

## 2014 Annual Report - Replacement

Dyesol Limited (ASX: DYE) wishes to advise that a minor typographical error (the omission of page number references) was contained in the Audit Report included in the Company's 2014 Annual Report, which was released to the market on Friday, 26 September 2014.

The attached replacement 2014 Annual Report includes the corrected Audit Report.

Kim Hogg  
**Company Secretary**

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# DYESOL LIMITED

ACN 111 723 883

## ANNUAL REPORT

For the year ended 30 June 2014

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## Corporate Directory

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### **Directors**

Mr Ian Neal – Non-Executive Chairman  
Mr Richard Caldwell – Managing Director  
Mr Gordon Thompson – Non-Executive Director  
Mr Gerry Grove-White – Non Executive Director  
Mrs Nicola Swift – Non Executive Director  
Mr Antoine Shirfan – Non Executive Director

### **Company Secretary**

Mr Kim Hogg

### **Principal Place of Business**

11 Aurora Avenue  
Queanbeyan New South Wales 2620

Telephone: +61 2 6299 1592  
Facsimile: +61 2 6299 1698

### **Registered Office**

3 Dominion Place  
Queanbeyan New South Wales 2620

Telephone: +61 2 6299 1592  
Facsimile: +61 2 6299 1698

### **Auditor**

Grant Thornton Audit Pty Ltd  
Level 17, 383 Kent St.  
Sydney NSW 2000

### **Share Registry**

Computershare Investor Services Pty Ltd  
Level 2, Reserve Bank Building  
45 St George's Terrace  
Perth Western Australia 6000

Telephone: +61 8 9323 2000  
Facsimile: +61 8 9323 2033

### **Stock Exchange**

Australian Stock Exchange Limited  
Level 40, Central Park,  
152-158 St George's Terrace  
Perth Western Australia 6000

**ASX Code:** DYE

# Chairman's Letter

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Dear Dyesol shareholders,

"We will make electricity so cheap that only the rich will burn candles."- Thomas Edison

Edison had a clear vision as to the potential of electricity and that vision has driven much of world economic development during and since his lifetime.

Dyesol's ambition is to turn buildings into power plants by installing low cost solar at the point of electricity consumption and we believe that with the rapid progress being achieved by our perovskite based DSC technology we are moving rapidly closer to this ambition becoming a reality.

The big issue with solar so far has been not its operating cost but its capital cost. Generation 1 and 2 solar technologies have a very high capital cost and this cost means that the total cost of solar has so far been well in excess of the cost of coal or nuclear powered electricity (even with the dramatic falls in costs over the past few years).

It is Dyesol's vision to change this paradigm and with the dramatic improvements in the efficiency of perovskite based DSC systems achieved in the past 18 months this vision is fast becoming a reality.

Within our reach are a series of DSC products that can be deployed in the built-environment that have a lower cost than is paid by consumers through the electricity grid.

Make no mistake, this is a powerful force, which has the potential to be completely disruptive to established patterns of supply and distribution of electricity. It is my belief that the potential for renewables has been recognised in Australia by the electricity generating and distributing companies and is one of the reasons for our Federal Government's stated position which is anti-renewable energy. The reasons are economic and defensive to the established generation and supply utilities. However, what opponents of renewable energy have not banked on is the unstoppable momentum of renewable technologies like ours. We believe they are fighting a losing battle and companies like Dyesol will prevail simply because we have a lower cost solution to the planet's energy requirements.

Our technology uses low cost materials and proven, non-toxic application methods which all add up to one simple proposition - lower cost electricity available at the point of generation giving the lowest possible total cost for our customers.

Many shareholders may wonder why I have restated these propositions. My answer is that it is very important for all to understand clearly both what we are doing and why we are doing it.

So, to be clear. We are creating a viable, low cost source of electricity, which has the potential to disrupt the global energy supply chain and energy balance because we have a low cost solution which can supply energy requirements as long as the sun shines - zero operating cost per Kwh combined with a formidable cost advantage in manufacturing.

The game is large and the prize is huge. In our operations report our Managing Director details Dyesol's progress in the past year towards achieving our vision. The work is complex and somewhat like Edison's explorations to find the best solution for an electric light bulb that lasted 1,200 hours, our explorations are concerned not with the basic invention but with decisions on the material sets and processing methods that will deliver ssDSC cells that have long life, efficiency and cost advantages. Our complete focus is on taking Professor Michael Graetzel's inventions from the laboratory to the market in the most cost efficient and speedy way that we can possibly manage.

The progress of our scientific team in the past year has been impressive. The Company is performing to an agreed set of technical milestones, which are driving towards a commercial outcome.

As a pre-revenue company we are acutely aware of the fact that we rely upon our shareholders for funding to the point that the gross profit from commercial sales covers our costs and one of the main focuses of the board is and remains to maximize the output from every dollar invested, to shorten the time to cash generation and to minimise the very many risks associated with our venture.

Under the strong guidance of Richard Caldwell as Managing Director the company is operating harmoniously to a well-defined set of short and longer term goals and is hitting its milestones.

In conclusion, I would like to thank our many shareholders for their belief in our cause and our vision. I trust that there is a good understanding of our purpose and where we are on our journey and that we are managing the serious technical and commercial risks and opportunities in an effective and coherent manner.

Yours faithfully,



Ian Neal  
Chairman  
Dyesol Limited

## Summary

Dyesol experienced a very rewarding year with pleasing progress on the development of its revolutionary solid-state DSC technology. Dyesol looks forward to announcing the further achievement of scientific milestones over the coming year in preparation for the prototype and pilot line stages of its business and technology development plans. In addition, the Company will provide more clarity on its commercialisation strategy as development work nears completion. FY2014 was also marked by increased investment, increased levels of strategic planning and increased levels of scientific collaboration with its strategic investor, Tasnee. The two companies continue to work together in close collaboration.

## Industry and Market Conditions

Solar has enjoyed a genuine v-shaped style recovery in the past 2 years. This is reflected in higher usage of solar PV and also higher levels in solar shares internationally. Unfortunately, in Australia the share price performance has been against the international trend with the October 2013 newly elected Liberal Government implementing retrograde policies reflecting climate change denial and strong support for the existing carbon based energy providers. Recent polls are at odds with the Government's alleged "mandate" to dismantle the renewable energy industry with more than 80% of Australian voters believing that it is important to pro-actively respond to the threat of climate change. Even more contrarian, the US Government during the past 12 months has warmed to the solar sector with national policy swinging in its favour, further demonstrating that Australia is at odds with its G20 peers. Dyesol has done its utmost to contest the Government's position, but also avoid reliance on Australian based outcomes as the Government cowers to vested interest. Regrettably, this has put downwards and unacceptable share price pressure on all Australian listed renewables companies.

## DSC Research and Development

R&D at Dyesol in DSC is focused on improvements relating to cost, conversion efficiency and durability or product life. These parameters effectively dictate our Technology Development Plan and the activities of the Technology Committee, chaired by Dr Damion Milliken. Improvement effectively translates into lower Levelised Cost of Electricity (LCOE), which is the measure Dyesol promotes as an industry standard of performance. Interestingly, LCOE is increasingly being adopted in favour of watt-peak performance as emerging technologies seek a level playing field of comparison. However, while crystalline silicon (C-Si) has many limitations it remains the solar technology of choice until disruptive new entrants can adequately demonstrate their credentials. In most cases, C-Si has had a 50 year head-start. Dyesol believes C-Si will ultimately be displaced because of its poor performance in low light conditions, its lack of physical versatility in the built environment and cheaper alternatives.

While research is downplayed within the Company as we set our sights firmly on long-term production goals, some achievements clearly deserve mention. In particular, we have made excellent progress on the discovery of new materials in the blocking layer and in hole-transport materials. The success can in part be attributed to co-location at both the EPFL in Switzerland and at NTU in Singapore in our bid to create an expressway from the laboratory to the factory. Small teams at both institutions are SWAT-like and have the ability to discover IP-blocks in both process and materials. A very pleasing aspect of scale-up to date has been the relatively seamless introduction of industrial processes for both precise control of edge definition and nano-deposition with the total thickness of the active layers as little as 350 nano-metres. Dyesol U.K. has also been very busy in forming new relationships with Manchester, Bangor and Sheffield Universities. These new relationships are fostered by grant opportunities and a joint focus on industrialisation processes in the manufacturing heartland of the U.K.

A highlight of FY2014 has been the more formal role of the Technology Advisory Board, chaired by Professor Michael Graetzel. In its expanded form, including participation by Tasnee, the TAB acts as a strong independent scrutineer of our scale-up activities. Each quarterly milestone helps pave the way for all critical aspects of technology development to come together by 2016 for the successful production of a prototype device. Areas of critical importance include conversion efficiency, durability, materials scale-up and various key aspects of the production process. So far, Dyesol has achieved its first two quarterly milestones and is confident of achieving those that lie ahead.

## Intellectual Property

The EPFL remains the principal source of access to IP through Dyesol's pioneer licence. A number of key solid-state designs and processes are owned by the EPFL and it has a large team engaged to continue to generate new IP. Dyesol's scientists and materials have also performed important roles in advances that have occurred in the past 12 months. Dyesol's mesoporous TiO<sub>2</sub> continues to be regarded as the best available.

As mentioned above, Dyesol also submitted two provisional patents during the year in the important area of hole transport materials, one in conjunction with Nanyang Technological University, Singapore. Dyesol believes these new materials have the potential to both reduce costs and provide performance advantages for industrial scale panel production.

Dr Andrew King chairs the I.P. Committee. While generating new IP, Dyesol has also allowed some historical IP to lapse. The main consideration here is the transition from liquids to solid-state and the obsolescence of certain related processes.

# Operations Review

## Dyesol Australia & Industries

Dyesol Australia Pty Ltd is the principal employer in the Dyesol Group and currently engages in chemical production and materials scale-up (Faunce Street) and device scale-up (Aurora Avenue). Dominion Place, in close proximity to the other two centres of activity, conducts finance, administration and sales. Dyesol Industries holds almost all of the Group's intellectual property.

The CTO, Dr Damion Milliken has global responsibility for all R&D activity, including overseeing projects in Singapore and Switzerland. Dr Milliken reports to the Managing Director and is responsible for implementation of the Technology Development Plan and its regular review.

Chemical production is the responsibility of Dr Yanek Hebling, who has done an excellent job this year in providing a new range of solid-state chemical products for both Dyesol's web-based sales and sales through our U.S.A. agent, Sigma Aldrich. Dyesol is currently exporting to 62 countries and its customer base includes blue-chip institutions such as CalTech, EPFL, Fraunhofer, NREL and Oxford University. Dr Luca Sorbello co-ordinates global sales of materials and equipment from a small office in Rome. Sales are expected to more than double during FY2015.

All activity in Australia includes regular interaction with CSIRO, Australian National University, Wollongong University and Monash University.

## Business and Corporate Development

During the year, Tasnee converted an initial \$4 million note into equity at 16.6 cents per share and agreed to invest a further \$10 million at 18 cents per share. As the transaction involved the Tasnee shareholding exceeding the takeovers threshold of 20% ownership and also exceeding the 15% issuance capacity under Listing Rule 7.1, shareholder approval was duly sought and received. Importantly, the process, culminating in a general meeting of Dyesol shareholders, was aided by an independent expert's report which opined on aspects of the transaction including whether it was fair and reasonable for existing shareholders. The resolution to proceed with the transaction was carried with a very significant majority and little dissent. The subsequent benefit to the Company has been palpable with the opportunity to strongly advance both technology development and business plans throughout the year.

## SPECIFIC

Tata's decision in the U.K. to revert to core steel making in very recent years is in response to the challenging market for its products in Europe and has been managed very astutely. Tata and Dyesol remain in detailed negotiation and working towards addressing the exciting opportunities that exist within the newly emerging functionalised coatings sector. Before the Global Financial Crisis, Tata helped develop the "buildings as power stations" concept and that is now being further progressed at SPECIFIC at Baglan in South Wales.

There has been quite a lot of speculation about Dyesol's role in this consortium, largely because it has taken over a year to negotiate commercial rights and roles amongst the several different parties that have formed this world-class centre for building product development. However, with the assistance of the Welsh Government, Dyesol is very confident that points of difference will be resolved for the benefit of all participants imminently. The key multinational partners of this consortium include Tata Steel Europe, BASF of Germany and Pilkington Glass, wholly owned by NSG of Japan. In many respects, the partners mirror Dyesol's pre-existing global commercial relationships and a presence here will help rationalise and make more cost effective our various commercial activities. This is also helping bridge the gap in development which occurred when Dyesol made the strategic decision to commercialise a solid-state material set, rather than liquid based DSC. The exciting and improved performance of perovskite-based or ssDSC during the past 12 months, we believe, has totally vindicated this decision as the increased possibilities for new photovoltaic applications are vast.

## Dyesol-Timo Joint Venture

The 49.9% balance of the joint venture has been acquired for 500,000 Dyesol shares, subject to ASX published escrow provisions. The Dyesol-Timo workforce of 8 Korean employees, led by Sung Lee, continues to play an important role in Dyesol's global activities and will focus on the provision of a contracted prototype facility in Turkey. Our interests in Turkey are currently at arm's length, but have the possibility to transform into closer collaboration and commercial partnership should milestones be achieved and discussions with the Turkish Development Bank prove fruitful.

More generally, the newly acquired and wholly controlled manufacturing expertise will be used in the planning, design and engineering of both glass prototype and pilot line as a next step in the Australian sourced development plans. These activities are forecast to commence in 2015 and 2016, respectively. Korea continues to be a region of keen interest for Dyesol and we anticipate ongoing access to Government financial support.

## Marketing and Promotion

With a large and geographically diverse shareholder base Dyesol has been working hard to establish an investor relations strategy that reaches, engages and informs all shareholders regardless of their location or language.

To achieve this, Dyesol is working with Callidus PR in Australia, and Dr Eva Reuter Investor Relations in Germany to ensure maximum reach through media, forums, social media, roadshows, events and targeted communication.

Recognising that effective investor relations relies on two-way communication between shareholders and Dyesol, the organisation has monitored investor forums and has sought feedback from shareholders to further inform and improve its IR strategy with new media such as video to feature next financial year.

Dyesol's shareholder base stabilised during the reporting period with ongoing support from long term investors.

### Statistics:

- ~7,000 global shareholders
- 5% Institutional investors
- 30% Insiders
- 35% Australian retail
- 30% European UK

With customers located in more than 62 countries around the world, Dyesol continued to promote its ever-expanding range of materials and equipment through multiple channels, including:

- A well-established network of sales agents
- Targeted electronic direct mail
- Special promotions and offers
- Online sales and customer service
- Participation in events
- Face-to-face relationship management and volume based sales.

An increase in production efficiency and volume-based sales triggered a pricing review with Dyesol's prices reduced. This strengthened Dyesol's competitive position while maintaining the highest possible material quality customers have come to trust and rely on.

Dyesol's Global Distribution Agreement with world renowned chemical supplier, Sigma-Aldrich, will bolster Dyesol's sales next financial year, with the organisation agreeing to distribute Dyesol's entire material set.

### Achievements:

- New range of ssDSC materials launched
- Expanded range of perovskite precursors introduced

### IR Highlights:

- Re-invigorated Dyesol's bi-monthly newsletter.
- Re-established Dyesol's social media accounts on Twitter @Dyesol (English) and @DyesolLtd (German), and reconnected with LinkedIn members.
- Managing Director, Richard Caldwell, completed a UK and European Roadshow in May/June 2014.
- Introduced quarterly report presentations inclusive of commentary, published on the Dyesol website.
- Dr Eva Reuter launched the SRI2 Capital Platform, a dedicated website for Dyesol shareholders, with all information from the company translated into German.

# Operations Review

Dyesol's sponsorship budget is limited and reserved exclusively for participation in industry events that will:

1. Raise awareness of Dyesol as a global leader in ssDSC technology
2. Provide a platform to elevate and strengthen Dyesol's R&D credentials and sales activities
3. Allow industry-wide insights to be gathered to improve Dyesol's competitive position
4. Offer valuable networking opportunities with academics and industry, and leading manufacturers

Dyesol's sponsorship of the Hybrid Organic Photovoltaic Conference (HOPV) held in Lausanne, Switzerland, in May 2014, met this criteria.

The conference brought together leading scientists, engineers and students from around the world to discuss the potential of hybrid solar cells combining inorganic and organic materials, to satisfy the growing demand for energy on a global scale.

Perovskites dominated discussions, proving that many are working hard to see their potential realised, with Dyesol firmly at the forefront.

Dyesol continued to maintain and foster relationships with government stakeholders within Australia and in subsidiary locations around the world.

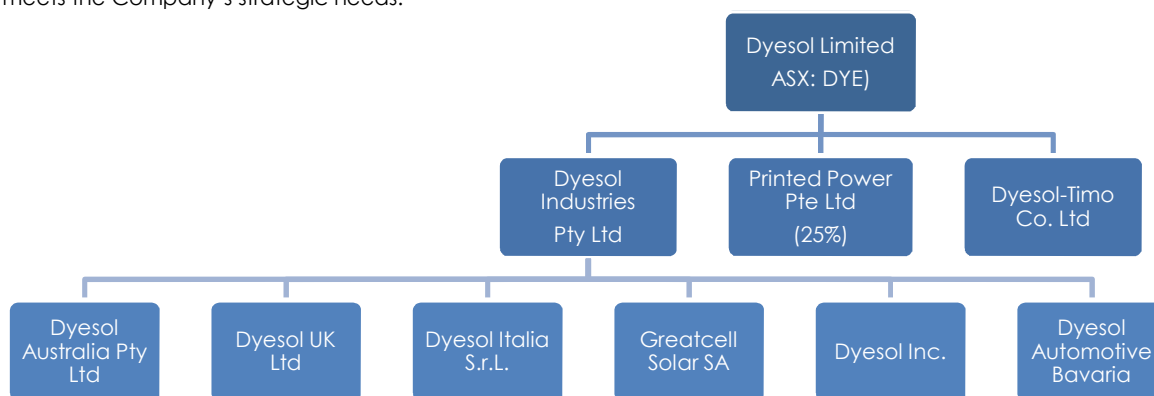
Dyesol's government relations strategy has two key objectives:

1. Establish a position of influence to shape the underpinning legislation that shapes the operating environment for Dyesol's operations, and
2. Identify and apply for available funding programs to accelerate Dyesol's scale-up and commercialisation activities.

To achieve this, Dyesol's Managing Director, and members of the Board continued to meet with, and strengthen ties with, stakeholders in Australia, United Kingdom, Turkey, Korea and Italy.

## Corporate Structure

Dyesol is a global company and its structure is the result of careful planning to maximise opportunities, particularly in funding, recruitment, partnership and taxation, in the many different countries that it chooses to operate. During FY2014, Dyesol closed Dyesol Japan, Dyesol East-Asia and DyeTec Solar Inc. It also acquired, through the issue of 500,000 Dyesol Limited shares, the 49.9% balance of Dyesol-Timo. All actions were taken to maximise future opportunities or eliminate cost where an ongoing presence was not required. The board and senior management regularly review corporate structure to ensure it meets the Company's strategic needs.



In other jurisdictions, such as Switzerland and Italy, activity increased at the subsidiary level due to change of focus and availability of government R&D subsidies. Dyesol U.K. is also once again experiencing an employment growth phase in anticipation of new developmental projects at SPECIFIC and at its new precinct in Manchester.

Each company is incorporated within the country shown and is required to operate within the laws of the country of incorporation. Typically, employees enjoy the protection of the laws of the country in which they work. However, there is also an attempt to extend policies emanating from head-office across the entire Dyesol Group where appropriate.

### HOPV14 Conference Highlights:

- Dyesol's Nancy Jiang presented results on screen printed TiO<sub>2</sub> layers, a process that is fully compatible with high throughput industrial mass manufacture with conversion efficiencies of 16.3 per cent.
- Luca Sorbello, Dyesol's Global Sales and Marketing Manager promoted Dyesol's new range of perovskites to existing and prospective customers at HOPV14 resulting in increased interest and sales.
- Leading institutions and organisations were represented including EPFL, Nanyang Technical University, Oxford University, University of Toronto, to name a few.
- The event coincided with Professor Michael Graetzel's 70<sup>th</sup> birthday – a fitting way to celebrate his achievements in the field of DSC.

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# Operations Review

## Dyesol Staff

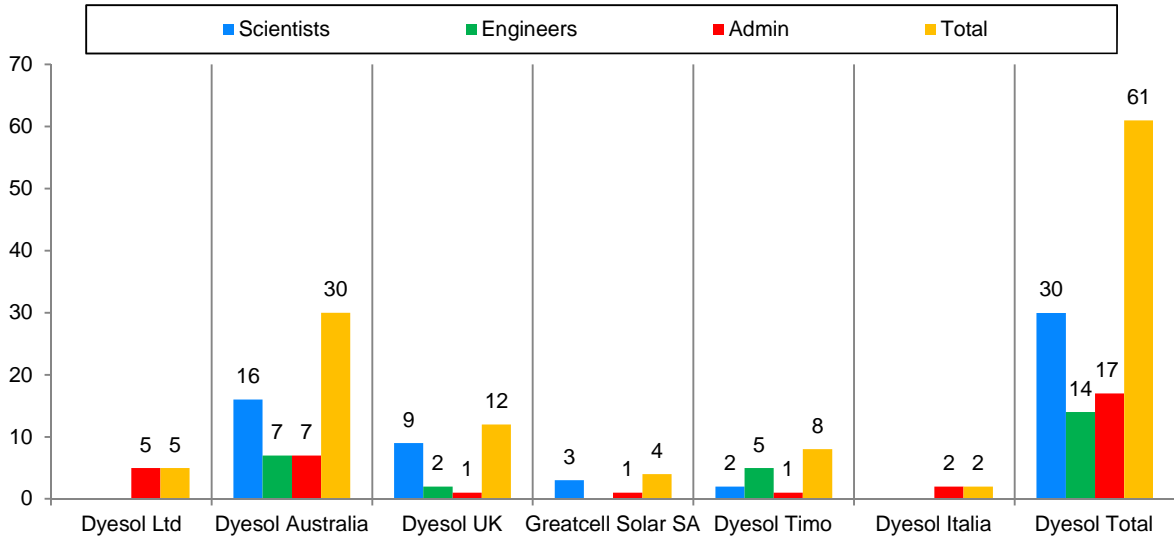
Dyesol works hard to promote itself as an employer of choice. Staff are encouraged to undertake further tertiary study, participate in academic conferences and travel and communicate throughout its global reach. The board believes this translates into higher staff retention and higher levels of professional achievement. Dyesol is also registered with and currently employs under the Centrelink People with Disability Programme.

The composition of staff reflects the requirements of both the Technical Development Plan and the Business Plan. The Business Plan has essentially two sub-sections, being the development of ssDSC on glass and on steel, as preferred substrates. Staffing during the past 12 months has grown moderately to 61 full-time equivalents as at 17 September 2014, with additions of engineers and chemists in both Australia, Korea and the U.K. being the most notable trends. Dyesol is also pleased to report that its most recent recruits in Australia have been predominantly female, improving the negative gender bias.

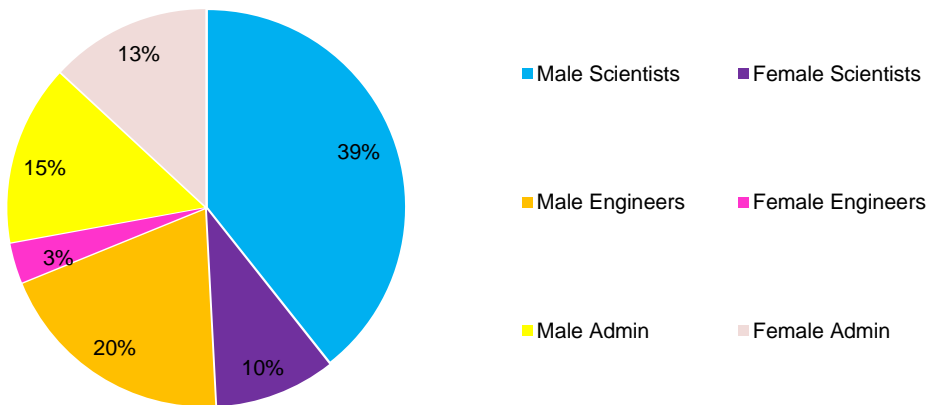
The Executive Management team, reporting directly to the Managing Director, remains largely unchanged, except for the departure of Marc Thomas, due to the rationalisation of U.S. operations and the replacement of Ms Angela Geary with Ms Kathryn Denby in Investor Relations. Mr Sung Lee from the former Dyesol-Timo Joint Venture in Korea has accepted the role as Global Head of Glass. He has a professional background in the manufacture of electronics gained during his previous employment at LG Electronics Inc.

