



BLUECHIIP LIMITED

ABN 79 104 795 922

**Annual Financial Report
For the Year Ended 30 June 2014**

Bluechiip Limited

ABN 79 104 795 922

For the Year Ended 30 June 2014

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Bluechiip Limited

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Corporate Information

Directors

Mr Iain Kirkwood	Non-Executive Chairman (Executive Chairman for the period from 28 January 2014 to 1 July 2014)
Dr Jason Chaffey	Acting CEO – appointed 28 January 2014 Managing Director and CEO – appointed 1 July 2014
Mr Joe Baini	Non-Executive Director – resigned 1 August 2014
Mr Ron Finkel	Non-Executive Director – resigned 1 August 2014
Mr Matthew Morgan	Non-Executive Director – appointed 3 February 2014
Mr Brett Schwarz	Former Managing Director and CEO – resigned 27 January 2014

Company Secretary

Mr Lee Mitchell

Registered office

1 Dalmore Drive
Caribbean Business Park
Scoresby Victoria 3179
Phone: +613 9763 9763
Fax: +613 9763 9764

Principal place of business

1 Dalmore Drive
Caribbean Business Park
Scoresby Victoria 3179
Phone: +613 9763 9763
Fax: +613 9763 9764

Share registry

Boardroom Pty Limited
GPO Box 3993
Sydney NSW 2001
Phone: +612 9290 9600
Fax: +612 9279 0664

Bluechiip Limited shares are listed on the Australian Stock Exchange (ASX: BCT).

Bankers

National Australia Bank Limited
Melbourne, Victoria 3000

Auditors

Ernst & Young
8 Exhibition Street
Melbourne Victoria 3000

Website

www.bluechiip.com

Bluechiip Limited

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Directors' Report

30 June 2014

Your directors submit their report for the year ended 30 June 2014.

Directors

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire year unless otherwise stated.

Names, qualifications, experience and special responsibilities

Iain M Kirkwood - Non-Executive Chairman

Qualifications: MA (Hons) Oxon, FCPA, CA, MAICD

Appointed to the Board of Directors in November 2007 and serving as Chairman. He was appointed as Executive Chairman on 28 January 2014 and reverted to the role of Non-Executive Chairman on 1 July 2014. He is an experienced private consultant, investor and non-executive director. He has considerable practical and operational experience gained from a successful financial career spanning 35 years in a range of industries including auditing, resources, manufacturing and latterly healthcare in Australia, Britain and the USA. He started his career at Arthur Andersen & Co in London. He held a range of senior financial and general management positions in Woodside Petroleum Limited, Santos Limited, Pilkington plc, F.H. Faulding & Co Limited and Clinuvel Pharmaceuticals Limited.

During the past three (3) years he has also served as a Director of the following other ASX listed companies:

- Avexa Limited (Appointed 9 August 2010)
- MHM Metals Limited (Appointed 13 February 2013)
- Vision Eye Institute Limited (Appointed 15 November 2004)
- Medical Developments International Limited (Appointed 27 October 2003, Resigned 26 February 2013)

Dr Jason Chaffey - Managing Director and CEO

Qualifications: B. Sc (Adv.), PhD (RMIT), MAICD

Appointed as Managing Director and CEO on 1 July 2014. Dr Chaffey has been actively involved in Micro-Electric-Mechanical Systems (MEMS) technology, product development and engineering for over 15 years. During the course of his career, Dr Chaffey has had experience ranging from industrial design, product concepts and product transfer for both MEMS, electronics, mechanical and software products. Dr Chaffey has significant experience of working in multi-disciplinary teams and manages a multidisciplinary development and manufacturing team for Bluechiip and its suppliers located in Australia, Malaysia, Europe and North America.

Prior to joining Bluechiip, Dr Chaffey was involved in a number of key technology laboratories including the Advance Sensors Laboratory and Microengineering Section at DSTO and the Advanced Engineering Centre for Manufacturing at RMIT, where he led projects for inertial sensors, biosensors and optical modulators.

Dr Chaffey received his Bachelors in Advanced Science at the University of New South Wales (Sydney) and his PhD from RMIT University (Melbourne). He is a member of the Institute of Physics, member of the MEMS Industry Group (MIG) Association and past Chair of the Australian Delegation for the Micromachine Summit.

During the past three (3) years he also served as a Director of a non-profit organisation called Irabina Childhood Autism Services (2010-2013).

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Directors' Report (continued)

30 June 2014

Directors (Cont'd)

Matthew Morgan - Non-Executive Director

Qualifications: MBA, B Com, B App Sc, Kauffman Fellow

Appointed to the Board of Directors on 3 February 2014 and is an experienced advisor and non-executive director. He is currently the Principal of Millers Point Company, an advisory firm that works with management and shareholders of emerging companies advising on strategy, commercialisation and corporate transactions.

Prior to founding Millers Point Company he was a venture capitalist at QIC, a large institutional investor. He has spent the balance of his career working as an executive in the portfolio companies of various private equity investors including DB Capital, Todd Capital and Merlin Ventures (UK). Throughout his career he has served on seed and venture capital stage investment committees and advised on a wide range of corporate transactions including licensing, debt and equity raisings and mergers and acquisitions.

During the past three (3) years he has also served as a Director of the following other ASX listed companies:

- Diversa Limited (Appointed 2 July 2008)
- Leaf Energy Limited (Appointed 21 July 2014)

Joe M Bains – Non-Executive Director (resigned on 1 August 2014)

Qualifications: BSc, Post Grad Diploma of Business Management

Appointed to the Board of Directors on 6 August 2010. He has more than 20 years' experience in the pharmaceutical industry, focused on commercialization, marketing and sales including partnership, government and licensing negotiations. Most notably, he was the former General Manager of Gilead Sciences Australia, New Zealand and Asia, one of the largest biopharmaceutical companies in the world. Prior to Gilead, he was Marketing Director for Bayer Australia, and also held management positions at Pharmacia & Upjohn and Merck Sharp & Dohme.

He was the CEO and Executive Director of ASX listed Immuron Limited (ASX: IMC), an Australian biotechnology company, where he held the position from January 2011 until February 2013. He is also a Director and founder of eXec Factor Pty Limited, an executive leadership and strategy consulting company. He is currently on the Board of the BioMelbourne Network and heads up a start-up biotechnology company working to develop a novel treatment for neurological injuries.

During the past three (3) years he has also served as a Director of the following other listed companies:

- Avexa Limited (Appointed 22 April 2009, resigned 18 April 2011)
- Immuron Limited (Appointed 25 May 2012 resigned 28 February 2013)

He holds a Bachelor of Science degree in Pharmacology and Biochemistry from the University of Melbourne.

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Directors' Report (continued)

30 June 2014

Directors (Cont'd)

Ron Finkel – Non-Executive Director (resigned on 1 August 2014)

Qualifications: LLB, BComm (Melb)

Has been actively involved in the venture capital industry since 1986 including roles at Pratt Venture Management and as Director of Investments at the Advent Management Group where he led investments in a number of portfolio companies across a wide range of innovative technologies.

In 1997, together with his colleague Ergad Gold, he established the Momentum Investment Group which were successful tenderers for one of the Australian Government's inaugural licenses under the Innovation Investment Fund program.

Ron is currently the Chairman of Panviva Pty Ltd and a Director of Momentum Investment Group, Momentum Ventures Ltd, Benthic Geotech Pty Ltd and Petrecycle Ltd. He has not held any directorship in any listed company in the last three (3) years.

He was appointed to the board of Bluechiip Limited on 1 July 2012.

Brett G Schwarz – former Managing Director and CEO (resigned on 27 January 2014)

Qualifications: BComm, CA

Co-founded Bluechiip in 2003 and a director of Bluechiip since its foundation and CEO since August 2008.

Commenced his career as a chartered accountant with Arthur Andersen & Co in Melbourne and then GMK Partners (previously Gaddie Metz Kahn), including auditing, as well as debt and equity capital raisings, M&A transactions, ISO accreditations, strategy and business planning. Prior to founding Bluechiip, he was CFO for a private Australian manufacturing company and a consultant on commercial engagements.

Company Secretary

Lee Mitchell

Qualifications: BA, LLM (Melb)

Lee is a partner at Logie-Smith Lanyon, a mid-sized full service commercial law firm based in Melbourne, Victoria. He is a qualified solicitor practising principally in corporate and commercial law advising on corporate and securities regulation, equity capital raisings, formulation and implementation of mergers and acquisitions, corporate governance and company secretarial matters.

He joined Bluechiip Limited as Company Secretary in September 2010.

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Directors' Report (continued)

30 June 2014

Directors (Cont'd)

Interests in the shares and options of the Company and related bodies corporate

As at the date of this report, the interests of the directors in the shares and options of Bluechiip Limited were:

	Number of ordinary shares	Number of options over ordinary shares
Iain Kirkwood	8,844,127	333,333
Jason Chaffey	458,458	-
Matthew Morgan	100,000	-

Dividends

No dividends were paid or declared since the start of the financial year (2013:Nil). No recommendation for payment of dividends has been made.

Principal Activities

The principal activity of the Group during the year was the development and commercialisation of a unique tracking system that offers enhanced technical capabilities over existing labels, barcode and Radio Frequency Identification (RFID) technologies.

There have been no significant changes in the nature of these activities during the year.

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Directors' Report (continued)

30 June 2014

Operating and Financial Review

Operating Results

The consolidated loss of the Group for the financial year after providing for income tax amounted to \$2,555,961 (2013: loss of \$3,586,138).

