patentability searches are subject to the accuracy of records as well as the indexing and classification of the subject matter comprising the records. The scope of each search also depends on the search strategy used and, for example, the key words selected for the search.

### 6.5.5 Further limitations of patentability searches

Non-provisional patent applications are not normally published until at least 18 months from the earliest applicable priority date. Accordingly, a patentability search would not normally identify any third party patent applications potentially relevant to the assessment of patentability that have a priority date that is less than 18 months prior to the date of the patentability search.

### 6.5.6 Publication in the United States

Prior to 29 November 2000, publication in the United States did not occur until the time of granting of the patent in that jurisdiction. Non-provisional United States patent applications having a filing date on or after 29 November 2000 are now published 18 months after the priority date of the application. However, the applicant of a non-provisional United States patent application can request that the application not be published if the invention to which the application relates has not, and will not, be the subject of a patent application filed in another jurisdiction in which patent applications are published 18 months from the priority date.

### 6.5.7 Other forms of prior art disclosures

Besides documentary prior art, public use of an invention and non-confidential oral disclosures before the priority date of a patent application may also be relevant to the assessment of patentability of the invention to which the patent application relates. Since patentability searches are conducted on published documents, they would not locate such other forms of prior art disclosures.

### 6.5.8 Commercialisation/secret use

Commercialisation or secret use of an invention in a jurisdiction by, or with the authority of, a patent applicant (or their predecessor in title) before the priority date of a patent application that has been filed in the jurisdiction by the applicant in respect of the invention, can also be relevant to the patentability of the invention and the validity of any patents that may ultimately be granted on the application. Such commercial exploitation or secret use would not normally be identified by documentary patentability searches of publicly-accessible databases.

#### 6.5.9 Entitlement to claimed priority date(s)

For subject matter contained in a non-provisional patent application to be entitled to the priority date established by a corresponding priority patent application, in Australia at least, there must be a real and reasonably clear disclosure of the subject matter in the priority application. Subject matter disclosed in a non-provisional patent application that is not contained in a corresponding priority application is generally only entitled to the filing date of the non-provisional application as a priority date.

#### 6.5.10 Renewal fees

The patent offices of most, if not all, jurisdictions around the world levy official renewal fees on non-provisional patent applications and/or granted patents. Typically, an initial renewal fee is payable a number of years after the filing date of a non-provisional patent application, and subsequent renewal fees fall due on each following anniversary of the filing date for the life of the application and/or patent. If a renewal fee is not timely paid, the application or patent becomes abandoned with loss of rights. We have not undertaken any steps to confirm that all renewal fees have been paid in respect of any complete patent applications in the patent portfolio.

*Blake Dawson Waldron Patent Services*

*Blake Dawson Waldron Patent Services*

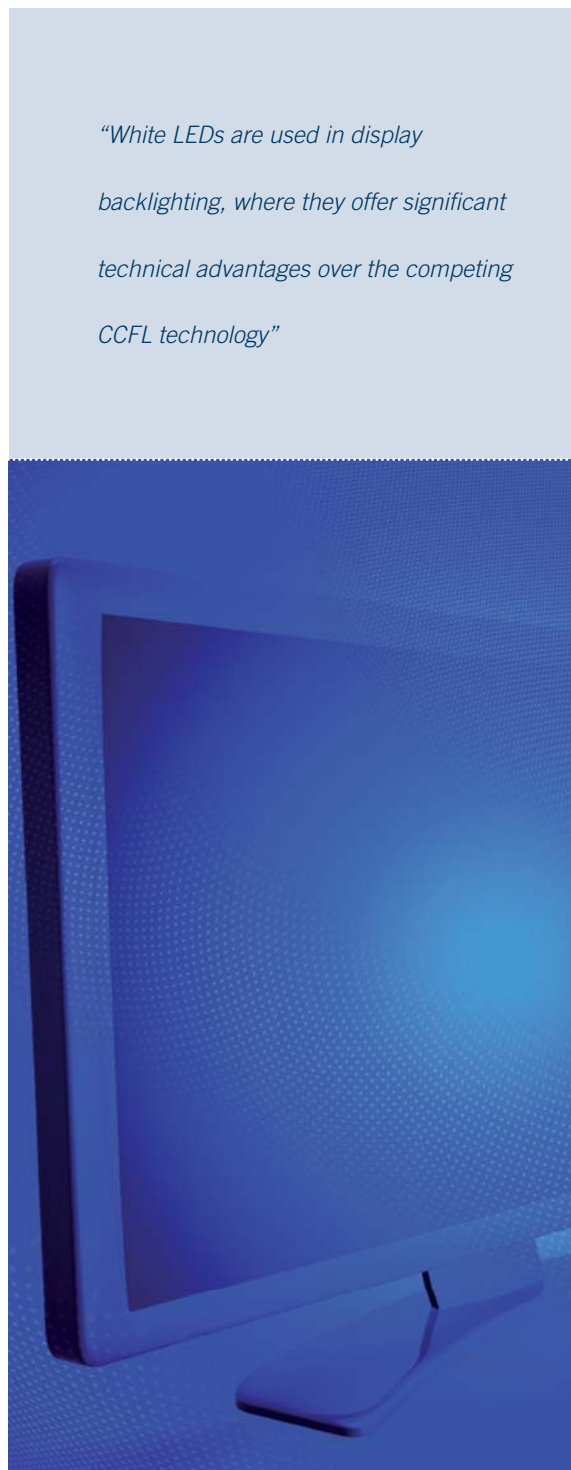
27 JULY 2006

*“White LEDs are used in display*

*backlighting, where they offer significant*

*technical advantages over the competing*

*CCFL technology”*



# 07

## PRO-FORMA FINANCIAL INFORMATION

### 7.1 FINANCIAL INFORMATION

This section contains the following financial information (**Financial Information**):

- the Balance Sheet of the Company as at 31 May 2006 (Section 7.3);
- the Pro-Forma Consolidated Balance Sheet of the Company as at 31 May 2006 (Section 7.3), prepared on the basis of the assumptions set out in Section 7.6 and assuming the events set out in Section 7.6 had taken place at 31 May 2006;
- summary of significant accounting policies (Section 7.4);
- notes to the Financial Information (Section 7.5); and
- assumptions (Section 7.6).

You should read the Financial Information carefully and in its entirety. The Financial Information has been prepared only for use in this Prospectus. It is based on an assessment of the present economic and operating conditions and on a number of assumptions regarding events and actions that, at the date of this Prospectus, the Directors expect will take place, including the assumptions set out in Section 7.6. The Directors have used due care and attention in the preparation of the Financial Information and consider the assumptions to be reasonable when viewed as a whole. The Financial Information has been reviewed by WHK Greenwoods and their report is set out in Section 8 of this Prospectus.

Directors' interests and transactions with parties involved in the preparation of the Prospectus are disclosed in Sections 11.2–11.4 of this Prospectus.

Material Contracts are summarised in Section 10 of this Prospectus.

### 7.2 BACKGROUND

The Company was incorporated on 24 October 2005 as Secondplan Investments Limited and changed its name to BluGlass Limited on 24 July 2006.

Following a seed capital raising of approximately \$2.4 million pursuant to a prospectus dated 7 April 2006 (inclusive of a June 2006 call made on the partly paid shares issued under that prospectus), the Company entered into an agreement with Gallium Enterprises Pty Limited (**Gallium Enterprises**) and its shareholders whereby the Company agreed to acquire all of the issued shares of Gallium Enterprises in return for the issue of 53,000,000 fully paid ordinary shares of \$0.20 in the Company and 25,000,000 options to acquire shares in the Company.

At a general meeting of the Company's shareholders on 24 July 2006, approval was obtained to proceed with the acquisition of Gallium Enterprises and the Company is now seeking to raise funds to facilitate a listing on ASX as detailed in Section 3 of this Prospectus.

### 7.3 BALANCE SHEET AND PRO-FORMA CONSOLIDATED BALANCE SHEET AT 31 MAY 2006

	NOTE	BLUGLASS LIMITED REVIEWED 31 MAY 2006 (\$)	BLUGLASS LIMITED PRO-FORMA CONSOLIDATED REVIEWED 31 MAY 2006 (\$)
<b>Current assets</b>			
Cash	7.5.7	2,150,805	11,551,533
Receivables	7.5.1	25,984	94,404
<b>Total current assets</b>		<b>2,176,789</b>	<b>11,645,937</b>
<b>Non-current assets</b>			
Plant and equipment	7.5.2	–	1,327
Intangible assets	7.5.3	–	10,478,081
<b>Total non-current assets</b>		<b>–</b>	<b>10,479,408</b>
<b>Total assets</b>		<b>2,176,789</b>	<b>22,125,345</b>
<b>Current liabilities</b>			
Payables	7.5.4	31,823	180,929
Provisions	7.5.5	–	10,509
<b>Total current liabilities</b>		<b>31,823</b>	<b>191,438</b>
<b>Non-current liabilities</b>			
Provisions	7.5.5	–	441
<b>Total non-current liabilities</b>		<b>–</b>	<b>441</b>
<b>Total liabilities</b>		<b>31,823</b>	<b>191,879</b>
<b>Net assets</b>		<b>2,144,966</b>	<b>21,933,466</b>
<b>Equity</b>			
Contributed equity	7.5.8	2,393,169	22,181,669
Retained profits / (accumulated losses)	7.5.6	(248,203)	(248,203)
<b>Total equity</b>		<b>2,144,966</b>	<b>21,933,466</b>

### 7.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with the recognition and measurement, but not the disclosure requirements, of applicable Australian Accounting Standards and other mandatory professional reporting requirements in Australia, being Australian equivalents to International Financial Reporting Standards (AIFRS). The Financial Information has been prepared under the historical cost convention and the accruals basis on a going concern basis. The following is a summary of the material accounting policies adopted, which, unless otherwise stated, have been consistently applied.

Subsidiaries are consolidated from the date on which control is assumed by the Group. Subsidiaries are those entities over which the Company has the power to govern the financial and operating policies.

The purchase method of accounting is used for all assets acquired. The cost of assets acquired is the fair value of the purchase consideration given. All assets are subject to impairment testing should an indication of impairment exist.

Cash represents cash on hand, deposits held at call with financial institutions, and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

# 07

## PRO-FORMA FINANCIAL INFORMATION

Receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for any doubtful amounts. Collectibility of receivables is reviewed on an ongoing basis. Debts known to be uncollectible are written off.