Dyesol has a comprehensive Work, Health and Safety policy. WH&S compliance and reporting is overseen by long-term employee, Mr Ben Jausnik. Dyesol is proud of its excellent track record of employee safety and is pleased to report no major incidents during the past 12 months.

**Employees – Entities**



**Employees - Gender**



# Operations Review

## Sustainability at Dyesol

Dyesol is an Australian clean-tech company developing renewable energy solutions capable of fundamentally transforming the way energy is produced and consumed. It is fair to say that sustainability is at the heart of everything Dyesol does. Dyesol's commitment to sustainability has two key dimensions:

1. Develop and commercialise 3<sup>rd</sup> Generation ssDSC technology to secure our energy future.
2. Ensure business operations are conducted in an environmentally responsible way.

Dyesol's business objective is to provide clean, grid-competitive, renewable energy that is a sustainable, non-toxic alternative to carbon intensive energy generation. It will deliver on this objective by integrating the technology into cement, glass, metal and polymeric building materials, using low cost and readily available materials, and having a lower embodied energy in manufacture. This makes the technology a sustainable, cost-effective and efficient manufacturing proposition with the added benefit of producing energy from the sun, even in low-light conditions.

Sustainability, and corporate responsibility are inherent in the Dyesol mind-set and the organisation has continuously demonstrated this through responsible business practices. From recycling, energy efficiency initiatives, and responsible chemical disposal, to the installation of water tanks and implementing effective waste management and reduction practices – sustainability is a commitment Dyesol takes seriously.

We are continually improving our operations and striving for excellence in this area – to be a good corporate citizen, demonstrate our social responsibility to the communities in which we operate, and provide evidence of our sustainability practices to valued shareholders.

## Financial Review

### Financing and Equity (Refer to Consolidated Statement of Changes in Equity, Notes 17 and 24)

Dyesol commenced the year with 221,361,987 ordinary shares on issue and completed it with 303,326,443 shares on issue, an increase of 81,964,456 shares. As at June 30 2014, Dyesol had paid-up capital of \$94,183,006 and a market capitalisation of \$66,731,817 based on a closing price of 22 cents per share, while its fully diluted market capitalisation should Tasnee subscribe for the second tranche of the Subscription Agreement for \$6 million (assuming at 18 cps) was \$74.1 million.

The principal contributors to the increase in issued capital were the issue of 55,555,556 shares to Tasnee for \$10 million in respect of the first tranche of the Tasnee Subscription Agreement at \$0.18 per share, and the issue of 24,698,795 shares at 16.6 cents to raise \$4.1m from the Tasnee convertible note conversion.

During the year Dyesol issued 675,000 ordinary shares to employees as a result of them meeting their individual key performance indicators for the financial period to 30 June 2013 and 200,000 ordinary shares to a director as a result of him successfully meeting his vesting conditions over the last two years.

### Expenditure on Operations and Investments (Refer to Consolidated Statement of Cash Flows)

Net cash outflows from operating activities for FY2014 increased to \$7.1 million, mainly due to R&D expenditures which was expected with the Company's focus on its technology pathway to achieve successful commercialisation. Customer receipts decreased by \$403,148, primarily due to a fall in revenue from the sales of goods and services reflecting customer uncertainty in this transition period from a liquid to solid state DSC material set. However sales of solid state DSC materials continued to rise as a percentage of total sales after a successful product introduction in FY2014. With the R&D rebates, the net cash usage in operating activities was \$590,656 average per month compared to \$338,485 per month last year.

Net cash reserves were \$5.2 million at financial year end, mainly as a result of an investment of \$10 million from Tasnee. In addition, the Company had \$2.2 million of term deposits as at June 30, 2014.

### Assets and Liabilities (Refer to Consolidated Statement of Financial Position and Notes 7 to 16 inclusive)

Although there was a significant impairment made of \$3,510,920 (non-cash - see Note 12) for the metal strip capitalised development carrying value, the Company's balance sheet finished the financial year with total net assets of \$13.2 million, an increase of \$2.5 million which was due mainly to Tasnee strategic investment of \$10 million.

The current liabilities decreased by \$3.7 million, due mainly to the Tasnee convertible note conversion into Dyesol shares at 16.6 cents per share for \$4.1 million.

Trade and other receivables decreased by \$168,598 due mainly to the fall in sales activity during the year. During the year the Company has conservatively increased its provision for slow moving inventory to \$858,916. Despite this, the Company is confident that there is a good possibility that the current book value of these materials, such as ruthenium based dyes and liquid based raw materials, will be realised as there is still active commercial activity in the liquid based DSC.

# Operations Review

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## **Profit and Loss (Refer to Consolidated Statement of Profit or Loss and Other Comprehensive Income, Notes 2 and 3)**

This year's results showed an increase in financial net loss by 34% to \$12.6 million. This was caused mainly by:

- the impairment provision (non-cash) of \$3,510,920 for the metal strip product development costs (see Note 12);
- Dyesol employee share ownership plan and share-based payment expenses (non-cash) of \$798,899 (see Note 3);
- a notional interest expense (non-cash) on Tasnee's convertible note \$703,870;
- a conservative inventory provision for slow moving inventory and obsolescence, of an increase by \$440,751, in relation to liquid DSC technology; this one-off adjustment has adversely impacted the gross margin during the year.
- legal fees of \$493,707

Excluding the three non-cash and one-off items, the adjusted financial loss reduced to \$7.6 million.

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# Directors' Report

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

The directors of Dyesol Limited present their report on the consolidated entity (Group), consisting of Dyesol Limited and the entities it controlled at the end of, and during, the financial year ended 30 June 2014.

## 1. DIRECTORS

The directors of the Company at any time during the year and to the date of this report are:

### **Mr Ian Neal (B Com, SF Fin)**

**Non-Executive Chairman** - appointed 5 May 2014, previously Non-Executive Director since 8 September 2006

Mr Neal, aged 57, as the Non-Executive Chairman of the Board of Directors for Dyesol Limited, shares responsibility with the Board of Directors for developing corporate strategy, contributing to business and strategic planning, commercialisation projects and marketing programs.

In addition to his work with Dyesol, Mr Neal is a Chairman for The Executive Connection and works with CEOs and entrepreneurs to help them maximize the value of their businesses.

Mr Neal was a co-founder and Managing Director of Nanyang Ventures Pty Ltd, which had a total of \$140 million under management, invested in 27 companies across a range of industries from high technology to advanced manufacturing. Companies backed by Nanyang ranged from start up to \$50 million in revenue.

Mr Neal has a strong background in financial markets, moving up the ranks from equities analyst through various executive banking positions until establishing Nanyang Ventures in 1993 with his partners.

Mr Neal is a Life Member of the Financial Services Institute of Australasia and is a past National President of the former Securities Institute. Ian holds a Bachelor of Commerce with Merit from the University of NSW (double major in Business Finance and Accountancy) and a Diploma from the Securities Institute of Australia.

### **Mr Richard Caldwell (BEc, LLB, S Fin)**

**Managing Director** - appointed 5 May 2014, previously Chairman since 18 March 2005

Mr Caldwell, aged 52, was appointed as Managing Director of Dyesol Limited from 5 May 2014. Richard takes executive responsibility for business development, investor relations, capital raising and also assists with substantial contract negotiations. He chairs the Executive Committee consisting of the global senior executive. Prior to his change of role, Richard has held positions of Non-Executive and Executive Chairman since the Company's listing in 2005.

Richard has a strong background in advising many successful high-tech Australian companies and assisting with public listing – particularly in the technology, biotechnology, and telecommunications sectors.

Before joining Dyesol, Richard had a twenty-five year career in finance. He was Head of Corporate Finance and Equity Capital Markets at StoneBridge, Head of Equity Capital Markets at Burdett Buckridge and Young, and held a number of senior management positions at Citibank in Sydney and JP Morgan in London.

Richard holds a Bachelor of Laws and a Bachelor of Economics from Sydney University. Until recently he was a Fellow of Macquarie University where he conceived and taught the masters subject of Equity Capital Markets. He also has a Post Graduate Diploma in Finance from Finsia. In 2012, he was appointed as chairman of the Ascham School Foundation, an unlisted public company.

### **Mr Gordon Thompson (BE (Hons), M.EngSc, FIE (Aust), MAICD)**

**Non-Executive Director** - appointed 9 November 2004

Mr Thompson, aged 67, as a Non-Executive Director of Dyesol Limited, shares responsibility with the Board of Directors for developing corporate strategy, contributing to business and strategic planning, commercialisation projects and marketing programs. Gordon chairs the Audit Committee, is a member of the Risk Committee, is a Director of a number of Dyesol subsidiaries, and provides expert advice in commercial, operational activities and key relationship management.

Gordon brings an extensive background and experience in renewable energy and water resources sectors and international business development. He was the founding Managing Director of the United Nations sponsored International Centre for the Application of Solar Energy, the inaugural Chairman of the Sustainable Energy Industry Association of Australia, and previously was a Director of the Business Council for Sustainable Energy and Chairman of the Australian Indonesian Business Council (WA Chapter).

Mr Thompson assisted in the initial public listing of Dyesol and brings great depth of experience in business development, international business activities, business strategy and corporate management. He had an extensive and diverse leadership career at Melbourne Water Corporation, managing complex and large-scale water infrastructure projects and operations, and established a new business unit focussed on international operations. Gordon has a detailed knowledge of the Australian and international renewable energy market and an extensive national and international network in the government and private sector.

Gordon holds a Bachelor of Electrical Engineering (Honours) and a Master of Engineering Science from Monash University, completed the Advanced Managed Program of the (now) Melbourne University Business School, is a Fellow of the Institution of Engineers Australia and a Member of the Australian Institute of Company Directors.

# Directors' Report

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## **Gerry Grove-White, BSc (Hons) Mechanical Engineering**

### **Non-Executive Director** – appointed 10 August 2011

Mr Grove-White, aged 64, as a Non-Executive Director of Dyesol Limited, shares responsibility with the Board of Directors for developing corporate strategy, contributing to business and strategic planning, commercialisation projects and marketing programs.

Mr Grove-White brings over 40 years' international experience in power generation (gas, oil, coal, nuclear, wind, hydro and geothermal). His experience includes extensive project management and financing of IPPs, in addition to a wide range of operational engineering experience.

In addition to his work with Dyesol, he is a Non-Executive Director of Adani Mining Pty Ltd.

Mr Grove-White was the Managing Director of Geodynamics - an Australian geothermal company and has also held a number of senior management roles around the world, including Managing Director of Eraring Energy and COO of Tata Power (India's largest private generator).

Mr Grove-White also worked for PowerGen for 12 years during which time he was Country Director for PowerGen's business in India. PowerGen India successfully developed, financed, constructed and subsequently operated a 700MW CCGT in Gujarat, along with developing a number of other IPP's. In addition to his time in India, he managed PowerGen's European generating and mining assets in Germany, Hungary, and Portugal.

Gerry has a Bachelor of Science (Honours) in Mechanical Engineering from City University, London. He is a Member of the Institution of Mechanical Engineers, a Chartered Engineer, and has a Certified Diploma in Accountancy and Finance. In 1993 he attended the London Business School's Senior Executive Programme.

## **Mrs Nicola Swift (CFA, BA (Mod) Legal Science, MA, MAICD)**

### **Non-Executive Director** – appointed 6 September 2013

Mrs Swift, aged 52, as Non-Executive Director of Dyesol Limited, shares responsibility with the Board of Directors for developing corporate strategy, contributing to business and strategic planning, commercialisation projects and marketing programs.

Mrs Swift has a deep interest and experience in business with over 15 years in the international investment management and securities industry. Her expertise is in rigorously analysing and investing in a range of both listed and private companies at varying stages of their development. She has held senior roles as a Fund Manager, Equity Analyst and Director of Global Research in a career divided between London, Sydney and Boston with global institutional investors Alliance Capital Management, AMP, and Independence Investment Associates.

Mrs Swift is a Chartered Financial Analyst, holds a Law Degree and a Master of Arts from Trinity College, Dublin and is a Member of the Australian Institute of Company Directors. She is an ex-Vice Chairman of the Board of Trustees of the Meadowbrook School in Massachusetts and is currently a Board Member of the Ascham School Foundation in Sydney.

## **Mr Antoine Shirfan (M.Eng (Mech))**

### **Non-Executive Director** – appointed 2 May 2014

Mr Shirfan, aged 64, joined the Dyesol Board in May 2014. He received his initial Bachelors Degree in Engineering in Beirut at the American University before achieving his Masters in Engineering at Maine University in the United States. Mr Shirfan has a long history in successfully developing chemical and mining assets, including working with Cristal, a Tasnee subsidiary, in their global operations and as Managing Director of Bemax Resources, a mineral sands miner formerly listed on the Australian Securities Exchange. Mr Shirfan's appointment strengthens co-operation and communication with strategic investor, Tasnee.

## **2. DIRECTORSHIPS IN OTHER LISTED ENTITIES**

Directorships of other listed entities held by directors of the Company during the three years immediately before the end of the year are as follows:

Director	Company	Period of directorship	
		From	To
Mr I Neal	Intrapower Limited	May 2007	September 2011
	Prime Media Limited	June 2008	Present
	Pearl Health Care Limited	October 2008	February 2012

## **3. COMPANY SECRETARY**

Mr Kim Hogg (B Com), aged 55, was appointed to the position of company secretary in November 2004. He has worked in the private sector for more than twenty years as a principal of an accounting practice providing specialist services to clients seeking to raise capital and list on ASX. He has predominantly been involved in the preparation of prospectuses and in compliance work as company secretary for both listed and unlisted entities, and is currently secretary of several ASX-listed companies.

# Directors' Report

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 4. DIRECTORS' MEETINGS

The number of directors' meetings (including meetings of committees of directors) and the number of meetings attended by each of the directors of the Company during the financial year ended 30 June 2014:

Director	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings +		Risk Committee Meetings +	
	A	B	A	B	A	B	A	B
Mr R Caldwell	14	14	-	-	2	1	-	-
Mr G Thompson	14	14	3	3	2	2	1	1
Mr I Neal	14	13	3	3	-	-	-	-
Mr G Grove-White	14	14	-	-	1	1	1	1
Mrs N Swift	11	11	-	-	2	2	-	-
Mr A Shirfan	2	1	-	-	-	-	-	-

**A** - number of meetings held during the time the Director held office during the year

**B** - number of meetings attended

+ held adjunct to Board meetings

## 5. DIRECTORS' INTERESTS

The relevant interest of each Director held directly, indirectly or beneficially in the shares, options and rights issued by the Company at the date of this report is as follows:

Director	Ordinary Shares	Options	Rights
Mr R Caldwell	6,890,000	-	-
Mr G Thompson	2,330,058	-	-
Mr I Neal	200,000	-	-
Mr G Grove-White	230,425	-	-
Mrs N Swift	200,000	-	-
Mr A Shirfan	-	-	-

## 6. PRINCIPAL ACTIVITIES

During the year, the principal activities of the Company consisted of the industrialisation and commercialisation of solid state DSC (ssDSC), through the provision of a range of products and services including materials, consulting, R&D, collaborative product development, licensing, training, and turnkey manufacturing and laboratory facilities.

## 7. RESULTS

The result of the consolidated entity for the year ended 30 June 2014 was a loss after income tax of \$12,578,057 [2013: \$9,396,196].

## 8. OPERATING AND FINANCIAL REVIEW

Information on the operations and financial position of the Group and its business strategies and prospects is set out in the review of operations on pages 3 – 8 of this Annual Report.

# Directors' Report

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 9. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

- On 28 February 2013, Dyesol announced that it had entered into a subscription agreement with The National Industrialisation Company of Saudi Arabia, "Tasnee". Under the Subscription Agreement, Tasnee issued a convertible loan note with a face value of \$4 million. The convertible note allowed Tasnee to elect to convert all or part of \$4.1 million (being the \$4 million face value of the convertible loan note plus a \$100,000 service fee) into Dyesol shares at an issue price of \$0.166 per share. On 18 November 2013, Dyesol issued 24,698,795 shares to Tasnee in respect of the conversion of the convertible note.

In addition, under the Subscription Agreement, Dyesol also granted to Tasnee the option to subscribe for up to a maximum of \$16 million of shares at \$0.18 per share, provided that this additional subscription for shares was exercised prior to the 15 September 2013.

The period for exercise of the Subscription for shares was subsequently extended to 27 November 2013. On 28 November 2013, Dyesol agreed to Tasnee exercising its Subscription for shares in two separate tranches.

On 13 March 2014, Dyesol issued 55,555,556 shares to Tasnee for \$10 million in respect of the first tranche of the share subscription at \$0.18 per share. Following the issue of the first tranche, Tasnee holds (and has relevant interest) in a total of 80,254,351 Dyesol shares and the voting power of Tasnee and its associates in Dyesol is 26.5%.

Tasnee has the option to subscribe for the second tranche of up to a maximum of \$6 million shares at any time before 28 November 2014. The issue price per share for the second tranche will be the higher of \$0.18 per share and a price representing a 25% discount to the volume weighted average price on ASX of shares for the 30 trading day period ending on the date Tasnee gives Dyesol the notice exercising the Subscription option in respect of the second tranche. Mr Antoine Shirfan, representative of Tasnee, joined the Dyesol Board on 2 May 2014.

## 10. DIVIDENDS

No dividend has been declared or paid by the Company to the date of this report.

## 11. EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

- On 2 September 2014, Dyesol has executed an agreement to acquire the 49.9% minority interest in Dyesol-Timo Co. Ltd held by Neoarena (formerly Timo Technology Co. Ltd). This will enable Dyesol to consolidate its position in Korea, building on the existing engineering expertise in prototype, demonstration and pilot line activities to create a processing engineering centre. On 10 September 2014, 500,000 Dyesol shares were issued to Neoarena as consideration for the transaction - 250,000 shares will be escrowed for 6 months and 250,000 for 12 months. The new corporate structure continues to provide ongoing access to Korean Government financial assistance programmes.
- During August 2014, the Company has submitted the relevant application to AusIndustry for the approval for the registration of the research and development (R&D) activities of the Company for the accounting period from 1 July 2013 to 30 June 2014, and in the 2014 tax year the Company has determined it incurred qualifying research and development expenditure (i.e. notional R&D deductions) of approximately \$5.5 million, of which 45% is refundable. The Company lodged its income tax return with the relevant Australian Taxation Office R&D Tax Incentive Schedule in September 2014. On 24 September 2014, the Company has received \$2,476,193 in relation to the R&D Tax Incentive for the financial year ending 30 June 2014.
- 500,000 options previously issued to Mr. M. Thomas (Dyesol Inc.) with an exercise price of \$0.70 per share have expired, and were not exercised by the employee on 4 August 2014.
- During August 2014, Richard Caldwell purchased on the market 400,000 Dyesol shares at \$0.2093 per share and 910,000 Dyesol shares at \$0.2084 per share.
- On the 24 September 2014 Dyesol Limited were notified that their claim for the recovery of the Tulloch Management Pty Ltd loan was unsuccessful. The directors are assessing their next steps. The outcome of the judgement has no financial impact on the financial statements of Dyesol Limited at 30 June 2014. Refer to Note 28 for additional information.

## 12. LIKELY DEVELOPMENTS

Information about likely developments in the operations of the Company is contained in the Operations Review.

# Directors' Report

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 13. UNISSUED SHARES UNDER OPTION AND PERFORMANCE RIGHTS

At the date of this report, unissued ordinary shares of the Company under option and performance rights are:

### Options

Expiry date	Number of options	Exercise price
29 April 2015	2,500,000	\$0.925

### Performance rights

Grant date	Exercise price	Vesting date	Number of rights
29 November 2013	-	29 November 2014	1,012,500
29 November 2013	-	29 November 2015	1,687,500
			2,700,000

## 14. SHARES ISSUED DURING OR SINCE THE END OF THE YEAR AS A RESULT OF EXERCISE

During or since the end of the financial year, the Company issued ordinary shares as a result of the exercise of rights as follows (there were no amounts unpaid on the shares issued):

Date of issue of shares	Number of shares issued
29 November 2013	875,000

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# Directors' Report

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 15. REMUNERATION REPORT - AUDITED

This Remuneration Report outlines the director and executive remuneration arrangements of the Company and the consolidated entity in accordance with the requirements of the Corporations Act 2001 and the Corporations Regulations 2001.

For the purposes of this report, key management personnel of the consolidated entity are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the Company.

### KEY MANAGEMENT PERSONNEL

The key management personnel for the consolidated entity during the year were:

#### Executive Director

Mr R Caldwell Managing Director (appointed 5 May 2014), prior as Executive Chairman and Acting CEO

#### Non- Executive Directors

Mr I Neal Non-executive Chairman (appointed 5 May 2014), prior as Non-executive Director

Mr G Thompson Non-executive Director

Mr G Grove-White Non-executive Director

Mrs N Swift Non-executive Director (appointed 6 September 2013)

Mr A Shirfan Non-executive Director (appointed 2 May 2014)

#### Executives

Mr K L Niu Chief Financial Officer

Dr A King Director Dyesol UK Ltd

Mr C Moore Manager, Steel

Dr D Milliken Chief Technology Officer

Dr H Desilvestro Chief Scientist

Mr K Hogg Company Secretary

### The Role of the Remuneration Committee

The Board maintains the authority and responsibility for oversight of the Company's remuneration policy and the principles and processes which underpin this policy. The Board has established a Remuneration Committee to provide advice and recommendations to the Board on remuneration and incentive policies and practices. The Remuneration Committee is responsible for

- Reviewing and making recommendations to the Board on the specific structure and level of remuneration for the directors, senior executives and the company secretary.
- Reviewing and making recommendations to the Board regarding the design of all executive incentive plans.

### The Structure of the Remuneration Committee

In compliance with Recommendation 8 of ASX principles of Good Corporate Governance and Best Practice Recommendations, the Remuneration Committee has three members, the majority of whom are independent, non-executive directors. The Chair is held by an independent, non-executive director. The Remuneration Committee Charter is available on the company's website, members and frequency of attendance at meetings is detailed on Page 12. Although the Managing Director is a member of the Remuneration Committee he is recused from involvement with his own remuneration at either the Remuneration Committee or Board level, except when invited to comment. When forming a recommendation to the Board on the structure and level of Managing Director remuneration the Remuneration Committee includes a third non-executive director.

### Principles of Remuneration

Dyesol's remuneration strategy is designed to attract, retain and motivate appropriately qualified and experienced directors, executives, senior managers and employees. Key principles in developing the remuneration structure and levels include the creation of longer term shareholder value, alignment with shareholder interests, market competitiveness, recognition of individual performance and experience and divisional and group performance. The Remuneration Committee regularly reviews remuneration policies and practices in order to ensure that its recommendations to the Board are consistent with Dyesol's strategic goals and are designed to enhance corporate and individual performance.

# Directors' Report

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 15. REMUNERATION REPORT – AUDITED (continued)

### Use of external advisors and remuneration consultants

As necessary, the Remuneration Committee obtains independent, external recommendations and advice from CRA Plan Managers Pty Ltd on matters including

- Executive remuneration, including short-term and long-term incentive plan design
- Non-executive directors remuneration

The Remuneration Committee did not receive remuneration recommendations from CRA Plan Managers Pty Ltd during this time period as defined in section 9B of the Corporations Act 2001. CRA Plan Managers was paid \$35,596 for other services including management of the Dyesol Performance Rights Plan.

### REMUNERATION STRUCTURE

The structure of remuneration is clearly distinguished between non-executive directors, the Managing Director and executives.

#### 1. Non-executive directors remuneration

Dyesol has four non-executive directors and a non-executive Chairman. The remuneration of non-executive directors including the non-executive Chairman consists of director's fees. Each director receives a fixed annual fee as a non-executive director and a further fixed fee for membership of each Board sub-committee; Audit, Risk and Remuneration. Additional remuneration for Mr Gordon Thompson in his role as a consultant to Dyesol is set out in a separate business service agreement.

In previous years, reflecting Dyesol's need and desire to conserve cash, non-executive directors have sporadically been granted Performance Rights. At the 2011 AGM, shareholders approved the grant of 200,000 Performance Rights to Mr Gerald Grove-White, with vesting over a 24 month period with 50% subject to a relative TSR hurdle and 50% subject to continuous service. These performance rights vested fully in November 2013. At the 2013 AGM, shareholders approved the grant of 525,000 Performance Rights to Mrs Nicola Swift. However Mrs Swift has since declined to participate in this award, to facilitate the Board's decision in early 2014 to restructure and harmonise the manner in which non-executive directors are remunerated.