Results of operations

The Company recognised net revenue totalling \$41,937 at 30 June 2014 (2013: \$84,781) during the year.

Other income decreased from \$1,158,291 to \$742,043 due to:

- a decrease in the R&D tax incentive from \$1,138,840 to \$625,047 due to a lower level of eligible R&D incentive expenditure incurred by the Company.

This was off-set by:

- Export Market Development Grant of \$97,085 which was received during the financial year (2013: Nil).

Loss before income tax decrease from \$3,586,138 to \$2,555,961 due to:

- Lower employee benefit expenses - \$1,078,647 (2013: \$1,212,814) due to the resignation of former Chief Executive Officer in January 2014;
- Lower Research and Development expenses - \$404,789 (2013: \$1,344,663) due to a decreased level of R&D activities as the Company progressed towards commercialisation; and
- Overall, lower travel and accommodation expenses and reduction in share based payment expenses.

Capital structure

During the financial year ended 30 June 2014, the following material movements in share capital occurred:

- In August 2013, the Company raised \$2,548,800 via a private placement at an issue price of \$0.15 per share. The private placement was concluded in two tranches with 10,168,626 ordinary shares being issued in tranche one in August 2013 and 6,823,374 ordinary shares being issued in tranche two in October 2013;
- In June 2014, a total of 10,140,000 ordinary shares were issued at a price of \$0.05 per share pursuant to a Share Purchase Plan (SPP), raising fund before fees of \$507,000;
- In June 2014, a total of 632,275 ordinary shares were issued at a price of \$0.05 per share to existing employees under the Company's existing employee incentive scheme and to certain suppliers of the Company in lieu of cash payments; and
- Capitalised share issue costs relating to the placements above totalled \$194,215 and have been offset against the issued capital.

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Directors' Report (continued)

30 June 2014

Significant Change in the State of Affairs

Other than as detailed in this financial report, there has been no significant change in the state of affairs of the Company.

Events after Balance Date

On 1 July 2014, Dr Jason Chaffey was appointed CEO and Managing Director of the Company. On 1 August 2014 Joseph Baini and Ron Finkel resigned from the Company as Non-Executive Directors.

Mr Iain Kirkwood, who assumed the role of Executive Chairman on 28 January 2014, reverted to a role of non-executive Chairman with effect from 1 July 2014.

In July 2014, the Company drew down a further \$234,761 from Macquarie Bank Ltd.

On 8 September 2014, the Company completed a capital raising of \$1,095,000 to sophisticated and professional investors via a placement comprising 10,950,000 ordinary fully paid shares at \$0.10 per ordinary share with one free attached unlisted share option per new share issued with an exercise price of \$0.13 per option with an expiry of 31 March 2015 (options have not been issued and approval for their issue will be sought at the Company's 2014 AGM). In addition, the Company also announced a SPP which will allow participation from eligible existing Bluechiip's shareholders to purchase further fully paid ordinary shares in the Company at \$0.10 per share.

Except for the above, there were no other matters or circumstances that have arisen since the end of the financial period which significantly affected or could significantly affect the operations of the Group, the results of these operations or the state of affairs of the Group in future financial periods.

Basis of Preparation

The financial report has been prepared on a going concern basis which takes into account the Group's assets and liabilities and assumes that funds will be obtained from several sources as outlined in Note 2 to the Notes to the Consolidated Financial Statements.

The audit opinion prepared by the independent auditor EY is not subject to any dispute or qualification, but is subject to an emphasis of matter paragraph regarding continuation of the Group as a going concern.

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Directors' Report (continued)

30 June 2014

Likely Developments and Expected Results

Towards the end of 2013 the Board engaged two independent, qualified consultants, Olivab Pty Ltd and Platinum Road Pty Ltd, to undertake a review of the commercial and business development activities. At the completion of this review, the board took immediate action. Two key recommendations were actioned:

1. A revised commercialisation strategy
2. Significant cost management

The Company's revised commercialisation strategy places greater emphasis on the adoption of the Bluechiip technology by collaborative partners with established channels to market. Its key components include:

- Licence the use of smart chips, tags, readers and software to commercial partners that can incorporate the chip's functionality into their own existing product ranges;
- Partner with organisations and original equipment manufacturers (OEM's) to develop products in new markets and to subsequently manufacture and sell in return for a royalty arrangement; and
- Direct sales to reference clients; the principal benefit being validation of Bluechiip's smart chip in product applications and markets. Such validation is crucial to present and future distribution and OEM participation.

Bluechiip is now positioned to broaden the applications for use of its core technology beyond the original launch market of life sciences, reduce the complexity of business operations and enable the business to focus resources on continued MEMS based innovation. Bluechiip has three major growth areas:

1. Effectively validating the Biobanking application and focussing on technology improvements and license deals to drive further royalty streams;
2. Identifying robust opportunities with volume that integrate the tag technology;
3. Technology improvements and integration to open the technology platform to other areas of use.

The year ahead will focus on consolidating the recent activities and pursuing further market and product opportunities which benefit from Bluechiip's unique technology. In particular Bluechiip will seek to pursue these opportunities in collaboration with partners that currently service customers in the selected markets.

Funds generated and raised will be used for working capital requirements with a clear focus on sales, marketing and business development activities, including the operational capacity and resourcing within the Company.

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Directors' Report (continued)

30 June 2014

Likely Developments and Expected Results (Cont'd)

The Company's strategies above take into account the expected operating and market conditions. Bluechiip is exposed to a range of financial, market and operational risks and predicting future operating and market conditions is inherently uncertain. The material risks that could affect the Company's financial prospects noted above may include the Company not being able to source sufficient funding for its commercialisation program, not being able to adequately protect its knowhow, expertise and trade secrets, difficulty in manufacturing its products at a commercially attractive price or competitors may develop products that are more effective or prove to be more readily acceptable by customers than those developed by the Company.

The Company has in place risk management and internal control systems to manage material risks.

Environmental Regulation and Performance

The Group's operations are not regulated by any significant environmental regulations under a law of the Commonwealth or of a state or territory.

Options

Unissued shares

As at the date this report was signed, there were 10,495,999 unexercised options over ordinary shares. Refer to the Remuneration Report for details of the options outstanding issued to key management personnel.

	Number of unlisted options
Balance as at 30 June 2013	22,100,000
Options issued during the year	10,495,999
Options exercised during the year	-
Options expired during the year	(22,100,000)
Balance as at 30 June 2014	10,495,999

The table above excludes options issuable under the 8 September 2014 placement as the issuance of these options is subject to shareholder approval at the next AGM. Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate.

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Directors' Report (continued)

30 June 2014

Indemnification of directors and officers

The Company has not granted any indemnity to any current or former directors or officers against any liability other than as provided in the Company's constitution. However it is intended that the Company will indemnify the Directors and Company Secretary against any liability incurred while discharging their duties and obligations – subject to Part 20.2 of the Corporations Act.

During the financial year, the Company has paid premiums in respect of a contract insuring the directors of the Company (as named above) 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 total amount of Directors & Officers Liability insurance contract premiums paid was \$23,495 (2013: \$23,453).

Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit. No payment has been made to indemnify Ernst & Young during or since the financial year.

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Directors' Report (continued)

30 June 2014

Directors' meetings

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director was as follows:

	Director's meetings		Remuneration & Nomination committee meetings ⁽ⁱ⁾		Audit committee meetings	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Number of meetings held	11	-	3	-	5	-
I Kirkwood	11	11	3	3	5	5
B Schwarz	5	5	-	-	2	2
J Baine	11	10	3	3	5	5
R Finkel	11	11	3	3	-	-
M Morgan	5	5	-	-	3	3

- (i) During the year, some Remuneration and Nomination committee matters were dealt with in meetings of Directors – but with executive personnel absent.

Committee membership

As at the date of this report, the Company had an Audit committee and a Remuneration and Nomination committee of the board of directors.

Members acting on the committees of the board during the year were:

Audit	Remuneration and Nomination
Matthew Morgan (Appointed as Chairman 1 August 2014)	Joe Baine (Chairman) (Resigned 1 August 2014)
Joe Baine (Resigned 1 August 2014)	Iain Kirkwood (Appointed as Chairman 1 August 2014)
Iain Kirkwood	Ron Finkel (Resigned 1 August 2014)
	Matthew Morgan (Appointed 1 August 2014)

Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest one dollar under the option available to the Company under ASIC CO 98/0100. The Company is an entity to which the Class Order applies.

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Directors' Report (continued)

30 June 2014

Auditor independence declaration

The directors received the declaration set out on the following page from the auditor of Bluechiip Limited.

Non-audit services

During the year EY provided non-audit services relating to Bluechiip's R&D tax off-set financing transaction. Fees for these services were \$9,000 (2013: \$4,750). The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature, value and scope of the non-audit services are considered not to have compromised auditor independence.

Auditor's Independence Declaration to the Directors of Bluechiip Limited

In relation to our audit of the financial report of Bluechiip Limited for the financial year ended 30 June 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



Ernst & Young



David Petersen
Partner
19 September 2014

Bluechiip Limited

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Remuneration Report (audited)

30 June 2014

This report outlines the compensation arrangements in place for Directors and Key Management Personnel (KMP) of the Company. All sections contained herein have been subject to audit. Remuneration is referred to as compensation in this report.

