ASX Market Announcements
ASX Limited
20 Bridge Street,
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6 November 2020

Lodgement of Open Briefing

We enclose a transcript of an Open Briefing interview with Managing Director Andrew McLellan.

Authorised for release by Andrew McLellan, Managing Director.

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Managing Director, Andrew McLellan: Bluechiip's results for Q1FY21; pipeline developments; direct to market strategy

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Open Briefing interview with MD Andrew McLellan

In this Open Briefing®, Andrew discusses:

- OEM progress
- Direct to market product range
- September quarter 2020 Results
- Reduced cash burn

Record of interview:

1. **In announcing BCT's September quarter numbers, which we delve into later in this interview, your ASX announcement also mentions progression on a number of potential agreements in "the IVF market, Cell Therapy and target Biobanking space". It also mentions delivery of a Bluechiip System in China.**

   How well progressed are these negotiations, how large are they and what type of product are they for? Does the China delivery relate to the potential agreements mentioned above?

On the Original Equipment Manufacturer (OEM) front we have been encouraged by the continued progression of negotiations towards new OEM partnerships.

In the IVF space we've seen good progress on a specific proposal. While decisions were initially delayed due to COVID-19, we have continued to work very closely with delivery of prototypes, testing and market feedback with end users to build the business case, all with positive feedback. This activity enables the decision making to occur so the potential OEM can invest in a Bluechiip-enabled product line for identifying valuable samples in the IVF space.

We also have ongoing and developing discussions in the cell therapy, blood bag and biobanking markets, including several new enquiries from these areas in the last two quarters which is very positive given the environment.

The system sold into China went via our distribution channels to a new customer site. It is encouraging that logistics services are freeing up and we can ship kits around the world.

We have over 30 potential OEMs globally evaluating our systems, so we are experiencing multiple and varying impacts due to COVID-19. Some larger corporates still have decision-making processes on hold regarding new technologies, due to both COVID-19 uncertainty and, in certain instances, a need to deal with the surge in and meeting demand from COVID-19. While it is a rapidly changing environment, especially in the Northern Hemisphere, we do expect their decision processes to open up in the near future as we move towards a more "COVID-normal" operating environment.

I would reiterate that we see a growing need for Bluechiip's unique technology including our ability to operate at ultra-low temperatures. Multiple segments of the life science market including biobanking and even some of the potential vaccines require ultra low temperature conditions for storage and shipment and all of these are growing significantly.

2. **Last quarter you said BCT was developing its own portfolio of direct to market products for the Biobanking market. How is this progressing?**

This is a significant focus for our business.

To recap, we recognised earlier this year that while there are timing challenges with the OEM partnerships due to COVID-19, there are also significant opportunities for us to go to market directly, especially in North America which represents almost 40% of the global biobanking market. A direct-to-market strategy enables us to customize and package our solutions for our end clients.

There is still work to be done to expand our Bluechiip-enabled consumable range, however we have initial consumables in stock to get early adopters up and running and to date we have received positive feedback from end customers. A number of customers will move into a trial mode this quarter and commit to Bluechiip systems.

With our direct-to-market focus we can provide these customers with a system solution and consumable sales model. What that means is we can package our readers and our software as a solution, offsetting that against consumable purchases and a commitment by the customers to continue purchasing our consumables over years. This provides our customers with a lot more flexibility.

Going direct also provides us with end customer feedback into our development process so we can continue improving our products and meeting the market's needs.

This is all in parallel with continuing to pursue multiple OEM opportunities.

3. Looking at the numbers for the September quarter, cash burn was $1.3m and you expect to get around $0.5m of that back in R&D tax credits. How long is the lag between spending on R&D and receiving the tax credits? Should we expect a similar level and mix of expenditure in the coming quarters?

Our $1.3 million spend in the September quarter was predominantly on R&D on which we will get a refund of 43.5%. So, once we get the R&D refund the net cash burn for the quarter will be significantly lower than $1.3m but as you note there is a lag between spending on R&D and getting the refund.

It is an annual refund subject to registration and approval through AusIndustry. So, for R&D spend in the September quarter, we expect to get the relevant refund in the first half of the next financial year. Currently, we are waiting on the refund for the June 2020 financial year and you can see a provision for a receivable of $1.5m. in the June 2020 balance sheet.

Looking forward, in terms of total spending run rate and the mix, there is some seasonality with typically a bit more activity in the September quarter. Over the last two quarters we've spent between $1.0 and $1.3 million per quarter. We expect to continue spending around that range with a similar skew towards R&D.

On the R&D front we continue to focus on: our own Bluechiip-branded products, which we discussed in Question 2; improving the efficiency of our chips; and expanding our core product line in readers and software.

3. How quickly can BCT scale production for new contracts wins, and what inventory do you have to bridge any gap while production ramps up?

Our focus for several quarters has been on getting all of our systems in place and late last year we raised capital to help us scale our activities. We are now able to produce significant quantities of chips and readers and of course our software. Through our R&D we have also significantly increased our efficiency of production.

As part of this scaling we have moved forward on ISO 9001 Quality Systems compliance. I will touch on the importance of this a little later.

4. Cash at bank was $6.6m at the end of September and BCT also expects to receive "in excess of $1m" for R&D tax credits that relate to the year ended 30 June. Does the "in excess of $1m" relate to the $1.5m provision for an R&D tax offset receivable in note 12 to the 30 June 2020 accounts? Can you also remind us what net inventory of $647k at 30 June 2020 relates to?

We had $6.6 million cash in the bank at the end of the quarter, our reference to "in excess of $1 million" relates to the provision in the annual accounts of $1.5 million for the R&D tax offset. We are finalizing our claim for that R&D tax refund and in this quarter or early next we expect to receive between $1.0 and $1.5 million. So on a pro forma basis our cash balance

of $6.6m combined with the R&D refund we expect add to around $8m. So we feel we are in good shape with substantial runway to get a lot of things done that we do need to do.

The $647k inventory at the end of June relates to readers and hardware items in stock. Some are finished goods, some are work in progress. On top of that we have well over a million chips that can be customized with different solutions. These are progressing through the R&D phase while we focus on improving performance and efficiency.

5. **Bluechiip successfully completed its Implementation of ISO 9001 Quality Systems compliance and is awaiting certification on a recently completed audit. What value does this add for BCT and its customers?**

Certification is an important value add for us. Although we do not technically need it for an OEM strategy, we do need it for some of the end customers we are now engaged with via our direct-to-market product range. It is an important step forward for our business.

We have also released a version of software which complies with FDA requirements – FDA 21 CFR Part 11 – which relates to electronic records and electronic signatures. Again, it is not mandatory but it lifts our position especially as we progress negotiations with a number of pharmaceutical companies.

6. **What is the status of the Labcon dispute? Your announcement says that both parties have agreed to pursue private mediation to seek a resolution. Has a timetable been agreed?**

We are in a legal process, so I have to be careful here.

To recap, in July 2020 we pursued Labcon in the Californian courts. Labcon then put a counter claim which we refuted. Subsequently both parties have agreed to private mediation to seek a resolution. We expect mediation to occur this quarter. During this process there is a stay on the litigation proceedings. I can't comment further except to say that we are pursuing our contractual rights for more than $US3.5m.