Plant and equipment is carried at historical cost or fair value less depreciation or amortisation. Cost includes expenditure directly attributable to the acquisition. Assets are depreciated so as to allocate their cost or fair value, net of their residual values, over their estimated useful lives at rates of between two and five years.

Acquired patents are carried at fair value if the fair value can be reliably assessed. If there is no reliable value that can be assessed, patents are carried at a nil value.

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets of the acquired business at the date of acquisition. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate

that it might be impaired. Goodwill is carried at cost less accumulated impairment losses.

Current and deferred income taxes are recognised using the balance sheet method. Provision is made for taxable temporary differences to the extent that the temporary difference is likely to reverse. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability.

Payables represent unsecured liabilities for goods and services received but not paid for before the period end.

Provisions are recognised when the Company has a present obligation, either legal or constructive, as a result of a past event where it is probable that resources embodying economic benefits will be required to settle the obligation. Provisions relate to employee entitlements.

Contributed equity is recognised at the fair value of the consideration received by the company. Capital raising costs are deducted from contributed equity.



## 7.5 NOTES TO THE FINANCIAL INFORMATION

	BLUGLASS LIMITED REVIEWED 31 MAY 2006	BLUGLASS LIMITED PRO-FORMA CONSOLIDATED REVIEWED 31 MAY 2006
	(\$)	(\$)
<b>7.5.1 Receivables</b>		
GST and other taxes recoverable	25,984	94,245
Other receivables	–	159
<b>Total receivables</b>	<b>25,984</b>	<b>94,404</b>
<b>7.5.2 Plant and equipment</b>		
Plant and equipment at cost	–	1,818
Less accumulated depreciation	–	(491)
<b>Net plant and equipment</b>	<b>–</b>	<b>1,327</b>
<b>7.5.3 Intangible assets</b>		
Goodwill arising on consolidation	–	10,478,081
<b>Total intangible assets</b>	<b>–</b>	<b>10,478,081</b>
<b>7.5.4 Payables</b>		
Trade payables	–	40,695
Accruals	–	39,553
Other creditors	31,823	100,681
<b>Total payables</b>	<b>31,823</b>	<b>180,929</b>
<b>7.5.5 Provisions</b>		
Annual leave—current	–	10,509
Long service leave—non-current	–	441
<b>Total provisions</b>	<b>–</b>	<b>10,950</b>
<b>7.5.6 Accumulated losses</b>		
BluGlass Limited	(248,203)	(248,203)
<b>Total accumulated losses</b>	<b>(248,203)</b>	<b>(248,203)</b>
<b>7.5.7 Cash reconciliation</b>		
BluGlass Limited cash balance	2,150,805	2,150,805
<b>Pro-forma adjustments<sup>1</sup></b>		
Cash acquired from Gallium Enterprises Pty Limited	–	268,378
Funds raised from \$0.15 call on 25,000,000 BluGlass shares	–	3,750,000
Funds raised from issue of 30,000,000 shares at \$0.20 each	–	6,000,000
Capital raising costs incurred including GST (refer Section 11.7)	–	(617,650)
<b>Pro-forma consolidated cash balance</b>	<b>2,150,805</b>	<b>11,551,533</b>

<sup>1</sup> Assuming minimum subscriptions accepted under the Prospectus.

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## PRO-FORMA FINANCIAL INFORMATION

### 7.5.8 Contributed equity

Movements in ordinary shares are as follows:

DATE	DETAILS	SHARES	PRICE PER SHARE (\$)	CAPITAL (\$)
31 May 2006	BluGlass Limited	59,404,002	various	2,393,169
31 May 2006	Pro-forma transaction, issue of shares to shareholders of Gallium Enterprises to acquire Gallium Enterprises	53,000,000	0.20	10,600,000
31 May 2006	Pro-forma transaction, \$0.15 call on 25,000,000 BluGlass shares	–	0.15	3,750,000
31 May 2006	Pro-forma transaction, issue of shares under Prospectus based on minimum subscription amounts	30,000,000	0.20	6,000,000
31 May 2006	Pro-forma transaction, capital raising costs for issue of shares under Prospectus based on minimum subscription amounts, excluding GST	–	–	(561,500)
<b>31 May 2006</b>	<b>Pro-forma closing balance</b>	<b>142,404,002</b>		<b>22,181,669</b>

Movements in options are as follows:

DATE	DETAILS	OPTIONS	PRICE PER OPTION (\$)	CAPITAL (\$)
31 May 2006	BluGlass Limited	7,500,000	–	–
31 May 2006	Pro-forma transaction, issue of options to shareholders of Gallium Enterprises	25,000,000	–	–
<b>31 May 2006</b>	<b>Pro-forma closing balance</b>	<b>32,500,000</b>		<b>–</b>

### 7.6 ASSUMPTIONS

The Pro-Forma Consolidated Balance Sheet of the Company at 31 May 2006 has been prepared on the assumption that the following transactions took place at that date.

#### 7.6.1 Acquisition of Gallium Enterprises Pty Limited

The acquisition of 100% of the capital of Gallium Enterprises Pty Limited has been assumed to be completed via the issue of 53,000,000 fully paid ordinary shares of \$0.20 and 25,000,000 ordinary share options in the Company. The value ascribed to this by the Directors is \$10,600,000. The acquisition is summarised as follows:

ACQUISITION OF BLUGLASS PTY LIMITED	(\$)
Fair value of consideration given	
<b>Issue of 53,000,000 shares of the Company at \$0.20</b>	<b>10,600,000</b>
Fair value of tangible net assets in Gallium Enterprises Pty Limited acquired	121,919
Goodwill arising on consolidation	10,478,081
<b>Total fair value of assets acquired</b>	<b>10,600,000</b>

The Directors have been unable to reliably assess the value of the patents at the time of issue of the Prospectus and accordingly patents are assumed to be carried at nil value.

#### 7.6.2 Completion of the Offer under this Prospectus

Thirty million shares of \$0.20 offered under this Prospectus are assumed to have been subscribed for, realising proceeds of \$6,000,000. Capital raising costs of \$561,500 are assumed to have been incurred, as detailed in Section 11.7, which have been settled by the Company from the proceeds of the Offer. Capital raising costs have been offset against equity raised.

#### 7.6.3 Contingencies

The Company proposes to issue 5,000,000 share options to the non-executive Directors and the CEO. If exercised, proceeds of \$0.20 per option will be received. If all the options are exercised, cash and share capital will increase by \$1,000,000 at the time of exercise. The options will only vest, subject to the achievement of certain events and milestones. Full details of the options including the timing, events and milestones required for vesting are included in sections 11.1.3 and 11.1.4 of the Prospectus.

#### 7.6.4 Subsequent events

From 31 May 2006 to the date of this Prospectus, other than as disclosed in this Prospectus, there has not been any event of a material nature, likely, in the opinion of the Directors, to significantly affect the operations of the Company or its future operations.

*“The company’s researchers are now working towards optimising the process to improve device performance and scaling up the process to accommodate 4-inch and later 6-inch and larger wafers”*



# 08 INDEPENDENT ACCOUNTANT'S REPORT

27 July 2006

The Directors  
BluGlass Limited  
Level 16  
Suite 1601, 87–89 Liverpool Street  
SYDNEY NSW 2000



Gentlemen,

## BLUGLASS LIMITED, INDEPENDENT REVIEW OF PRO-FORMA FINANCIAL INFORMATION

### 8.1 INTRODUCTION

BluGlass Limited (**Company**) proposes to acquire the entire issued capital of Gallium Enterprises Pty Limited (**Gallium Enterprises**), for a consideration of \$10.6 million, which will be satisfied through the issue to shareholders of Gallium Enterprises of 53 million fully paid ordinary shares of \$0.20 each along with 25 million options to acquire shares exercisable at \$0.20 expiring 31 December 2008, and seek a listing on ASX in conjunction with the issue of fully paid ordinary shares at a price of \$0.20 each (referred to as the **Offer**).

### 8.2 SCOPE

WHK Greenwoods has been engaged by the Company to prepare a report for inclusion in a Prospectus to be dated 27 July 2006 to be issued by the Company relating to the Offer (**Prospectus**) covering the following financial information (**Financial Information**):

- the Company Historical Financial Information as at 31 May 2006, presented in Sections 7.3–7.5 of the Prospectus (**Historical Financial Information**);
- the Pro-Forma Consolidated Historical Financial Information, as presented in Sections 7.3–7.5 of the Prospectus (**Pro-Forma Consolidated Financial Information**); and
- the assumptions on which they have been prepared as presented in Section 7.6 of the Prospectus (**Assumptions**).

We have conducted an independent review of the Financial Information as described in the previous column.

The Directors of the Company have prepared and are responsible for the Financial Information. We disclaim any assumption of responsibility for any reliance on this report or the Financial Information to which it relates for any purpose other than that for which it was prepared.

The Financial Information is presented in an abbreviated form insofar as it does not include all of the disclosures required by the Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act.

We have reviewed the Financial Information in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the Financial Information is not presented fairly in accordance with the recognition and measurement requirements, but not all of the disclosure requirements, of applicable Accounting Standards and other mandatory professional reporting requirements in Australia.

Our review has been conducted in accordance with Australian Auditing Standard AUS 902 *Review of Financial Reports* and was limited to inquiries and discussions with the Directors and personnel of the Company and Gallium Enterprises, analytical review procedures applied to the financial data, and comparison for consistency in application of accounting standards and policies.

These review procedures do not provide all the evidence that would be required in an audit; thus the level of assurance provided is less than that given in an audit. We have not performed an audit of the Financial Information and, accordingly, we do not express an opinion on the Financial Information.

### 8.3 REVIEW STATEMENT ON THE HISTORICAL FINANCIAL INFORMATION

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Historical Financial Information is not presented fairly in accordance with the recognition and measurement, but not the disclosure requirements, of applicable Accounting Standards and other mandatory professional reporting requirements in Australia.

### 8.4 REVIEW STATEMENT ON THE PRO-FORMA CONSOLIDATED FINANCIAL INFORMATION

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Pro-Forma Consolidated Financial Information is not presented fairly in accordance with the recognition and measurement, but not the disclosure requirements, of applicable Accounting Standards and other mandatory professional reporting requirements in Australia, on the basis and assumption that the transactions and events set out in the Assumptions in Section 7.6 of the Prospectus had taken place at 31 May 2006.