Desiring to attract and retain high quality non-executive directors with both capital market and industry expertise and recognising the increasing demands and time commitment involved, on the recommendation of the Remuneration Committee, the Board has approved a cash based, fixed fee structure inclusive of statutory superannuation for non-executive Directors from 1 April 2014 as below. In considering its recommendation to the Board re the level of remuneration for non-executive directors, the Remuneration Committee considered industry survey data and other information about the level of fees and benefits being paid to non-executive directors within comparable companies both by industry and market capitalisation. The Board targets to set non-executive director fees at approximately the median of non-executive director fees within its peer group.

- Chairman of the Board: \$90,000 per annum
- Non-executive directors: \$60,000 per annum
- Membership including Chairmanship of each Board sub-committee: \$5,000 per Committee per annum
- No director fees are payable to the Managing Director

No performance rights or options are now held by any non-executive director. Performance based compensation is no longer part of the remuneration structure offered to non-executive directors. This brings Dyesol's remuneration policy for non-executive directors into compliance with Recommendation 8 of the ASX principles of Good Corporate Governance and Best Practice Recommendations.

Non-executive directors do not receive retirement benefits.

The Company's Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting of members. Total remuneration for all non-executive directors, last voted upon by shareholders at the 2011 Annual General Meeting, is not to exceed \$400,000 per annum. In 2014 total remuneration for non-executive directors, excluding consulting fees paid to Mr Gordon Thompson under a separate business services agreement for focused project work within Dyesol, was \$223,520. Non-executive director remuneration is reviewed regularly by the Remuneration Committee and recommendations are made to the Board. However, following the 1 April 2014 restructure of non-executive director remuneration no fee increase is anticipated in 2015.

# Directors' Report

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 15. REMUNERATION REPORT – AUDITED (continued)

### 2. Managing Director Remuneration

Mr Richard Caldwell has successfully performed a number of roles within Dyesol. In 2005 he was appointed Non-Executive Chairman, in 2009 he was appointed Executive Chairman and most recently in February 2013 he took on the additional, full time, responsibilities of Acting CEO. In 2014 the Board decided it was time to separate the Chairman and Executive Roles by establishing Non-executive Chairman and Managing Director Roles. The Board is delighted that Mr Richard Caldwell has elected to accept the role of Managing Director effective 5 May 2014.

On the recommendation of the Remuneration Committee, the Board has approved a remuneration structure and level for Managing Director, Mr Richard Caldwell from 5 May 2014 as below. In considering the structure and level of remuneration for Mr Caldwell, the Remuneration Committee considered industry survey data and other information about the structure and level of fixed remuneration, short term incentives and long term incentives paid to Managing Directors within comparable companies both by industry and market capitalisation. The Board targets to set Managing Director total remuneration including both fixed remuneration and performance based "at risk" remuneration at approximately the median of Managing Director total remuneration within its peer group. To achieve this, being a cash constrained company, the Board recognises the requirement to seek shareholder approval for equity based "at risk" long term incentive remuneration which it believes has the additional benefit of aligning Mr Caldwell's interests with that of shareholders.

**The Managing Director's total remuneration consists of the following components:**

**Total Fixed Remuneration:** comprising of a base salary inclusive of statutory superannuation. Although reviewed annually there is no provision for a guaranteed increase.

**Performance Based or "At Risk" Remuneration:** comprising of a

**Short Term Incentive (STI):** The STI provides the Managing Director with the opportunity to receive an additional "at risk" cash payment in each financial year, subject to meeting specific key performance indicators (KPIs) and various conditions over the 12 month financial period from 1 July to 30 June each year. On an annual basis, the Remuneration Committee, after consideration of performance against KPI's recommends to the Board an amount, if any, subject to a maximum of 30% of total fixed remuneration, to be paid to the Managing Director, normally within 3 months of the end of the financial year. Once approved by the Board the annual STI is paid as a cash bonus and is reported in the following financial period.

**Long Term Incentive (LTI):** On invitation, the LTI provides the Managing Director with the opportunity to receive performance rights in each financial year, or such other equity or cash alternative considered appropriate. The issue of performance rights under the Dyesol Performance Rights Plan administered by CRA Plan Managers Pty Ltd is subject to shareholder approval under the Listing Rule of the ASX. The annual LTI opportunity or grant value subject to such approval is 70% of Total Fixed Remuneration or as otherwise agreed. The vesting period is 36 months from date of grant and vesting will be dependent on meeting relative and absolute Dyesol TSR performance hurdles. In assessing whether the performance hurdles have been met Dyesol receives independent data and advice from CRA Plan Managers Pty Ltd.

The Long Term Incentive is designed to:

- assist with the attraction and retention of Mr Caldwell
- continue to motivate Mr Caldwell to perform and make a contribution to the long term sustainable performance of Dyesol
- strengthen the alignment between Mr Caldwell and shareholder interests

The circumstances under which Mr Caldwell is entitled to retain these performance rights if he should leave the company before the vesting date is controlled by the terms of the Dyesol Performance Rights Plan and is at the discretion of the Board. Change of control clauses exist.

At the next AGM the Board of Directors will seek shareholder approval for a grant of 2 million Performance Rights to Mr Caldwell under The Dyesol Performance Rights Plan, additionally recognising his outstanding service as CEO since Feb 2013, subject to the following terms and conditions:

Up to 1,200,000 Performance Rights will vest on 5 May 2017 if Dyesol's Total Shareholder Return achieves the following percentile ranking against the companies within the S&P/ ASX Small Ordinaries Index over the measurement period of 5 May 2014 to 5 May 2017.

DYE TSR Ranking	Number of Performance Rights
Below the 55 <sup>th</sup> percentile	Zero
At or above the 55 <sup>th</sup> percentile	600,000 plus 30,000 for every percentile ranking above the 55 <sup>th</sup>
At or above the 75 <sup>th</sup> percentile	1,200,000 (maximum number)

Up to 800,000 Performance Rights will vest on 5 May 2017 if Dyesol's Total Shareholder Return doubles over the measurement period 5 May 2014 to 5 May 2017.

# Directors' Report

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 15. REMUNERATION REPORT – AUDITED (continued)

### 3. Executive Remuneration

Executive total remuneration consists of the following components:

**Total Fixed Remuneration:** comprising of a base salary inclusive of statutory superannuation. Although reviewed annually, there is no provision for a guaranteed increase.

**Performance Based or "At Risk" Remuneration:**

This provides each key management personnel (KMP) with the opportunity to receive Performance Rights under the Dyesol Performance Rights Plan, administered by CRA Plan Managers Pty Ltd. The extent of the opportunity varies by KMP and is fixed at grant date. Vesting occurs over a number of tranches or time frames providing both a short term and medium term performance incentive. For all Key Management Personnel, 50% of vesting is dependent on meeting individual Key Performance Indicators (KPIs) in each time period and 50% is dependent on the Dyesol TSR exceeding the return of the ASX Small Ordinaries Share Index in each time period.

See pages 23 to 24 for more details of value of rights issued, number of rights vested, value of rights vested and number of shares issued as a result to KMPs in 2014.

Performance based "At Risk" Remuneration is designed to:

- assist with the attraction and retention of Key Management Personnel
- continue to motivate Key Management Personnel to perform and make a contribution to the sustainable performance of Dyesol
- strengthen the alignment between Key Management Personnel and shareholder interests

The circumstances under which a Key Management Personnel is entitled to retain these performance rights if he or she should leave the company before the vesting date is controlled by the terms of the Dyesol Performance Rights Plan and is at the discretion of the Board. Change of control clauses exist.

### EMPLOYMENT CONTRACTS

Of the Group's key management personnel (listed earlier in this Report), Mr I Neal, Mr G Grove-White, Mr G Thompson, Mrs N Swift and Mr A Shirfan are non-executive directors of the Company and derive fees for their role.

The additional services of Mr G Thompson are engaged through a business services agreement.

All other key management personnel have entered into contracts of employment which outline the components of compensation paid to the key management personnel. The agreements contain the usual terms and conditions found in such contracts. The contracts are usually reviewed on an annual basis.

Details of remuneration paid to each key management person are shown on page 21 in this report. In addition to those remuneration details, the following additional comments are provided in relation to the respective engagements.

#### 1. Executive Service Agreements

##### Managing Director

Prior to the commencement of his Managing Director contract in 5 May 2014, Mr Caldwell received Chairman fees of \$6,668 per month and \$25,000 per month as Acting CEO, inclusive of superannuation and benefits. Since 5 May 2014, the Managing Director contract provides for a fixed annual remuneration of \$350,000 per annum inclusive of superannuation and other benefits. No additional Directors fees are payable. Mr Caldwell sits on both the Remuneration Committee and Risk Committee. Fixed remuneration is reviewed annually but there is no provision for a guaranteed increase. Mr Caldwell's employment contract has no fixed term.

Mr Caldwell is entitled to 6 weeks of paid annual leave (which exceeds the entitlement under the National Employment Standards). For each year of service with the Group, Mr Caldwell is entitled to 10 days paid personal/ carer's leave.

The Group may terminate Mr Caldwell's Agreement and his employment at any time with or without reason with 6 months' written notice. In the case of notice of termination by the Group, the Group may satisfy its obligations by payment in lieu of all or part of the notice period. In the event that payment in lieu of notice is made the payment will, subject to relevant legislation, be based on the amount of Total Fixed Remuneration less superannuation. Mr Caldwell's entitlement to redundancy pay will be determined in accordance with the National Employment Standards.

A Short Term Incentive (STI) payment of \$100,000 was made subsequent to financial year end as a result of Mr Caldwell successfully meeting his individual key performance indicators for the financial period from 1 July 2013 to 30 June 2014. Although confidential in nature, reflecting the research and development Dyesol conducts in solid state dye solar cell technology, KPI's for financial year ending June 2014 have related to developing and meeting technology milestones, business plan development, successful closing of a strategic investment by Tasnee and organisational structure.

# Directors' Report

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 15. REMUNERATION REPORT – AUDITED (continued)

No issue of Performance Rights as a Long Term Incentive was sought by the Board at the 2013 AGM for Mr Caldwell as Acting CEO in the financial year 1 July 2013 to 30 June 2014. Wishing to retain, motivate and align Mr Caldwell's interests with shareholders in the financial year 1 July 2014 and 30 June 2015 and recognising Mr Caldwell's success in a full time executive role during the prior financial year the Board will seek shareholder approval for the issue of 2 million Performance Rights to Mr Caldwell at the 2014 AGM. This intention along with relevant details relating to the proposed TSR related performance hurdles and 36 month performance hurdle measurement period are detailed above and were released to the ASX on Mr Caldwell's appointment as Managing Director in May 2014. The only previous, equity based performance compensation issued to Mr Caldwell was in 2009 and comprised of 3 million options, which expired out of the money and unexercised.

### Executives

The Group has entered into a service contract with its Chief Financial Officer, Mr Kian L. Niu that is capable of termination on three months' notice. The Group has the right to terminate the contract immediately by paying three months' salary in lieu of such notice. The agreement provides for a base salary of \$205,000 per annum plus superannuation, a performance bonus subject to meeting pre-determined conditions as set out in the contract, an annual performance review and a redundancy package of six months' salary if the position within the Group is made redundant.

The Group has entered into a service contract with its Chief Technology Officer, Mr Damion Milliken that is capable of termination on three months' notice. The Group has the right to terminate the contract immediately by paying three months' salary in lieu of such notice. The agreement provides for a base salary of \$150,000 per annum inclusive of superannuation and an annual performance review, effective from September 2013.

The Group has entered into a service contract with its Chief Scientist, Mr Hans Desilvestro for 2 years from the commencement date of 1 February 2014. The contract is capable of termination on three months' notice. The Group has the right to terminate the contract immediately by paying three months' salary in lieu of such notice. The agreement provides for a total net employment cost of CHF 155,580 per annum (less all amounts required to be deducted by Swiss Law) and an annual performance review.

The Group has entered into a service contract with the Dyesol UK Ltd Director, Mr Andrew King that is capable of termination on six months' notice. The Group has the right to terminate the contract immediately by paying six months' salary in lieu of such notice. The agreement provides GBP 90,000 per annum inclusive of applicable pension contributions and other benefits and an annual performance review. The salary is based on Mr King working a minimum of 12 days per month. If Mr Andrew King works less than this, his salary will be adjusted accordingly.

The Group has entered into a service contract with its Manager Steel, Mr Chris Moore that is capable of termination on three months' notice. The Group has the right to terminate the contract immediately by paying three months' salary in lieu of such notice. The agreement provides for a base salary of GBP 75,000 per annum plus applicable pension contributions and other benefits and an annual performance review.

### 2. Business Service Agreements

The Group has an existing business services agreement with Mr G Thompson. The agreement covers the provision of consulting services to the Group for a fee of \$1,000 (excluding GST) per 8 hour day. In addition, Mr G Thompson receives fees of \$70,000 (excluding GST) for his services as a non-executive director.

### Voting and comments made at the Company's last Annual General Meeting

Dyesol Limited received more than 89% of votes cast in favour of the adoption of its Remuneration Report for the financial year ended 30 June 2013. At the 2013 Annual General Meeting, the Company received feedback on its remuneration practices, particularly with regard to the issue of performance based compensation to non-executive directors, the combination of the Chairman and CEO/Roles and the continued existence of business service agreements. Subsequent to the meeting, the Board has reviewed and amended the remuneration arrangements for non-executive directors and has separated the roles of Chairman and Managing Director, both as discussed above. The Board has reduced the Group's reliance on consulting services via business service agreements in 2014 and expects to continue to make progress in this area in 2015.

### Consequences of performance on shareholder wealth

At this stage of the Group's development, the prime focus remains on the research and development of the Group's technology into solid state dye solar cells with the aim of product commercialisation and expansion of activities to new markets and regions. As the Group is yet to reach profitability, the link between financial results and share price movements has yet to be established. Consequently, the policy towards equity based performance remuneration for the Managing Director and Key Management Personnel has not addressed criteria based on profitability, but rather focussed on alignment with shareholder interest through focus on Dyesol TSR hurdles and, additionally, in the case of Key Management Personnel, on outcomes under the control of the individual employee.

# Directors' Report

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 15. REMUNERATION REPORT – AUDITED (continued)

The following table sets out summary information about the Group's loss and movement in share price for the last 5 years:

	2009/10	2010/11	2011/12	2012/13	2013/14
Net Loss for the year	\$14,372,212	\$17,284,551	\$8,878,004	\$9,396,196	\$12,578,057
Dividends paid	nil	Nil	Nil	Nil	Nil
Change in share price	\$0.16	(\$0.57)	(0.37)	\$0.21	(\$0.10)
Share price at beginning of the period	\$0.89	\$1.05	\$0.48	\$0.11	\$0.32
Share price at end of the period	\$1.05	\$0.48	\$0.11	\$0.32	\$0.22
Loss per share	11.04 cents	11.92 cents	4.83 cents	4.75 cents	4.95 cents

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# Directors' Report

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 15. REMUNERATION REPORT – AUDITED (continued)

### (a) Details of remuneration\*\*\*

Details of the nature and amount of each major element of remuneration for Directors and key management personnel of the consolidated entity for the year are:

2014		Short-term employment benefits		Long-term benefits	Post-employment benefits	Share based payments		TOTAL	Proportion of remuneration that consists of rights or shares %	Proportion of remuneration that is performance based %
		Salary & fees \$	Non-monetary benefits \$	Long Service Leave \$	Superannuation benefits \$	Rights # \$	Shares # \$			
<b>Executive Director</b>										
Mr R Caldwell <sup>(1)</sup> Managing Director	2014	350,382	-	-	31,799	-	-	382,181	-	-
	2013	248,623	-	-	22,376	-	-	270,999	-	-
<b>Non-Executive Directors</b>										
Mr I Neal <sup>(2)</sup> Non-Executive Chairman	2014	62,083	-	-	-	-	-	62,083	-	-
	2013	50,000	-	-	-	-	-	50,000	-	-
Mr G Thompson <sup>(3)</sup>	2014	186,750	-	-	-	-	-	186,750	-	-
	2013	214,000	-	-	-	-	-	214,000	-	-
Mr G Grove-White <sup>(4)</sup>	2014	59,080	-	-	-	13,180	-	72,260	18	18
	2013	49,985	-	-	-	33,408	-	83,393	40	40
Mrs N Swift <sup>(5)</sup>	2014	44,491	-	-	4,115	-	-	48,606	-	-
Mr A Shirfan <sup>(6)</sup>	2014	10,000	-	-	-	-	-	10,000	-	-
<b>Other Key Management Personnel</b>										
Mr K L Niu <sup>## ^</sup> Chief Financial Officer	2014	197,257	-	-	24,954	15,840	78,000	316,051	30	30
	2013	189,130	-	-	18,320	-	-	207,450	-	-
Dr A King <sup>## ^</sup> Director Dyesol UK Ltd	2014	234,777	-	-	-	11,880	-	246,657	5	5
	2013	110,023	-	-	-	-	-	110,023	-	-
Mr C Moore <sup>## ^</sup> Manager Steel	2014	166,013	-	-	-	13,860	-	179,873	8	8
	2013	90,628	-	-	-	-	-	90,628	-	-
Dr D Milliken <sup>## ^</sup> Chief Technology Officer	2014	133,708	-	-	12,281	15,840	-	161,829	10	10
	2013	98,354	-	-	24,770	-	-	123,124	-	-
Dr H Desilvestro <sup>## ^</sup> Chief Scientist	2014	170,428	-	-	-	13,860	-	184,288	8	8
	2013	150,000	-	-	-	-	-	150,000	-	-
Mr K Hogg Company Secretary	2014	48,000	-	-	-	-	-	48,000	-	-
	2013	48,000	-	-	-	-	-	48,000	-	-
<b>2014 Total</b>	<b>Total</b>	<b>1,662,969</b>	<b>-</b>	<b>-</b>	<b>73,149</b>	<b>84,460</b>	<b>78,000</b>	<b>1,898,578</b>	<b>-</b>	<b>-</b>
<b>2013 Total</b>	<b>Total</b>	<b>1,248,743</b>	<b>-</b>	<b>-</b>	<b>65,466</b>	<b>33,408</b>	<b>-</b>	<b>1,347,617</b>	<b>-</b>	<b>-</b>

# Directors' Report

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 15. REMUNERATION REPORT – AUDITED (continued)

\*\*\* The Remuneration Report sets out the remuneration information pertaining to the Company's Directors and Senior Executives who are the key management personnel of the consolidated entity for the purposes of the Corporations Act 2001 and the Corporations Regulations 2001.

# Refer to pages 23 - 24 for further details of the terms and conditions of rights and shares.

## The rights and shares issued to K L Niu, A King, C Moore, D Milliken and H Desilvestro were dependent on them meeting respectively their individual key performance indicators for the financial period to 30 June 2013.

^ Increases in the short-term employment benefits during the year were as a result of individual performance review, additional responsibilities/new position (K L Niu, D Milliken, H Desilvestro) and salary arrears payments (A King, C Moore).

Notes in relation to the table of remuneration:

- 1) Includes director fees and salary (2013: includes director fees, salary and consultancy fees).
- 2) Director fees only.
- 3) Includes consultancy fees \$128,000 (2013: \$164,000).
- 4) Director fees only.
- 5) Director fees only. Appointed director 6 September 2013.
- 6) Director fees only. Appointed director 2 May 2014.

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

Name	Fixed remuneration	At risk
<b>Executive Director</b>		
Mr R Caldwell	100 %	-
<b>Non-Executive Directors</b>		
Mr I Neal	100 %	-
Mr G Thompson	100 %	-
Mr G Grove-White	82 %	18 %
Mrs N Swift	100 %	-
Mr A Shirfan	100 %	-
<b>Other Key Management Personnel</b>		
Mr K L Niu	70 %	30 %
Dr A King	95 %	5 %
Mr C Moore	92 %	8 %
Dr D Milliken	90 %	10 %
Dr H Desilvestro	92 %	8 %
Mr K Hogg	100 %	-



# Directors' Report

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 15. REMUNERATION REPORT – AUDITED (continued)

### (b) Share-based remuneration

Details of the terms and conditions of performance rights and shares granted to key management personnel and executives as compensation during the reporting period are as follows:

2014	No. of rights granted	No. of shares granted	Grant date	No. of rights vested	No. of shares	Fair value per right at grant date	Fair value per share at grant date	Exercise price	Amount paid or payable	Expiry date	Date exercisable	% Vested in current year	% Forfeited/ lapsed in current year	% Available for vesting in future years	Value of rights/ shares at grant date \$
<b>Director: Performance rights</b>															
Mr G Grove-White	200,000	-	21/11/11	200,000	-	\$0.335	-	-	-	21/11/13	21/11/13	100	-	-	67,000
Mrs N Swift	525,000	-	28/11/13	-	-	\$0.380	-	-	-	28/11/16	28/11/14 28/11/15 28/11/16	-	100	-	199,500
<b>Other Key Management Personnel: Performance rights</b>															
Mr K L Niu	240,000	200,000	29/11/13	48,000	200,000	\$0.330	\$0.390	-	-	29/11/15	29/11/13 29/11/14 29/11/15	20	-	80	157,200
Dr A King	180,000	-	29/11/13	36,000	-	\$0.330	-	-	-	29/11/15	29/11/13 29/11/14 29/11/15	20	-	80	59,400
Mr C Moore	210,000	-	29/11/13	42,000	-	\$0.330	-	-	-	29/11/15	29/11/13 29/11/14 29/11/15	20	-	80	69,300
Dr D Milliken	240,000	-	29/11/13	48,000	-	\$0.330	-	-	-	29/11/15	29/11/13 29/11/14 29/11/15	20	-	80	79,200
Dr H Desilvestro	210,000	-	29/11/13	42,000	-	\$0.330	-	-	-	29/11/15	29/11/13 29/11/14 29/11/15	20	-	80	69,300

# Directors' Report

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 15. REMUNERATION REPORT – AUDITED (continued)

### (b) Share-based remuneration (continued)

Details of the terms and conditions of performance rights and shares granted to key management personnel and executives as compensation during the reporting period are as follows:

2013	No. of rights granted	No. of shares granted	Grant date	No. of rights vested	No. of shares	Fair value per right at grant date	Fair value per share at grant date	Exercise price	Amount paid or payable	Expiry date	Date exercisable	% Vested in current year	% Forfeited in current year	% Available for vesting in future years	Value of rights/shares at grant date \$
<b>Other Key Management Personnel</b>															
<i>Shares</i>															
Mr M Thomas	-	84,000	31/12/2012	-	84,000	-	\$0.135	-	-	-	-	100	-	-	11,340

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# Directors' Report

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 15. REMUNERATION REPORT – AUDITED (continued)

### (c) Equity instruments issued on exercise of remuneration rights

Details of equity instruments issued during the period to key management personnel and executives as a result of performance rights vested that had previously been granted as compensation are as follows:

Key management person	Number of shares issued on vesting of rights	Number of rights vested	Amount paid per share	Amount unpaid per share
Mr G Grove-White	200,000	200,000	-	-
Mr K L Niu	48,000	48,000	-	-
Dr A King	36,000	36,000	-	-
Mr C Moore	42,000	42,000	-	-
Dr D Milliken	48,000	48,000	-	-
Dr H Desilvestro	42,000	42,000	-	-

### (d) Value of performance rights held by key management personnel

Details of the value of options and rights granted, exercised, vested and lapsed during the year to key management personnel as part of their remuneration are summarised below:

Key management person	Value of rights at grant date *	Value of rights vested during the year **	Value of rights lapsed during the year**	Value of options lapsed during the year***
	\$	\$	\$	\$
<b>Directors</b>				
Mr G Grove-White	-	13,180	-	-
<b>Executives</b>				
Mr K L Niu	-	15,840	-	-
Dr A King	-	11,880	-	-
Mr C Moore	-	13,860	-	-
Mr D Milliken	-	15,840	-	-
Dr H Desilvestro	-	13,860	-	-

In accordance with the company's general share trading policy and employee share plan rules, participants are prohibited from engaging in hedging arrangements over unvested securities issued pursuant to any employee or Director.

\* The value of performance rights granted during the period differs to the expense recognised as part of each key management persons' or executives' remuneration in (f) above because this value is the grant date fair value calculated in accordance with AASB 2 Share-based Payment.