Individual KMP disclosures

Details of KMP of the Company are set out below:

Directors

Iain Kirkwood	Non-Executive Chairman (Executive Chairman for the period from 28 January 2014 to 1 July 2014)
Dr Jason Chaffey	Acting CEO – appointed 28 January 2014 (formerly Chief Technology Officer) Managing Director and CEO – appointed 1 July 2014
Matthew Morgan	Non-Executive Director – appointed 3 February 2014
Joe Bains	Non-Executive Director – resigned 1 August 2014
Ron Finkel	Non-Executive Director – resigned 1 August 2014
Brett Schwarz	Former Managing Director and CEO – resigned 27 January 2014

Principles of Compensation

The Remuneration and Nomination Committee of the Board is responsible for determining and reviewing compensation arrangements for the Directors and CEO and the executives reporting directly to the CEO. The Committee is also responsible for recommending the appointment and reviewing the performance of Directors and the CEO. During the year, some Remuneration and Nomination Committee matters were dealt with in meetings of Directors, but with executive personnel absent. The compensation philosophy is to ensure the compensation package appropriately reflects the person's duties and responsibilities, and that compensation levels are competitive in attracting, retaining and motivating people who possess the requisite level of skill and experience.

Components of total compensation are 'at risk' (variable compensation) and dependent on meeting pre-determined performance benchmarks including Key Performance Indicators (KPIs). The inclusion of appropriate challenging performance hurdles in relation to variable compensation is designed to align employee performance with the creation of shareholder value and wealth. KPIs are agreed and set each year for KMP with the specific objective of influencing both short and long term performance and the generation of shareholder wealth.

Variable or performance linked compensation comprises cash bonus and/or share based payments.

Fixed Compensation

Fixed compensation consists of a base salary and superannuation. Fixed compensation levels are set so as to provide a base level of compensation which is both appropriate to the position and is competitive in the market.

Fixed compensation is reviewed annually by the Remuneration and Nomination Committee and the process consists of a review of the Company's performance, relevant comparative compensation in the market and, where appropriate, external advice on policies and practices. Employees receive their fixed compensation in cash.

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Remuneration Report (audited) (continued)

30 June 2014

Variable Compensation

Variable compensation comprises short-term and long-term components which employees other than Non-Executive Directors may receive. Variable or 'at-risk' incentive payments and/or share based payments are based on the achievement of specific goals related to (i) performance against individual KPIs and (ii) the performance of the Company as a whole as determined by the Directors based on a range of factors. These goals include a mix of financial and non-financial targets set by the Remuneration and Nomination Committee.

Employment contracts for staff other than the CEO provide for variable compensation of up to 10 per cent of their total fixed compensation package (although higher variable compensation payments may be made at the Board's discretion).

The Board at its sole discretion determines the total amount of variable compensation payable as a percentage of the total annualised salaries for all employees employed as at the end of the financial year (with pro rata reductions to the annualised salary made for any employee not employed for the entire financial year). Once the Board has determined the total pool of variable compensation payable across the Company, the CEO assesses the performance of each individual staff member relative to that staff member's KPIs, and decides how much variable compensation should be paid to that person.

Variable Compensation – Short Term Incentive

The Board reviews the performance of the CEO and KMP and determines the appropriate level of performance incentive to be paid. An amount of \$10,000 (2013: \$107,000), plus superannuation, has been approved for the financial year ended 30 June 2014, in respect of the CEO's performance for the 2014 financial year. Arising from this, \$5,000 was paid in cash and the balance satisfied by way of issuing shares at an implied issue price of \$0.05 per share based on the market closing price of \$0.05 per share as at 5 June 2014.

An amount of \$27,500 (2013: Nil), being short term variable compensation is to be provided for achieving KPIs during his tenure as Acting CEO, of which \$19,250 is to be paid in cash and the balance \$8,250 satisfied by way of issuing shares at an issue price of \$0.05 per share based on the volume weighted average price for 5 day period ended 30 June 2014, The shares to be issued are subject to shareholders' approval at the Company's 2014 AGM

Variable Compensation - Long Term Incentive

The Remuneration and Nomination Committee also reviews and approves the issue of share based payments to staff and KMP as a means of providing a long term incentive for performance and loyalty. Any such grants are issued under either the Employee Share Acquisition Plan (ESAP) or the Employee Share Option Plan (ESOP). In order to give the incentive a medium to long term impact, the options issued have a tenure and a vesting profile as shown in the following table.

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Remuneration Report (audited) (continued)

30 June 2014

2014:

No options were issued to Directors or KMP in the financial year ended 30 June 2014.

2013:

Officer	Number of Options	Exercise Price	Expiry date	Additional conditions
Ron Finkel	500,000	\$0.25	30/6/2014	Five day VWAP ⁽ⁱ⁾ to be > \$0.375 per share (50% increase on listing price)

(i) Volume Weighted Average Price

The Board considers that the variable compensation structure is operating effectively.

Use of Remuneration Consultants

During FY13 the Company engaged CRA Plan Managers Pty Ltd (CRA) to undertake a benchmarking analysis for Non-Executive Directors and KMP which were delivered in FY14. In addition, consulting services were provided with regards to the Bluechiip's short term and long term remuneration strategy. Fees for the remuneration service were \$26,370 plus GST.

There were no remuneration recommendations other than benchmarking data and analysis provided by CRA.

The Remuneration and Nomination Committee is satisfied that the benchmarking analysis and services provided by CRA is free from undue influence. CRA also confirmed to the Remuneration and Nomination Committee that the services provided adheres to the Company's protocol relating to KMP remuneration and had not been subjected to undue influence from the Company's KMP.

Employment Contracts

All KMP, including Acting and former CEO are or were employed under contracts with the following common terms and conditions:

- combination of twelve (12) months fixed terms and/or no fixed term and no termination payment prescribed;
- terminable by either party on the giving of one (1) month notice in writing; and
- the Company may terminate any contract for cause as defined.

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Remuneration Report (audited) (continued)

30 June 2014

Non-Executive Director Compensation

The Constitution and the ASX Listing Rules specify that the aggregate compensation of Non-Executive Directors shall be determined from time to time by a general meeting. An amount not exceeding the amount approved by shareholders is then divided between the Directors as agreed by the Board. An amount of \$500,000 was approved at the Company's Annual General Meeting held on 10 November 2011.

Non-Executive Directors do not receive performance related compensation and the structure of Non-Executive Director and senior management compensation is separate and distinct. Non-Executive Directors do not have contracts of employment but are required to evidence their understanding and compliance with the Board policies of Bluechiip Limited. These Board policies do not prescribe how compensation levels for Non-Executive Directors are modified from year to year.

Compensation levels are to be reviewed by the Board each year taking into account cost of living changes, changes to the scope of the roles of the Directors, and any changes required to meet the principles of the overall Board policies.

The remuneration of Non-Executive Directors' for the years ended 30 June 2014 and 30 June 2013 is detailed in the table below under 'Remuneration of Key Management Personnel'.

The Chairman of the Audit Committee and the Remuneration and Nomination Committee each receive an additional \$5,000 per annum, inclusive of superannuation, in recognition of these additional duties. However, due to the Company's focus on reduction of overhead, these fees were discontinued from January 2014.

Directors' and Executive Officers' Compensation Tables

Details of the nature and amount of each major element of the compensation of each KMP including Directors of the Company are disclosed in accordance with Accounting Standard AASB 124 Related Party Disclosures and with the *Corporations Act 2001* in the following tables.

No options held by persons in the following compensation tables were exercised during the 2013 and 2014 financial years.

Details of the Company's policy in relation to the proportion of compensation that is variable or performance related are provided earlier in this report. For the individuals named in the Directors' and Executive Officers' compensation tables, details of their employment agreements are provided under the heading of 'Employment Contracts' earlier in this report.

In the following tables, the fair value of the options granted to executive officers has been calculated based on the value at the date of grant using a valuation model that takes into account the performance hurdles and vesting period related to those options. The value as disclosed is the portion of the fair value of the options allocated to this reporting year. Refer to the next sections of this report for full details of the option valuations.

Loan

There were no loans to any Directors or KMPs during the financial year.

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Remuneration Report (audited) (continued) 30 June 2014

Other transactions and balances with KMP

During the year, the Chairman, Mr Kirkwood in connection with the Company's private placement on 20 August 2013 agreed to subscribe for 666,666 ordinary shares of the Company at an issue price of \$0.15 per share. As at 30 June 2014, shares pursuant to the abovementioned commitment have been issued to Mr Kirkwood and a balance of \$2,167 was outstanding from Mr Kirkwood (refer to Note 22(b)(ii) for further details). As at the date of this report, the outstanding amount was fully paid.

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Remuneration Report (audited) (continued)

30 June 2014

Remuneration of Key Management Personnel

2014:

	Short-term Benefits			Post-Employment:	Long-term Benefits	Share-based Payments:		Termination / Resignation payment	Total Compensation	% of remuneration paid as performance based
	Salary and fees	Non-cash Benefits	Bonuses/ Incentives	Superannuation Contributions	Long Service Leave	Shares	Options			
	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Directors										
<i>Non-executive</i>										
Iain Kirkwood (#)	77,500	-	-	-	-	25,000	-	-	102,500	-
Matthew Morgan(i)	14,585	-	-	-	-	-	-	-	14,585	-
Joe Bains (ii)	42,498	-	-	-	-	-	-	-	42,498	-
Ron Finkel (ii)	40,002	-	-	-	-	-	-	-	40,002	-
<i>Executive</i>										
Dr Jason Chaffey (iii)	200,768	-	24,250	19,034	9,027	13,250	-	-	266,329	14.08%
Brett Schwarz (iv)	168,894	-	-	15,805	35,284	-	-	64,073	284,056	-
Total Director and Key Management Personnel Compensation	544,247	-	24,250	34,839	44,311	38,250	-	64,073	749,970	5.00%

(#) The Company has agreed to issue to Mr Iain Kirkwood \$25,000 in shares at an implied issue price of \$0.05 per share based on the market closing price of \$0.05 per share as at 5 June 2014 as remuneration for his role as Executive Chairman of the Company during the period from 28 January 2014 to 30 June 2014, subject to shareholder approval at the next Annual General Meeting (AGM) of the Company.