### 8.5 SUBSEQUENT EVENTS

To the best of our knowledge and belief, and based on the work we have performed as described in Section 8.2, there have been no material transactions or events subsequent to 31 May 2006 up until the date of this report, other than those disclosed in the Prospectus, that would require comment on, or adjustment to, the Financial Information referred to in this report, or that would cause the Financial Information referred to in this report to be misleading.

### 8.6 INDEPENDENCE

WHK Greenwoods does not have any pecuniary interest that could reasonably be regarded as being capable of affecting its ability to give an unbiased opinion in this matter. WHK Greenwoods is the independent auditor of BluGlass and will receive fees for audit services and a fee for the preparation of this report.

### 8.7 CONSENTS

Consent for the inclusion of the Independent Accountant's Report in the Prospectus in the form and context in which it appears has been given. At the date of this report, this consent has not been withdrawn.

### 8.8 GENERAL ADVICE

This report has been prepared for inclusion in the Prospectus to provide prospective shareholders with general information only. It does not take account of the objectives, financial situation or needs of specific shareholders. It is not intended to take the place of professional advice and prospective shareholders should not make specific investment decisions in reliance on the information contained in this report. Before acting or relying on any information, prospective shareholders should consider whether it is appropriate for their individual circumstances having regard to their objectives, financial situation and needs.

Yours faithfully,



WHK Greenwoods

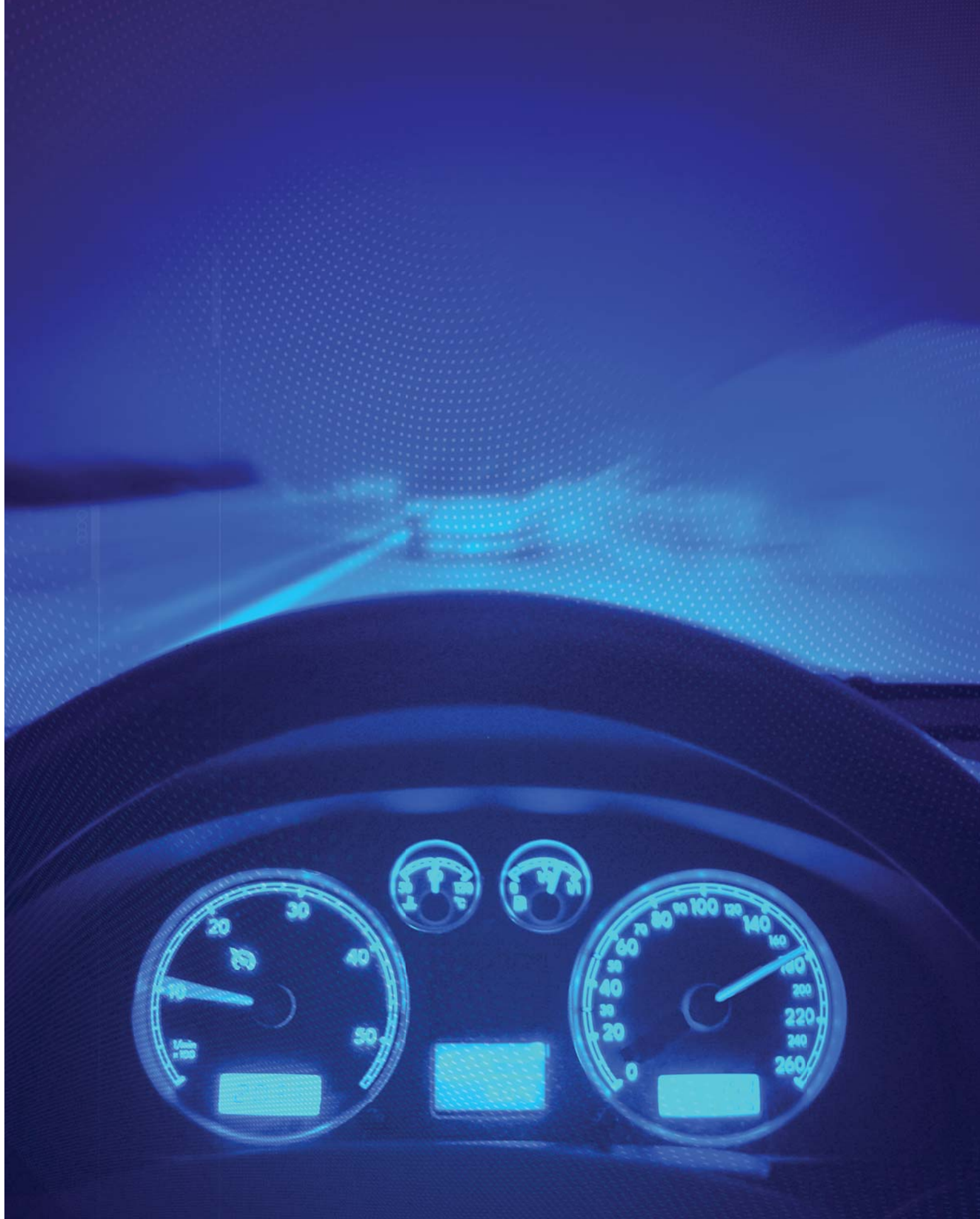


Anthony Rose

PRINCIPAL



*“High-brightness LEDs have been used for  
automotive interior lighting since 1997”*



# 09

## RISK FACTORS

### 9.1 INTRODUCTION

An investment in the Company is not risk free and prospective new investors should consider the risk factors described below, together with information contained elsewhere in this Prospectus, before deciding whether to apply for Shares.

The following is not intended to be an exhaustive list of the risk factors to which the Company is exposed.

### 9.2 DEVELOPMENT AND COMMERCIALISATION OF TECHNOLOGIES

The Company is relying on its ability to develop and commercialise its GaN technology. A failure to successfully develop and commercialise the GaN technology could lead to a loss of opportunities and adversely impact on the Company's operating results and financial position.

### 9.3 TECHNOLOGY RIGHTS

Securing rights to the GaN technology, and in particular patents, is an integral part of securing potential product value in the outcomes of semiconductor research and development. Competition in retaining and sustaining protection of the GaN technology and the complex nature of the GaN technology can lead to expensive and lengthy patents disputes for which there can be no guaranteed outcome.

Filing of a patent application does not guarantee that the patent will be granted. Furthermore, where a patent is granted, the scope of protection provided by the granted patent may be less than that originally sought in the patent application on which the patent was granted.

The granting of a patent does not guarantee that the rights of others are not infringed nor that competitors will not develop competing technology that circumvents such patents. The Company's success depends, in part, on its ability to obtain patents, maintain trade secret protection and operate without infringing the proprietary rights of third parties. Because the patent positions of semiconductor companies can be highly uncertain and frequently involve

complex legal and scientific evaluation, neither the breadth of claims allowed in semiconductor patents nor their enforceability can be predicted. There can be no assurance that any patents the Company may own or control or licence now and in the future will afford the Company commercially significant protection of the GaN technology, nor that any of the projects that may arise from the GaN technology will have commercial applications.

Although the Company is not aware of any third party interests in relation to the technology rights of the GaN technology, and has taken steps to protect and confirm its interest in these rights, there is always a risk of third parties claiming involvement in technological discoveries, and if any disputes arise, they could adversely affect the Company.

Although the Company will implement all reasonable endeavours to protect the GaN technology, there can be no assurance that these measures have been, or will be sufficient.

### 9.4 RESEARCH AND DEVELOPMENT

The Company can make no representation that any of its research into or development of the GaN technology will be successful, that the development milestones will be achieved, or that the GaN technology will be developed into products that are commercially exploitable.

There are many risks inherent in the development of technology products, particularly where the products are in the early stages of development. Projects can be delayed or fail to demonstrate any benefit, or research may cease to be viable for a range of scientific and commercial reasons.

### 9.5 PRODUCT LIABILITY AND UNINSURED RISKS

Through its intended business, the Company is exposed to potential product liability risks, which are inherent in the research and development, manufacturing, marketing and use of its products or products developed with future

# 09

## RISK FACTORS

co-development alliance partners. It will be necessary to secure insurance to help manage such risks. The Company may not be able to maintain insurance for product or service liability on reasonable terms in the future and, in addition, the Company's insurance may not be sufficient to cover large claims, or the insurer could disclaim coverage on claims.

Although the Company endeavours to work to rigorous standards, there is still the potential for its products to contain defects that may result in system failures. These defects or problems could result in the loss of or delay in generating revenue, loss of market share, failure to achieve market acceptance, diversion of development resources, injury to the Company's reputation or increased insurance costs.

If the Company fails to meet its clients' expectations, the Company's reputation could suffer and it could be liable for damages.

Furthermore, the Company is exposed to the risk of catastrophic loss to necessary laboratory equipment, computer equipment or other facilities, which would have a serious impact on the Company's operations. The Company gives no assurance that all such risks will be adequately managed through its insurance policies to ensure that catastrophic loss does not have an adverse effect on its performance.

### 9.6 ADDITIONAL FINANCING REQUIREMENTS

The Directors expect that the proceeds of the Capital Raising will provide sufficient capital resources to enable the Company to achieve its initial business objectives. However, the Directors can give no assurances that such objectives will in fact be met without future borrowings or further capital raisings, and if such borrowings or capital raisings are required, that they can be obtained on terms favourable to the Company.

### 9.7 REGULATORY RISK

The introduction of new legislation or amendments to existing legislation by governments, developments in

existing common law, or the respective interpretation of the legal requirements in any of the legal jurisdictions that govern the Company's operations or contractual obligations, could impact adversely on the assets, operations and, ultimately, the financial performance of the Company and its shares. In addition, there is a commercial risk that legal action may be taken against the Company in relation to commercial matters.

### 9.8 UNFORESEEN EXPENDITURE RISK

Expenditure may need to be incurred that has not been taken into account in the preparation of this Prospectus. Although the Company is not aware of any such additional expenditure requirements, if such expenditure is subsequently incurred, this may adversely affect the expenditure proposals of the Company.