\*\* The value of rights vested has been determined as the intrinsic value of the rights at the date they vested, i.e. the excess of the market value at vesting date over the strike price of the right.

\*\*\* Rights lapsed due to vesting conditions not being satisfied. The value of rights at date of lapse is determined assuming that the vesting condition has been satisfied.

# Directors' Report

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 15. REMUNERATION REPORT – AUDITED (continued)

### Other information

#### Options and rights holdings of key management personnel

##### Share options

The movements during the year in the number of options over ordinary shares held directly, indirectly or beneficially by each key management person, including their personally-related entities, are as follows:

2014							Total vested and exercisable at 30 June 2014
Key management person	Held at 30 June 2013	Granted as remuneration	Options lapsed	Options exercised	Held at 30 June 2014		
Mr R Caldwell	1,000,000	-	(1,000,000)	-	-	-	
Mr G Thompson	1,000,000	-	(1,000,000)	-	-	-	
Mr I Neal	1,000,000	-	(1,000,000)	-	-	-	
Mr K L Niu	500,000	-	(500,000)	-	-	-	

##### Performance rights

The movements during the year in the number of performance rights held directly, indirectly or beneficially by each key management person, including their personally-related entities, are as follows:

2014							Total vested at 30 June 2014
Key management person	Held at 30 June 2013	Granted as remuneration	Rights lapsed	Rights exercised	Held at 30 June 2014		
Mr G Grove-White	200,000	-	-	200,000	-	200,000	
Ms N Swift	-	525,000	525,000	-	-	-	
Mr K L Niu	-	240,000	-	48,000	192,000	48,000	
Dr A King	-	180,000	-	36,000	144,000	36,000	
Mr C Moore	-	210,000	-	42,000	168,000	42,000	
Dr D Milliken	-	240,000	-	48,000	192,000	48,000	
Dr H Desilvestro	-	210,000	-	42,000	168,000	42,000	

# Directors' Report

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 15. REMUNERATION REPORT – AUDITED (continued)

### Shareholdings of key management personnel

The movements during the year in the number of options over ordinary shares held directly, indirectly or beneficially by each key management person, including their personally-related entities, are as follows:

2014						
Key management person	Held at 30 June 2013	Granted as remuneration	Purchased	Rights converted into shares	Other #	Held at 30 June 2014
Mr R Caldwell	3,096,043	-	2,483,957	-	-	5,580,000
Mr G Thompson	2,330,058	-	-	-	-	2,330,058
Mr I Neal	200,000	-	-	-	-	200,000
Mr G Grove-White	30,425	-	-	200,000	-	230,425
Ms N Swift	-	-	200,000	-	-	200,000
Mr K L Niu	-	200,000	32,086	48,000	(16,043)	264,043
Dr A King	-	-	-	36,000	-	36,000
Mr C Moore	84,388	-	-	42,000	-	126,388
Dr D Milliken	51,500	-	-	48,000	-	99,500
Dr H Desilvestro	-	-	-	42,000	-	42,000

# Other represents sales, transfers and adjustments.

### Other transactions and balances with key management personnel

For information on other transactions and balances with key management personnel, and their related parties, please refer to Note 27.

## END OF AUDITED REMUNERATION REPORT

# Directors' Report

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 16. ENVIRONMENTAL REGULATION

The consolidated entity is subject to significant environmental regulation, in particular with respect to its manufacturing activities. The Board through its Executive Committee, monitors its environmental performance obligations. The consolidated entity has complied with all environmental regulations. Dyesol Australia Pty Ltd, the Dyesol subsidiary in which most manufacturing is undertaken, has established a Work, Health and Safety Committee.

## 17. INDEMNIFICATION AND INSURANCE OF OFFICERS

### *Indemnification*

The Company has agreed to indemnify current and former directors of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors of the Company, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet to the maximum extent permitted by law, the full amount of any such liabilities, including costs and expenses.

### *Indemnification and insurance of auditors*

During or since the end of the period, no indemnities have been given to, and no insurance premiums have been paid on behalf of, any person who is or has been an auditor of the Group.

### *Insurance Premiums*

The Company paid a premium during the year in respect of a director and officer liability insurance policy, insuring the directors of the Company, the company secretary, and all executive officers of the Company against a liability incurred as such a director, secretary or executive officer, to the extent permitted by the Corporations Act 2001. The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses' insurance contracts as such disclosure is prohibited under the terms of the contract.

## 18. PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings. No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

## 19. NON-AUDIT SERVICES

During the year Grant Thornton Audit Pty Ltd, the Company's auditor has performed certain other services in addition to their statutory duties. The Board is satisfied that the provision of those non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. On the advice of the Audit Committee, the directors are satisfied that the provision of non-audit services as set out below did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the related practices of Grant Thornton Audit Pty Ltd for non-audit services provided during the year are set out below.

	2014	2013
	\$	\$
<b>Services other than statutory audit provided by an associated firm of Grant Thornton Audit Pty Ltd:</b>		
- tax compliance	69,044	35,398

# Directors' Report

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

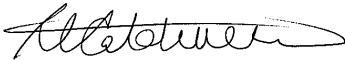
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## 20. AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 86.

Dated at Sydney, New South Wales this 26th day of September 2014.

Signed in accordance with a resolution of the directors:



Richard Caldwell  
*Managing Director*

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# Corporate Governance Statement

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

The Board of Directors is responsible for the overall corporate governance of Dyesol Limited, and is committed to the principles underpinning best practice in corporate governance, applied in a manner that meets ASX standards and best addresses the Directors' accountability to Shareholders. However, whilst the Company will endeavour to comply with all of the guidelines under the ASX Corporate Governance Recommendations, the Board considers that the Company's structure and present stage of development does not warrant compliance with all recommendations.

A brief summary of Dyesol's main corporate governance policies and practices is outlined below. In addition, the following policies and procedures have been adopted and are available for viewing on the Company's website:

- Statement of Matters Reserved to the Board;
- Corporate Code of Conduct;
- Continuous Disclosure Policy;
- Securities Trading Policy;
- Risk Management Policy;
- Risk Committee Charter;
- Audit Committee Charter;
- Remuneration Committee Charter;
- Shareholder Communications Strategy;
- Summary of Procedure for Selection of External Auditor and Rotation of Engagement Audit Partner;
- Corporate Social Responsibility; and
- Environmental Policy.

## THE BOARD OF DIRECTORS

The Board will comprise both executive and non-executive Directors. Presently there are five non-executive Directors and one Managing Director. The membership of the Board, its activities and composition is subject to yearly review. The criteria for determining the identification and appointment of a suitable candidate for the Board shall include the quality of the individual, experience and achievement, credibility within the Company's scope of activities, intellectual ability to contribute to the Board's duties and ability and commitment to undertake Board duties and responsibilities.

## COMMITTEES OF THE BOARD

The Board has established the following committees:

### Audit Committee

The Audit Committee comprises two non-executive Board members. The primary responsibility of this Committee is to monitor the integrity of the financial statements of the Company, and to review and monitor the Company's internal financial control system.

### Remuneration Committee

The Remuneration Committee comprises three Board members, two of whom are non-executive directors. The primary responsibility of this Committee is to discharge the Board's responsibilities in relation to remuneration of the Company's executives, including share and benefit plans.

### Risk Committee

The Risk Committee comprises three Board members, two of whom are non-executive directors. The primary responsibility of this Committee is to fulfil the Board's responsibility for the oversight of risk management by regularly reviewing the effectiveness of the Company's risk management framework and ensuring the framework is aligned with the Company's business plan and technology development plan.

## ROLE OF THE BOARD

The management and control of the business is vested in the Board. The Board's primary responsibility is to oversee the Company's business activities and management for the benefit of the shareholders.

The Board strives to create shareholder value and ensure that shareholders' funds are prudently invested.

The other key responsibilities of the Board include:

- appointing, evaluating, rewarding and, if necessary, removing the Chairman, Managing Director and Senior Executives;
- development of corporate objectives and strategy with management and approving plans, new investments, major capital and operating expenditures and major funding activities proposed by management;
- monitoring actual performance against budgeted and forecast performance and reviewing operating information to understand at all times the state of the health of the Company;
- overseeing the management of business risks, staff welfare, personnel equity, safety and occupational health, environmental issues and community development;
- being satisfied that the financial statements of the Company fairly and accurately set out the financial position and financial performance for the year under review;



# Corporate Governance Statement

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

- being satisfied that there are appropriate reporting systems and controls in place to assure the Board that proper operational, financial, compliance, risk management and internal control processes are in place and functioning appropriately and further, approving and monitoring financial and other reporting;
- being assured that appropriate audit arrangements are in place;
- ensuring that the Company, its officers and staff act legally, ethically and responsibly on all matters and assuring itself that a code of business ethics has been adopted and that the Company practise is consistent with that Code; and
- reporting to and advising shareholders.

## ASX BEST PRACTICE RECOMMENDATIONS

The Company acknowledges the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (2nd Edition) (the "Recommendations") applicable to ASX-listed entities. The ASX Listing Rules require listed companies to include in their Annual Report a statement disclosing the extent to which they have complied with the Recommendations in the year. The Recommendations are not prescriptive and if a company considers that a recommendation is inappropriate having regard to its particular circumstances, the company has the flexibility not to adopt it.

The Company sets out below an explanation of the areas where Dyesol does not presently comply with the Recommendations:

### Board committees

Recommendation 2.4 suggests the Board should establish a nomination committee. At the present time, a separate nomination committee has not been established. The entire Board currently conducts the function of such a committee. The duties of such a committee have been considered and adopted by the Board. The Board will, if considered appropriate, invite persons with relevant industry and financial experience when required to carry out the functions of such a committee.

Recommendation 4.2 suggests the Audit Committee has at least three members. At the present time, Dyesol's Audit Committee comprises 2 members, primarily because of the Company's present size and Board structure. The composition of the Committee is reviewed on a regular basis, with the most recent changes having been made in January 2014.

The Company has a Technical Advisory Board comprising Group personnel and international experts in the technology. The Technical Advisory Board meets regularly and provides minutes of meetings to Directors. Directors are able to attend meetings as observers.

### Diversity Policy

Recommendation 3.2 suggests companies should establish a policy concerning diversity and disclose the policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity to be assessed annually.

While the Company provides a workplace that is open to gender diversity, the Company currently does not have a formal policy or specific objectives for gender diversity. The Board recognises the benefits of a diverse workforce and the value of considering how the Company can best achieve these benefits at its current stage of development.

The proportion of women within the organisation is as follows:

- |                                    |          |
|------------------------------------|----------|
| • women on the Board               | 1 (17%)  |
| • women in senior management roles | 3 (27%)  |
| • women employees in the Group     | 17 (25%) |

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014 \$	2013 \$
Revenue from sale of goods and services	2	709,454	953,438
Cost of sales		(363,738)	(524,388)
Provision for slow moving & obsolete inventory	3	(440,751)	(354,829)
<b>Gross (loss)/profit</b>		(95,035)	74,221
Interest revenue	2	193,777	89,907
Other income	2	691,094	823,975
Technical expenses	3	(5,317,775)	(4,353,123)
Administration and corporate expenses		(4,734,315)	(5,050,322)
Impairment of intangible assets	12	(3,510,920)	(2,251,239)
Marketing expenses		(911,179)	(505,437)
Borrowing costs	3	(764,719)	(355,494)
Intellectual property expenses		(413,957)	(518,013)
Share of losses of associate/ joint ventures		(178,445)	(283,794)
<b>Loss before income tax benefit</b>		(15,041,474)	(12,329,319)
Income tax benefit	5	2,463,417	2,933,123
<b>Net loss for the year</b>		<b>(12,578,057)</b>	<b>(9,396,196)</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translating foreign operations - Group		298,354	435,305
Exchange differences on translating foreign operations - Joint ventures		(18,117)	19,812
<b>Other comprehensive income for the period, net of tax</b>		280,237	455,117
<b>Total comprehensive loss for the year</b>		<b>(12,297,820)</b>	<b>(8,941,079)</b>
<b>Loss is attributable to:</b>			
Owners of Dyesol Limited		(12,577,427)	(9,399,150)
Non-controlling interest		(630)	2,954
		<b>(12,578,057)</b>	<b>(9,396,196)</b>
<b>Total comprehensive loss for the year is attributable to:</b>			
Owners of Dyesol Limited		(12,297,439)	(8,944,846)
Non-controlling interest		(381)	3,767
		<b>(12,297,820)</b>	<b>(8,941,079)</b>
Basic and diluted loss per share	6	( 5.0 cents)	(4.8 cents)

The Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

# Consolidated Statement of Financial Position

DYESOL LIMITED AND ITS CONTROLLED ENTITIES AS AT 30 JUNE 2014

	Note	2014 \$	2013 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	7	5,178,902	5,102,421
Term deposits	7	2,200,000	-
Trade and other receivables	8	3,028,561	3,197,159
Inventories	9	679,879	968,598
Other current assets	10	656,488	332,134
<b>Total current assets</b>		<b>11,743,830</b>	<b>9,600,312</b>
<b>Non-current assets</b>			
Property, plant and equipment	11	651,918	956,744
Intangible assets	12	5,015,250	8,283,789
Investment in associate/ joint ventures	13	126,474	93,450
<b>Total non-current assets</b>		<b>5,793,642</b>	<b>9,333,983</b>
<b>Total assets</b>		<b>17,537,472</b>	<b>18,934,295</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	14	1,914,705	2,482,751
Borrowings	15	443,272	3,430,173
Provisions	16	394,277	498,839
<b>Total current liabilities</b>		<b>2,752,254</b>	<b>6,411,763</b>
<b>Non-current liabilities</b>			
Borrowings	15	807,841	1,190,283
Provisions	16	299,990	91,356
Deferred tax liability	5(e)	443,216	517,085
<b>Total non-current liabilities</b>		<b>1,551,047</b>	<b>1,798,724</b>
<b>Total liabilities</b>		<b>4,303,301</b>	<b>8,210,487</b>
<b>Net assets</b>		<b>13,234,171</b>	<b>10,723,808</b>
<b>EQUITY</b>			
Contributed equity	17	94,183,006	80,079,832
Reserves	18	6,310,656	5,325,659
Accumulated losses		(87,266,647)	(74,689,220)
<b>Capital and reserves attributable to owners of Dyesol</b>		<b>13,227,015</b>	<b>10,716,271</b>
Non-controlling interest	19	7,156	7,537
<b>Total equity</b>		<b>13,234,171</b>	<b>10,723,808</b>

The Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

# Consolidated Statement of Cash Flows

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014 \$	2013 \$
<b>Cash flows from operating activities</b>			
Cash receipts from customers		707,425	1,110,573
Cash payments to suppliers and employees		(10,775,202)	(8,597,620)
R&D tax rebate received		2,840,785	2,951,443
Interest received		113,180	59,442
Interest paid		-	(6,385)
Grants received		25,939	420,725
<b>Net cash used in operating activities</b>	22	<b>(7,087,873)</b>	<b>(4,061,822)</b>
<b>Cash flows from investing activities</b>			
Payments for plant and equipment		(376,548)	(37,388)
Payments for product development costs		-	(1,136,776)
Payment for equity investment		(129,586)	-
Loans to joint venture interests		(100,000)	(100,000)
Investment in term deposits		(2,200,000)	-
Proceeds from disposal of joint venture interests		-	107,640
<b>Net cash used in investing activities</b>		<b>(2,806,134)</b>	<b>(1,166,524)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		-	4,750,000
Repayment of borrowings		-	(750,000)
Purchase of Treasury shares		(111,214)	-
Proceeds from the issue of shares		10,000,000	4,000,250
Share issue costs		-	(19,573)
<b>Net cash provided by financing activities</b>		<b>9,888,786</b>	<b>7,980,677</b>
<b>Net increase in cash and cash equivalents held</b>		<b>(5,221)</b>	<b>2,752,331</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>		<b>5,102,421</b>	<b>2,321,288</b>
<b>Effect of exchange rates on cash holdings in foreign currencies</b>		<b>81,702</b>	<b>28,802</b>
<b>Cash and cash equivalents at end of period</b>	7	<b>5,178,902</b>	<b>5,102,421</b>

The Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

# Consolidated Statement of Changes in Equity

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

	Contributed equity \$	Accumulated losses \$	Reserves			Total \$	Non-controlling interest \$	Total equity \$
			Equity-settled benefit \$	Foreign currency translation reserve \$	Other reserve \$			
<b>Balance at 1 July 2012</b>	<b>76,127,923</b>	<b>(65,290,070)</b>	<b>4,982,229</b>	<b>(1,007,391)</b>	-	<b>14,812,691</b>	<b>3,770</b>	<b>14,816,461</b>
<b>Total comprehensive income for the year</b>								
Loss for the year	-	(9,399,150)	-	-	-	(9,399,150)	2,954	(9,396,196)
<b>Other comprehensive income</b>								
Foreign currency translation reserve differences	-	-	-	454,304	-	454,304	813	455,117
<b>Total comprehensive income for the year</b>	-	(9,399,150)	-	454,304	-	(8,944,846)	3,767	(8,941,079)
<b>Transaction with owners, in their capacity as owners</b>								
Contributions of equity, net of transaction costs	3,951,909	-	-	-	-	3,951,909	-	3,951,909
Share-based payment expense	-	-	97,630	-	-	97,630	-	97,630
Equity component on convertible note	-	-	-	-	798,887	798,887	-	798,887
<b>Total transactions with owners</b>	<b>3,951,909</b>	<b>-</b>	<b>97,630</b>	<b>-</b>	<b>798,887</b>	<b>4,848,426</b>	<b>-</b>	<b>4,848,426</b>
<b>Balance at 30 June 2013</b>	<b>80,079,832</b>	<b>(74,689,220)</b>	<b>5,079,859</b>	<b>(553,087)</b>	<b>798,887</b>	<b>10,716,271</b>	<b>7,537</b>	<b>10,723,808</b>
<b>Total comprehensive income for the year</b>								
Loss for the year	-	(12,577,427)	-	-	-	(12,577,427)	(630)	(12,578,057)
<b>Other comprehensive income</b>								
Foreign currency translation reserve differences	-	-	-	279,988	-	279,988	249	280,237
<b>Total comprehensive income for the year</b>	-	(12,577,427)	-	279,988	-	(12,297,439)	(381)	(12,297,820)
<b>Transaction with owners, in their capacity as owners</b>								
Contributions of equity, net of transaction costs	14,120,498	-	-	-	-	14,120,498	-	14,120,498
Share-based payment expense	-	-	798,899	-	-	798,899	-	798,899
Treasury shares purchase (Note 17)	(111,214)	-	-	-	-	(111,214)	-	(111,214)
Issue of Treasury shares (Note 17)	93,890	-	(93,890)	-	-	-	-	-
<b>Total transactions with owners</b>	<b>14,103,174</b>	<b>-</b>	<b>705,009</b>	<b>-</b>	<b>-</b>	<b>14,808,183</b>	<b>-</b>	<b>14,808,183</b>
<b>Balance at 30 June 2014</b>	<b>94,183,006</b>	<b>(87,266,647)</b>	<b>5,784,868</b>	<b>(273,099)</b>	<b>798,887</b>	<b>13,227,015</b>	<b>7,156</b>	<b>13,234,171</b>

The Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Corporate Information

The financial statements of Dyesol Limited for the year ended 30 June 2014 were authorised for issue in accordance with a resolution of the directors on 25 September 2014 and covers the consolidated entity consisting of Dyesol Limited and its subsidiaries as required by the Corporations Act 2001. Dyesol Limited is a for-profit entity for the purpose of preparing the financial statements.

Dyesol Limited is a listed public company, incorporated and domiciled in Australia.

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The accounting policies applied by the consolidated entity in this year's financial statements are the same as those applied in its financial statements as at and for the year ended 30 June 2013.

The following is a summary of the material accounting policies adopted by the consolidated group in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

### Basis of Preparation

#### Reporting Basis and Conventions

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 1 (y).

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

#### New, revised or amending Accounting Standards and Interpretations adopted

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised, or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the Group from the adoption of these Accounting Standards and Interpretations are disclosed in the relevant accounting policy.

The adoption of these Accounting Standards and Interpretations did not have any impact on the financial performance or position of the Group except for AASB 11 *Joint Arrangements* as explained in Note 13. The following Accounting Standards and Interpretations are most relevant to the Group:

- AASB10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, AASB 128 *Investments in Associates and Joint Ventures*, AASB 127 *Separate Financial Statements* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards*.
- AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13*.
- AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*, and
- AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*.

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Going Concern

The financial statements have been prepared on a going concern basis.

The Group incurred an operating loss after income tax for the year of \$12,578,057 (2013: \$9,396,196) and an operating net cash outflow of \$7,087,873 (2013: \$4,061,822) for the year ended 30 June 2014. Cash held at bank as at 30 June 2014 was \$5,178,902 (30 June 2013: \$5,102,421) and term deposits as at 30 June 2014 were \$2,200,000 (30 June 2013: Nil).

The financial statements have been prepared on a going concern basis, which contemplates continuity of normal activities and realisation of assets and settlement of liabilities in the normal course of business. In order for Dyesol to continue as a going concern and further progress the development of its technology and intellectual property, and in particular the accelerated development of solid-state DSC for scale up activities, additional capital will be required. Dyesol has previously raised capital when required and the Directors anticipate that the company will be successful in raising the required additional capital in future.

The Directors have initiated the following strategies to secure the going concern status and have determined that these accounts should be prepared on a going concern basis as these strategies are anticipated to be successful:

#### (i) Research and Development Tax Credit

The Company expects to receive a refundable research and development tax credit amounting to \$2.4 million prior to 30 September 2014 and has recognised this asset at 30 June 2014.

During August 2014, the Company has submitted the relevant application to AusIndustry for the approval for the registration of the research and development (R&D) activities of the Company for the accounting period from 1 July 2013 to 30 June 2014, and in the 2014 tax year the Company has determined it incurred qualifying research and development expenditure (i.e. notional R&D deductions) of approximately \$5.5 million, of which 45% is refundable. The Company has lodged its income tax return with the relevant Australian Taxation Office R&D Tax Incentive Schedule in September 2014.

#### (ii) Tasnee prospective investment

The National Industrialisation Company of Saudi Arabia (Tasnee) has an exclusive option, under the Subscription Agreement to subscribe for a maximum of \$6 million of Dyesol shares at any time before 28 November 2014.

In addition to the initiatives set out in (i) and (ii) above, the Directors continue to look at other long term investment options to provide the working capital required to implement Dyesol's Technology Development Plan, successful completion of which, the Directors believe, will create a pathway to achieve successful commercialisation and business development. Until this is achieved additional funding will continue to be required and the Board will select the most appropriate strategic investment options.

Based on the factors above, the Directors have prepared the financial report on a going concern basis. Accordingly, the financial statements do not include any adjustments relating to the recoverability or classification of recorded asset amounts or classification of liabilities that might be necessary should the company not be able to continue as a going concern.

### Accounting Policies

#### (a) Principles of Consolidation

##### Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and

any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date of the Company gains control until the date when the Company ceases to control the subsidiary.

A list of subsidiaries is contained in Note 25 to the financial statements. All subsidiaries have a June financial year-end.

All inter-company balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation unless the transactions provide evidence of the impairment of the assets transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies, to the extent possible given compliance with local regulations, with those policies applied by the parent entity.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss and other comprehensive income and statement of financial position respectively. Total comprehensive income is attributable to owners of Dyesol Limited and non-controlling interests even if this results in the non-controlling interests having a debit balance.

### *Jointly controlled entities*

Jointly controlled entities are accounted for by means of the equity method of accounting ("equity method") for the investments in associate and joint ventures whereby the investments are initially recorded at the cost of acquisition and adjusted thereafter for post-acquisition changes in the investor's share of the net assets of the investee. The profit and loss statement reflects the investor's share of the profit or loss of the investee.

Details of the jointly controlled entities are set out in Note 13.

### *Changes in ownership interest*

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets and liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/ permitted by applicable AASBs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent

accounting under AASB 139, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

### **(b) Income tax**

The charge for current income tax expense is based on the profit or loss for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted at the end of the reporting period.

Deferred tax assets and liabilities are recognised for all temporary differences, between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases, at the tax rates expected to apply when the assets are recovered or liabilities settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. Exceptions are made for certain temporary differences arising on initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit.

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in subsidiaries, associates and interests in jointly controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances relating to amounts recognised directly in other comprehensive income or equity are also recognised directly in other comprehensive income or equity respectively.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.



# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company applies for registration of R&D expenses which meet R&D Tax Concession requirements with AusIndustry, and calculates the R&D tax credit owing based on that registration when it submits the annual tax return. Although the \$2.4 million R&D Tax Incentive for financial year ending 30 June 2014 was not received during the year, it was included in the reporting period in accordance with accounting standards. The cash rebate is recognised as R&D tax rebate in income tax expense / benefit (refer Note 5).

Dyesol Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. Each entity in the group recognises its own current and deferred tax assets and liabilities, except for any deferred tax assets resulting from unused tax losses and tax credits, which are immediately assumed by the parent entity. The current tax liability of each group entity is then subsequently assumed by the parent entity. The group notified the Australian Tax Office that it had formed an income tax consolidated group to apply from 20 August 2006.

The tax consolidated group has entered a tax funding agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the tax payable of the tax consolidated group.

The members of the tax-consolidated group have also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax funding agreement is considered remote.

The stand-alone taxpayer within a group approach has been used to allocate current income tax expense and deferred tax expense to wholly-owned subsidiaries that form part of the tax consolidated group.

### (c) Intangible assets

#### *Research and development*

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically feasible, the Group has sufficient resources to complete development and the Group is able to demonstrate how the product or process will generate future economic benefits.

Expenditure which may be capitalised includes the cost of materials, direct labour, subcontract expenditure and an appropriate proportion of overheads. Other development expenditure is recognised in profit or loss as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. The carrying amounts of the capitalised development expenditure are reviewed annually to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see accounting policies 1(e) and 1(y)).

#### *Goodwill*

Goodwill represents the excess of the consideration transferred and the amount of the non-controlling interest in the acquiree over fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

#### *Intellectual Property & Patents*

Intellectual Property and Patents that are acquired by the Group are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy 1(e)).

#### *Amortisation*

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets are amortised from the date that they are available for use, not from the date of generation or acquisition.

<i>Class of Intellectual Property &amp; Patents</i>	<i>Expected useful life</i>	<i>Remaining Life</i>
EPFL Licences	13 years	6 years
Technologies and Process	13 years	6 years
Flexible Cells Process	19 Months	Nil
Paralec Licences	5 to 8 years	3 to 4 years

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (d) Property, plant and equipment

Property, plant and equipment, are recognised initially at cost or fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for any uncollectible amounts. The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the consolidated entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

#### Depreciation

Depreciation is charged in profit or loss on a straight-line basis over the estimated useful life of the asset or in the case of leasehold improvements, the shorter lease term as follows:

<i>Class of Fixed Asset</i>	<i>Expected useful life</i>
Plant and factory equipment	5 years
Office equipment	3 years
Computer software	3 years
Furniture & fittings	5 years
Leasehold improvements	lease term

Motor vehicles are depreciated at 22.5% per annum using a diminishing balance method.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are calculated as the difference between the net disposal proceeds and the asset's carrying amount and are included in profit or loss in the year that the item is derecognised. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

### (e) Impairment

The carrying amounts of the Group's assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For intangible assets that are not yet available for use, the recoverable amount is estimated annually. Recoverable amount is calculated using fair value less costs to sell.

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal in other comprehensive income to the extent of that previous revaluation with any excess recognised through profit or loss.

Impairment losses recognised in respect of the cash-generating unit (which is the business as a whole), are first allocated to reduce the carrying amount of goodwill and then to reduce the carrying amount of other assets.

### (f) Fair values

Fair values may be used for financial asset and liability measurement as well as for sundry disclosures.

Fair values for financial instruments traded in active markets are based on quoted market prices at the end of the reporting period.

If the fair value of financial instruments is not available from an active market, the Group establishes its fair value using valuation techniques. Assumptions used are based on observable market prices and rates at the end of the reporting period. Other financial instruments are calculated based on the present value of future principal and interest cash flow, discounted at the market rate of interest at the end of the reporting period. The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (g) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for any uncollectible amounts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the Group will not be able to collect the debt. Objective evidence of impairment includes financial difficulties of a debtor, default payments or debts more than 90 days overdue. On confirmation that the trade receivable will not be collectible, the gross carrying value of the asset is written off against the associated provision.

### (h) Trade and other payables

Trade and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

### (i) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

### (j) Borrowings

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the loans and borrowings using the effective interest rate method.

The fair value of a liability portion of a convertible note is determined using a market rate of interest for an equivalent non-convertible note and stated on an amortised cost basis until conversion or maturity of the notes. The remainder of the proceeds is allocated to the conversion option and is shown as equity. Issue costs are apportioned between the liability and equity components based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

All borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

### (k) Borrowing Costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

### (l) Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation, and the amount can be reliably estimated. For service warranties, the likelihood that an outflow will be required to settle the obligation is determined by considering the class of obligations as a whole. Provisions are not recognised for future operating losses.

### (m) Earnings per share

#### *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to owners of Dyesol Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

#### *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

### (n) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (o) Employee Benefits

*Wages, salaries, annual leave and non-monetary benefits*

Provision is made for the Group's liability for employee benefits arising from services rendered by employees up to the end of the reporting period. Employee benefits that are expected to be settled within 1 year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than 1 year have been measured at the present value (using the national government bond rate) of the estimated future cash outflows to be made for those benefits.

*Long service leave*

Liabilities for long service leave are recognised as part of the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees to the end of the reporting period using the projected unit credit method. Consideration is given to expected future salaries and wages levels, experience of employee departures and periods of service. Expected future payments are discounted using national government bond rates at the end of the reporting period with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

*Share-based payment transactions*

An expense is recognised for all equity-based remuneration, including shares and options issued to employees and directors. The fair value of securities granted is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The fair value of options granted is measured using a generally accepted valuation model, taking into account the terms and conditions upon which the options were granted. The fair value of shares and options issued to employees is based on the fair value of the equity instruments issued.

### (p) Financial instruments

*Recognition*

Financial instruments are initially measured at fair value on trade date, plus transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below:

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

*Financial liabilities*

Non-derivative financial liabilities are stated at amortised cost, comprising original debt less principal payments and amortisation.

*Compound financial instruments*

Compound financial instruments issued by the Group comprise of convertible notes that can be converted to share capital at the option of both the issuer and holder, and the number of shares to be issued is equal to the fair value of the notes.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instruments as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity compound in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of compound financial instruments is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not measured subsequent to initial recognition. Interest, dividends, losses and gains relating to the financial liability are recognised in profit or loss.

### (q) Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

### (r) Revenue recognition

Revenue from the sale of goods is recognised upon the dispatch of goods to customers.

Revenue from the rendering of services is recognised upon the delivery of the services to the customers.

Revenue from the sale of equipment is recognised when the legal title to the equipment passes, which is usually upon delivery or installation and acceptance.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

All revenue is stated net of the amount of goods and services tax (GST).

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (s) Government grants

Grants from the government are recognised at their fair value, where there is reasonable assurance that the grant will be received and the Group will comply with all the attached conditions. Unconditional grants are recognised in profit or loss as other income, when the grant becomes receivable. Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are included in current liabilities as deferred income and credited to profit or loss on a straight line basis over the expected lives of the related assets.

### (t) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

### (u) Foreign currency transactions and balances

#### *Functional and presentation currency*

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

#### *Transactions and balances*

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of transaction. Foreign currency monetary items are translated at the exchange rate at the end of the reporting period. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction.

Exchange differences arising on translation are recognised in profit or loss.

#### *Group Companies*

At the end of the reporting period, the assets and liabilities of overseas subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the end of the reporting period, and income and expenses are translated at the average exchange rates for the year. All resulting exchange differences are recognised in other comprehensive income as a separate component of equity (foreign currency translation reserve).

On consolidation, exchange differences arising from the translation of any net investment in any foreign entities are taken to other comprehensive income (foreign currency translation reserve). When a foreign operation is sold or borrowings repaid, a proportionate share of the foreign currency translation reserve is recognised in profit or loss as part of the gain or loss on sale or repayment.

### (v) Segment reporting

The Group reviewed segment information using a 'management approach', i.e. segment information is provided on the same basis as information used for internal reporting purposes by the chief operating decision maker (executive management committee that makes strategic decisions). The operating segments results are reviewed regularly by the executive management committee to make decisions about resources to allocate the segments and assess its performance.

During the year the committee monitors the business based on product and services factors and has identified three major product and services segments. These are as follows:

- Glass and Equipment
- Metal Strip
- R&D Materials

In addition, the committee monitors the business based on geographic factors and has identified four major geographical segments. These are as follows:

- Australia
- Asia
- Europe
- North America

All of these entities are involved in the industrialisation and commercialisation of solid-state DSC (ssDSC) technologies.

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (w) Business combinations

The acquisition method of accounting is used to account for all business combinations. Consideration is measured at the fair value of the assets transferred, liabilities incurred and equity interests issued by the Group on acquisition date. Consideration also includes the acquisition date fair values of any contingent consideration arrangements, any pre-existing equity interests in the acquiree and share-based payment awards of the acquiree that are required to be replaced in a business combination. The acquisition date is the date on which the Group obtains control of the acquiree. Where equity instruments are issued as part of the consideration, the value of the equity instruments is their published market price at the acquisition date, unless in rare circumstances it can be demonstrated that the published price at acquisition date is not fair value and that other evidence and valuation methods provide a more reliable measure of fair value.

Identifiable assets acquired and liabilities and contingent liabilities assumed in business combinations are, with limited exceptions, initially measured at their fair values at acquisition date. Goodwill represents the excess of the consideration transferred and the amount of the non-controlling interest in the acquiree over fair value of the identifiable net assets acquired. If the consideration and non-controlling interest of the acquiree is less than the fair value of the net identifiable assets acquired, the difference is recognised in profit or loss as a bargain purchase price, but only after a reassessment of the identification and measurement of the net assets acquired.

For each business combination, the Group measures non-controlling interests at either fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Acquisition-related costs are expensed when incurred. Transaction costs arising on the issue of equity instruments are recognised directly in equity and transaction costs arising on the issue of debt as part of the consideration are accounted for in accordance with Note 1(k).

Where the Group obtains control of a subsidiary that was previously accounted for as an equity accounted investment in associate or jointly controlled entity, the Group remeasures its previously held equity interest in the acquiree at its acquisition date fair value and the resulting gain or loss is recognised in profit or loss. Where the Group obtains control of a subsidiary that was previously accounted for as an available-for-sale investment, any balance on the available-for-sale reserve related to that investment is recognised in profit or loss as if the Group had disposed directly of the previously held interest.

Where settlement of any part of the cash consideration is deferred, the amounts payable in future are discounted to present value at the date of exchange using the entity's incremental borrowing rates.

### (x) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases and capitalised at inception of the lease at the fair value of the leased property, or if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and rewards of ownership of the net asset are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

### (y) Key Estimates and Judgments

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses.

Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events management believes to be reasonable under the circumstances. The resulting accounting judgement and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Key Estimates

#### *Impairment of non-current assets*

The Group assesses impairment at the end of each reporting period by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined.

The Directors have given consideration to the carrying value of the capitalised product development costs for the metal strip project and the Directors have concluded that further impairment would be prudent to take into account two factors, namely:

- The prioritisation of solid state DSC in the commercialisation strategy of Dyesol and the accelerated phasing out of liquid DSC activity.
- The absence of any formal commitment to further the progress of the metal strip DSC PV project.

Solid-state DSC (ssDSC) is a rapidly emerging technology that has achieved outstanding gains in performance over the last 12 months. The official accredited record performance now exceeds 17% efficiency and laboratory results are approaching 20% efficiency. While the performance breakthrough is outstanding, the challenge is to move the technology from the laboratory to industrial scale applications and achieve a first mover advantage in the market. In recognition of the rapid changes in DSC technology Dyesol made the strategic decision that scale-up of ssDSC is the key company priority, and this is reflected in our Technology Development Plan (TDP) which has an aggressive programme to achieve this scale up.

The elimination of liquid electrolytes, which are integral in liquid DSC is a decided advantage in our aim to achieve commercial production, as it reduces some technical hurdles. In addition, the number of process steps in manufacturing ssDSC modules is reduced and this helps simplify the manufacturing process. As glass is the simplest substrate to work with, the scale-up activities in our TDP are built around the development of a glass prototype product development, followed by pilot production. It is envisaged that metal product development will lag behind glass product development by some time. This makes it more difficult to project future cash flows with any reasonable degree of certainty that will directly flow from the metal strip project and justify the current carrying value. While some of the technology development that has been capitalised is equally applicable to glass product development it is relatively small in the overall context, particularly taking into account the rapid transition to ssDSC that has occurred within Dyesol.

Accordingly, the Directors considered it prudent at this time to reconsider the carrying value for the metal strip project. Due to the reprioritisation of company activities to ssDSC being initially focused on glass, and the uncertainty of a definitive commercialisation strategy for the metal strip project at this time, it was concluded that the existing capitalised development carrying value of \$3,510,920 be fully impaired.

At the year end the consolidated entity has intangible assets amounting to \$5,015,250 consisting of the consolidated entity's intellectual property, patents and goodwill and property, plant and equipment amounting to \$651,918. The directors have performed their impairment assessment using the fair value less costs of disposal approach with reference to Tasnee investment of \$14 million to date representing 26.5% of the equity of the consolidated entity. The investment by Tasnee equates to a total value of the consolidated entity in excess of \$53 million which the Directors consider supports the carrying value of the consolidated entity's intangible assets and property, plant and equipment.

#### *R&D Tax Incentive*

Dyesol's R&D Tax Incentive claim of \$2.4 million for the year ended 30 June 2014 was calculated in accordance with the requirements of the new scheme framework. Unlike the previous R&D Tax Rebate scheme which focussed on high risk and innovative R&D, the new framework focuses on R&D carried out using a rigorous scientific method.

As part of obtaining an Advance Finding granting approval for claim of R&D expenses incurred overseas, which is an AusIndustry requirement, Dyesol demonstrated via provision of technical reports, research and development plans, site tours of facilities, and discussions with personnel, that both its Australian and overseas R&D satisfy the requirements of the scheme.

The financial data leading to the figures provided to the ATO in the company tax return was compiled using the government preferred methodology for primarily R&D enterprises, of subtracting out non-R&D related costs and methodically apportioning related supporting overhead costs. This financial apportionment was facilitated by Dyesol's comprehensive project financial management systems, which clearly delineate R&D and non-R&D related costs in a fully transparent manner.

The Company has submitted its tax return in September 2014. The Directors believe that the Company has satisfied the criteria to be eligible for R&D tax refunds in the current and prior years, however the Company's tax positions remain open to review by the ATO.

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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### *Provision for Impairment of Receivables*

Where receivables are outstanding beyond the normal trading terms, the likelihood of the recovery of these receivables is assessed by management (see Note 20).

### *Share options*

The Group measures the cost of equity-settled share-based payments at fair value at the grant date using the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted, estimates of volatility and interest rates (see Note 24).

### *Amortisation of intangible assets*

As described at Note 1 (c), the various classes of licences have estimated useful lives from 5 to 13 years and amortisation is charged to profit or loss on a straight line basis over the estimated useful lives. The Group reviews the estimated useful lives at the end of each reporting period.

### **Key Judgments**

#### *Recovery of deferred tax assets*

Deferred tax assets arising from tax losses are not recognised as their recovery is dependent upon the generation of sufficient future taxable profits. The Group is currently loss making. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

#### *Capitalisation of development cost*

Distinguishing the research and development phases of the metal strip project and determining whether the recognition requirements for the capitalisation of development costs are met requires judgement. After capitalisation, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalised costs may be impaired (see Note 1(y) key estimates; impairment of non-current assets and Note 12).

#### *Discontinued operations – Dyesol Japan Co. Ltd, Dyesol East Asia Pte Ltd and DyeTec Solar Inc.*

The Company has completed the liquidation process for the closing of its subsidiary companies, Dyesol Japan Co. Ltd and Dyesol East Asia Pte Ltd, and its joint venture interest in DyeTec Solar Inc. As the entities were not considered as separate major line of businesses or geographical areas of operation, the presentation and disclosure of the results of both of the discontinued operations are not required under AASB 5 *Non-Current Assets Held for Sale and Discontinued Operations*.

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# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Inventories

Management estimates the net realisable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realisation of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

### Long Service Leave

Management's estimate of the long service leave is based on a number of critical underlying assumptions such as probability of staff remaining with the company for a period of 10 years, standard rates of inflation, discount rate and anticipation of future salary increases. Estimation uncertainties exist particularly with regard to the assumed probabilities of staff remaining with the group. Variation in these assumptions may significantly impact the long service leave amount and the annual long service leave expenses.

### (z) Accounting standards issued not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting periods. Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement.

Information on new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

Title of standard	Nature of change	Impact	Mandatory application date/ Date of adoption by group
AABS 9 <i>Financial Instruments</i>	AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. Since December 2013, it also sets out new rules for hedge accounting.	<p>When adopted, the standard will not have any significant impact as on the financial statements unless the Company acquires financial assets and liabilities.</p> <p>There will be no impact on the group's accounting for financial assets, as the new requirements only affect the accounting for available-for-sale financial assets and the group does not have any such assets.</p> <p>There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities.</p> <p>There will be no impact on hedge account or disclosures as the forward contracts do not qualify as hedge accounting.</p>	Must be applied for financial years commencing on or after 1 January 2018.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

	2014 \$	2013 \$
<b>2. REVENUE AND OTHER INCOME</b>		
Rendering of services	43,948	109,558
Sale of goods	665,506	843,880
Revenue from sale of goods and services	709,454	953,438
Interest received	193,777	89,907
<b>Other income</b>		
Government grants	600,573	713,878
Other income	90,521	110,097
Total other income	691,094	823,975
<b>3. EXPENSES</b>		
Loss before income tax includes the following expenses:		
<b>Depreciation and amortisation</b>		
Amortisation of intangible assets	273,287	268,812
Depreciation expense	526,508	897,179
	799,795	1,165,991
<b>Share-based payments</b>		
Share based payments to company employees/directors	671,399	97,630
Share based payments to consultant	127,500	-
	798,899	97,630
<b>Technical expenses (including R&amp;D expenses)</b>		
Wages and salaries	3,081,464	3,083,059
Materials	644,407	360,130
Consultants	905,927	713,639
Other overheads	685,977	196,295
	5,317,775	4,353,123
<b>Total employee benefits expense</b>		
Wages and salaries	4,226,549	4,596,361
Superannuation	246,123	258,043
Redundancy payments	77,706	25,018
Increase / (decrease) in liability for annual leave	40,438	(25,932)
Increase in liability for long service leave	63,634	5,271
Share based payments to company employees/directors	671,399	97,630
	5,325,849	4,956,391

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

	2014 \$	2013 \$
<b>3. EXPENSES (continued)</b>		
Loss before income tax includes the following expenses:		
<b>Borrowing costs</b>		
Interest expenses	764,719	355,494
<b>Rental expenses on operating lease</b>		
Minimum lease payments	675,896	598,061
<b>Foreign currency translation</b>		
Net foreign exchange loss	153,201	86,701
<b>Impairment provision – inventory</b>		
Inventory provision for slow moving & obsolescence	440,751	354,829
<b>Impairment</b>		
Impairment of intangible assets	3,510,920	2,251,239
<b>4. AUDITORS' REMUNERATION</b>		
<b>(a) Amount paid or due and payable to Grant Thornton Audit Pty Ltd for:</b>		
- An audit and review of the financial statements of the entity and any other entity in the Group	106,000	112,750
- Tax compliance provided by related practice of the auditors	69,044	35,398
<b>(b) Amount paid or due and payable to non-Grant Thornton Audit Pty Ltd network firms for:</b>		
- An audit and review of the financial statements of the entity and any other entity in the Group	-	23,831
- Other services in relation to the entity and any other entity in the consolidated entity	54,568	24,587
	<b>229,612</b>	<b>196,566</b>

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

	2014 \$	2013 \$
<b>5. INCOME TAX</b>		
<b>(a) Income tax benefit</b>		
R&D tax rebate	(2,389,548)	(2,859,254)
Deferred tax	(73,869)	(73,869)
	<b>(2,463,417)</b>	<b>(2,933,123)</b>
<b>(b) Numerical reconciliation between tax benefit and pre-tax net loss</b>		
Loss before income tax	(15,041,474)	(12,329,319)
Income tax benefit calculated at 30% (2013: 30%)	(4,512,442)	(3,698,796)
Tax effect of amounts which are not tax deductible :		
• Share based payments	239,669	29,289
• Impairment of intangible assets	1,053,276	675,372
• Impairment of goodwill	-	89,489
• Sundry amounts	1,505	1,527
• Impact of foreign tax rate differential	327,038	102,712
Net deferred tax assets not recognised	2,817,085	2,726,538
R&D tax rebate	(2,389,548)	(2,859,254)
<b>Income tax benefit</b>	<b>(2,463,417)</b>	<b>(2,933,123)</b>
<b>(c) Tax losses</b>		
Unused tax losses for which no deferred tax asset has been recognised (as recovery is currently not probable)		
Tax effected (at 30%)	<b>24,011,588</b>	<b>21,103,465</b>
<b>(d) Unrecognised temporary differences</b>		
Temporary differences for which deferred tax assets have not been recognised (at 30%)		
• Employee benefits provision	98,797	72,559
• Capital raising costs	95,565	149,630
• IP costs	402,319	391,765
• Other	69,750	69,250
Unrecognised deferred tax assets relating to the above temporary differences (at 30%)	<b>666,431</b>	<b>683,204</b>

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

	2014 \$	2013 \$
<b>5. INCOME TAX (continued)</b>		
Temporary differences for which deferred tax liabilities have not been recognised (at 30%)		
• Prepayments	118,882	44,616
Temporary differences in relation to other comprehensive income for which deferred tax assets have not been recognised (at 30%)		
• Foreign currency translation reserves (relating to investments in subsidiaries)	81,930	165,926
<p>A deferred tax asset has not been recognised in respect of the temporary difference on the foreign currency translation reserve of \$273,099 (2013: \$553,087) arising from translating the financial statements of the overseas subsidiaries because the deferred tax asset will only arise on disposal of the subsidiaries, which is not expected in the foreseeable future.</p>		
<b>(e) Recognised temporary differences</b>		
Deferred tax liability on intangibles recognised in a business combination (at 30%)	443,216	517,085

**(f) Tax rates**

The consolidated entity operates in a multi-jurisdictional tax environment, which makes meaningful comparison of weighted average effective tax rates difficult. The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits/(losses) under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period. Corporate tax rates in jurisdictions where the Company has subsidiaries and joint ventures are Singapore 17%, United Kingdom 22%, Italy 31%, Switzerland 13-20%, Republic of Korea 11%, Germany 30%, Japan 40% and USA 35%.

**(g) Income tax loss**

Deferred tax assets arising from tax losses of the Group not brought to account at the end of the reporting period as realisation of the benefit is not regarded as probable is \$24,011,588 (2013: \$21,103,465).

The benefit for tax losses will only be obtained if:

- (i) the Company derives future assessable income of a nature and amount sufficient to enable the benefit from the tax losses to be realised;
- (ii) the Company continues to comply with the conditions for deductibility imposed by tax legislation; and
- (iii) there are no adverse changes in tax legislation.

**(h) Tax consolidation**

Dyesol Limited and its wholly owned Australian controlled entities implemented the tax consolidation legislation with effect from 20 August 2006. The accounting policy in relation to this legislation is set out in Note 1(b).

The members of the tax-consolidated group have also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

**(i) Franking credits**

There are no franking credits available as income tax has not been paid in Australia.

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# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

	2014 \$	2013 \$
<b>6. EARNINGS PER SHARE</b>		

## Reconciliation of earnings to profit or loss

Loss attributable to owners of Dyesol Limited used to calculate earnings per share	(12,577,427)	(9,399,150)
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The calculation of basic loss per share at 30 June 2014 was based on the loss attributable to owners of Dyesol Limited of \$12,577,427 (2013: \$9,399,150) and a weighted average number (W.A.N.) of ordinary shares outstanding during the financial year ended 30 June 2014 of 254,017,488 (2013: 198,046,098) calculated as follows:

	2014		2013	
	Actual No.	W.A.N.	Actual No.	W.A.N.
Issued ordinary shares at beginning of year	221,361,987	221,361,987	196,044,602	196,044,602
Effect of shares issued pursuant to placement	80,629,456	32,180,786	24,098,015	1,320,439
Effect of issue of shares as a share based payment	1,375,000	549,999	1,219,370	681,057
	303,366,443	254,092,772	221,361,987	198,046,098
Effect of Treasury shares purchase	(40,000)	(75,284)	-	-
<b>Issued ordinary shares at end of year</b>	<b>303,326,443</b>	<b>254,017,488</b>	<b>221,361,987</b>	<b>198,046,098</b>

Diluted loss per share, calculated by taking into account 3,000,000 outstanding options (2013: 6,500,000), 2,700,000 performance rights (2013: 460,000) and convertible notes, does not show an inferior view of the earnings performance of the Company than is shown by basic loss per share and is not disclosed for this reason.