(i) Appointed 3 February 2014. Not included in the fees was a payment to Olivab Pty Ltd, an entity controlled by Mr Matthew Morgan, to provide Bluechiip Limited with the review and recommendation of commercialisation strategy at a fee of \$12,500 (plus GST) prior to Mr Morgan being appointed to the Board of Directors (refer to Note 22 (b)(iii) for further detail).

(ii) Resigned 1 August 2014.

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Remuneration Report (audited) (continued)

30 June 2014

Remuneration of Key Management Personnel (continued)

2014:

- (iii) Former CTO of the Company. Appointed as Acting CEO on 28 January 2014 and thereafter Managing Director and CEO on 1 July 2014. During the year, Dr Chaffey was paid a performance bonus of \$10,000 in his capacity as a CTO, of which \$5,000 was paid in cash and the balance satisfied by way of issuing of shares at an implied issue price of \$0.05 per share based on the market closing price of \$0.05 per share as at 5 June 2014. A further \$27,500 as performance/incentives bonus is to be provided for achieving KPIs during his tenure as Acting CEO, of which \$19,250 is to be paid in cash and the balance \$8,250 via shares at an issue price of \$0.05 per share. The shares to be issued are subject to shareholder approval at the Company's next AGM.
- (iv) Brett Schwarz resigned on 27 January 2014. Included in Mr Schwarz's termination payment are 284,774 ordinary shares of the Company. The new shares to be issued are subject to shareholder approval at the Company's next AGM. In the event shareholders do not approve the issue of the shares the Company must instead pay an amount of \$42,715 to Mr Schwarz in cash.

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Remuneration Report (audited) (continued)

30 June 2014

2013:

	Short-term Benefits			Post-Employment: Superannuation Contributions	Long-term Benefits Long Service Leave	Share-based Payments:		Total Compensation	% of remuneration paid as performance based
	Salary and fees	Non-cash Benefits	Bonuses/Incentives			Shares	Options		
	\$	\$	\$	\$	\$	\$	\$	\$	
Directors									
<i>Non-executive</i>									
Iain Kirkwood	93,693	-	-	1,307	-	-	203,038	298,038	68.1%
Joe Bains	49,305	-	-	688	-	-	101,519	151,512	67.0%
Ron Finkel (i)	44,381			619			40,250	85,250	47.2%
<i>Executive</i>									
Brett Schwarz	238,532	-	45,479	25,989	6,796	-	182,709	499,505	45.7%
Total Compensation	425,911	-	45,479	28,603	6,796	-	527,516	1,034,305	55.4%
Executives									
Other Key Management Personnel									
Dr Jason Chaffey	174,312	-	51,897	20,791	6,407	-	137,031	390,438	48.4%
Total Compensation	174,312	-	51,897	20,791	6,407	-	137,031	390,438	48.4%
Total Director and Key Management Personnel Compensation	600,223	-	97,376	49,394	13,203	-	664,547	1,424,743	53.5%

(i) Appointed 1 July 2012

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Remuneration Report (audited) (continued)

30 June 2014

Grants, Modifications and Exercise of Options and Rights Over Equity Instruments Granted as Compensation

2014:

There were no options granted as compensation during the financial year to any other person in the Directors' and KMP's compensation table. During the financial year all options held by these persons lapsed. There were no alterations or modifications to existing terms and conditions during the year ended 30 June 2014.

2013:

KMP and title	Options Granted		Number and % vested in year	Financial years in which grant vests	Expired date
	Number	Date			
Iain Kirkwood (Non-Executive Chairman)	4,000,000 (i)	8/11/2010	Nil	2010-2013	31/8/2013
Joe Bains (Non-Executive Director)	2,000,000 (ii)	8/11/2010	Nil	2010-2013	31/8/2013
Larry Lopez (Non-Executive Director) – resigned 11/10/2011	2,000,000 (iii)	8/11/2010	Nil	2010-2013	31/8/2013
Brett Schwarz (Managing Director & CEO)	8,000,000 (iv)	8/11/2010	3,555,556 / 44.44%	2010-2013	31/8/2013
Dr Jason Chaffey (CTO)	4,000,000 (v)	8/11/2010	2,666,667 / 66.67%	2010-2013	31/8/2013
Ron Finkel (Non-Executive Director) – appointed 1/7/2012	500,000 (vi)	19/10/2012	Nil	2013-2014	30/6/2014
	20,500,000				

Vesting Conditions:

- (i) Listed share price to be greater than \$0.375 per share (a 50% increase on the \$0.25 listing price)
- (ii) Listed share price to be greater than \$0.375 per share (a 50% increase on the \$0.25 listing price)
- (iii) Listed share price to be greater than \$0.375 per share (a 50% increase on the \$0.25 listing price)
- (iv) 1/3 tenure - equal at each of 30/6/2011, 2012 and 2013; 1/3 subject to securing first commercial revenues >\$100,000; 1/3 subject to company being cash EBITDA positive by 31/12/2012
- (v) 1/2 tenure - equal at each of 30/6/2011, 2012 and 2013; 1/2 subject to securing first commercially saleable chips and readers
- (vi) 5 day VWAP to be greater than \$0.375 per share (a 50% increase on the \$0.25 listing price)

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Remuneration Report (audited) (continued)

30 June 2014

Fair Value of Options

The fair values of the options granted to Directors and officers in the above tables have been calculated at grant date using a barrier option pricing model to value the options with market based performance hurdles, and a binomial option pricing model to value the options without market based performance hurdles. The following factors and assumptions have been used in determining the fair value on grant date. A zero dividend yield assumption has been adopted in every valuation.

2014

No options were issued to Directors or other KMP in the financial year ended 30 June 2014.

2013

Number and recipient of options	Grant date	Expiry date	Fair value per option	Exercise price	Price of shares on value date	Risk free interest rate	Estimated volatility
500,000 to Ron Finkel	19/10/2012	30/6/2014	\$0.067 to \$0.094	\$0.25	\$0.25	2.51%	60-90%

Other than the options granted to Ron Finkel as above, no options were issued to Directors or other KMP in the financial year ended 30 June 2013.

Shares Issued on Exercise of Options

Since the end of the financial year up to the date of this report no options have been exercised.

Additional disclosures relating to options and shares

The number of ordinary shares in Bluechiip Limited held by or controlled by each KMP of the Group during the financial year is as follows.

2014:

	Balance at 1 July 2013	Granted as remuneration	Purchased during year	On exercise of options	Net change other	Balance at 30 June 2014
30 June 2014						
I Kirkwood ⁽ⁱ⁾	7,602,460	-	1,241,667	-	-	8,844,127
J Chaffey ⁽ⁱⁱ⁾	353,458	100,000	5,000	-	-	458,458
M Morgan ⁽ⁱⁱⁱ⁾	-	-	100,000	-	-	100,000
J Baini ^(iv)	104,000	-	-	-	-	104,000
R Finkel ^(iv)	-	-	158,958	-	-	158,958
B Schwarz ^(v)	7,602,000	-	5,000	-	(7,607,000)	-
Total	15,661,918	100,000	1,510,625	-	(7,607,000)	9,665,543

(i) Mr Iain Kirkwood subscribed in connection with the Company's private placement held on 20 August 2013, to 666,666 ordinary shares and 333,333 free attaching options at an issue price of \$0.15 per share exercisable at a price of \$0.20 each and expiring on 31 December 2014 (refer Note 22(b)(ii) for further detail). The issue of these shares was approved by shareholders at the 2013 AGM.

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Remuneration Report (audited) (continued)

30 June 2014

Additional disclosures relating to options and shares (continued)

(ii) Appointed Acting CEO (former CTO) on 28 January 2014 and subsequently as CEO and Managing Director of the Company on 1 July 2014. The opening balance represents the shareholding as at the date appointment as Acting CEO.

(iii) Appointed on 3 February 2014.

(iv) Resigned 1 August 2014.

(v) Resigned on 27 January 2014. The number of shares held on 27 January 2014 at the time of resignation was 7,607,000.