### 9.9 LICENSING AND MARKETING RISKS

The Directors believe the funds raised from the Offer will give the Company sufficient working capital to achieve its objectives as stated in Sections 2.2 and 2.4 of this Prospectus. However, funds raised under this Prospectus are unlikely to be sufficient to enable the Company to fully commercialise the GaN technology. The Company's strategy may be to licence the GaN technology in the early phase of its development to licensees that are able to complete commercialisation of the GaN technology. The Company may seek to raise additional capital in the future if suitable licensees cannot be identified and the Company seeks to commercialise the GaN technology without licensees.

The Company intends to review the potential of the GaN technology in the markets of Australia and overseas. There can be no assurance that these markets will be established successfully and the failure to do so could have a material adverse effect on the Company's business, financial condition and results of operations. Furthermore, there is no guarantee that the targeted markets will accept the new technology and use the products developed by the Company.

### 9.10 ECONOMIC RISKS

General economic conditions, movements in interest and inflation rates and currency exchange rates may have an adverse effect on the Company's activities, as well as on its ability to fund those activities.

### 9.11 ADDITIONAL REQUIREMENTS FOR CAPITAL

The Company's capital requirements depend on numerous factors. Depending on the Company's ability to generate income from its operations, the Company may require further financing in addition to amounts raised under this Prospectus. Any additional equity financing will dilute shareholdings, and debt financing, if available, may involve restrictions on financing and operating activities. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations and scale back its expansion and development programs.

### 9.12 RELIANCE ON KEY MANAGEMENT

The responsibility of overseeing the day-to-day operations and the strategic management of the Company depends substantially on its senior management and its key personnel. There can be no assurance given that there will be no detrimental impact on the Company if one or more of these employees ceases their employment.

### 9.13 COMPETITION

There is a risk that the Company will not be able to continue to compete profitably in the competitive industry in which it intends to operate. The potential exists for the nature and extent of the competition to change rapidly, which may cause loss to the Company.

### 9.14 MANAGEMENT OF GROWTH

There is a risk that management of the Company will not be able to implement the Company's growth strategy after completion of the Acquisition. The capacity of the

new management to properly implement and manage the strategic direction of the Company may affect the Company's financial performance.

### 9.15 LOSS OF KEY CLIENTS

The Company is yet to establish important client relationships. Although the Company is expected to establish these relationships through development of the GaN technology, the loss of one or more key clients is likely to adversely affect the operating results of the Company.

### 9.16 SHARE MARKET

Share market conditions may affect the value of the Company's quoted securities regardless of the Company's operating performance. Share market conditions are affected by many factors such as:

- (a) general economic outlook;
- (b) interest rates and inflation rates;
- (c) currency fluctuations;
- (d) changes in investor sentiment towards particular market sectors;
- (e) the demand for, and supply of, capital; and
- (f) terrorism or other hostilities.

### 9.17 INVESTMENT SPECULATIVE

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the securities offered under this Prospectus.

Therefore, the securities to be issued pursuant to this Prospectus carry no guarantee with respect to the payment of dividends, returns of capital or the market value of those securities.

**Potential investors should consider that the investment in the Company is speculative and should consult their professional advisers before deciding whether to apply for Shares.**

# 10

## SUMMARY OF MATERIAL CONTRACTS

### 10.1 SHARE SALE AGREEMENT

Pursuant to a Share Sale Agreement between the Company, Gallium Enterprises and the shareholders in Gallium Enterprises (**Gallium Shareholders**), the Gallium Shareholders have agreed to sell 100% of the issued shares in the capital of Gallium Enterprises to the Company (**Acquisition**).

The material terms of the Share Sale Agreement are as follows:

- (a) (**Consideration**): The consideration for the Acquisition is the allotment and issue to the Gallium Shareholders of 50,000,000 Shares and 25,000,000 Options. In addition, the Company has agreed to issue the University a further 3,000,000 Shares in consideration for the University agreeing to vary certain milestones that will facilitate the assignment of the GaN Intellectual Property from the University to Gallium Enterprises.
- (b) (**Conditions Precedent**): Settlement under the Share Sale Agreement is subject to and conditional upon:
  - (i) the Company completing a financial and legal due diligence on Gallium Enterprises, to the sole and absolute discretion of the Company;
  - (ii) no event, change, condition, matter, result or circumstance (or any combination of events, changes, conditions, matters, results or circumstances):
    - (A) occurring;
    - (B) being disclosed; or
    - (C) becoming known to either the University or the Company in relation to each other, including any material breach of a warranty given by the Gallium Shareholders or the Company between execution of the agreement and settlement, which, in the reasonable opinion of either party, will have, could reasonably be expected to have, has had, or has evidenced that there has been a material adverse effect on the business, assets, liabilities, financial position, performance or prospect of the Company or Gallium Enterprises (as the case may be);
  - (iii) the Company raising the minimum subscription of \$6,000,000 under this Prospectus;

- (iv) the Company obtaining conditional approval to list its shares on ASX;
- (v) completion of the assignment by the University to Gallium Enterprises of the GaN Intellectual Property; and
- (vi) the Company obtaining all necessary shareholder approvals for the transaction that is the subject of the Share Sale Agreement.

The conditions set out in (i) and (vi) above have been satisfied at the date of this Prospectus.

- (c) (**Warranties**): The Share Sale Agreement contains a number of warranties provided by all parties that are considered to be on ordinary commercial terms relating to such matters as ownership of intellectual property, financial status, standing and capacity to complete obligations under the agreement.
- (d) (**Limitation on claims**): The maximum amount that may be claimed by the Company against the Gallium Enterprises Shareholders can not exceed \$10,000,000 in total. Further, a claim may not be made for breach of warranty after that date that is two years from the settlement date (seven years in relation to tax warranties).
- (e) (**Other Clauses**): The agreement otherwise contains clauses that are considered to be on ordinary commercial terms (including clauses relating to non-competition for up to five years and dispute resolution).

### 10.2 LICENCE AGREEMENT

Pursuant to a Licence Agreement between the University and Gallium Enterprises, the University granted an exclusive licence to Gallium Enterprises under the GaN Intellectual Property to exploit the GaN inventions and to use, reproduce and adapt the GaN materials (**Licence**).

Pursuant to the Assignment Deed (refer to Section 10.3 on the following page), all of the GaN Intellectual Property owned by the University will be assigned to Gallium Enterprises. Accordingly, the Licence will be terminated prior to the Company listing on ASX.



### 10.3 INTELLECTUAL PROPERTY ASSIGNMENT DEED

Pursuant to an Assignment Deed between the University and Gallium Enterprises, the University has agreed to assign to Gallium Enterprises its entire right, title and interest in and in relation to the GaN Intellectual Property, the GaN know-how and the GaN materials.

The assignment will take place immediately prior to the Company listing on ASX.

The material terms of the Assignment Deed are as follows:

- (a) **(Consideration)**: Gallium Enterprises is not required to pay any consideration to the University in relation to the assignment of the GaN Intellectual Property.
- (b) **(Assignment)**: The University will assign to Gallium Enterprises absolutely and as beneficial owner:
  - (i) the entire right, title and interest in and in relation to the GaN Intellectual Property;
  - (ii) the right to apply for any patent rights anywhere in the world claiming priority from the GaN Intellectual Property; and
  - (iii) the GaN materials.
- (c) **(Residual Rights)**: The assignment of the IP is subject to the following residual rights:
  - (i) any non-exclusive licences under the intellectual property rights for non-commercial research and teaching purposes;
  - (ii) any rights enforceable against the University, with respect of the distribution of commercialisation income derived by the University in relation to the intellectual property rights; and
  - (iii) any rights that current and former employees or students of the University may have in accordance with the University's intellectual property policy documents, as well as predecessors to the intellectual property policy documents.
- (d) **(Licence under background IP)**: The University has also granted to Gallium Enterprises a perpetual, irrevocable, royalty free, non-exclusive licence under the background GaN Intellectual Property solely to the extent necessary:
  - (i) to exploit the GaN inventions;
  - (ii) to further develop the GaN know-how; and
  - (iii) to use, reproduce, adapt and modify the GaN materials.
- (e) **(Sub-licensing)**: Gallium Enterprises is able to sub-licence any of the rights granted to it in paragraph (d) above at its sole discretion.
- (f) **(Ownership of background IP)**: The University shall retain ownership of the background intellectual property and Gallium Enterprises has no right, title or interest in or in relation to the background intellectual property other than those granted to it above.
- (g) **(Warranties)**: The Assignment Deed contains representations and warranties from the University in relation to ownership of the GaN Intellectual Property and the ability for Gallium Enterprises to exploit the GaN Intellectual Property after the IP is assigned to Gallium Enterprises.
- (h) **(Limitation on claims)**: Gallium Enterprises is unable to make a claim against the University in relation to any breach of warranty to the extent that all claims exceed \$2,000,000.

### 10.4 RESEARCH LICENCE AGREEMENT

Pursuant to a Research Licence Agreement between Gallium Enterprises and the University, Gallium Enterprises has granted the University a non-exclusive licence under the GaN Intellectual Property for the purpose of non-commercial, academic research in Australia.

The material terms of the Research Licence Agreement are as follows:

- (a) **(Extent of Licence)**: The licence allows the University to:
  - (i) use any GaN invention and any Gallium Enterprises improvement;
  - (ii) further develop and use the GaN know-how; and
  - (iii) use, reproduce and adapt to the GaN materials in Australia, for internal, academic, non-commercial research at the University.
- (b) **(Term)**: The term of the licence shall continue, unless terminated earlier, until the expiry, lapsing, revocation or withdrawal of the last Australian intellectual property right in or in relation to the GaN Intellectual Property, GaN know-how or GaN materials.