	2014 \$	2013 \$
<b>7. CASH AND CASH EQUIVALENTS</b>		

Cash at bank and in hand	5,178,902	5,102,421
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Cash at bank and in hand has interest bearing accounts which earn interest at rates from 0.00% pa to 3.83 pa%. In addition, the Company has term deposits totalling \$2.2 million, which have 123 days and 130 days to maturity at 30 June 2014. The term deposits bear fixed interest rates of 3.78% pa and 3.80% pa.

	2014 \$	2013 \$
<b>8. TRADE AND OTHER RECEIVABLES</b>		

Trade receivables, gross	97,396	188,786
Allowance for doubtful debts	-	(98,079)

Trade receivables	97,396	90,707
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Loans, gross	381,982	355,823
Allowance for doubtful debts	(381,982)	(355,823)

Loans – Note 28	-	-
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R & D tax rebate receivable	2,389,548	2,859,254
Interest receivable	58,739	4,315
Other receivables	482,878	242,883

	<b>3,028,561</b>	<b>3,197,159</b>
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# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 8. TRADE AND OTHER RECEIVABLES (continued)

### Provision for doubtful debts

Trade receivables are non-interest bearing and are generally on 30 to 90 day payment terms. An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts.

### Credit risk – other loans, grant receivable and other receivables

An allowance was provided for the former directors' loans in accordance with accounting standards. The loan is subject to legal recovery proceedings by the Company. Refer to commentaries in Note 28.

### Past due but not considered doubtful

At 30 June 2014 trade receivables of \$70,048 (2013: \$78,604) were past due. The balance was not considered to be doubtful. The balance of trade receivables relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2014 \$	2013 \$
Not past due	27,348	12,103
1 to 30 days past due	13,269	17,287
31 – 60 days past due	6,238	3,822
Over 60 days past due	50,541	57,495
Balance at end of year	<b>97,396</b>	<b>90,707</b>

Receivable balances which are neither overdue nor impaired are expected to be received when due, as they relate to long standing customers with good payment history or government entities which typically have long payment delays.

## 9. INVENTORIES

### At net realisable value

Finished goods	347,536	459,264
Raw materials	244,523	413,974
Work in progress	87,820	95,360
	<b>679,879</b>	<b>968,598</b>

Included in the above net realisable value is a provision for slow moving inventory in relation to equipment and materials on hand of a total of \$858,916 (2013: \$418,165) were recorded mainly in relation to liquid DSC technology.

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

	2014 \$	2013 \$
<b>10. OTHER CURRENT ASSETS</b>		
Prepaid expenses	488,968	187,405
GST receivable	167,520	144,729
	<b>656,488</b>	<b>332,134</b>
<b>11. PROPERTY, PLANT AND EQUIPMENT</b>		
Office furniture and equipment, at cost	827,831	748,103
Less: Accumulated depreciation	(753,130)	(716,611)
	74,701	31,492
Plant and equipment, at cost	5,360,482	5,178,202
Less: Accumulated depreciation	(4,851,569)	(4,315,306)
	508,913	862,896
Motor vehicles, at cost	53,947	51,488
Less: Accumulated depreciation	(43,704)	(38,626)
	10,243	12,862
Computer software, at cost	375,594	332,480
Less: Accumulated depreciation	(317,533)	(299,193)
	58,061	33,287
Leasehold improvements, at cost	2,356,592	2,356,592
Less: Accumulated depreciation	(2,356,592)	(2,340,385)
	-	16,207
<b>Total property, plant and equipment</b>	<b>651,918</b>	<b>956,744</b>
<b>Reconciliations</b>		
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:		
<b>Office furniture and equipment</b>		
Balance at beginning of year	31,492	76,624
Effect of movement in foreign exchange	555	2,105
Additions	70,744	9,088
Write off	(123)	-
Depreciation	(27,967)	(56,325)
Balance at end of year	<b>74,701</b>	<b>31,492</b>
<b>Plant and equipment</b>		
Balance at beginning of year	862,896	1,670,708
Effect of movement in foreign exchange	10,847	(25,453)
Additions	95,964	6,163
Depreciation	(460,794)	(788,522)
Balance at end of year	<b>508,913</b>	<b>862,896</b>



# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

	2014 \$	2013 \$
<b>11. PROPERTY, PLANT AND EQUIPMENT (continued)</b>		
<b>Motor vehicles</b>		
Balance at beginning of year	12,862	25,527
Effect of movement in foreign exchange	582	685
Disposals	-	(8,467)
Depreciation	(3,201)	(4,883)
Balance at end of year	<b>10,243</b>	<b>12,862</b>
<b>Leasehold improvements</b>		
Balance at beginning of year	16,207	32,416
Depreciation	(16,207)	(16,209)
Balance at end of year	-	<b>16,207</b>
<b>Computer software</b>		
Balance at beginning of year	33,287	32,955
Effect of movement in foreign exchange	5	-
Additions	43,108	31,572
Depreciation	(18,339)	(31,240)
Balance at end of year	<b>58,061</b>	<b>33,287</b>
<b>12. INTANGIBLE ASSETS</b>		
Intellectual property and patents, at cost	3,791,610	3,747,022
Less: Accumulated amortisation	(2,218,200)	(1,944,913)
	1,573,410	1,802,109
Product development costs	-	3,039,840
Goodwill at cost	3,441,840	3,441,840
<b>Total intangible assets</b>	<b>5,015,250</b>	<b>8,283,789</b>
<b>Reconciliations</b>		
Reconciliations of the carrying amounts for each class of intangible asset are set out below:		
<b>Patents</b>		
Balance at beginning of year	1,802,109	2,070,921
Additions	44,588	-
Amortisation	(273,287)	(268,812)
Balance at end of year	<b>1,573,410</b>	<b>1,802,109</b>

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# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

	2014 \$	2013 \$
<b>12. INTANGIBLE ASSETS (continued)</b>		
<b>Product development costs</b>		
Balance at beginning of year	3,039,840	3,829,003
Effect of movement in foreign exchange	471,080	325,300
Additions	-	1,136,776
Impairment loss #	(3,510,920)	(2,251,239)
Balance at end of year	-	<b>3,039,840</b>
<b>Goodwill</b>		
Balance at beginning of year	3,441,840	3,740,137
Impairment loss	-	(298,297)
Balance at end of year	<b>3,441,840</b>	<b>3,441,840</b>

Intangible assets, other than goodwill, have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense in profit or loss.

# The directors have assessed impairment of capitalised development costs with regard to future net cash flows that may be generated by the DSC PV project. After careful consideration of the company priorities and the status of the metal strip project within these revised priorities (see Note 1(y)), the Directors considered it prudent at this time to consider in detail the carrying value of the capitalised product development costs and what impairment may be necessary. Due to the rapid advances being made in ssDSC, the priority for the company activities initially being focused on glass ssDSC, and the delay in developing a commercialisation path for the metal strip project it was concluded that the existing capitalised development carrying value of \$3,510,920 be fully impaired.

At the year end the consolidated entity has intangible assets amounting to \$5,015,250 consisting of the consolidated entity's intellectual property, patents and goodwill and property, plant and equipment amounting to \$651,918. The directors have performed their impairment assessment using the fair value less costs of disposal approach with reference to Tasnee investment of \$14 million to date representing 26.5% of the equity of the consolidated entity. The investment by Tasnee equates to a total value of the consolidated entity in excess of \$53 million which the Directors consider supports the carrying value of the consolidated entity's intangible assets and property, plant and equipment.

Management also reviews whether there are any impairment indicators with reference to the Company's market capitalisation listed on the Australian Stock Exchange. As at 30 June 2014, the Company had 303,326,443 shares on issue and the market price per share was \$0.22. Market capitalisation was \$66,731,817 compared with net assets of \$13,234,171.

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 13. INVESTMENT IN ASSOCIATE/ JOINT VENTURES

The consolidated financial statements include the financial statements of Dyesol Limited and the investment in associate and joint ventures listed in the following table:

Name	Venturer	Country of incorporation	% Ownership interest		Investment \$	
			2014	2013	2014	2013
Dyesol-Timo Co.Ltd	Dyesol Limited	Republic of Korea	50.1	50.1	-	-
DyeTec Solar Inc.	Dyesol Inc	United States of America	50	50	-	-
Printed Power Pte Ltd.	Dyesol Limited	Singapore	25	-	129,586	-

### *Dyesol-Timo Co. Ltd*

Dyesol Limited has entered into a joint venture agreement with Timo Technology Co. Ltd on 30 July 2008, involving a jointly-controlled entity called Dyesol-Timo Co. Ltd, to commercialise Dyesol Solar Technology (DSC) in the Republic of Korea. The parties have entered into a contractual agreement sharing control in Dyesol-Timo Co. Ltd, whereby the strategic financial and operating decisions relating to Dyesol-Timo Co. Ltd activities require the consent of 75% of the directors. Each party has two directors of Dyesol Timo.

In November 2009, the consolidated entity invested an additional \$927,535 in cash in Dyesol Timo Ltd, increasing its interests in the joint venture from 49% to 50.1%. The consolidated entity's interests in the assets, liabilities, revenues and expenses of the joint venture are included in the consolidated statement of financial position in accordance with the accounting policy described in Note 1(a).

On 2 September 2014, Dyesol has executed an agreement to acquire the 49.9% minority interest in Dyesol-Timo Co. Ltd held by Neoarena (formerly Timo Technology Co. Ltd) – see Note 31.

### *DyeTec Solar Inc.*

Dyesol Inc., a 100% subsidiary of Dyesol Industries Pty Ltd, has entered into a joint venture agreement with Pilkington North America, Inc. on 8 June 2010, involving a joint-controlled entity called DyeTec Solar Inc. to develop and deliver the Standard Technology Platform (STP) solution for mass manufacture of BIPV (Building Integrated Photovoltaic), AIPV (Automotive Integrated Photovoltaic) as well as interior PV generating glass base products, powered displays and security devices. Dyesol Inc. has 50% interest in the joint venture. DyeTec Solar Inc. ceased operations and was dissolved during the year.

### *Printed Power Pte Ltd.*

Dyesol Limited holds a 25% equity stake through a strategic investment of \$129,586 in Printed Power Pte Ltd, a spinoff company out of Nanyang Technological University (NTU). Printed Power is initially focussing on the integration of Dye Solar Cell (DSC) technology with printed storage and power management systems to create fully integrated Combined Energy Generation and Storage devices. The aim is to be at the forefront of fully printed and self-sustaining Combined Energy Generation and Storage (CEGS) solutions globally. CEGS devices have a range of applications including sensor networks and smart building applications, thereby opening up a wide range of commercial opportunities.

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 13. INVESTMENT IN ASSOCIATE/ JOINT VENTURES (continued)

The movement in investment in associate and investments in joint ventures during the year is as follows:

	Joint ventures				Associate		Total	
	Dyesol-Timo Co. Ltd		Dye Tec Solar Inc.		Printed Power Pte Ltd		2014 \$	2013 \$
	2014 \$	2013 \$	2014 \$	2013 \$	2014 \$	2013 \$		
Deemed cost of investment at the beginning of year	96,562	324,558	(3,112)	(67,126)	-	-	93,450	257,432
Loss during year	(178,445)	(347,696)	-	63,902	-	-	(178,445)	(283,794)
Forex translation movement during year	(18,117)	19,700	-	112	-	-	(18,117)	19,812
Loan to joint venture	100,000	100,000	-	-	-	-	100,000	100,000
Cost of acquisition/ investment	-	-	-	-	129,586	-	129,586	-
<b>Deemed cost of investment at end of period</b>	<b>-</b>	<b>96,562</b>	<b>(3,112)</b>	<b>(3,112)</b>	<b>129,586</b>	<b>-</b>	<b>126,474</b>	<b>93,450</b>

### AASB 11 Joint Arrangements

The Group's interest in Dyesol-Timo Co. Ltd, and DyeTec Solar Inc. were classified as jointly controlled entities and the Group's share of the assets, liabilities, revenue, income and expenses were proportionately consolidated in the consolidated financial statements during the previous reporting periods. Upon adoption of AASB 11 during the year, the Group has determined its interest in these entities to be joint ventures and they are required to be accounted for using the equity method.

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

	2014 \$	2013 \$
<b>13. INVESTMENT IN ASSOCIATE/ JOINT VENTURES (continued)</b>		
<b>Share of associate's and joint ventures' commitments</b>		
Lease commitment	25,852	23,266
Summarised financial information in respect of the Group's joint ventures and associates as set out below:		
<b>Financial position of associate/ joint ventures</b>		
Total assets	341,156	227,272
Total liabilities	362,305	236,496
Net assets	(21,149)	(9,224)
<b>Financial performance of associate/ joint ventures</b>		
Total revenue	81,214	165,597
Total loss for the year	(150,124)	(209,367)

#### **Contingent liabilities relating to associate/ joint ventures**

There are no material contingent liabilities relating to the associate/ joint ventures at the end of the reporting period.

#### **Share of associate/ joint ventures commitments**

The associate/ joint ventures have no material commitments at the end of the reporting period.

The effects on the statement of financial position and statement of profit or loss and other comprehensive income are:

Statement of Profit or Loss and Other Comprehensive Income (Extract)	30 Jun 2013 (Previously stated)	Change	30 Jun 2013 (restated)
Revenue	957,094	(3,656)	953,438
Cost of sales	(543,629)	19,241	(524,388)
Provision for slow moving & obsolete inventory	(354,829)	-	(354,829)
<b>Gross profit</b>	<b>58,636</b>	<b>15,585</b>	<b>74,221</b>
Interest revenue	89,877	30	89,907
Other income	914,536	(90,561)	823,975
Technical expenses	(4,457,783)	104,660	(4,353,123)
Administrative and corporate expenses	(5,297,261)	246,939	(5,050,322)
Impairment of intangible assets	(2,251,239)	-	(2,251,239)
Marketing expenses	(510,425)	4,988	(505,437)
Finance cost	(357,647)	2,153	(355,494)
Intellectual property expenses	(518,013)	-	(518,013)
Share of losses of associate/ joint ventures	-	(283,794)	(283,794)
<b>Loss before income tax benefit</b>	<b>(12,329,319)</b>	<b>-</b>	<b>(12,329,319)</b>
Income tax benefit	2,933,123	-	2,933,123
<b>Net loss for the year</b>	<b>(9,396,196)</b>	<b>-</b>	<b>(9,396,196)</b>
Other comprehensive income	455,117	-	455,117
<b>Total comprehensive income</b>	<b>(8,941,079)</b>	<b>-</b>	<b>(8,941,079)</b>

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 13. INVESTMENT IN ASSOCIATE/ JOINT VENTURES (continued)

Statement of Financial Position (Extract)	30 Jun 13 (Previously stated)	Increase/ (Decrease)	30 Jun 13 (Restated)	1 July 12 (Previously stated)	Increase/ (Decrease)	1 July 12 (Restated)
<b>Current assets</b>						
Cash and cash equivalents	5,167,332	(64,911)	5,102,421	2,510,305	(189,017)	2,321,288
Trade and other receivables	3,233,607	(36,448)	3,197,159	3,450,290	75,319	3,525,609
Inventories	970,644	(2,046)	968,598	1,399,869	(2,755)	1,397,114
Other current assets	351,014	(18,880)	332,134	309,468	(40,178)	269,290
<b>Non-current assets</b>						
Property, plant and equipment	1,083,954	(127,210)	956,744	2,022,958	(184,728)	1,838,230
Intangible assets	8,283,789	-	8,283,789	9,640,061	-	9,640,061
Investment in associate/ joint ventures	-	93,450	93,450	-	257,431	257,431
<b>Total assets</b>	<b>19,090,340</b>	<b>(156,045)</b>	<b>18,934,295</b>	<b>19,332,951</b>	<b>(83,928)</b>	<b>19,249,023</b>
<b>Current liabilities</b>						
Trade and other payables	2,638,796	(156,045)	2,482,751	2,144,243	(83,928)	2,060,315
Borrowings	3,430,173	-	3,430,173	1,170,437	-	1,170,437
Provisions	498,839	-	498,839	224,771	-	224,771
<b>Non-current liabilities</b>						
Borrowings	1,190,283	-	1,190,283	-	-	-
Provisions	91,356	-	91,356	386,085	-	386,085
Deferred tax liability	517,085	-	517,085	590,954	-	590,954
<b>Total liabilities</b>	<b>8,366,532</b>	<b>(156,045)</b>	<b>8,210,487</b>	<b>4,516,490</b>	<b>(83,928)</b>	<b>4,432,562</b>
<b>Net assets</b>	<b>10,723,808</b>	<b>-</b>	<b>10,723,808</b>	<b>14,816,461</b>	<b>-</b>	<b>14,816,461</b>

### Impact on the consolidated statement of cash flows

	2014 \$	2013 \$
Decrease in net cash outflows from operating activities	56,469	117,846
Decrease in net cash outflows from investing activities	6,840	25,903
Decrease in net cash at beginning of period	(64,911)	(189,017)
Decrease in effects of exchange rate changes on the balances of cash held in foreign currencies	(7,596)	(19,643)
<b>Net decrease in cash and cash equivalents</b>	<b>(9,198)</b>	<b>(64,911)</b>

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

	2014 \$	2013 \$
<b>14. TRADE AND OTHER PAYABLES</b>		
<b>Unsecured liabilities – current</b>		
Trade creditors	664,520	718,134
Other creditors and accruals	749,411	1,093,675
Unearned income	275,783	483,697
Other payables (non-trade)	224,991	187,245
	<b>1,914,705</b>	<b>2,482,751</b>

<b>15. BORROWINGS</b>		
<b>Current</b>		
Convertible note – unsecured*	443,272	134,043
Convertible note – secured +	-	3,296,130
	<b>443,272</b>	<b>3,430,173</b>
<b>Non-Current</b>		
Convertible note – unsecured*	807,841	1,190,283
	<b>807,841</b>	<b>1,190,283</b>

**+ Convertible note – secured**

The convertible note issued to Tasnee in the prior year was converted into 24,698,795 Dyesol Shares on the 18 November 2013, refer to note 17 for additional information.

**\* Convertible note – unsecured**

The convertible notes issued in previous financial years, pursuant to the funding agreement with CSIRO to carry out a research and development project, amount to \$1,251,113. CSIRO has provided funds to the value of \$1,172,698 in three separate instalments and in return the Company has issued convertible notes with a face value equal to the funds received of \$1,172,698. The remaining terms of repayments are \$443,272 and \$864,110 due on 1 December 2014 and 1 December 2015 respectively. On initial recognition, the interest rate charged on the loan was lower than the market rate for similar financing, and therefore, the difference between the face value of \$1,172,698 and the fair value of the instrument of \$1,044,713 was recognised as grant income over the term of the loan. The Funding Agreement and the Deed of Amendment between the Company and CSIRO governs the terms and circumstances of redemption or conversion to satisfy the indebtedness of this note, and the granting of a licence. The option to convert into ordinary shares equal to the face value of the note or redeem for cash is with the Company. The Company has exercised its right to take up an exclusive licence under the Project IP set out in the CSIRO Licence Agreement. The convertible note is presented in the Statement of Financial Position as follows:

	2014 \$	2013 \$
Face value of notes issued	1,172,698	1,172,698
Deferred grant income of convertible note	(127,985)	(127,985)
	1,044,713	1,044,713
Interest expense *	206,400	279,613
	<b>1,251,113</b>	<b>1,324,326</b>
Broken down as follows:		
Current liability	443,272	134,043
Non-current liability	807,841	1,190,283
	<b>1,251,113</b>	<b>1,324,326</b>

\* On initial recognition the applicable rate of interest on the loan notes is BBSW, as this is not considered a market rate of interest, the convertible notes require discounting at a market rate to their present value, with the difference being recognised as deferred government grant (in accordance with AASB 120 as CSIRO is a government body) and being released as the fees are incurred. The market rate on initial recognition was assessed at 8% p.a.

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

	2014 \$	2013 \$
<b>16. PROVISIONS</b>		
<b>Current</b>		
Employee benefit provision	239,277	198,839
Make good provision	155,000	300,000
	<b>394,277</b>	<b>498,839</b>
<b>Non-Current</b>		
Employee benefit provision	154,990	91,356
Make good provision	145,000	-
	<b>299,990</b>	<b>91,356</b>

## **Make good provision**

The Group is required under the terms of its lease to restore the leased premises at the end of the lease to its original condition. A provision has been recognised for the present value of the estimated expenditure required to demolish any leasehold improvements at the end of the lease. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the shorter of the term of the lease or the useful life of the assets. Some of the leases are due to expire during the next financial year and the Company is presently evaluating the options for favourable renewal terms that will meet the Company's requirements.

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# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

	2014 \$	2013 \$
<b>17. CONTRIBUTED EQUITY</b>		
<b>Issued and paid-up capital</b>		
303,366,443 (2013: 221,361,987) fully paid ordinary shares	94,200,330	80,079,832
40,000 Treasury shares	(17,324)	-
<b>Contributed equity</b>	<b>94,183,006</b>	<b>80,079,832</b>

## Ordinary Shares

The movements in ordinary shares throughout the year were as follows:

	2014 Number	2014 \$	2013 Number	2013 \$
Balance at beginning of the year	221,361,987	80,079,832	196,044,602	76,127,923
Issue of shares on exercise of rights	675,000	-	1,219,370	-
Issue of shares on conversion of Tasnee's Convertible Note @\$0.166 per share#	24,698,795	4,100,000	-	-
Issue of shares to CSIRO as repayment @\$0.3574 per share	375,105	134,063	-	-
Issue of 200,000 shares to employee as agreed contractual terms	200,000	-	-	-
Issue of shares to Tasnee following shareholder approval @\$0.18 per share#	55,555,556	10,000,000	-	-
Issue of 500,000 shares to investor relations consultant	500,000	-	-	-
Placement of shares for cash @\$0.166 per share	-	-	24,098,015	4,000,250
Transaction costs of share issues	-	(113,565)	-	(48,341)
	<b>303,366,443</b>	<b>94,200,330</b>	<b>221,361,987</b>	<b>80,079,832</b>
123,000 Treasury shares purchase @\$0.3421 per share*	(123,000)	(42,089)	-	-
200,000 Treasury shares purchase @\$0.3456 per share*	(200,000)	(69,125)	-	-
Issue of 200,000 Treasury shares @\$0.33 per share*	200,000	66,000	-	-
Issue of 33,000 Treasury shares @\$0.33 per share*	33,000	10,890	-	-
Issue of 50,000 Treasury shares @\$0.34 per share*	50,000	17,000	-	-
<b>Balance at the end of year</b>	<b>303,326,443</b>	<b>94,183,006</b>	<b>221,361,987</b>	<b>80,079,832</b>

# On 28 February 2013, Dyesol announced that it had entered into a subscription agreement with The National Industrialisation Company of Saudi Arabia (Tasnee). Under the Subscription Agreement, Tasnee issued a convertible loan note with a face value of \$4 million. The convertible note allowed Tasnee to elect to convert all or part of \$4.1 million (being the \$4 million face value of the convertible loan note plus a \$100,000 service fee) into Dyesol shares at an issue price of \$0.166 per share. On 18 November 2013, Dyesol issued 24,698,795 shares to Tasnee in respect of the conversion of the convertible note.

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 17. CONTRIBUTED EQUITY (continued)

In addition, under the Subscription Agreement, Dyesol also granted to Tasnee the option to subscribe for up to a maximum of \$16 million of shares at \$0.18 per share, provided that this additional subscription for shares was exercised prior to the 15 September 2013.

The period for exercise of the option was subsequently extended to 27 November 2013. On 28 November 2013, Dyesol agreed to Tasnee exercising the option in two separate tranches.

On 13 March 2014, Dyesol issued 55,555,556 shares to Tasnee for \$10 million in respect of the first tranche of the share subscription at \$0.18 per share. Following the issue of the first tranche, Tasnee holds (and has relevant interest) in a total of 80,254,351 Dyesol shares and the voting power of Tasnee and its associates in Dyesol is 26.5%.