2013:

	Balance at 1 July 2012	Granted as remuneration	Purchased during year	On exercise of options	Net change other	Balance 30 June 2013
30 June 2013						
I Kirkwood	7,507,460	-	95,000	-	-	7,602,460
B Schwarz	8,186,600	-	6,000	-	(590,600)	7,602,000
J Chaffey	680,037	-	-	-	(326,579)	353,458
J Bains	112,000	-	-	-	(8,000)	104,000
R Finkel	-	-	-	-	-	-
Total	16,486,097	-	101,000	-	(925,179)	15,661,918

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Remuneration Report (audited) (continued)

30 June 2014

Additional disclosures relating to options and shares (continued)

The number of options over ordinary shares in Bluechiip Limited held by each KMP during the financial year is as follows:

	Balance at beginning of year 1 July 2013	Granted as remuneration	Net change Other	Options Exercised	Options Expired #	Balance at end of year 30 June 2014	Vested at 30 June 2014		
							Total	Exercisable	Not exercisable
30 June 2014									
I Kirkwood	4,000,000	-	@ 333,333	-	(4,000,000)	333,333	333,333	333,333	-
J Chaffey	4,000,000	-	-	-	(4,000,000)	-	-	-	-
J Baini	2,000,000	-	-	-	(2,000,000)	-	-	-	-
R Finkel	500,000	-	-	-	(500,000)	-	-	-	-
B Schwarz	8,000,000	-	-	-	(8,000,000)	-	-	-	-
Total	18,500,000	-	333,333	-	(18,500,000)	333,333	333,333	333,333	-

(#) Other than R Finkel's option which expired on 30 June 2014, the rest of the options expired on 31 August 2013

(@) This is in connection with the Company's private placement held on 20 August 2013, under which the Chairman, Mr Iain Kirkwood subscribed to 666,666 ordinary shares in the Company with 333,333 free attaching options exercisable at a price of \$0.20 each and expiring on 31 December 2014 (refer Note 22(b)(ii) for further detail).

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Remuneration Report (audited) (continued)

30 June 2014

Additional disclosures relating to options and shares (continued)

	Balance at beginning of year 1 July 2012	Granted as remuneration	Net change Other	Options Exercised	Balance at end of year 30 June 2013	Vested at 30 June 2013		
						Total	Exercisable	Not exercisable
30 June 2013								
I Kirkwood	4,150,000	-	-	(150,000)	4,000,000	4,000,000	-	4,000,000
B Schwarz	8,000,000	-	-	-	8,000,000	8,000,000	5,333,334	2,666,666
J Chaffey	4,000,000	-	-	-	4,000,000	4,000,000	4,000,000	-
J Baini	2,004,000	-	-	(4,000)	2,000,000	2,000,000	-	2,000,000
R Finkel ⁽ⁱ⁾	-	500,000	-	-	500,000	500,000	-	500,000
Total	18,154,000	500,000	-	(154,000)	18,500,000	18,500,000	9,333,334	9,166,666

(i) On 1 July 2012, Ron Finkel was appointed as Non-Executive Director of the Company. Mr Finkel was allocated 500,000 options at an exercise price of \$0.25 exercisable only if the Company's 5 day VWAP equals or exceeds \$0.375 per share (expiry date: 30 June 2013). The options were issued after having been approved by shareholders at the Company's Annual General Meeting on 19 October 2012.

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Remuneration Report (audited) (continued)

30 June 2014

Alteration to Option Terms and Exercise Price

There has been no alteration to option terms and conditions during or since the end of the financial year up to the date of this report.

Consequences of the Company's Performance on Shareholder Wealth

The following table summarises the Company's performance in the current financial year and the previous three years (as the Company was listed in June 2011).

Measures	30 June 2011	30 June 2012	30 June 2013	30 June 2014
Closing share price at 30 June	\$0.15	\$0.26	\$0.17	\$0.04
Basic Earnings Per Share (cents)	(5.5)	(3.5)	(3.8)	(2.3)
Dividends	None	None	None	None
Loss before income tax	\$3,615,702	\$2,869,685	\$3,586,138	\$2,555,961

In considering the Company's performance and how best to generate shareholder value, the Board has regard to a broad range of factors, some of which are financial and others of which relate to the technical progress on the Company's products and, where applicable, relationship building with technical institutions, projects introduced, internal innovation etc. The Board has some but not absolute regard to the Company's result and cash consumption for the year. It does not utilise earnings per share as a performance measure and does not contemplate consideration of any dividends in the short to medium term given that all efforts are currently being devoted to obtaining value for the Company's assets and where possible building the business and partnerships to establish self-sustaining revenue streams. The Company is of the view that any adverse movement in the Company's share price should not be taken into account in assessing the performance of employees other than the CEO.

Signed in accordance with a resolution of the Board of Directors.



Mr Iain Kirkwood
Chairman

19 September 2014

Bluechiip Limited

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Corporate Governance Statement

30 June 2014

The board of directors of Bluechiip Limited is responsible for establishing the corporate governance framework of the Group having regard to the ASX Corporate Governance Council (CGC) published guidelines (2nd edition) as well as its corporate governance principles and recommendations. The board guides and monitors the business and affairs of Bluechiip Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Company has decided not to report against the 3rd edition of the CGC's recommendations at this time.

The table below summarises the Company's compliance with the CGC's recommendations.

Recommendation		Comply Yes/No	Reference/ explanation	ASX Listing Rule/CGC Recommendations
Principle 1 — Lay solid foundations for management and oversight				
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	Yes	Page 32	ASX CGC 1.1
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Yes	Page 33	ASX CGC 1.2
1.3	Companies should provide the information indicated in the guide to reporting on Principle 1.	Yes	Page 32	ASX CGC 1.3
Principle 2 — Structure the board to add value				
2.1	A majority of the board should be independent directors.	Yes	Page 34	ASX CGC 2.1
2.2	The chair should be an independent director.	Yes	Page 34	ASX CGC 2.2
2.3	The roles of chair and chief executive officer (CEO) should not be exercised by the same individual.	Yes	Page 34	ASX CGC 2.3
2.4	The board should establish a nomination committee.	Yes	Page 36	ASX CGC 2.4
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Yes	Page 35	ASX CGC 2.5
2.6	Companies should provide the information indicated in the guide to reporting on Principle 2.	Yes	Page 35	ASX CGC 2.6
Principle 3 — Promote ethical and responsible decision-making				
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> The practices necessary to maintain confidence in the company's integrity The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders The responsibility and accountability of individuals for reporting and investigating reports of unethical practices 	Yes	Website	ASX CGC 3.1

Bluechiip Limited

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Corporate Governance Statement (continued)

	Recommendation	Comply Yes/No	Reference/ explanation	ASX Listing Rule/CGC Recommendations
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.	Yes	Website Page 41	ASX CGC 3.2
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them	No	Page 42	ASX CGC 3.4
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executives positions and women on the board	No	Page 42	ASX CGC 3.5
3.5	Companies should provide the information indicated in the guide to reporting on Principle 3.	Yes	Page 41	ASX CGC 3.3
Principle 4 — Safeguard integrity in financial reporting				
4.1	The board should establish an audit committee.	Yes	Page 37	ASX CGC 4.1
4.2	The audit committee should be structured so that it: <ul style="list-style-type: none"> • Consists only of non-executive directors • Consists of a majority of independent directors • Is chaired by an independent chair, who is not chair of the board • Has at least three members 	No	Page 37	ASX CGC 4.2 ASX LR 12.7
4.3	The audit committee should have a formal charter.	Yes	Page 37	ASX CGC 4.3
4.4	Companies should provide the information indicated in the guide to reporting on Principle 4.	Yes	Website	ASX CGC 4.4
Principle 5 — Make timely and balanced disclosure				
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes	Website	ASX CGC 5.1
5.2	Companies should provide the information indicated in the guide to reporting on Principle 5.	Yes	Page 41	ASX CGC 5.2
Principle 6 — Respect the rights of shareholders				
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Yes	Page 41	ASX CGC 6.1
6.2	Companies should provide the information indicated in the guide to reporting on Principle 6.	Yes	Page 41	ASX CGC 6.2

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Corporate Governance Statement (continued)

	Recommendation	Comply Yes/No	Reference/ explanation	ASX Listing Rule/CGC Recommendations
Principle 7 — Recognise and manage risk				
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes	Website, Page 38	ASX CGC 7.1
7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Yes	Page 39	ASX CGC 7.2
7.3	The board should disclose whether it has received assurance from the CEO [or equivalent] and the Chief Financial Officer (CFO) [or equivalent] that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes	Page 40	ASX CGC 7.3
7.4	Companies should provide the information indicated in the guide to reporting on Principle 7.	Yes	Page 38	ASX CGC 7.4
Principle 8 — Remunerate fairly and responsibly				
8.1	The board should establish a remuneration committee.	Yes	Page 36	ASX CGC 8.1
8.2	The remuneration committee should be structured so that it: <ul style="list-style-type: none"> Consists of a majority of independent directors Is chaired by an independent chair Has at least three members 	No	Page 37 Also see Remuneration Report	ASX CGC 8.2
8.3	Companies should clearly distinguish the structure of nonexecutive directors' remuneration from that of executive directors and senior executives.	Yes	Refer to Remuneration Report	ASX CGC 8.2
8.4	Companies should provide the information indicated in the guide to reporting on Principle 8.	Yes	Page 36	ASX CGC 8.3

Bluechiip Limited's corporate governance practices were in place throughout the year ended 30 June 2014.

Various corporate governance practices are discussed within this statement. For further information on corporate governance policies adopted by Bluechiip Limited, refer to our website:

<http://www.bluechiip.com/about-us/corporate-governance-2/>

Board functions

The board monitors the business affairs of the Company on behalf of holders of the Company's securities and have formally adopted corporate governance policies which are designed to encourage directors to focus their attention on, amongst other things, accountability, risk management and ethical conduct.

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Corporate Governance Statement (continued)

Board functions (continued)

The board seeks to identify the expectations of the Company's shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

To ensure that the board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of directors and for the operation of the board.

The responsibility for the day-to-day operation and administration of the Company is delegated, by the board, to the Managing Director and CEO and by him to other senior employees. The board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the Managing Director and other employees.

Whilst at all times the board retains full responsibility for guiding and monitoring the Company, in discharging its stewardship it makes use of sub-committees. Specialist sub-committees are able to focus on a particular responsibility and provide informed feedback to the board.