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## SUMMARY OF MATERIAL CONTRACTS

- (c) **(Sub-licensing)**: The University must not sub-licence any of the rights granted to it under the Research Licence Agreement without the prior written consent of Gallium Enterprises.
- (d) **(Notice of research programs)**: The University must notify Gallium Enterprises in writing of any research program they propose to conduct pursuant to the licence granted under the Research Licence Agreement.
- (e) **(Improvements)**: Improvements made by the University in relation to GaN will be owned by Gallium Enterprises immediately upon their creation. Further, the University has agreed to assign to Gallium Enterprises the entire right, title and interest in and in relation to any improvements made by the University immediately upon their creation.
- (f) **(Dealings with new inventions)**: Prior to October 2011, the University must not:
  - (i) deal with, solicit or entertain possible dealings with; or
  - (ii) engage in discussions about possible dealings with,any new invention, without giving Gallium Enterprises the exclusive first right to refuse any proposed dealings with any new invention.
- (g) **(Exercise of first right)**: Should Gallium Enterprises exercise its right of first refusal within 30 days, the University must deal with the relevant new invention intellectual property in favour of Gallium Enterprises.
- (h) **(Non-exercise of first right)**: If Gallium Enterprises does not exercise its right of first refusal, then the University may negotiate with third parties the terms on which the proposed dealing might be entered into with those third parties, provided those terms are no more favourable than the ones proposed to Gallium Enterprises under its right of first refusal.

### 10.5 SHAREHOLDERS AGREEMENT—GALLIUM ENTERPRISES PTY LIMITED

The shareholders in Gallium Enterprises entered into a Shareholders Agreement in October 2005 to govern the management and operation of Gallium Enterprises.

Upon settlement occurring under the Share Sale Agreement (refer to Section 10.1), the Shareholders Agreement shall terminate.

### 10.6 EXECUTIVE SERVICES AGREEMENT WITH DAVID JORDAN

The Company has entered into an Executive Services Agreement with Mr David Jordan pursuant to which Mr Jordan has agreed to serve the Company as Chief Executive Officer and Managing Director.

The material terms of the Executive Services Agreement are set out below:

- (a) **(Term)**: Subject to the provisions for termination of Mr Jordan's employment contained in the Executive Services Agreement, Mr Jordan's employment will be for a term of two years commencing on 31 July 2006 (Term). If, in the Board's reasonable opinion, the key performance indicators required of Mr Jordan have not been completed within the Term, Mr Jordan must agree to an extension of the Term for a further period of up to 12 months.
- (b) **(Duties)**: The duties to be performed by Mr Jordan are in the nature usually prescribed for an appointment of this type including managing the day-to-day operations of the Company.
- (c) **(Remuneration)**: Mr Jordan will receive a salary of \$300,000 per annum for his services (inclusive of superannuation). This salary will be reviewed annually by the Company in accordance with the policy of the Company for the annual review of salaries. Mr Jordan's salary may not be decreased by any such review.
- (d) **(Performance review)**: In addition to the review, the Company may during the Term, pay to Mr Jordan a performance-based bonus over and above the salary. Any performance-based bonus shall take into consideration the key performance indicators of Mr Jordan and the Company, as the Company may set from time to time, and any other matter that the Company deems appropriate.

- (e) **(Executive Options):** In addition to the salary and any performance-based bonus, the Company has agreed to allot and issue 3,000,000 Executive Options to Mr Jordan.
- (f) **(Termination by the Company with reason):**  
The Company may at its sole discretion terminate Mr Jordan's employment in the following manner:
- (i) by giving not less than three months' written notice if at any time Mr Jordan:
    - (A) becomes incapacitated by illness or injury that prevents him from performing his duty for:
      - (I) a period of nine consecutive months; or
      - (II) an aggregate period of nine months in any period of 12 months; or
    - (B) is or becomes of unsound mind or under the control of any committee or officer under any law relating to mental health;
  - (ii) by giving one month's written notice if at any time Mr Jordan:
    - (A) commits any serious or persistent breach of the Executive Services Agreement and such breach is not remedied within 14 days upon received written notice by the Company to Mr Jordan to do so;
    - (B) in the reasonable opinion of the Board, is absent in, or demonstrates incompetence with regard to the performance of his duties under the Executive Services Agreement, or is neglectful of his duties under the Executive Services Agreement or otherwise does not perform his duties in a satisfactory manner, provided that:
      - (I) Mr Jordan has been counselled on at least three separate occasions of the specific matters complained of by the Board; and
      - (II) after each such occasion has been provided with a reasonable opportunity of at least one month to remedy those matters;
      - (III) Mr Jordan commits or becomes guilty of any gross misconduct; or
      - (IV) refuses or neglects to comply with any lawful, reasonable direction or order given to him by the Company which Mr Jordan, after receipt of prior notice, has failed to rectify to the reasonable satisfaction of the Company within 21 business days of receipt of that notice; or
- (V) summarily without notice if at any time Mr Jordan is convicted of any major criminal offence, by giving notice effective immediately and without payment of any salary other than any salary accrued to the date of that termination.
- (g) **(Termination by the Company without reason):**  
The Company may terminate Mr Jordan's employment without cause by giving three months' written notice to Mr Jordan and making a payment of three months' salary after the expiry of the three months' written notice period. Should the Company elect to pay Mr Jordan the equivalent of the three months' salary and dispense with the notice period, the total payment inclusive of the three months' notice period will be the equivalent of six months' salary.
- (h) **(Termination by Mr Jordan):** Mr Jordan may terminate his employment in the following manner:
- (i) if at any time the Company commits any serious or persistent breach of any of the provisions contained in the Executive Services Agreement and the breach is not remedied within 28 days of receipt of written notice from Mr Jordan to the Company to do so, by giving notice effective immediately; or
  - (ii) by giving three months' written notice to the Company.
- (i) **(Other clauses):** The agreement otherwise contains clauses that are considered to be on ordinary commercial terms (including clauses relating to non-competition and confirming ownership of inventions and intellectual property).

## 10.7 EMPLOYMENT AGREEMENTS WITH GALLIUM ENTERPRISES SCIENTISTS

Gallium Enterprises has entered into employment agreements with the following scientific employees:

- (a) Dr Scott Butcher;
- (b) Dr Marie Wintrebert-Fouquet; and
- (c) Mr Patrick Chen.

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## SUMMARY OF MATERIAL CONTRACTS

The material terms of the Employment Agreements are set out below:

- (a) **(Termination)**: The employment may be terminated as follows:
  - (i) where a date of termination has been nominated, on that date; or
  - (ii) where in the reasonable opinion of the Gallium Enterprises board of directors, the relevant employee has been guilty of gross misconduct or breach of the employment conditions, immediately upon receipt of notice of termination; or
  - (iii) by either party on one month's written notice or payment in lieu thereof.
- (b) **(Bonus payments)**: All of the above employees are entitled to receive bonus payments upon the reaching of certain milestones set by Gallium Enterprises.
- (c) **(Other clauses)**: The agreements otherwise contain clauses that are considered to be on ordinary commercial terms (including a clause confirming that Gallium Enterprises owns all inventions and intellectual property developed by the employees).

### 10.8 ACCESS AGREEMENT WITH MACQUARIE UNIVERSITY

Gallium Enterprises has entered into an access agreement with Macquarie University pursuant to which the University has agreed to provide Gallium Enterprises with access to facilities and equipment for the purpose of Gallium Enterprises conducting its research and development activities.

This agreement is intended to remain in force until such time as Gallium Enterprises relocates to its own premises.

### 10.9 LOAN AGREEMENT WITH GALLIUM ENTERPRISES

The Company has agreed to loan Gallium Enterprises up to \$500,000 to fund its ongoing working capital commitments prior to being acquired by the Company. The loan is unsecured, repayable within 12 months and will accrue interest at a rate of 8% per annum from the date of draw

down. As at the date of this Prospectus, \$200,000 has been advanced to Gallium Enterprises by the Company.

### 10.10 DIRECTORS' DEEDS OF INDEMNITY

The Company has entered into a Deed of Indemnity, Insurance and Access with each of the Directors and the Company Secretary (**Deeds**).

Pursuant to the Deeds, the Company agrees to indemnify each officer (to the maximum extent permitted by the Corporations Act) against any liability arising as a result of the officer acting as an officer of the Company. The Company is required under the Deeds to maintain insurance policies for the benefit of the relevant officer for the term of the appointment (and for at least seven years after the officer ceases to be an officer of the Company) and must also allow the officers to inspect board papers in certain circumstances.

### 10.11 EMPLOYEE INCENTIVE OPTION PLAN

The Company has established an employee incentive option plan (**Plan**).

The Plan is designed to provide eligible participants with an ownership interest in the Company and to provide additional incentives for eligible participants to increase profitability and returns to Shareholders.

The summary of the Plan is set out below for the information of potential investors in the Company. The detailed terms and conditions of the Plan may be obtained free of charge by contacting the Company.

#### 10.11.1 General

The Board may from time to time, in its absolute discretion, offer to grant options to eligible participants under the Plan.

Each option will be issued for no consideration and will carry the right in favour of the option holder to subscribe for one Share in the capital of the Company.

The Board may determine the exercise price of the options in its absolute discretion. Subject to the Listing Rules, the exercise price may be nil but to the extent the Listing Rules specify or require a minimum price, the exercise price in respect of an offer made following the day on which Shares are first quoted on the Official List must not be less than any minimum price specified in the Listing Rules.

#### 10.11.2 Eligible participants

Full-time employees, part-time employees, Directors and consultants of the Company or an associated body corporate (the **Group**) are eligible to participate in the Plan.

#### 10.11.3 Lapse of options

Unless the Board in its absolute discretion determines otherwise, options shall lapse immediately if:

- (a) the eligible participant ceases to be an employee or Director of or to render services to, a member of the Group for any reason whatsoever and the conditions of exercise of the options (**Exercise Conditions**) have not been met;
- (b) the Exercise Conditions of the options are unable to be met;
- (c) the date that is two years after the date of the grant of the options, or such other expiry date as the Board determines in its discretion at the time of granting of the option (**Lapsing Date**) has passed; or
- (d) the expiry of 60 days after the eligible participant ceases to be an employee or director of, or to render services to, a member of the Group for any reason whatsoever prior to the Lapsing Date where the Exercise Conditions have been met, whichever is earlier.

#### 10.11.4 Participation in future issues

There are no participating rights or entitlements inherent in the options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least seven business days after the issue is announced. This will give option holders the opportunity to exercise their options prior to the date for determining entitlements to participate in any such issue.

If the Company makes a pro rata issue of securities (except a bonus issue) to the holders of Shares (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment) the exercise price of the options shall be reduced in accordance with the formula in the Listing Rules.

In the event of a bonus issue of Shares being made pro rata to Shareholders (other than an issue in lieu of dividends), the number of Shares issued on exercise of each option will include the number of bonus Shares that would have been issued if the option had been exercised prior to the record date for the bonus issue. No adjustment will be made to the exercise price per Share of the option.