Tasnee has the option to subscribe for the second tranche of up to a maximum of \$6 million shares at any time before 28 November 2014. The issue price per share for the second tranche will be the higher of \$0.18 per share and a price representing a 25% discount to the volume weighted average price on ASX of shares for the 30 trading day period ending on the date Tasnee gives Dyesol the notice exercising the Subscription option in respect of the second tranche.

\* Treasury shares are shares in Dyesol Limited that are held by "Dyesol EST Managers Pty Ltd." for the purpose of issuing shares under the Dyesol Limited Performance Rights Plan. During the period, the Company acquired 323,000 of its own shares at a cost of \$111,214 for the purpose of making awards to employees under the Dyesol Limited Performance Right Plan ("Plan") and these shares have been classified within equity as treasury shares. 283,000 shares have been allotted to various employees upon vesting of their performance rights during the period.

### Share Options

The following options to subscribe for ordinary fully paid shares are outstanding as at the end of the reporting period:

	2014 Number	2013 Number
Options exercisable at \$0.70 each on or before 4 August 2014	500,000	500,000
Options exercisable at \$0.925 each on or before 29 April 2015	2,500,000	2,500,000
Options exercisable at \$0.89 each on or before 22 December 2013	-	500,000
Options exercisable at \$1.00 each on or before 30 November 2013	-	2,000,000
Options exercisable at \$1.20 each on or before 27 November 2013	-	1,000,000
	<b>3,000,000</b>	<b>6,500,000</b>

The following movements in the number of options occurred during the year:

Balance at the beginning of the year	6,500,000	9,214,000
Options lapsed during the year	(3,500,000)	(2,714,000)
Balance at the end of the year	<b>3,000,000</b>	<b>6,500,000</b>

No options were issued or exercised during the year.

These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

### Performance Rights

The performance rights issued under the Dyesol Limited Performance Rights Plan for ordinary fully paid shares outstanding as at the end of the reporting period was 2,700,000 (2013: 460,000).

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

	2014 \$	2013 \$
<b>18. RESERVES</b>		
Equity-settled benefit (a)	5,784,868	5,079,859
Foreign currency translation reserve	(273,099)	(553,087)
Equity component on convertible note	798,887	798,887
	<b>6,310,656</b>	<b>5,325,659</b>

## (a) Equity-settled benefit

The equity-settled benefit reserve is used to record the value of options, share rights and shares issued as share-based payments provided to employees, including key management personnel and consultants as part of remuneration.

*Movement in reserve during the year:*

Balance at the beginning of the year	5,079,859	4,982,229
Share rights granted to employees/directors	671,399	97,630
Shares issued to consultant	127,500	-
Issue of Treasury shares	(93,890)	-
	<b>5,784,868</b>	<b>5,079,859</b>

## 19. NON-CONTROLLING INTEREST

*Non-controlling interest in controlled entities comprise:*

Interest in share capital	2,758	2,758
Interest in reserve	(1,838)	(2,087)
Retained earnings	6,236	6,866
<b>Total non-controlling interest</b>	<b>7,156</b>	<b>7,537</b>

## 20. FINANCIAL INSTRUMENTS DISCLOSURE

### Overview

The consolidated entity is exposed to risks that arise from its use of financial instruments. This note describes the consolidated entity's objectives, policies and processes for managing those risks and the methods used to measure them, and the management of capital. Further quantitative information in respect of these risks is presented throughout these financial statements.

The consolidated entity has exposure to the following risks from their use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Risk Committee, which is responsible for developing and monitoring risk management policies. The committee reports regularly to the Board of Directors on its activities. In addition, a Senior Management Committee that comprises management from various disciplines reviews and monitors in detail the risk management framework and reports its findings regularly to the Board.

Risk management policies and procedures are established to identify and analyse the risks faced by the consolidated entity to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the consolidated entity's activities. The consolidated entity, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Risk Committee oversees how management monitors compliance with the consolidated entity's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the consolidated entity.

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 20. FINANCIAL INSTRUMENTS DISCLOSURE (continued)

### (a) Fair value hierarchy

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level of the fair value hierarchy, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company however has no financial instruments by levels 1, 2 or 3 at the end of the financial year reporting period.

### (b) Fair values of other financial assets and financial liabilities

The Group also has a number of financial instruments which are not measured using the fair value hierarchy in the Statement of Financial Position.

	2014 Carrying amount \$	2013 Carrying amount \$
Dyesol holds the following financial instruments:		
<i>Financial assets</i>		
Cash and cash equivalents	5,178,902	5,102,421
Short term deposits	2,200,000	-
Loans and receivables	2,671,403	3,197,159
<b>Total financial assets</b>	<b>10,050,305</b>	<b>8,299,580</b>
<i>Financial liabilities at amortised cost</i>		
Trade and other payables	1,457,291	1,860,781
Borrowings	1,251,113	4,620,456
<b>Total financial liabilities at amortised cost</b>	<b>2,708,404</b>	<b>6,481,237</b>
<b>Total financial liabilities</b>	<b>2,708,404</b>	<b>6,481,237</b>

### Credit risk

Credit risk is the risk of financial loss to the consolidated entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

### Cash and term deposits

The consolidated entity places its cash deposits with high credit quality financial institutions and uses a number of institutions. 96% of cash and term deposits are held with St George Bank in Australia. The remaining cash is held at reputable financial institutions in various geographical locations.

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 20. FINANCIAL INSTRUMENTS DISCLOSURE (continued)

### Trade and other receivables

The credit risk on financial assets of the consolidated entity is the carrying amount of receivables, net of provisions for impairment loss against doubtful debts. The consolidated entity minimises its concentrations of this credit risk by undertaking transactions with customers and counterparties in various countries. As at 30 June 2014, the majority of exposure to trade receivables is in Italy and Republic of Korea.

The consolidated entity has established a credit policy under which each new customer is first encouraged to use on line ordering and credit card payment. If the customer contacts Dyesol requesting other arrangements, the customer is analysed individually for creditworthiness before appropriate payment and delivery terms and conditions are offered. The consolidated entity's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer and approved per authority levels outlined in the credit policy. These limits are reviewed in accordance with the credit policy frequency guidelines. Customers that fail to meet the consolidated entity's benchmark creditworthiness may transact with the consolidated entity only on a prepayment or cash only basis.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, geographic location, industry, aging profile, maturity and existence of previous financial difficulties. Customers that are graded as 'high risk' are placed on a restricted customer list, and future sales are made on a prepayment or cash only basis.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the consolidated entity may have a secured claim. In certain circumstances the consolidated entity requires collateral or bank guarantees in respect of trade and other receivables.

The loan issued previously to Tulloch Management Pty Ltd., a company controlled by Dr Gavin Tulloch and Mrs Sylvia Tulloch, two previous Dyesol Limited directors, is still outstanding at the end of the current year (see Note 28).

The maximum exposure to credit risk at the end of the reporting period is as follows:

	2014 Carrying amount \$	2013 Carrying amount \$
Cash and cash equivalents	5,178,902	5,102,421
Short term deposits	2,200,000	-
Loans and receivables	2,671,403	3,197,159
<b>Total</b>	<b>10,050,305</b>	<b>8,299,580</b>

	2014 \$	2013 \$
The consolidated entity's maximum exposure to credit risk for loans and receivables and cash and cash equivalents at the end of the reporting period by geographic region was:		
<b>Country</b>		
Australia	9,548,616	7,726,551
UK	134,151	78,726
Italy	122,534	120,147
Switzerland	149,201	215,940
Germany	3,206	7,570
USA	24,907	56,422
Japan	11,839	25,727
Republic of Korea	47,353	61,401
Rest of Asia	8,498	7,096
	<b>10,050,305</b>	<b>8,299,580</b>

Included in loans and receivables is the consolidated entity's most significant customer, located in Republic of Korea and owing \$47,353 which accounts for 49% of trade receivables at 30 June 2014.

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 20. FINANCIAL INSTRUMENTS DISCLOSURE (continued)

### Liquidity risk

Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as they fall due. The consolidated entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the consolidated entity's reputation.

Typically the consolidated entity ensures that it has sufficient cash available on demand to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

### Maturity analysis

The following are the Contractual Maturities of Financial Liabilities:

#### Consolidated 2014

	Carrying Amount \$	Contractual Cash Flow \$	6 Months or Less \$	6-12 Months \$	1-2 Years \$	2-3 Years \$
<i>Financial liabilities at amortised cost</i>						
Borrowings	1,251,113	1,251,113	443,272	-	807,841	-
Trade and other payables	1,457,291	1,457,291	1,457,291	-	-	-
<b>Total financial liabilities</b>	<b>2,708,404</b>	<b>2,708,404</b>	<b>1,900,563</b>	<b>-</b>	<b>807,841</b>	<b>-</b>

#### Consolidated 2013

	Carrying Amount \$	Contractual Cash Flow \$	6 Months or Less \$	6-12 Months \$	1-2 Years \$	2-3 Years \$
<i>Financial liabilities at amortised cost</i>						
Borrowings	4,620,456	4,737,555	134,043	3,296,130	443,272	864,110
Trade and other payables	1,860,781	1,860,781	1,860,781	-	-	-
<b>Total financial liabilities</b>	<b>6,481,237</b>	<b>6,598,336</b>	<b>1,994,824</b>	<b>3,296,130</b>	<b>443,272</b>	<b>864,110</b>

### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the consolidated entity's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

### Currency risk

The consolidated entity is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the parent company. The major functional currencies of the group entities are the Australian dollar (AUD), the Euro (EUR), the Pound Sterling (GBP), the Yen (JPY), the US Dollar (USD) and the Swiss Franc (CHF). Primarily the transactions undertaken by the group entities are denominated in their functional currency.

Accounts payable and borrowings, which include amounts payable in foreign currencies, are shown in their Australian dollar equivalents.

In respect of other monetary assets and liabilities denominated in foreign currencies and to provide cash for forecast commitments in other jurisdictions, the consolidated entity ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The consolidated entity does not enter into forward or other contracts to hedge currency risk.

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 20. FINANCIAL INSTRUMENTS DISCLOSURE (continued)

The consolidated entity's exposure to foreign currency risk at the end of the reporting period was as follows:

	2014 \$	2013 \$
<b>GBP Denominated</b>		
<i>Financial assets</i>		
Cash and cash equivalents	214,800	54,648
Loans and receivables	5,210	5,292
<i>Total financial assets</i>	220,010	59,940
<i>Financial liabilities</i>		
Trade and other payables	135,498	175,141
<i>Total financial liabilities</i>	135,498	175,141
<b>Net exposure</b>	<b>84,512</b>	<b>(115,201)</b>
<b>Euro Denominated</b>		
<i>Financial assets</i>		
Cash and cash equivalents	94,163	74,738
Loans and receivables	80,776	62,968
<i>Total financial assets</i>	174,939	137,706
<i>Financial liabilities</i>		
Trade and other payables	160,697	111,304
<i>Total financial liabilities</i>	160,697	111,304
<b>Net exposure</b>	<b>14,242</b>	<b>26,402</b>
<b>CHF Denominated</b>		
<i>Financial assets</i>		
Cash and cash equivalents	165,334	22,576
Loans and receivables	67,902	193,363
<i>Total financial assets</i>	233,236	215,939
<i>Financial liabilities</i>		
Trade and other payables	36,048	131,586
<i>Total financial liabilities</i>	36,048	131,586
<b>Net exposure</b>	<b>197,188</b>	<b>84,353</b>
<b>JPY Denominated</b>		
<i>Financial assets</i>		
Cash and cash equivalents	102	22,583
<i>Total financial assets</i>	102	22,583
<i>Financial liabilities</i>		
Trade and other payables	135,441	86,603
<i>Total financial liabilities</i>	135,441	86,603
<b>Net exposure</b>	<b>(135,339)</b>	<b>(64,020)</b>

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

	2014 \$	2013 \$
<b>20. FINANCIAL INSTRUMENTS DISCLOSURE (continued)</b>		
<b>USD Denominated</b>		
<i>Financial assets</i>		
Cash and cash equivalents	116,255	56,617
Loans and receivables	420	2,903
<i>Total financial assets</i>	116,675	59,520
<i>Financial liabilities</i>		
Trade and other payables	-	6,954
<i>Total financial liabilities</i>	-	6,954
<b>Net exposure</b>	<b>116,675</b>	<b>52,566</b>

## Sensitivity analysis

A 10% strengthening or weakening of the Australian Dollar against other foreign currencies at 30 June 2014 would have increased/ (decreased) profit and equity by the amounts below. Analysis assumes that all other variables, in particular interest rates, remain constant.

Judgements of reasonably possible movements:

	<b>Post Tax Profits and Equity Higher/(Lower)</b>	
	2014 \$	2013 \$
<b>GBP Denominated</b>		
+10% (AUD/GBP)	(8,451)	11,520
-10% (AUD/GBP)	8,451	(11,520)
<b>Euro Denominated</b>		
+10% (AUD/EUR)	(1,424)	(2,640)
-10% (AUD/EUR)	1,424	2,640
<b>CHF Denominated</b>		
+10% (AUD/CHF)	(19,719)	(8,435)
-10% (AUD/CHF)	19,719	8,435
<b>JPY Denominated</b>		
+10% (AUD/JPY)	13,534	6,402
-10% (AUD/JPY)	(13,534)	(6,402)
<b>USD Denominated</b>		
+10% (AUD/USD)	(11,668)	(5,257)
-10% (AUD/USD)	11,668	5,257



# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 20. FINANCIAL INSTRUMENTS DISCLOSURE (continued)

### Interest rate risk

The consolidated entity's exposure to market interest rates relates primarily to the investments of cash balances. The consolidated entity has cash reserves held primarily in AUD, GBP, JPY, EUR, CHF and USD and places funds on deposit with financial institutions for periods generally not exceeding three months.

At the end of the reporting period the consolidated entity's exposure to interest rate risk is as follows:

	2014 \$	2013 \$
Cash at bank and on hand	5,178,902	5,102,421
Short term deposits	2,200,000	-
	7,378,902	5,102,421

### Sensitivity analysis

At 30 June 2014, if interest rates applicable to cash at bank denominated in AUD, GBP, EUR, JPY and CHF had moved as illustrated in the table below, with all other variables held constant, post tax profit would have been affected as follows:

Judgements of reasonably possible movements:

	Post Tax Profits Higher/(Lower)	
	2014 \$	2013 \$
+1% (100 basis points)	73,789	51,024
-1% (100 basis points)	(73,789)	(51,024)

At the reporting date the interest rate profile of the Company is as follows:

Consolidated 2014	Fixed Rate \$	Floating Rate \$	Non-interest Bearing \$	Total \$
<b>Financial assets</b>				
Cash and cash equivalents	3,700,000	1,478,902	-	5,178,902
Short term deposits	2,200,000	-	-	2,200,000
Loans and receivables	-	-	2,671,403	2,671,403
	<b>5,900,000</b>	<b>1,478,902</b>	<b>2,671,403</b>	<b>10,050,305</b>
<b>Financial liabilities at amortised cost</b>				
Trade and other payables	-	-	1,457,291	1,457,291
Borrowings	1,251,113	-	-	1,251,113
	<b>1,251,113</b>	<b>-</b>	<b>1,457,291</b>	<b>2,708,404</b>
<b>Consolidated 2013</b>				
	Fixed Rate \$	Floating Rate \$	Non-interest Bearing \$	Total \$
<b>Financial assets</b>				
Cash and cash equivalents	4,000,000	1,102,421	-	5,102,421
Loans and receivables	-	-	3,197,159	3,197,159
	<b>4,000,000</b>	<b>1,102,421</b>	<b>3,197,159</b>	<b>8,299,580</b>
<b>Financial liabilities at amortised cost</b>				
Trade and other payables	-	-	1,860,781	1,860,781
Borrowings	1,324,326	-	3,296,130	4,620,456
	<b>1,324,326</b>	<b>-</b>	<b>5,156,911</b>	<b>6,481,237</b>

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 20. FINANCIAL INSTRUMENTS DISCLOSURE (continued)

### Capital risk management

The Group considers its capital to comprise of its ordinary share capital less accumulated losses.

The consolidated entity's objectives for managing capital are to ensure its ability to operate as a going concern. The Group policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to ensure the future development of the Company.

In order to achieve this objective, the Group assesses each relevant transaction to ensure risks and returns are at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims the Group considers not only its short-term position but also its long-term operational and strategic objectives.

The Group regularly reviews its capital requirements and determines whether or not to increase or decrease its borrowings.

There have been no other significant changes to the Group's capital management objectives, policies and processes in the year nor has there been any change in what the Group considers to be its capital.

During the period the Group complied with all externally imposed capital requirements and covenants to which it is subject.

The Gearing Ratio as at 30 June 2014 is:

	2014 \$	2013 \$
<b>Gearing ratio</b>		
Net debt	1,251,113	4,620,456
Total equity	13,234,171	10,723,808
<i>Gearing ratio</i>	<b>9.45%</b>	<b>43.09%</b>

### Fair values

The Directors consider that the carrying amount of cash and cash equivalents, trade and other receivables, trade and other payables and borrowings recorded in the financial statements approximates their fair values.

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 21. SEGMENT REPORTING

### Description of segments

Operating segments have been determined on the basis of reports reviewed by the executive management committee. The executive management committee ("committee") is considered to be the chief operating decision maker of the Group. The committee considers the business from both a product and geographic perspective and assesses performance and allocates resources on this basis. The reportable segments are as follows:

#### 1. Glass and Equipment

The Glass and Equipment business unit's goals are to develop the glass-based DSC market, to support current and generate future sales of Dyesol manufactured materials and equipments. The business unit has three activities which it supports on a global basis: Partner and Customer Business Development, Glass Application Development, and Equipment Engineering. Revenues are derived from partner and customer funded development activities in relation to products and equipments, grants, and from sales and service of equipment sets.

#### 2. Metal Strip

The Metal Strip business unit was established to facilitate the development of DSC on coil steel, with a revenue model to earn income from technology development contracts and grants and ultimately through royalties from licensed manufacture of the products. This model has been impacted by two significant events:

- The prioritisation of solid state DSC in the commercialisation strategy of Dyesol and the accelerated phasing out of liquid DSC activity
- In the absence of any formal commitment to further the progress the metal strip DSC PV project it is not possible at this time to develop a robust commercialisation strategy.

For further commentaries see Note 1(y) *key estimates – impairment of non-current assets*.

#### 3. R&D Materials and Products

Within Dyesol, the R&D Materials business unit undertakes core solid state DSC material technology research and development of a generic nature which is applicable to a wide range of ultimate DSC device product forms, as well as materials scale-up and manufacture for sale to internal business units, partners, and 3rd parties. A determining factor in maintaining the core DSC material R&D activity distinct from the various partner focussed business units is the preservation of Dyesol exclusivity and control of generated intellectual property (IP). Revenues are derived from sales of materials to external customers, grants, and technology development/service agreement provisions. The business unit also undertakes R&D into novel DSC device designs and multi-function products.

Segment accounting policies are the same as the Group's policies described in Note 1.

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# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 21. SEGMENT REPORTING (continued)

### Information provided to the executive management committee

Segment information provided to the executive management committee for the year ended 30 June 2014 is as follows:

	Glass & Equipment		Metal Strip		R&D Materials		Total	
	2014 \$	2013 \$	2014 \$	2013 \$	2014 \$	2013 \$	2014 \$	2013 \$
Total segment revenue	74,290	153,321	-	-	690,253	774,884	764,543	928,205
Inter-segment revenue	(16,545)	(24,789)	-	-	(82,492)	(59,536)	(99,037)	(84,325)
Segment revenue from external customers	57,745	128,532	-	-	607,761	715,348	665,506	843,880
<b>Net loss</b>	<b>(356,796)</b>	<b>(874,062)</b>	<b>(1,082,821)</b>	<b>(141,229)</b>	<b>(2,802,055)</b>	<b>(1,752,988)</b>	<b>(4,241,672)</b>	<b>(2,768,279)</b>
The executive management committee monitors segment performance based on net loss before income tax								
<b>Other Segment information</b>								
Non-cash expenses other than depreciation and amortisation	10,315	23,182	116,044	-	282,631	26,429	408,990	49,611
Share of losses of associate/ joint ventures included in net loss#	(65,398)	(49,749)	-	-	(53,882)	(40,512)	(119,280)	(90,261)

#total segment net loss of associate/ joint ventures is different to the Group share of losses of associate/ joint ventures due to the unallocated corporate and other business units income and expenses.

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

21. SEGMENT REPORTING (continued)	2014 \$	2013 \$
<b>Other segment information</b>		
<b>Segment revenue</b>		
Product segment revenue reconciles to total revenue from sales of goods and services:		
Total segment revenue	764,543	928,205
Inter segment revenue	(99,037)	(84,325)
<i>Other segment revenue</i>		
Licence fee	23,864	18,220
Technical services	20,084	91,338
<b>Total revenue from sale of goods and services (Note 2)</b>	<b>709,454</b>	<b>953,438</b>
The provision of technical services unit does not meet the quantitative thresholds required by AASB 8 for reportable segments. Information about these operating segments has been combined and disclosed as the Other segment.		
<b>Net loss</b>		
Net loss reconciles to loss before income tax as follows:		
<b>Total segment net loss</b>	<b>(4,241,672)</b>	<b>(2,768,279)</b>
Inter segment eliminations *	(498,432)	(733,101)
	(4,740,104)	(3,501,380)
<i>Unallocated corporate and other business units income and expenses</i>		
Impairment of goodwill	-	(298,297)
Impairment of product development cost	(3,510,920)	(2,251,239)
Depreciation and amortisation	(799,795)	(1,165,991)
Employment cost	(1,655,067)	(1,729,108)
Share based payment	(389,908)	(48,019)
Marketing expenses	(350,174)	(216,220)
Foreign currency losses	(36,976)	(20,011)
Unrealised foreign exchange gain/ (losses)	49,640	(66,690)
Interest paid	(764,719)	(355,494)
Interest income	193,777	89,907
Intellectual property expenses	(140,670)	(249,201)
Professional fees	(512,307)	(535,358)
Legal fees	(493,707)	(219,556)
Board, secretarial & other expenses	(931,368)	(798,292)
Provision for slow moving & obsolete inventory	(440,751)	(354,829)
Provision for doubtful debts / write-off	(26,160)	(26,088)
Share of losses of associate/ joint ventures	(59,165)	(193,533)
Other	(433,100)	(389,920)
<b>Total unallocated corporate and other business units income and expenses</b>	<b>(10,301,370)</b>	<b>(8,827,939)</b>
<b>Loss before income tax from continuing operations</b>	<b>(15,041,474)</b>	<b>(12,329,319)</b>

\* Included within inter-segment eliminations is an impairment loss of \$7,765,944 (2013: \$4,623,403) in relation to intercompany receivables in subsidiaries.

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 21. SEGMENT REPORTING (continued)

### Segment assets

Segment assets are not required to be disclosed if they are not provided to the chief operating decision maker.

### Segment liabilities

Segment liabilities are not required to be disclosed if they are not provided to the chief operating decision maker.

### Geographical information

The Group operates in four major geographical segments, being Australia, Asia, Europe (including Switzerland, Italy, Germany and the UK) and North America, being where the customers are based. All of these entities are involved in the industrialisation and commercialisation of solid state (DSC) technology.

Segment information provided to the executive management committee for the year ended 30 June 2014 is as follows:

	Australia		Asia		Europe		North America		Total	
	2014 \$	2013 \$	2014 \$	2013 \$	2014 \$	2013 \$	2014 \$	2013 \$	2014 \$	2013 \$
Total segment revenue	39,568	76,535	283,736	534,988	717,532	551,798	114,724	172,580	1,155,560	1,335,901
Inter-segment revenue	(5,425)	-	-	-	(440,681)	(367,330)	-	(15,133)	(446,106)	(382,463)
<b>Segment revenue from external customers</b>	<b>34,143</b>	<b>76,535</b>	<b>283,736</b>	<b>534,988</b>	<b>276,851</b>	<b>184,468</b>	<b>114,724</b>	<b>157,447</b>	<b>709,454</b>	<b>953,438</b>

### Segment revenue

Geographical segment revenue from external customers is measured in accordance with the accounting policies in Note 1. The segment revenue reconciles directly to total revenue from continuing operations and therefore no reconciliation is required.

### Major customers

The Group had made supplies to one of its major customers in the Asia region which account for 12% of external revenue (2013: 16%). The next most significant client, in the Europe region, accounts for 9% of external revenue (2013: 13%).