To this end the board has established the following committees:

- Audit Committee; and
- Remuneration and Nominations Committee.

The roles and responsibilities of these committees are discussed in this corporate governance statement.

The board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the board. The board has a number of mechanisms in place to ensure this is achieved and to this end the Board is ultimately responsible for:

- setting overall financial goals for the Company;
- approving strategies, objectives and plans for the Company's businesses to achieve these goals;
- ensuring that business risks are identified and approving systems and controls to manage those risks and monitor compliance;
- approving the Company's major HR policies and overseeing the development strategies for senior and high performing executives;
- approving financial plans and annual budgets;
- monitoring financial results on an on-going basis;
- monitoring executive management and business performance in the implementation and achievement of strategic and business objectives;
- approving key management recommendations (such as major capital expenditure, acquisitions, divestments, restructuring and funding);
- appointing and removing the Managing Director and ratifying the appointment and removal of executives reporting directly to the Managing Director (senior executives);
- reporting to shareholders on the Company's strategic direction and performance including constructive engagement in the development, execution and modification of the Company's strategies;
- overseeing the management of occupational health and safety and environmental performance;
- determining that satisfactory arrangements are in place for auditing the Company's financial affairs;
- meeting statutory and regulatory requirements and overseeing the way in which business risks and the assets of the Company are managed.

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Corporate Governance Statement (continued)

Structure of the board

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report are included in the directors' report.

Directors of Bluechiip Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with — or could reasonably be perceived to materially interfere with — the exercise of their unfettered and independent judgement.

In the context of director independence, "materiality" is considered from both the Company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount.

Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors that point to the actual ability of the director in question to shape the direction of the Group's loyalty.

In accordance with the definition of independence above, and the materiality thresholds set, the following directors of Bluechiip Limited are considered to be independent having regard to the CGC's recommendations:

Name	Position
Mr Iain Kirkwood	Non-executive Chairman
Mr Matthew Morgan	Non-executive director (appointed 3 February 2014)
Mr Joe M Baini	Non-executive director (resigned 1 August 2014)
Mr Ron Finkel	Non-executive director (resigned 1 August 2014)

Dr Jason Chaffey (and before him Mr Brett Schwarz) is the Managing Director and Chief Executive Officer and is therefore not independent.

The board recognises the Corporate Governance Council's recommendation that the Chair should be an independent director. The board further recognises that Mr Kirkwood may not be viewed as independent as he is a substantial shareholder of the Company and has served as a director for a significant period of time and, throughout the period ended 30 June 2014 was also executive director from 28 January 2014 to 30 June 2014.

Nevertheless, the board considers that Mr Kirkwood's substantial shareholding does not impair his independence and, in fact, aligns his interests more closely with those of the Company's shareholders. Further, the board believes that Mr Kirkwood is the most appropriate person to lead the board and that he is able to and does bring quality and independent judgement to all relevant issues falling within the scope of the role of Chairman and that the Company as a whole benefits from his long standing experience of its operations and business relationships.

The Board believes that each of the Directors can make, and do make, quality and independent judgements in the best interests of the Company. Any Director who has a conflict of interest in relation to a particular item of business must declare their conflict and abstain from voting or participating in Board deliberations to which a conflict of interest relates.

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Corporate Governance Statement (continued)

Structure of the board (continued)

The board charter gives each director the right, with the prior approval of the Chairman, not to be withheld except in case of an unreasonable request, to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings in order to fulfil his or her duties and responsibilities as a director.

The term in office held by each director in office at the date of this report is as follows:

Name	Term in office
Mr Iain Kirkwood	6 years and 11 months
Dr Jason Chaffey	Appointed CEO/Managing Director on 1 July 2014
Mr Matthew Morgan	Appointed 3 February 2014
Mr Joe Baini	Resigned 1 August 2014
Mr Ron Finkel	Resigned 1 August 2014
Mr Brett Schwarz	Resigned 27 January 2014

For additional details regarding board appointments, please refer to the Company's website.

Accordingly, the board considers that 2 of the Company's 3 directors (including the chair) are currently independent and that the Company complies with CGC recommendations 2.1 and 2.2.

Performance

The performance of key executives is reviewed regularly against both measurable and qualitative indicators.

The Nominations and Remuneration Committee periodically conducts a review of the role of the board, to assess performance and to examine ways of assisting the board in performing its duties more effectively. Such a review typically includes:

- (a) comparing the performance of the board with the requirements of its Charter;
- (b) examination of the board's interaction with management;
- (c) the nature of information provided to the board by management; and
- (d) management's performance in assisting the board to meet its objectives.

Similar reviews are periodically conducted for each committee by the board with the aim of assessing the performance of each committee and identifying areas where improvements can be made.

A formal performance evaluation for the board, its committees and the directors has not taken place during the reporting period however the Chairman has, together with the other directors, informally surveyed the role of the board and has assessed the performance of the directors. The directors consider that the current size and structure of the board is appropriate and, at the present time, consider that a more structured review/evaluation process is unlikely to add any material value and that the board's existing time and resources are better utilised in assisting with the execution of the Company's strategies.

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Corporate Governance Statement (continued)

Performance (continued)

The board, with the assistance of the Nominations and Remuneration Committee, oversees the performance evaluation of the Managing Director and other senior executives. The evaluation is based on specific criteria, including the business performance of the Company, whether strategic objectives are being achieved and the development of management and personnel. A performance evaluation for the Managing Director and other senior employees occurred in February 2014. The board has closely reviewed the performance of the Managing Director since January 2014. Since that time the board has not completed a formal performance evaluation for the Managing Director and other senior executives against those KPIs.

The board notes that the size of the Company and the executive team is such that performance is able to be monitored on an ongoing basis.

Under the Company's securities trading policy, an executive or director must not trade in any securities of the Company at any time when they are in possession of unpublished, price-sensitive information in relation to those securities.

Before commencing to trade, an executive must first obtain the approval of the Company Secretary to do so and a director must first obtain approval of the Chairman.

Only in exceptional circumstances will approval be forthcoming inside of the following periods:

- 1 July until the business day after the release of the full year results;
- 1 January until the business day after the release of the half-yearly results; and
- Any additional periods imposed by the board from time to time

As required by the ASX listing rules, the Company notifies the ASX of any transaction conducted by directors in the securities of the Company.

Nomination and remuneration committee

The board has established a nomination and remuneration committee, which meets at least annually. During the year, some Remuneration and Nomination Committee matters were dealt with in meetings of Directors, but with executive personnel absent.

The nomination and remuneration committee reviews the corporate governance procedures of the Company and the composition and effectiveness of the Board. In addition to proposing candidates for director appointment for the Board's consideration, the nomination and remuneration committee reviews fees payable to non-executive directors and reviews and advises the Board in relation to chief executive officer succession planning.

The primary purpose of the nomination and remuneration committee is to support and advise the Board in fulfilling its responsibilities to shareholders in ensuring that the Board is appropriately structured and comprised of individuals who are best able to discharge the responsibilities of directors by:

- assessing the size, composition, diversity and skills required by the board to enable it to fulfil its responsibilities to shareholders, having regard to the Company's current and proposed scope of activities;
- assessing the extent to which the required knowledge, experience and skills are represented on the board;
- establishing processes for the identification of suitable candidates for appointment to the board;
- overseeing succession planning for the Board and CEO;

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Corporate Governance Statement (continued)

Nomination and remuneration committee (continued)

- establishing processes for the review of the performance of individual directors and the Board as a whole;
- assessing the terms of appointment and remuneration arrangements for non-executive directors.

The nomination and remuneration committee comprises independent non-executive directors.

The nomination and remuneration committee during the year comprised the following members:

Joe Baini	Chairman (Resigned 1 August 2014)
Iain Kirkwood	Chairman (Appointed 1 August 2014)
Ron Finkel	Resigned 1 August 2014
Matthew Morgan	Appointed 3 February 2014

For details of directors' attendance at meetings of the nominations and remuneration committee, refer to the Directors' Report.

All of the recommendations of the CGC as to the structure of the remuneration committee have been complied with during the financial year.

The Nomination Committee has a separate charter which describes its role, composition, functions and responsibilities. A copy of the charter is set out on the Company's website.

Audit committee

The board has established an audit committee, which operates under a charter approved by the board. A copy of the charter is set out on the Company's website

It is the board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The board has delegated responsibility for establishing and maintaining a framework of internal control and ethical standards to the audit committee.

The committee also provides the board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the audit committee are non-executive directors.

The members of the audit committee during the year were:

Iain Kirkwood	Independent and Chairman (from 1 July 2013 until 3 February 2014)
Matthew Morgan	Independent Chairman (appointed from 3 February 2014)
Joe Baini	Independent (Resigned 1 August 2014)

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Corporate Governance Statement (continued)

Audit committee (continued)

Qualifications of audit committee members

Iain Kirkwood is a Fellow of CPA Australia and a qualified Chartered Accountant with 35 years' experience in a range of industries. He has served as Chairman of the Company since November 2007. He is director of a number of companies, where as part of his role he serves as a member of the audit committee.

Joe Baini has more than 20 years' experience in the pharmaceutical industry, focused on commercialization, marketing and sales including partnership, government and licensing negotiations.

Matthew Morgan holds a Masters of Business Administration and has significant experience and expertise in private equity and corporate transactions. He has served as a member of the audit committee for Diversa Limited (DVA: ASX) for the past 5 years.