#### 10.11.5 Re-organisation

The terms upon which options will be granted will not prevent them being required by the ASX Listing Rules on the reorganisation of the capital of the Company.

#### 10.11.6 Trigger events

Upon the occurrence of certain trigger events (for example the receipt by the Company of a bidder's statement in respect of the Company) the Directors may determine:

- (a) that the options may be exercised at any time from the date of such determination, and in any number until the date determined by the Directors acting bona fide so as to permit the holder to participate in any change of control arising from a trigger event provided that the Directors will forthwith advise in writing each holder of such determination. Thereafter, the options shall lapse to the extent they have not been exercised; or
- (b) to use their reasonable endeavours to procure that an offer is made to holders of options on like terms (having regard to the nature and value of the options) to the terms proposed under the trigger event, in which case the Directors shall determine an appropriate period during which the holder may elect to accept the offer and, if the holder has not so elected at the end of that period, the options shall immediately become exercisable and, if not exercised within 10 days, shall lapse.



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## ADDITIONAL INFORMATION

### 11.1 RIGHTS ATTACHING TO SECURITIES

#### 11.1.1 Ordinary Shares

The rights, privileges and restrictions attaching to Shares can be summarised as follows:

##### *General meetings*

Shareholders are entitled to be present in person, or by proxy, attorney or representative, to attend and vote at general meetings of the Company.

Shareholders may requisition meetings in accordance with Section 249D of the Corporations Act and the Constitution of the Company.

##### *Voting rights*

Subject to any rights or restrictions for the time being attached to any class or classes of shares, at general meetings of shareholders or classes of shareholders:

- (a) each shareholder entitled to vote may vote in person or by proxy, attorney or representative;
- (b) on a show of hands, every person present who is a shareholder or a proxy, attorney or representative of a shareholder has one vote; and
- (c) on a poll, every person present who is a shareholder or a proxy, attorney or representative of a shareholder shall, in respect of each fully-paid share held by them, or in respect of which they are appointed a proxy, attorney or representative, have one vote for the share, but in respect of partly paid shares shall have such number of votes as bears the same proportion to the total of such shares registered in the shareholder's name as the amount paid (not credited) bears to the total amounts paid and payable (excluding amounts credited).

##### *Dividend rights*

Subject to the rights of persons (if any) entitled to shares with special rights as to dividend, the Directors may declare a final dividend out of profits in accordance with the Corporations Act and may authorise the payment or crediting by the Company to the shareholders of such a dividend. The Directors may authorise the payment or crediting by the Company to the shareholders of such interim dividends as appear to the Directors to be justified by the profits of the Company. Subject to the rights of persons (if any) entitled to shares with special rights as

to dividend, all dividends are to be declared and paid according to the amounts paid or credited as paid on the shares in respect of which the dividend is paid. Interest may not be paid by the Company in respect of any dividend, whether final or interim.

##### *Winding up*

If the Company is wound up, the liquidator may, with the authority of a special resolution of the Company, divide among the shareholders in kind the whole or any part of the property of the Company, and may for that purpose set such value as they consider fair on any property to be so divided, and may determine how the division is to be carried out as between the shareholders or different classes of shareholders. The liquidator may, with the authority of a special resolution of the Company, vest the whole or any part of any such property in trustees upon such trusts for the benefit of the contributories as the liquidator thinks fit, but so that no shareholder is compelled to accept any shares or other securities in respect of which there is any liability. Where an order is made for the winding up of the Company or it is resolved by special resolution to wind up the Company, then on a distribution of assets to members, shares classified by ASX as restricted securities at the time of the commencement of the winding up shall rank in priority after all other shares.

##### *Transfer of Shares*

Generally, shares in the Company are freely transferable, subject to formal requirements, the registration of the transfer not resulting in a contravention of or failure to observe the provisions of a law of Australia, and the transfer not being in breach of the Corporations Act or the Listing Rules.

##### *Variation of rights*

Pursuant to Section 246B of the Corporations Act, the Company may, with the sanction of a special resolution passed at a meeting of shareholders, vary or abrogate the rights attaching to shares.

If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class), whether or not the Company is being wound up, may be varied or abrogated with the consent in writing of the holders of three-quarters of the issued shares of that class, or if authorised by a special resolution passed at a separate meeting of the holders of the shares of that class.

### 11.1.2 Options

The terms and conditions of the Options are as follows:

- (a) each Option entitles the holder to one Share in the Company;
- (b) the Options are exercisable at any time on or prior to 5.00pm (AEDT) on 31 December 2008 (**Expiry Date**) by completing an option exercise form and delivering it together with the payment for the number of Shares in respect of which the Options are exercised to the registered office of the Company;
- (c) the Option exercise price is \$0.20 per Option;
- (d) an Option does not confer the right to a change in exercise price nor a change in the number of underlying securities over which the Option can be exercised;
- (e) subject to the Corporations Act, the Listing Rules and the Company's Constitution, the Options are freely transferable;
- (f) all Shares issued on exercise of the Options will rank *pari passu* in all respects with the Company's then issued Shares. The Company will apply for quotation of the Options and all Shares issued upon exercise of the Options on ASX;
- (g) there are no participating rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least seven Business Days after the issue is announced. This will give Option holders the opportunity to exercise their Options prior to the date for determining entitlements to participate in any such issue; and
- (h) if at any time the issued capital of the Company is reconstructed, all rights of an Option holder are to be changed in a manner consistent with the Corporations Act and the Listing Rules.

### 11.1.3 Director Options

It is proposed that Director Options will be issued to each of Michael Taverner, Gregory Cornelsen and Chandra Kantamneni. The material terms of the Director Options are as follows:

- (a) each Director Option entitles the holder, when exercised, to one Share;

- (b) subject to paragraph (d) below, the Director Options are exercisable at any time on or prior to 5.00pm (AEST) on 30 June 2009 (**Expiry Date**) by completing an option exercise form and delivering it together with the payment for the number of Shares in respect of which the Director Options are exercised to the registered office of the Company;
- (c) the Director Option exercise price is \$0.20 per option;
- (d) the Director Options will vest and only be exercisable in tranches as follows:
  - (i) 50% of the Director Options may only be exercised after the first anniversary date of the Company's shares being admitted to the Official List of ASX; and
  - (ii) 50% of the Director Options may only be exercised after the second anniversary date of the Company's shares being admitted to the Official List of ASX;
- (e) a Director Option does not confer the right to a change in exercise price or a change in the number of underlying securities over which the Director Option can be exercised;
- (f) the Director Options are not transferable;
- (g) if the holder ceases to be a director of the Company, any Director Options that have not vested will immediately lapse, unless otherwise agreed by the Board;
- (h) all Shares issued upon exercise of the Director Options will rank equally in all respects with the Company's then issued Shares. Subject to the Company successfully listing on ASX, the Company will apply for quotation of all Shares issued upon exercise of the Director Options on ASX;
- (i) there are no participating rights or entitlements inherent in the Director Options and holders will not be entitled to participate in new issues of capital offered to shareholders during the currency of the Director Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the holder will receive notice in accordance with the requirements of the Listing Rules;
- (j) if at any time the issued capital of the Company is reconstructed, all rights of a Director Option holder are to be changed in a manner consistent with the Corporations Act and the Listing Rules; and
- (k) notwithstanding any of the terms set out above, upon the occurrence of a Trigger Event, all Director Options that have not vested at that date will immediately vest and become exercisable.

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## ADDITIONAL INFORMATION

### 11.1.4 Executive Options

It is proposed that Executive Options will be issued to David Jordan. The material terms of the Executive Options are as follows:

- (a) each Executive Option entitles the holder, when exercised, to one Share;
- (b) subject to paragraph (d) below, the Executive Options are exercisable at any time on or prior to 5.00pm (AEST) on 30 June 2009 (**Expiry Date**) by completing an option exercise form and delivering it together with the payment for the number of Shares in respect of which the Executive Options are exercised to the registered office of the Company;
- (c) the Executive Option exercise price is \$0.20 per Executive Option;
- (d) the Executive Options will vest and only be exercisable in tranches as follows:
  - (i) 1,000,000 Executive Options may only be exercised if, prior to the Expiry Date, the Company has constructed a pilot fabrication plant from which it has produced and sold the equivalent of at least nine square metres of either:
    - (A) commercially-competitive GaN-based electronic devices; or
    - (B) GaN material of quality suitable for fabricating commercially-competitive electronic devices; and
  - (ii) 1,000,000 of the Executive Options may only be exercised if, prior to the Expiry Date, the Company has generated at least \$1,000,000 in revenues through licensing of its technology; and
  - (iii) 1,000,000 of the Executive Options may only be exercised if, prior to the Expiry Date and following the achievement of the milestones set out in paragraphs (i) and (ii) above, the volume-weighted average price of the Company's Shares as traded on ASX has exceeded \$0.50 for 20 consecutive Business Days;
- (e) an Executive Option does not confer the right to a change in exercise price or a change in the number of underlying securities over which the Executive Option can be exercised;
- (f) the Executive Options are not transferable;
- (g) if the Executive Services Agreement with David Jordan is terminated by the Company with cause, all of the Executive Options that have not vested will immediately lapse;
- (h) all Shares issued upon exercise of the Executive Options will rank equally in all respects with the Company's then issued Shares. Subject to the Company successfully listing on ASX, the Company will apply for quotation of all Shares issued upon exercise of the Executive Options on ASX;
- (i) there are no participating rights or entitlements inherent in the Executive Options and holders will not be entitled to participate in new issues of capital offered to shareholders during the currency of the Executive Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue the holder will receive notice in accordance with the requirements of the Listing Rules; and
- (j) if at any time the issued capital of the Company is reconstructed, all rights of an Executive Option holder are to be changed in a manner consistent with the Corporations Act and the Listing Rules.

### 11.2 DISCLOSURE OF INTERESTS

Directors are not required under the Company's Constitution to hold any Shares. As at the date of this Prospectus, the Directors have relevant interests in Shares and options to acquire Shares as set out in the following table:

DIRECTOR	SHARES	OPTIONS	DIRECTOR OPTIONS	EXECUTIVE OPTIONS
Michael Taverner	287,500	100,000	1,000,000	–
David Jordan	–	–	–	3,000,000
Gregory Cornelsen	312,500	–	500,000	–
Chandra Kantamneni	–	–	500,000	–

The Options referred to in the above table may not have been issued at the date of this Prospectus. They will all be issued prior to the Company being admitted to the Official List.

