

ASX Announcement :

Managing Director, Andrew McLellan on Labcon's purported termination of chip supply agreement and Bluechiip's market opportunities



Bluechiip Limited
1 Dalmore Drive
Caribbean Business Park
Scoresby VIC 3179 AUSTRALIA

Open Briefing interview with MD Andrew McLellan

In this Open Briefing®, Andrew discusses:

- Labcon North America purports to terminate chip supply agreement
 - New developer kit sales and current market engagement strategy
 - Financial position
-

Record of interview:

1. Last week's announcement says that Labcon has given notice to terminate its agreement with Bluechiip. What's the status of the relationship with Labcon and what does termination mean for the terms of the agreement?

The relationship with Labcon had been working well up until this point. Just last week we had Bluechiip and Labcon employees together training an end customer on the Bluechiip enabled Coldpoint range and system in an evaluation trial.

At the same time, in response to Labcon's request given the current environment, Bluechiip had been negotiating with them in good faith to reach a mutually acceptable and more flexible position concerning a deferral of the outstanding, contracted minimum orders. Unfortunately, those discussions have now concluded without a mutually acceptable resolution.

I can't comment further at this stage as the matter is now in the hands of Bluechiip's lawyers, however we are excited about exploring fresh opportunities in the US.

2. Aside from Labcon, how many other OEM and developer kit clients does BCT currently have?

We have over 35 developer kits in the market with existing and potential end customers and OEMs. Some are very active and some have been put on hold due to Covid19.

In our announcement to the market on 16 July, we mentioned several of the potential OEM partners and end customers that we are dealing with. They will go through a pathway where they will buy and test prototypes, put them in front of customers and conduct what we call “VOC” or Voice of the Customer activities.

A good example is a current opportunity we have in the IVF space that has continued progressing in spite of Covid-19 and is now undertaking VOC activities to progress a business case.

In the last month we have also seen the reacceleration of a number of opportunities we have been working on in the cell therapy market, blood bag companies and pharmaceutical companies. These have all started to move again after slowing significantly for several months due to Covid-19.

All things considered and given the current environment we are very pleased with the level of customer engagement.

3. Looking forward both inside and outside North America, what are your customer engagement opportunities?

Bluechiip is responding immediately and will take this opportunity to have more control over our own sales channels. We have people on the ground in North America and Australia and we have distribution channels in other parts of the world.

The action will be two-fold: First, expanding the Bluechip enabled range of products so that we have our own range that we can run in parallel with the OEMs. Second, we will scale our sales and marketing capacity whilst maintaining control on costs and being conscious of the current market situation.

We already have a head start on this action. The end customer site in Chicago mentioned in last week's release was brought up to speed and trained by our own people in the USA. There is an evaluation agreement that has been signed off to be completed in August – this is with an end customer which was won off the back of our own sales & marketing team. Also we have just shipped a system to China in the last month through our own sales channels.

So, we have already started to lift the level of direct engagement with the market.

4. Operationally, can you share with us market feedback from end customers?

If you go to our website bluechiip.com, you'll see a poster from a customer called Medpace, which is a clinical trial company in North America. They do multiple trials for customers all over the world. The poster describes how we enable traceability through their workflow to trace: temperature; sample ID and operator at the box level and all this at multiple time points through the process as they are moving around their lab. This has been very valuable to them.

We also have direct feedback on the efficiency gains our product enables and more recently we had excellent feedback on our software that we continue to develop to deliver efficiency and security for customers at multiple levels.

We have a software release due out in coming weeks that will meet requirements for electronic records, this will open our ability to better service Pharmaceutical customers.

5. What is the financial impact of recent events, noting that BCT had over \$7.9m in cash as at 30 June 2020, a much reduced cash burn rate compared to pre-Covid19 and BCT's spending is currently focussed on R&D?

We are in a sound position. As you note, we have \$7.9m in cash at bank and a significantly reduced cash burn versus 3 – 6 months ago. This lower cash burn will be reflected in the quarterly cash flow report to 30 June 2020 which will be released shortly.

Additionally, we expect to receive an R & D tax refund of over \$1.5m in the next six months.

There will be some impact from the purported termination of the Labcon supply agreement but we are evaluating our options with respect to mitigating that impact and taking important necessary steps.

There will be some additional cost associated with producing our own product range. However we are excited about having the scope to do that and we are already well on the way with our chip design in multiple formats, being smaller chip formats which we can adapt into consumable products such as IVF and blood bags. We have also been working on our efficiency of production and have produced well over 1 million chips to date. These are now ready to be packaged into end products to be sold directly or via other channels.

In summary, we are in a solid financial position with \$7.9m in cash at 30 June, a reduced cash burn and access to significant R & D tax credits. This puts us in a good position to focus on our existing and new customers and on the market opportunities we have in front of us including those clients I've mentioned above.

openbriefing.com

Thank you.

Authorised for release by the Bluechiip Board of Directors

DISCLAIMER: Ramsgate Advisors Ltd and Orient Capital Pty Ltd have taken all reasonable care in publishing the information contained in this Open Briefing®; furthermore, the entirety of this Open Briefing® has been approved for release to the market by the participating company. It is information given in a summary form and does not purport to be complete. The information contained is not intended to be used as the basis for making any investment decision and you are solely responsible for any use you choose to make of the information. We strongly advise that you seek independent professional advice before making any investment decisions. Ramsgate Advisors Ltd and Orient Capital Pty Ltd are not