For details on the number of meetings of the audit committee held during the year and the attendees at those meetings, refer to the directors' report.

CGC recommendation 4.2 as to the structure of the audit committee has not been fully complied with during the reporting period as the audit committee does not have at least 3 members and for part of the year the chairman of the audit committee was also the chair of the board and served in an executive capacity.

The board acknowledges that the audit committee does not have at least 3 members as recommended by the CGC however the Company does not consider that the cost and expense of identifying and appointing an additional independent non-executive director would be in the interests of shareholders. The Company notes that the Audit Committee currently consists of only non-executive directors who are all considered independent and is chaired by an independent chair who is not otherwise the chair of the board. Accordingly it complies with all other requirements of GGC 4.2.

For additional details regarding the audit committee, including a copy of its charter, please refer to our website.

Risk

The board has continued its proactive approach to risk management. The identification and effective management of risk, including calculated risk-taking is viewed as an essential part of the Company's approach to creating long-term shareholder value.

The Board is responsible for overseeing the establishment and implementation of effective risk management and internal control systems to manage the Company's material business risks and for reviewing and monitoring the Company's application of these systems. In doing so the board has taken the view that it is crucial for all board members to be a part of this process and as such, has not established a separate risk management committee.

Implementation of the risk management system and day-to-day management of risk is the responsibility of the Managing Director, with the assistance of senior management. The Managing Director is responsible for regularly reporting directly to the Board on all matters associated with risk management, including whether the Company's material business risks are being managed effectively. In fulfilling his duties, the Managing Director has unrestricted access to company employees, contractors and records and may obtain independent expert advice on any matter he believes appropriate, with the approval of the Board.

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Corporate Governance Statement (continued)

Risk (continued)

In addition, the Company maintains a number of policies and practices designed to manage specific business risks. These include:

- Audit Committee and Audit Committee Charter;
- insurance programs;
- regular budgeting and financial reporting;
- clear limits and authorities for expenditure levels;
- procedures/controls to manage environmental and occupational health and safety matters;
- procedures for compliance with continuous disclosure obligations under the ASX listing rules; and
- procedures to assist with establishing and administering corporate governance systems and disclosure requirements.

The Managing Director has reported to the Board as to the effectiveness of the implementation of the Company's risk management and internal control system.

The Company's risk management system is an ongoing process. It is recognised that the level and extent of the risk management system will evolve commensurate with the evolution and growth of the Company's activities. Further information on financial risk management is outlined in Note 3 to the financial statements.

For the purposes of assisting investors to understand better the nature of the risks faced by Bluechiip Limited, the board has prepared a list of operational risks as part of the Principle 7 disclosures. However the board notes that this does not necessarily represent an exhaustive list and that it may be subject to change based on underlying market events.

- Inherent uncertainties that exist in any development/commercialisation program for new technology. The ability to manufacture products using bluechiip® technology for commercial purposes either at all or at a price that facilitates adoption and use of these products;
- Ability to raise sufficient funds (via the debt or equity capital markets) to fund the Company's development/commercialisation programme;
- The intellectual property of the Company may become subject to claims;
- Commercial adoption of the bluechiip technology is delayed or fails to achieve the levels expected by the Company by reason of competition from new and existing competitors and technologies;
- Failure to achieve commercial levels of sales;
- The occurrence of force majeure events by significant suppliers;
- Increasing costs of operations, including labour costs, materials, suppliers or other items and equipment

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Corporate Governance Statement (continued)

CEO and CFO certification

In accordance with section 295A of the Corporations Act, the Managing Director and CEO and the Senior Financial Accountant have provided a written statement to the board that:

- Their view concerning the Company's financial report is founded, to the best of their knowledge, on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the board; and
- The Company's risk management and internal compliance and control system is operating effectively in all material respects.

The board agrees with the views of the ASX on this matter and notes that due to its nature, internal control assurance from the Managing Director and CEO can only be reasonable rather than absolute. This is due to such factors as the need for judgement, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence available is persuasive rather than conclusive and therefore is not and cannot be designed to detect all weaknesses in control procedures.

Remuneration

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the remuneration committee links the nature and amount of executive directors' and officers' remuneration to the Company's financial and operational performance. The expected outcomes of the remuneration structure are:

- Retention and motivation of key executives
- Attraction of high quality management to the Company
- Performance incentives that allow executives to share in the success of Bluechiip Limited

For a full discussion of the Company's remuneration philosophy and framework and the remuneration received by directors and executives in the current period please refer to the remuneration report, which is contained within the directors' report.

There is no scheme to provide retirement benefits to non-executive directors.

The board has adopted a policy of prohibiting the entry by the directors or any senior executive into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity based remuneration scheme.

The board is responsible for determining and reviewing compensation arrangements for the directors themselves, the Managing Director and executive team. The board has established a remuneration and nominations committee, comprising two non-executive directors. Members of the remuneration committee throughout the year were:

Joe Bains (Committee Chairman – resigned 1 August 2014)

Iain Kirkwood (Committee Chairman from 1 August 2014)

Ron Finkel (resigned 1 August 2014)

Matthew Morgan (from 3 February 2014)

For details on the number of meetings of the remuneration committee held during the year and the attendees at those meetings, refer to the directors' report.

For additional details regarding the remuneration committee, including a copy of its charter, please refer to our website.

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Corporate Governance Statement (continued)

Continuous Disclosure

The board has adopted a continuous disclosure policy which is designed to ensure compliance with ASX listing rule disclosure requirements. A copy of the Company's policy on disclosure is contained on our website.

Shareholder communication policy

Pursuant to CGR Principle 6, Bluechiip's objective is to promote effective communication with its shareholders at all times. Bluechiip Limited is committed to:

- Ensuring that shareholders and the financial markets are provided with full and timely information about Bluechiip Limited's activities in a balanced and understandable way
- Complying with continuous disclosure obligations contained in the ASX listing rules and the *Corporations Act* in Australia
- Communicating effectively with its shareholders and making it easier for shareholders to communicate with Bluechiip Limited

To promote effective communication with shareholders and encourage effective participation at general meetings, information is communicated to shareholders:

- Through the release of information to the market via the ASX
- Through the distribution of the annual report and notices of annual general meeting
- Through shareholder meetings and investor relations presentations
- Through letters and other forms of communications directly to shareholders
- By posting relevant information on Bluechiip Limited's website:
<http://www.bluechiip.com/governance/index.html>

The external auditors are required to attend the Annual General Meeting and are available to answer any shareholder questions about the conduct of the audit and preparation of the audit report.

Our shareholder communications policy is contained in the Corporate Governance section of our website.

Diversity

Bluechiip is committed to workplace diversity and has had in place a formal diversity policy since June 2011.

We recognise the benefits of diversity where people from different backgrounds can bring fresh ideas and perceptions which make the way work is done more efficient; and products and services more valued.

Diversity includes, but is not limited to, gender, age, ethnicity, religion and cultural background. Diversity also encompasses the many ways people differ in terms of their education, life experience, job function, work experience, personality, location, marital status and carer responsibilities.

Diversity at Bluechiip is about the commitment to equality and the treating of all individuals with respect.

Bluechiip understands that the wide array of perspectives resulting from such diversity promotes innovation and business success which creates value for our customers and shareholders.

To the extent practicable, Bluechiip supports and will address the recommendations and guidance provided in the ASX Corporate Governance Principles and Recommendations.

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Corporate Governance Statement (continued)

Diversity (continued)

Measures designed to promote diversity at Bluechiip include:

- **Recruitment:** Bluechiip has recruited people from different backgrounds. We believe that our employees from many different cultural, linguistic and national backgrounds provide us with valuable knowledge and a skilled base in order to improve Company performance.
- **Career Development and Promotion:** Bluechiip facilitates equal employment opportunities based on relative ability, performance or potential. All employees are treated fairly and evaluated objectively.
- **Safe Work Environment:** Bluechiip helps to build a safe work environment by taking action against inappropriate workplace and business behaviour that does not value diversity including discrimination, harassment, bullying, victimisation and vilification.
- **Development Programs:** Bluechiip is involved in programs such as in-house workplace development programs, mentoring programs, targeted training and development to improve the quality of decision-making, productivity and teamwork. Bluechiip is trying to enhance its customer service and market reputation through a workforce that respects and reflects the diversity of our customers.
- **Flexibility in the Workplace:** Bluechiip has a culture which takes account of domestic responsibilities of its employees.

The Diversity Policy provides for the Board to develop an appointment process for future directors that takes diversity of background into account to fit and enhance the Board skills matrix.

In order to promote the specific objective of gender diversity, the Diversity Policy requires that the selection process for new Board appointments must involve the following steps:

- a short-list identifying potential candidates for the appointment must be compiled and must include at least one female candidate; and
- if, at the end of the selection process, a female candidate is not selected, the Board must be satisfied that there are objective reasons to support its determination.

The Bluechiip Board is committed to workplace diversity, with a particular focus on supporting the representation of women at the senior level of Bluechiip's management. While there is currently no gender diversity on the Board, the Board is made up of individuals from various professions, cultures, and backgrounds. The board has not determined to adopt a particular mix of skills and diversity for which the board is looking to achieve by way of board composition preferring to have regard to:

- the need for independence;
- the strategic direction and progress of the Company; and
- the geographic spread and diversity of the Company's business.

The Company aims to achieve an appropriate mix of diversity on its board, in senior management and throughout the organisation. The Board has determined that no measurable objectives will be set until the number of employees and level of activities of the Company increases to a level sufficient to enable meaningful and achievable objectives to be developed.