### 11.3 REMUNERATION

The Company's Constitution provides that the remuneration of non-executive Directors will be not more than the aggregate fixed sum determined by a general meeting. The aggregate remuneration for non-executive Directors has been set at an amount not to exceed \$200,000 per annum.

The only executive Director of the Company is Mr David Jordan. Details of his executive services agreement are set out in Section 10.6 of this Prospectus.

The remuneration paid to the Directors in the last two years and the fees that are currently proposed to be paid to the Directors in relation to holding the position of a Director are set out below:

DIRECTOR	PAST FEES	FUTURE FEES
	(\$)	(\$pa)
Michael Taverner	Nil	64,000
David Jordan	Nil	Nil <sup>1</sup>
Gregory Cornelsen	Nil	32,000
Chandra Kantamneni	Nil	32,000

<sup>1</sup>Mr Jordan will receive a salary of \$300,000 per annum under his executive services agreement. He will not receive any other fees in relation to holding the position of a Director.

### 11.4 FEES AND BENEFITS

Other than as set out below or elsewhere in this Prospectus, no:

- (a) Director of the Company;
- (b) person named in this Prospectus as performing a function in a professional advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- (c) promoter of the Company; or
- (d) underwriter (but not a sub-underwriter) to the issue or a financial services licensee named in the Prospectus as a financial services licensee involved in the issue, has, or had within two years before lodgement of this Prospectus with ASIC, any interest in:

- (i) the formation or promotion of the Company;
- (ii) any property acquired or proposed to be acquired by the Company in connection with its formation or promotion or in connection with the offer of Shares under this Prospectus; or
- (iii) the offer of Shares under this Prospectus, and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any of those persons as an inducement to become, or to qualify as, a Director of the Company or for services rendered in connection with the formation or promotion of the Company or the offer of Shares under this Prospectus.

WHK Greenwoods has acted as Independent Accountant and has prepared an Independent Accountant's Report, which has been included in Section 7 of this Prospectus. The Company estimates it will pay WHK Greenwoods a total of \$27,500 for these services. Subsequently, fees will be charged in accordance with normal charge out rates. During the 24 months preceding lodgement of this Prospectus with ASIC, WHK Greenwoods has received approximately \$6,800 for other accounting services provided to the Company.

Steinepreis Paganin has acted as the solicitors to the Company in relation to the Offer and has been involved in due diligence enquiries on legal matters. The Company estimates it will pay Steinepreis Paganin \$25,000 for these services. Subsequently, fees will be charged in accordance with normal charge out rates. During the 24 months preceding lodgement of this Prospectus with ASIC, Steinepreis Paganin has received approximately \$20,000 for other legal services provided to the Company.

Blake Dawson Waldron Patent Services has acted as the Patent Attorney to the Company and has prepared the Patent Attorney's Report, which has been included in Section 6 of this Prospectus. The Company estimates that it will pay Blake Dawson Waldron Patent Services a total of \$12,000 for these services. During the 24 months preceding lodgement of this Prospectus with ASIC, Blake Dawson Waldron Patent Services has not received any other fees from the Company.

# 11

## ADDITIONAL INFORMATION

### 11.5 CONSENTS

Each of the parties referred to in this section:

- (a) does not make, or purport to make, any statement in this Prospectus other than those referred to in this section; and
- (b) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Prospectus other than a reference to its name and a statement included in this Prospectus with the consent of that party as specified in this section.

WHK Greenwoods has given its written consent to being named as Independent Accountant in this Prospectus and to the inclusion of the Independent Accountant's Report in Section 8 in the form and context in which the report is included. WHK Greenwoods has not withdrawn its consent prior to lodgement of this Prospectus with ASIC.

Steinepreis Paganin has given its written consent to being named as the solicitor to the Company in this Prospectus. Steinepreis Paganin has not withdrawn its consent prior to the lodgement of this Prospectus with ASIC.

Blake Dawson Waldron Patent Services has given its written consent to being named as the Patent Attorney to the Company in this Prospectus and to the inclusion of the Patent Attorney's Report in Section 6 in the form and context in which the report is included. Blake Dawson Waldron Patent Services has not withdrawn its consent prior to the lodgement of this Prospectus with ASIC.

Spruson & Ferguson Patent & Trade Mark Attorneys has given its consent to the inclusion in the Patent Attorney's Report (included in Section 6 of this Prospectus) of the statements attributed to it in Section 6.5 and the tables set out in Section 6.3 in the form and context in which they are included. Spruson & Ferguson Patent & Trade Mark Attorneys

has not withdrawn its consent prior to the lodgement of this Prospectus with ASIC.

Security Transfer Registrars has given its written consent to being named the Company's Share Registry in this Prospectus and has not withdrawn its consent prior to lodgement of this Prospectus with ASIC.

### 11.6 RESTRICTED SHARES

ASX has indicated that certain existing security holders may be required to enter into agreements that restrict dealings in Shares held by them. These agreements will be entered into in accordance with the Listing Rules.

### 11.7 EXPENSES OF THE OFFER

The total expenses of the Offer are estimated to be approximately \$261,500 and are expected to be applied towards the items set out in the following table:

Item of expenditure	Amount (\$)
ASIC fees	2,010
ASX fees	45,000
Advisers' fees	64,500
Design, printing and promotion	70,000
Transaction costs	60,000
Miscellaneous	19,990
<b>Total</b>	<b>261,500</b>

In addition, the Company may pay holders of an Australian Financial Service licence a commission of up to 5% (exclusive of goods and services tax) in relation to valid applications submitted by the holder of the Australian Financial Service licence and accepted by the Company. Accordingly, between \$300,000 and \$450,000 may be paid by the Company in broker commissions, assuming between \$6,000,000 and \$9,000,000 is raised. If the minimum subscription of \$6,000,000 is raised, fees

including broker commissions will be \$561,500, and if the maximum subscription is raised, fees including broker commission will be \$711,500.

### 11.8 LITIGATION

As at the date of this Prospectus, the Company is not involved in any legal proceedings and the Directors are not aware of any legal proceedings pending or threatened against the Company.

### 11.9 CURRENT SHAREHOLDERS

The Company currently has more than 300 Shareholders, with no single Shareholder holding greater than 10% of the issued Shares.

The majority of these Shareholders subscribed for securities in the Company pursuant to a prospectus dated 7 April 2006 and paid \$0.16 per Share (inclusive of a call made on the Shares).

### 11.10 ELECTRONIC PROSPECTUS

Pursuant to Class Order 00/044, ASIC has exempted compliance with certain provisions of the Corporations Act to allow distribution of an electronic prospectus and electronic application form on the basis of a paper prospectus lodged with ASIC, and the publication of notices referring to an electronic prospectus or electronic application form, subject to compliance with certain conditions.

If you have received this Prospectus as an electronic Prospectus, please ensure that you have received the entire Prospectus accompanied by the relevant application forms. If you have not, please email the Company at [admin@bluglass.com.au](mailto:admin@bluglass.com.au) and the Company will send you, for free, either a hard copy or a further electronic copy of the Prospectus or both. Alternatively, you may obtain

a copy of the Prospectus from the Company's website at [www.bluglass.com.au](http://www.bluglass.com.au).

The Company reserves the right not to accept an application form from a person if it has reason to believe that when that person was given access to the electronic application form, it was not provided together with the electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

### 11.11 TAXATION

The acquisition and disposal of Shares in the Company will have tax consequences, which will differ depending on the individual financial affairs of each investor. All potential investors in the Company are urged to obtain independent financial advice about the consequences of acquiring Shares from a taxation viewpoint and generally.

To the maximum extent permitted by law, the Company, its officers and each of their respective advisors accept no liability or responsibility with respect to the taxation consequences of subscribing for Shares under this Prospectus.



# 12 DIRECTORS' AUTHORISATION

This Prospectus is issued by the Company and its issue has been authorised by a resolution of the Directors.

In accordance with Section 720 of the Corporations Act, each Director has consented in writing to the lodgement of this Prospectus with ASIC.

A handwritten signature in black ink, appearing to read 'David Jordan', is written over a light grey rectangular background.

David Jordan

*Managing Director and Chief Executive Officer*

**FOR AND ON BEHALF OF BLUGLASS LIMITED**

# 13 GLOSSARY

Where the following terms are used in this Prospectus they have the following meanings:

**A\$ or \$** means an Australian dollar.

**Acquisition** means the acquisition by the Company of all of the shares in Gallium Enterprises in return for the issue of securities in the Company to the Gallium Enterprises Shareholders.

**AEDT** means Australian Eastern Daylight Time, Sydney, NSW.

**AEST** means Australian Eastern Standard Time, Sydney, NSW.

**AIN** means aluminium nitride.

**APPA** means Australian Provisional Patent Application.

**Application Form** means the application form accompanying this Prospectus relating to the Offer.

**ASIC** means the Australian Securities and Investments Commission.

**ASTC** means ASX Settlement and Transfer Corporation Pty Limited.

**ASX** means Australian Stock Exchange Limited (ABN 98 008 624 691).

**Board** means the board of Directors as constituted from time to time.

**BluGlass** means BluGlass Limited (ABN 20 116 825 793).

**Business Day** means a week day when trading banks are ordinarily open for business in Sydney, New South Wales.

**Capital Raising** means the proposed raising of a minimum of \$6 million under this Prospectus.

**CCFL** means cold cathode fluorescent lamp.

**CHES** means Clearing House Electronic Sub-register System, which is operated by ASTC, a wholly owned subsidiary of ASX.

**Company** means BluGlass Limited (ABN 20 116 825 793).

**Closing Date** means the closing date of the Offer as set out in Section 2.3.

**Constitution** means the constitution of the Company.

**Corporations Act** means the Corporations Act 2001 (Cth).

**Directors** means the directors of the Company at the date of this Prospectus.

**Director Option** means an option to acquire a share on the terms set out in Section 11.1.3 of this Prospectus.

**Executive Option** means an option to acquire a Share on the terms set out in Section 11.1.4 of this Prospectus.

**Exposure Period** means the period of seven days after the date of lodgement of this Prospectus, which period may be extended by ASIC by not more than seven days pursuant to Section 727(3) of the Corporations Act.