### Segment assets

The total of non-current assets other than financial instruments and deferred tax assets (there are no employment benefit assets and rights arising under insurance contracts) located in Australia is \$5,555,973 (2013: \$6,031,425) and the total of non-current assets located in other countries is \$111,195 (2013: \$3,209,108). Of the total of non-current assets located in other countries, \$86,753 (2013: \$3,203,216) or 2% (2013: 35%) is represented by United Kingdom.

Segment assets are allocated to countries based on where the assets are located.

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

	2014 \$	2013 \$
<b>22. NOTES TO THE STATEMENT OF CASH FLOWS</b>		
<b>(a) Reconciliation of cash</b>		
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:		
Cash and cash equivalents	5,178,902	5,102,421
<b>(b) Reconciliation of net cash flows from operating activities to loss after income tax</b>		
Loss after income tax	(12,578,057)	(9,396,196)
<i>Add non-cash items</i>		
Depreciation	526,508	897,179
Amortisation	273,287	268,812
Impairment of intangible assets	3,510,920	2,251,239
Share of losses of associate/ joint ventures	178,445	283,794
Goodwill impairment	-	298,297
Equity settled share-based payment expenses	798,899	97,630
Unrealised exchange (gain)/ loss	(49,640)	66,690
Loss on sale of property, plant & equipment	-	8,467
Interest on convertible notes	703,870	175,017
<b>Operating loss before changes in assets and liabilities</b>	<b>(6,635,768)</b>	<b>(5,049,071)</b>
<i>Changes in assets and liabilities during the year:</i>		
Decrease in trade and other receivables	168,598	328,450
Increase in other current assets	(324,354)	(62,844)
Decrease in inventories	288,719	428,516
(Decrease)/ increase in trade and other payables	(615,271)	387,658
Increase/(decrease) in provisions	104,072	(20,662)
Decrease in deferred tax liability	(73,869)	(73,869)
<b>Net cash used in operating activities</b>	<b>(7,087,873)</b>	<b>(4,061,822)</b>

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# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

	2014 \$	2013 \$
<b>23. CAPITAL AND OTHER COMMITMENTS</b>		
<b>(a) Operating lease commitments</b>		
Property rent and lease commitment related to office premises in Australia, Switzerland, United Kingdom, Italy, and United States of America:		
Not later than one year	483,987	275,021
Later than one year but not later than five years	583,962	-
	<b>1,067,949</b>	<b>275,021</b>

The consolidated entity enters into operating leases in relation to the lease of buildings. Leases generally provide the consolidated entity with right of renewal at which time all terms are renegotiated. Some of the leases are due to expire during the next financial year and the Group is presently evaluating the options for favourable renewal terms that will meet the Company's requirements. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rent is based on the relevant index or operating criteria.

<b>(b) Capital commitments</b>		
Payable not later than one year	58,530	6,720
	<b>58,530</b>	<b>6,720</b>

## 24. SHARE-BASED PAYMENTS

The total expense recognised in the profit or loss in relation to share-based payments is as follows:

Share rights granted under the performance rights plan	593,399	47,409
Shares granted to employees	78,000	50,221
Shares granted to consultant	127,500	-
	<b>798,899</b>	<b>97,630</b>

### Employee share option plan

#### Dyesol Limited Employee Option Scheme

The Company operates an incentive scheme known as the Dyesol Limited Employee Option Scheme ("Scheme"), which was approved at a shareholders' meeting held on 2 November 2007.

The maximum number of options that can be granted under the Scheme is determined by the Board in its discretion and in accordance with the Scheme and applicable law. There is no issue price for any options granted under the Scheme.

Each option is convertible to one ordinary share. The exercise price of the options is determined by the Board on such terms as the Board considers appropriate on or before the date of issue, subject to any minimum price specified in the Listing Rules of the ASX. The expiry date of the options will be as determined by the Board, being a date up to 5 years from the issue date of the options. Shares issued on exercise of options will rank equally with other shares.

An option may only be exercised after that option has vested and any other conditions of exercise imposed by the Board are satisfied. The Board has the discretion to determine any vesting conditions that may apply. The Board may also determine other vesting conditions. Options will generally not be forfeited if an employee leaves the Company. There are no voting or dividend rights attaching to the options.

Set out below are summaries of options granted under the Scheme:

#### Employee share options

##### 2014

Grant Date	Expiry date	Exercise price	Balance at start of the year No.	Granted during the year No.	Exercised during the year No.	Forfeited during the year No.	Balance at end of the year No.	Exercisable at end of the year No.
4 August 2011	4 August 2014	\$0.70	500,000	-	-	-	500,000	500,000



# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 24. SHARE-BASED PAYMENTS (continued)

2013

Grant Date	Expiry date	Exercise price	Balance at start of the year No.	Granted during the year No.	Exercised during the year No.	Forfeited during the year No.	Balance at end of the year No.	Exercisable at end of the year No.
23 Dec 2010	22 Dec 2013	\$0.89	500,000	-	-	-	500,000	500,000
4 Aug 2011	4 Aug 2014	\$0.70	500,000	-	-	-	500,000	500,000

### Fair value of options granted

For equity-settled share-based payment transactions, the Company is required to measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods or services received, it is required to measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

The fair value of options granted previously to Mr M Thomas was calculated at the dates of grant using a Black-Scholes valuation model and charged entirely to the reporting periods in which they were issued as the options vested immediately. In valuing the options, market conditions have been taken into account. The following table gives the assumptions made in determining the fair value of these options on grant date:

### Fair value per option

Description	Mr M Thomas
Grant date	04 August 2011
Number of options	500,000
Expiry date	04 August 2014
Exercise price	\$0.70
Price of shares on grant date	\$0.47
Estimated volatility	39.2%
Risk-free interest rate	5.01%
Dividend yield	0%

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

### Director Share Options

No options were granted to directors during the year.

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options for the directors during the year:

	2014		2013	
	Number	WAEP	Number	WAEP
Outstanding at the beginning of the year	3,000,000	\$1.07	5,000,000	\$1.08
Forfeited / expired	(3,000,000)	\$1.07	(2,000,000)	\$1.10
<b>Outstanding at the end of year</b>	<b>-</b>	<b>-</b>	<b>3,000,000</b>	<b>\$1.07</b>
Exercisable at the end of year	-	-	3,000,000	\$1.07

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 24. SHARE-BASED PAYMENTS (continued)

### Consultant share options, shares and share based payments

500,000 shares were granted to a consultant during the year for investor relations services provided to the Company.

### SpringTree Special Opportunities Fund, LP Share Purchase and Convertible Security Agreement share options

2,500,000 options were granted previously pursuant to the Share Purchase and Convertible Security Agreements between Dyesol Limited and SpringTree Special Opportunities Fund, LP.

### Dyesol Limited Performance Rights Plan

The Company operates an incentive scheme known as the Dyesol Limited Employee Performance Rights Plan ("Plan"), which was approved at a shareholders' meeting held on 21 November 2011. The Plan replaced the Dyesol Limited Employee Option Scheme ("Scheme") as the Company no longer makes new grants under the Scheme. However, the rights, entitlements and obligations of existing participants in the Scheme will continue on the same basis as before the introduction of the Plan.

The number of Performance Rights which may be granted under the Plan must not exceed (assuming all outstanding Performance Rights were exercised), when aggregated with any shares issued during the previous 5 years pursuant to any other employee share scheme operated by the Company, a maximum of five per cent (5%) of the total issued capital of the Company at the time of the grant of the Performance Rights, excluding unregulated offers.

Each Performance Right has an entitlement to acquire a share in the Company at no cost. Shares issued on exercise of Performance Rights will rank equally with other shares.

Performance Rights will only vest and be automatically exercised if the applicable vesting conditions under the Plan have been satisfied or waived by the Board. All unvested Performance Rights will automatically lapse, unless the Board determines in its sole and absolute discretion to allow some or all of those Performance Rights to vest, in which case those Performance Rights will automatically exercise. There are no voting or dividend rights attaching to the Performance Rights.

The following illustrates the number of, and movements in, performance rights issued to employees and directors under the Dyesol Performance Rights Plan during the year:

	2014 Number	2013 Number
<b>Performance rights</b>		
Performance rights exercisable	2,700,000	460,000
<i>The following movements in the number of performance rights occurred during the financial period:</i>		
Balance at the beginning of the year	460,000	200,000
Issue of performance rights to employees and directors for nil consideration	3,933,000	300,000
Performance rights lapsed +	(735,000)	(40,000)
Performance rights issued *	(958,000)	-
Balance at the end of the year	<b>2,700,000</b>	<b>460,000</b>

During the year the company granted the following performance rights in relation to the Dyesol Performance Rights Plan:

- 3,375,000 to employees
- 525,000 to a director

All performance rights were granted for nil consideration over unissued ordinary shares.

The vesting conditions applicable to a total of 3,375,000 performance rights issued to employees are as follows:

- 675,000 performance rights vesting on or before 29 November 2013
- 1,012,500 performance rights vesting on or before 29 November 2014
- 1,687,500 performance rights vesting on or before 29 November 2015

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 24. SHARE-BASED PAYMENTS (continued)

The performance conditions applicable to the 3,375,000 performance rights issued to employees are as follows:

- General employees and managers – performance rights will vest based on Dyesol's Total Shareholder Return (TSR) outperforming the ASX Small Ordinaries Index in the financial year prior.
- Executives – For each tranche, 50% of the total will vest based on Dyesol's Total Shareholder Return (TSR) outperforming the ASX Small Ordinaries Index in the financial year prior. For each tranche, 50% of the total will vest if the personal KPIs as assessed by the Board and Managing Director are met.
- There must be uninterrupted employment from the date of issue of the performance rights until the vesting date.

In addition to the above, 33,000 performance rights were granted to an employee with an immediate vesting period on the 1 July 2013.

+ The following rights lapsed during the year:

- 525,000 performance rights granted to the director were relinquished on the director's own accord during the year before the vesting expiry date.
- 210,000 of performance rights granted in previous financial periods.

\* The following performance rights were issued in the year:

- 675,000 performance rights issued to employees
- 250,000 performance rights in respect of rights granted in previous financial periods – settled with treasury shares
- 33,000 performance rights were granted to an employee with an immediate vesting period on the 1 July 2013 – settled with treasury shares

## 25. SUBSIDIARIES

The consolidated financial statements include the financial statements of Dyesol Limited and the subsidiaries listed in the following table. All shares held are ordinary shares.

Name	Holding Company	Country of incorporation	Equity interest %		Investment \$	
			2014	2013	2014	2013
Dyesol Industries Pty Ltd	Dyesol Limited	Australia	100	100	6,980,572	6,980,572
Greatcell Solar SA	Dyesol Industries Pty Ltd	Switzerland	99	99	482,660	482,660
Dyesol East Asia Pte Ltd*	Dyesol Industries Pty Ltd	Singapore	-	100	-	7,676
Dyesol UK Ltd	Dyesol Industries Pty Ltd	United Kingdom	100	100	24,895	24,895
Dyesol Italia S.r.L.	Dyesol Industries Pty Ltd	Italy	100	100	274,865	274,865
Dyesol Australia Pty Ltd	Dyesol Industries Pty Ltd	Australia	100	100	100	100
Dyesol Inc.	Dyesol Industries Pty Ltd	United States of America	100	100	6,402	6,402
Dyesol Japan Co. Ltd*	Dyesol Industries Pty Ltd	Japan	-	100	-	115,002
Dyesol Automotive Bavaria	Dyesol Industries Pty Ltd	Germany	100	100	44,061	44,061
					<b>7,813,555</b>	<b>7,936,233</b>

\*Dyesol Japan Co. Ltd and Dyesol East Asia Pte Ltd ceased operations during the year.

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 26. DISCONTINUED OPERATIONS – DYESOL JAPAN CO. LTD, DYESOL EAST ASIA PTE LTD AND DYETEC SOLAR INC.

The Company has completed the liquidation process for the closing of its subsidiary companies, Dyesol Japan Co. Ltd and Dyesol East Asia Pte Ltd, and its joint venture interest in DyeTec Solar Inc. As the entities were not considered as separate major line of businesses or geographical areas of operation, the presentation and disclosure of the results of both of the discontinued operations are not required under AASB 5 *Non-Current Assets Held for Sale and Discontinued Operations*.

## 27. OTHER RELATED PARTY TRANSACTIONS

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

One of these entities transacted with the consolidated entity during the financial year. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

The aggregate amounts recognised during the year relating to key management personnel and their related parties were as follows:

Key Management Person	Transaction	Note	2014 \$	2013 \$
Mr M Thomas	Administration and accounting services (The Tech Group)	(i)	62,101	64,250

(i) The Tech Group, a company associated with Mr Marc Thomas provided administrative and accounting services to the consolidated entity under independent contractual arrangements. Terms of such services are based on market rates and payable under normal payment terms.

## 28. LOAN TO TULLOCH MANAGEMENT PTY LTD

A court hearing took place during the year for the recovery of the loan of \$300,000 plus interest and a substantial portion of related legal expenses incurred. The outstanding loan was issued previously to Tulloch Management Pty Ltd ("TMPL"), a company controlled by Dr. G Tulloch and Mrs. Sylvia Tulloch, former directors of Dyesol Limited.

On the 24 September 2014, Dyesol Limited were notified that their claim for the recovery of the TMPL loan was unsuccessful. The Directors are assessing their next steps. The outcome of the judgement has no financial impact on the financial statements of Dyesol Limited at 30 June 2014.

## 29. CONTINGENT LIABILITIES

- The Company as reported in last financial year, has received a claim from Dr. Gavin Tulloch alleging wrongful termination of his role as Director of Technology and seeking payment of a significant unsubstantiated amount. In the opinion of Directors this claim is without basis and will defend the matter. The matter has not proceeded to a legal determination at this time.
- Dyesol as reported in previous financial periods, is the subject of an unquantified defamation claim. Dyesol considers the claim as spurious and will defend it. The matter has not proceeded to a legal determination at this time.
- In July 2014, Dyesol attended a hearing in Tokyo for the arbitration between NIMS and Dyesol. NIMS is claiming a dispute contract amount estimated at \$364,704 together with interest thereon at the rate of 6% per annum from the date of receipt by Dyesol the request of arbitration until such amount has been fully paid, and Dyesol has refuted with a counter-claim against NIMS of an estimated \$461,539 together with interest at the rate of 6% per annum from the date of payment from Dyesol to NIMS. Final written legal arguments are being prepared for submission to the Arbitration Tribunal. Dyesol has vigorously defended the action to achieve the best possible outcome for Dyesol. A decision by the Tribunal is expected before the end of this calendar year.

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

## 30. PARENT ENTITY INFORMATION

The following details information related to the parent entity, Dyesol Limited, at 30 June 2014. The information presented here has been prepared using consistent accounting policies as presented in Note 1.

	2014 \$	2013 \$
<b>Assets</b>		
Current assets	9,652,284	7,915,544
Non-current assets	3,942,424	4,242,462
<b>Total Assets</b>	<b>13,594,708</b>	<b>12,158,006</b>
<b>Liabilities</b>		
Current liabilities	1,499,656	4,887,142
Non-current liabilities	21,673	6,392
<b>Total Liabilities</b>	<b>1,521,329</b>	<b>4,893,534</b>
<b>Net Assets</b>	<b>12,073,379</b>	<b>7,264,472</b>
<b>EQUITY</b>		
Issued capital	94,183,005	80,079,831
Reserves – equity-settled benefit	6,583,753	5,878,745
Accumulated losses	(88,693,379)	(78,694,104)
<b>Total Equity</b>	<b>12,073,379</b>	<b>7,264,472</b>
Loss for the year	(9,999,275)	(8,353,805)
<b>Total comprehensive income for the year</b>	<b>(9,999,275)</b>	<b>(8,353,805)</b>

### Contingent liabilities

- The Company as reported in last financial year, has received a claim from Dr. Gavin Tulloch alleging wrongful termination of his role as Director of Technology and seeking payment of a significant unsubstantiated amount. In the opinion of Directors this claim is without basis and will defend the matter. The matter has not proceeded to a legal determination at this time.
- Dyesol as reported in previous financial periods, is the subject of an unquantified defamation claim. Dyesol considers the claim as spurious and will defend it. The matter has not proceeded to a legal determination at this time.
- In July 2014, Dyesol attended a hearing in Tokyo for the arbitration between NIMS and Dyesol. NIMS is claiming a dispute contract amount estimated at \$364,704 together with interest thereon at the rate of 6% per annum from the date of receipt by Dyesol the request of arbitration until such amount has been fully paid, and Dyesol has refuted with a counter-claim against NIMS of an estimated \$461,539 together with interest at the rate of 6% per annum from the date of payment from Dyesol to NIMS. Final written legal arguments are being prepared for submission to the Arbitration Tribunal. Dyesol has vigorously defended the action to achieve the best possible outcome for Dyesol. A decision by the Tribunal is expected before the end of this calendar year.

### Capital commitments

There are no material capital commitments related to the parent entity at the end of the reporting period.

# Notes to the Consolidated Financial Statements

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

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## 31. EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

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1. On 2 September 2014, Dyesol has executed an agreement to acquire the 49.9% minority interest in Dyesol-Timo Co. Ltd held by Neoarena (formerly Timo Technology Co. Ltd). This will enable Dyesol to consolidate its position in Korea, building on the existing engineering expertise in prototype, demonstration and pilot line activities to create a processing engineering centre. On 10 September 2014, 500,000 Dyesol shares were issued to Neoarena as consideration for the transaction - 250,000 shares will be escrowed for 6 months and 250,000 for 12 months. The new corporate structure continues to provide ongoing access to Korean Government financial assistance programs.
2. During August 2014, the Company has submitted the relevant application to AusIndustry for the approval for the registration of the research and development (R&D) activities of the Company for the accounting period from 1 July 2013 to 30 June 2014, and in the 2014 tax year the Company has determined it incurred qualifying research and development expenditure (i.e. notional R&D deductions) of approximately \$5.5 million, of which 45% is refundable. The Company lodged its income tax return with the relevant Australian Taxation Office R&D Tax Incentive Schedule in September 2014. On 24 September 2014, the Company has received \$2,476,193 in relation to the R&D Tax Incentive for the financial year ending 30 June 2014.
3. 500,000 options previously issued to Mr. M. Thomas (Dyesol Inc.) with an exercise price of \$0.70 per share have expired, and were not exercised by the employee on 4 August 2014.
4. During August 2014, Richard Caldwell purchased on the market 400,000 Dyesol shares at \$0.2093 per share and 910,000 Dyesol shares at 0.2084 per share.
5. On the 24 September 2014 Dyesol Limited were notified that their claim for the recovery of the Tulloch Management Pty Ltd loan was unsuccessful. The directors are assessing their next steps. The outcome of the judgement has no financial impact on the financial statements of Dyesol Limited at 30 June 2014. Refer to Note 28 for additional information.

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# Directors' Declaration

DYESOL LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 JUNE 2014

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The Directors of the Company declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity, and accompanying notes, are in accordance with the Corporations Act 2001 and:
  - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
  - (b) give a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date.
2. The Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
3. In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
4. The remuneration disclosures included in paragraphs or pages 15 to 27 of the Directors' Report (as part of the audited Remuneration Report), for the year ended 30 June 2014, comply with section 300A of the Corporations Act 2001.
5. The Directors have been given the declarations by the Non-executive Chairman and chief financial officer required by section 295A.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:



Ian Neal, Chairman

Dated this 26<sup>th</sup> day of September 2014

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**Auditor's Independence Declaration  
To the Directors of Dyesol Limited**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Dyesol Limited for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.



GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants



L J Corder  
Partner - Audit & Assurance

Sydney, 26 September 2014

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## **Independent Auditor's Report To the Members of Dyesol Limited**

### **Report on the financial report**

We have audited the accompanying financial report of Dyesol Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

### **Directors' responsibility for the financial report**

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

### **Auditor's responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Independence**

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

#### **Auditor's opinion**

In our opinion:

- a the financial report of Dyesol Limited is in accordance with the Corporations Act 2001, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

#### **Emphasis of Matter: Significant uncertainty regarding Continuation as a Going Concern**

Without qualifying our opinion expressed above, we draw attention to Note 1 to the financial report which sets out the basis on which the Directors have determined that the consolidated entity is a going concern.

The consolidated entity incurred a net loss after income tax of \$12,578,057 and an operating net cash outflow of \$7,087,873 during the year ended 30 June 2014. Cash and cash equivalents amount to \$5,178,902 with an additional \$2,200,000 in term deposits at 30 June 2014.

In Note 1, it is stated that the consolidated entity requires additional cash from the receipt of a research and development tax incentive and the raising of additional capital from investors in order to continue as a going concern.

These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the Company's and the consolidated entity's ability to continue as a going concern and therefore, the Company and the consolidated entity may be unable to realise their assets and discharge their liabilities in the normal course of business, and at the amounts stated in the financial report.

#### **Report on the remuneration report**

We have audited the remuneration report included in pages 15 to 27 of the directors' report for the year ended 30 June 2014. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

#### **Auditor's opinion on the remuneration report**

In our opinion, the remuneration report of Dyesol Limited for the year ended 30 June 2014, complies with section 300A of the Corporations Act 2001.



GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants



L.J. Corder  
Partner - Audit & Assurance

Sydney, 26 September 2014

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## Additional Shareholder Information

### Top holders

The 20 largest registered holders of each class of quoted equity security as at 22 September 2014 were:

#### Fully paid ordinary shares

Name	No. of Shares	%
1. J P Morgan Nominees Australia Limited	88,148,436	29.01
2. National Industrialization Company	80,254,351	26.41
3. Richard Alexander Caldwell	4,960,000	1.63
4. HSBC Custody Nominees (Australia) Limited - A/C 2	3,268,821	1.08
5. Thomas Hans Offermann <The Offermann Family A/C>	3,000,000	0.99
6. Gordon Thompson + Jeanette Thompson <Thompson Family S/F A/C>	1,750,308	0.58
7. HSBC Custody Nominees (Australia) Limited	1,737,081	0.57
8. Gwynvill Trading Pty Limited	1,641,538	0.54
9. Mark John Conway	1,599,928	0.53
10. Citicorp Nominees Pty Limited	1,279,943	0.42
11. Yong International Investments Pty Ltd <Yong S/F A/C>	1,016,043	0.33
12. National Nominees Limited <Db A/C>	994,242	0.33
13. Brazil Farming Pty Ltd	960,000	0.32
14. National Nominees Limited	934,180	0.31
15. Richard Alexander Caldwell <Frith Super Fund A/C>	930,000	0.31
16. GTST Holdings Pty Ltd <Tulloch Family A/C>	926,358	0.30
17. Fitplanet Investments Pty Ltd <The Fitplanet A/C>	912,009	0.30
18. Real Socks Pty Ltd	820,000	0.27
19. Technovate Management & Consultants P/L <Schlipalius Family S/F A/C>	800,000	0.26
20. Paul Frederick Bennett	790,461	0.26
	196,723,699	64.74

### Distribution schedules

A distribution schedule of each class of equity security as at 22 September 2014:

#### Ordinary fully paid shares

Range	Holders	Units	%
1 - 1,000	799	359,477	0.12
1,001 - 5,000	1,360	3,869,322	1.27
5,001 - 10,000	727	5,716,945	1.88
10,001 - 100,000	1,765	55,508,216	18.27
100,001 - Over	219	238,412,483	78.46
Total	4,870	303,866,443	100.00

### Options

The Company has the following unlisted options on issue as at 22 September 2014:

Expiry Date	Exercise Price	Number of Options	Number of Holders
29 April 2015	\$0.925	2,500,000	1

## Additional Shareholder Information

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### Substantial shareholders

The names of substantial shareholders in Dyesol Limited as at 22 September 2014 and the number of shares in which each substantial shareholder and their associates have a relevant interest are set out below:

Substantial shareholder	Number of Shares
National Industrialization Company "TASNEE"	80,254,351

### Restricted Securities or Securities Subject to Voluntary Escrow

As at 22 September 2014, the Company had no restricted securities on issue.

As at 22 September 2014, the following securities were subject to voluntary escrow:

- 250,000 shares – escrowed until 10 March 2015; and
- 250,000 shares – escrowed until 10 September 2015.

### Unmarketable parcels

Holdings less than a marketable parcel of ordinary shares (being 1,887 shares as at 22 September 2014):

Holders	Units
1,162	869,576

### Voting Rights

The voting rights attaching to ordinary shares are:

On a show of hands, every member present in person or by proxy shall have one vote, and upon a poll, each share shall have one vote.

Options do not carry any voting rights.

### On-Market Buy Back

There is no current on-market buy-back.