**GAAP** means Generally Accepted Accounting Principles, a common set of accounting principles, standards and procedures.

**Gallium Enterprises** means Gallium Enterprises Pty Limited (formerly BluGlass Pty Limited) (ACN 104 736 870).

**Gallium Enterprises Shareholders** means the shareholders in Gallium Enterprises.

**GaN** means gallium nitride.

**GaN technology** means the GaN technology comprising the Intellectual Property that will be owned by Gallium Enterprises once the Company lists on ASX, as more specifically detailed in Sections 4 and 6 of this Prospectus.

**General Meeting** means the general meeting of Shareholders held on 24 July 2006.

**InN** means indium nitride.

**Intellectual Property** and **IP** mean the know how, patent portfolio, materials and other intellectual property relating to the GaN technology.

# 13

## GLOSSARY

**Intellectual Property Assignment Deed** means the intellectual property assignment deed entered into between Gallium Enterprises and the University pursuant to which Gallium Enterprises will be assigned the Intellectual Property, a summary of which is set out in Section 10.3 of this Prospectus.

**LD** means laser diode.

**LED** means light emitting diode, a semiconductor device able to emit light when conducting an electrical current.

**Listing Date** means the date on which the Company is admitted to the Official List.

**Listing Rules** means the official listing rules of ASX.

**MOCVD** means metal-organic chemical vapour deposition, a process for producing materials such as compound semiconductors from the pyrolysis of organic compounds containing the required chemical elements.

**Offer** means the offer of Shares pursuant to this Prospectus as outlined in Section 3.1 of this Prospectus.

**Official List** means the Official List of ASX.

**Official Quotation** means official quotation by ASX in accordance with the Listing Rules.

**OIDA** means Optoelectronics Industry Development Association, a US-based industry body.

**Option** means an option to subscribe for a Share subject to the terms and conditions set out in Section 11.1.2 of this Prospectus.

**PCT** means the Patent Cooperation Treaty.

**Prospectus** means this prospectus.

**RPECVD** means remote plasma-enhanced chemical vapour deposition, a process for producing materials such as compound semiconductors that uses a plasma separate from the substrate to enhance chemical reaction rates of the precursor materials.

**Share** means a fully paid ordinary share in the capital of the Company.

**Share Registry** means Security Transfer Registrars.

**Shareholder** means a holder of Shares.

**Trigger Event** means:

- (a) the despatch of a notice of meeting to consider a scheme of arrangement between the Company and its creditors or members or any class thereof pursuant to Section 411 of the Corporations Act; or
- (b) the date on which a change in control of the Company occurs.

**University** means Macquarie University.

**US** or **USA** means the United States of America.

**US\$** means a United States dollar.



## APPLICATION FORM

The securities to which this application form (**Application Form**) relates are fully paid ordinary shares (**Shares**) in the capital of BluGlass Limited (**Company**). A prospectus containing information regarding an investment in Shares was lodged with the Australian Securities and Investments Commission on 27 July 2006 (**Prospectus**). It is advisable to read the Prospectus before applying for Shares. Any person who gives another person access to the Application Form must at the same time and by the same means give the other person access to the Prospectus. While the Prospectus is current, the Company will send paper copies of the Prospectus and the Application Form to any person on request and without charge.

### PLEASE READ ALL INSTRUCTIONS ON THE REVERSE OF THIS FORM

#### Full name (PLEASE PRINT)

Title, Given Name(s) and Surname or Company Name

Joint Applicant 2 or <designated account>

Joint Applicant 3 or <designated account>

#### Postal Address (PLEASE PRINT)

Street number and name

City, suburb or town

State

Postcode

#### Contact details

Telephone

Facsimile

#### ABN, TFN or exemption

Applicant 1

Applicant 2

Applicant 3

#### CHESS HIN or existing SRN (where applicable)

#### Number of Shares applied for

#### Application money enclosed (at \$0.20 per Share)

I/We, whose full name(s) and address appear above, hereby apply for the number of Shares shown above (to be allocated to me/us by the Company in respect of this Application) under the Prospectus on the terms set out in the Prospectus.

#### Cheque details

Cheque 1 drawer

Bank

BSB

Amount of cheque

Cheque 2 drawer

Bank

BSB

Amount of cheque

Cheques should be made payable to **'BluGlass Limited—Share Offer Account'** and crossed **'NOT NEGOTIABLE'**. Cheques and completed Application Forms should be forwarded, **to arrive no later than 5.00pm on 22 August 2006** (or such other date as is determined by the Directors) to:

BluGlass Limited

OR

BluGlass Limited

c/- Security Transfer Registrars

c/- Security Transfer Registrars

PO Box 535

770 Canning Highway

APPLECROSS WA 6953

APPLECROSS WA 6153

# GUIDE TO THE APPLICATION FORM

If an applicant has any questions on how to complete this Application Form, please telephone Security Transfer Registrars Pty Ltd on (08) 9315 2333.

## A. Application for Shares

The Application Form must be completed in accordance with the instructions included in the Prospectus.

## B. Name of Applicant

Write the Applicant's FULL NAME. This must be either an individual's name or the name of a company. Please refer to the bottom of this page for the correct form of registerable title. Applications using the incorrect form of registerable title may be rejected.

## C. Name of Joint Applicants or Account Designation

If JOINT APPLICANTS are applying, up to three joint Applicants may register. If applicable, please provide details of the Account Designation in brackets. Please refer to the bottom of this page for instructions on the correct form of registerable title.

## D. Address

Enter the Applicant's postal address for all correspondence. If the postal address is not within Australia, please specify the country after the city, suburb or town.

## E. Contact Details

Please provide a contact name and daytime telephone number so that the Company can contact the Applicant if there is an irregularity regarding the Application Form.

## F. CHESS HIN or existing SRN Details

The Company participates in CHESS. If the Applicant is already a participant in this system, the Applicant may complete this section with their existing CHESS HIN. If the applicant is an existing shareholder with an issuer sponsored account, the SRN for this existing account may be used. Otherwise leave the section blank and the Applicant will receive a new issuer sponsored account and statement.

## G. Cheque Details

Make cheques payable to **'BluGlass Limited—Share Offer Account'** in Australian currency and cross them **'Not Negotiable'**. Cheques must be drawn on an Australian Bank. The amount of the cheque(s) should agree with the amount shown on the Application Form.

## H. Declaration

This Application Form does not need to be signed. By lodging this Application Form and a cheque for the application money, this Applicant hereby:

- applies for the number of Shares specified in the Application Form or such lesser number as may be allocated by the Directors;
- agrees to be bound by the constitution of the Company;
- authorises the Directors of the Company to complete or amend this Application Form where necessary to correct any errors or omissions;
- acknowledges that he/she has received a copy of the Prospectus attached to this Application Form or a copy of the Application Form before applying for the Shares; and
- acknowledges that he/she will not provide another person with this Application Form unless it is attached to or accompanied by the Prospectus.

## CORRECT FORMS OF REGISTRABLE TITLE

Only legal entities are allowed to hold securities. Each Application Form must be in the name(s) of one or more natural persons, companies or other legal entities acceptable to the Company. At least one full given name and a surname is required for each natural person. Application Forms cannot be completed by persons under 18 years of age. Examples of the correct form of registrable title are set out below.

TYPE OF INVESTOR	CORRECT FORM OF REGISTRATION	INCORRECT FORM OF REGISTRATION
Individual <i>Use given names in full, not initials</i>	Mr John Alfred Smith	J A Smith
Company <i>Use the company's full title, not abbreviations</i>	ABC Pty Ltd	ABC P/L or ABC Co
Joint Holdings <i>Use full and complete names</i>	Mr Peter Robert Williams & Ms Louise Susan Williams	Peter Robert & Louise S Williams
Trusts <i>Use the trustee(s) personal name(s)</i>	Mrs Susan Jane Smith <Sue Smith Family A/C>	Sue Smith Family Trust
Deceased Estates <i>Use the executor(s) personal name(s)</i>	Ms Jane Mary Smith & Mr Frank William Smith <Est John Smith A/C>	Estate of late John Smith or John Smith Deceased
Minor (a person under the age of 18) <i>Use the name of a responsible adult with an appropriate designation</i>	Mr John Alfred Smith <Peter Smith A/C>	Master Peter Smith
Partnerships <i>Use the partners personal names</i>	Mr John Robert Smith & Mr Michael John Smith <John Smith and Son A/C>	John Smith and Son
Long Names	Mr John William Alexander Robertson-Smith	Mr John W A Robertson-Smith
Clubs / Unincorporated Bodies / Business Names <i>Use office bearer(s) personal name(s)</i>	Mr Michael Peter Smith <ABC Tennis Association A/C>	ABC Tennis Association
Superannuation Funds <i>Use the name of the trustee of the account</i>	Jane Smith Pty Ltd <Super Fund A/C>	Jane Smith Pty Ltd Supperannuation Fund

# 14

## CORPORATE DIRECTORY

### DIRECTORS

Michael Taverner (*Chairman*)  
David Jordan (*Managing Director and Chief Executive Officer*)  
Greg Cornelsen (*Non-executive Director*)  
Chandra Kantamneni (*Non-executive Director*)

### COMPANY SECRETARY (PART-TIME)

Emmanuel Correia

### AUSTRALIAN BUSINESS NUMBER

20 116 825 793

### REGISTERED AND PRINCIPAL OFFICE

World Tower—Commercial Suites  
Suite 1601  
87–89 Liverpool Street  
SYDNEY NSW 2000

Telephone: (02) 9283 9411  
Facsimile: (02) 9283 9422

### AUDITOR AND INDEPENDENT ACCOUNTANT

**WHK Greenwoods**  
Level 15  
309 Kent Street  
SYDNEY NSW 2000

### SOLICITORS TO THE COMPANY

**Steinepreis Paganin**  
Lawyers & Consultants  
Level 4, Next Building  
16 Milligan Street  
PERTH WA 6000

### PATENT ATTORNEYS

**Blake Dawson Waldron Patent Services**  
Grosvenor Place  
225 George Street  
SYDNEY NSW 2000

### SHARE REGISTRY

**Security Transfer Registrars**  
770 Canning Highway  
APPLECROSS WA 6153

Telephone: (08) 9315 2333  
Facsimile: (08) 9315 2233