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Consolidated Statement of Financial Position

As at 30 June 2014

	Note	2014 \$	2013 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	11	609,684	867,084
Trade and other receivables	12	659,640	1,138,890
Other current assets	13	234,233	260,394
Inventory	14	141,395	73,555
TOTAL CURRENT ASSETS		1,644,952	2,339,923
NON-CURRENT ASSETS			
Property, plant and equipment	15	143,195	70,027
TOTAL NON-CURRENT ASSETS		143,195	70,027
TOTAL ASSETS		1,788,147	2,409,950
LIABILITIES			
CURRENT LIABILITIES			
Trade, other payables and deferred revenue	16	473,475	701,464
Interest-bearing loans and borrowings	17	252,657	941,843
Employee entitlements	18	127,016	144,915
TOTAL CURRENT LIABILITIES		853,148	1,788,222
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	17	4,857	15,270
Employee entitlements	18	5,573	39,992
TOTAL NON-CURRENT LIABILITIES		10,430	55,262
TOTAL LIABILITIES		863,578	1,843,484
NET ASSETS		924,569	566,466
EQUITY			
Issued capital	19	17,667,151	14,795,453
Reserves	20	4,715,025	4,672,659
Accumulated losses		(21,457,607)	(18,901,646)
TOTAL EQUITY		924,569	566,466

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Consolidated Statement of Comprehensive Income

For the Year Ended 30 June 2014

	Note	2014 \$	2013 \$
Revenue from operating activities	6	41,937	84,781
Cost of sales		(163,752)	-
Other income	7	742,043	1,158,291
Employee benefits expense		(1,078,647)	(1,212,814)
Share based payment expense - shares	20, 24(c)	(93,331)	(832,824)
Business development		(225,573)	(140,933)
Depreciation, amortisation and impairments	8 (b)	(38,027)	(34,332)
Research and Development		(404,789)	(1,344,663)
Patent costs		(63,267)	(42,407)
Consultancy fees		(262,195)	(180,192)
Travel and accommodation		(111,900)	(244,316)
Occupancy costs		(50,579)	(46,463)
Legal and professional fees		(274,721)	(297,410)
Trademark expenses		-	(2,889)
Finance costs	8 (a)	(115,752)	(16,931)
Other expenses	8 (c)	(457,408)	(433,036)
Loss before income tax		(2,555,961)	(3,586,138)
Income tax	9	-	-
Net loss after income tax		(2,555,961)	(3,586,138)
Total comprehensive income/(loss) for the year		(2,555,961)	(3,586,138)
Earnings per share			
Basic earnings (loss) per share (cents)	10	(2.3)	(3.8)
Diluted earnings (loss) per share (cents)	10	(2.3)	(3.8)

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Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2014

	Note	Ordinary Shares \$	Employee Equity Benefits Reserve \$	Accumulated Losses \$	Total \$
At 1 July 2013		14,795,453	4,672,659	(18,901,646)	566,466
Shares issued during the year	19(a)	3,065,913	-	-	3,065,913
Transaction costs on share issue	19(a)	(194,215)	-	-	(194,215)
Share base payment expense	20	-	42,366	-	42,366
Total comprehensive income/(loss) attributable to members of the entity		-	-	(2,555,961)	(2,555,961)
At 30 June 2014		17,667,151	4,715,025	(21,457,607)	924,569

	Note	Ordinary Shares \$	Employee Equity Benefits Reserve \$	Accumulated Losses \$	Total \$
At 1 July 2012		12,225,146	3,839,835	(15,315,508)	749,473
Shares issued during the year	19(a)	2,713,765	-	-	2,713,765
Transaction costs on share issue	19(a)	(143,458)	-	-	(143,458)
Share base payment expense	20	-	832,824	-	832,824
Total comprehensive income/(loss) attributable to members of the entity		-	-	(3,586,138)	(3,586,138)
At 30 June 2013		14,795,453	4,672,659	(18,901,646)	566,466

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Consolidated Statement of Cash Flows

For the Year Ended 30 June 2014

	Note	2014 \$	2013 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		13,853	104,501
Receipts from government grants		97,085	-
Payments to suppliers and employees		(3,418,367)	(3,958,728)
Interest received		19,911	19,657
Interest paid		(51,118)	(409)
R&D tax concession received		1,138,840	919,843
Net cash flows used in operating activities	21	(2,199,796)	(2,915,136)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(113,237)	(20,772)
Net cash flows used in investing activities		(113,237)	(20,772)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares		3,055,163	2,683,765
Transaction costs on share issue		(210,364)	(160,067)
Transaction costs on borrowings		(38,170)	-
Proceeds from borrowings		251,397	834,618
Repayment of borrowings		(1,002,393)	(71,133)
Net cash flows from financing activities		2,055,633	3,287,183
Net increase/ (decrease) in cash held		(257,400)	351,275
Cash and cash equivalents at beginning of financial year		867,084	515,809
Cash and cash equivalents at end of financial year	11	609,684	867,084

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Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2014

Note 1 Corporate Information

The consolidated financial report of Bluechiip Limited for the year ended 30 June 2014 was authorised for issue in accordance with a resolution of the directors on 19 September 2014.

Bluechiip Limited (the Parent) is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

Note 2 Summary of Significant Accounting Policies

Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis and the Group is a for-profit entity.

The financial report is presented in Australian dollars and all values are rounded to the nearest dollar unless otherwise stated.

Going Concern

The financial report has been prepared on a going concern basis which takes account of the Group's assets and liabilities and assumes that funds will be obtained from several sources including:

- sales revenue is anticipated to be generated over the next twelve months;
- potential receipt of funds from option holders exercising their options within the next twelve months;
- grants from the Australian state and federal governments, and from overseas sources which the Group continues to actively pursue;
- receipts from the Federal R&D Tax incentive programme on the basis that the Group continues to qualify for these receipts;
- up-front license fees, milestone payments, co-development or collaboration funding from third party joint ventures may be generated within the next twelve months; and
- raising further capital during the year

Subsequent to year end, the Company completed a capital raising of \$1,095,000 to sophisticated and professional investors via a placement comprising 10,950,000 ordinary fully paid shares at \$0.10 per ordinary share with one free attached unlisted share option per new share issued with an exercise price of \$0.13 per option with an expiry 31 March 2015 (options have not been issued and approval for their issue will be sought at the Company's 2014 AGM). In addition, the Company also announced a SPP which will allow participation from eligible existing Bluechiip's shareholders to purchase further fully paid ordinary shares in the Company at \$0.10 per share.

The Directors cannot be certain of the success or of the timing of these receipts, however, the Directors will continue to plan the Group's operations on the basis that the sources identified above are in progress and believe that its activities will allow the availability of sufficient funds together with the existing assets, for the Group to operate for a period of not less than twelve months from the date of this financial report.

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

Note 2 Summary of Significant Accounting Policies (continued)

Basis of Preparation (continued)

Going Concern (continued)

In the event that such activities are not entered into or concluded on a timely basis, there is likely to be material uncertainty whether the Group will continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

The financial statements take no account of the consequences, if any, of the effect of

- An inability to generate sales revenue and the associated cash flows; or
- An inability of the Group to obtain adequate funding.

The carrying value of assets including inventories and advances to manufacturers are assessed on the basis that the Group will continue as a going concern. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts, nor to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

(a) Compliance with IFRS

The financial report complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(i) Changes in accounting policy and disclosures.

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following amended Australian Accounting Standards and AASB Interpretations as of 1 July 2013:

- AASB 10 - Consolidated Financial Statements - AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and UIG-112 Consolidation - Special Purpose Entities. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.
- AASB 12 - Disclosure of Interests in Other Entities - AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates, structured entities and subsidiaries with non-controlling interests.
- AASB 13 - Fair Value Measurement - AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. Consequential amendments were also made to other standards via AASB 2011-8.

- AASB 119 - Employee Benefits - The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date.
- AASB 2011-4 - Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124] - This amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies. It also removes the individual KMP disclosure requirements for all disclosing entities in relation to equity holdings, loans and other related party transactions.

The adoption of the Standards or Interpretations did not have a significant impact on the financial statements or performance of the Group.

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

Note 2 Summary of Significant Accounting Policies (continued)

(b) New Accounting Standards and Interpretations

(ii) Accounting Standards and Interpretations issued but not yet effective.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June 2014 are outlined below:

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2013-3	Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets	AASB 2013-3 amends the disclosure requirements in AASB 136 Impairment of Assets. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.	1 January 2014	1 July 2014

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2014-1 Part A - Annual Improvements 2010–2012 Cycle	Amendments to Australian Accounting Standards - Part A Annual Improvements to IFRSs 2010–2012 Cycle	<p>Annual Improvements to IFRSs 2010–2012 Cycle addresses the following items:</p> <ul style="list-style-type: none"> ▶ AASB 2 - Clarifies the definition of 'vesting conditions' and 'market condition' and introduces the definition of 'performance condition' and 'service condition'. ▶ AASB 116 & AASB 138 - Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts. ▶ AASB 124 - Defines a management entity providing KMP services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of AASB 124 for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be separately disclosed. 	1 July 2014	1 July 2014
AASB 1031	Materiality	The revised AASB 1031 is an interim standard that cross-references to other Standards and the <i>Framework</i> (issued December 2013) that contain guidance on materiality.	1 January 2014	1 July 2014

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 9/ IFRS 9	Financial Instruments	<p>AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.</p> <p>The final version of IFRS 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. A revised version of AASB 9 (AASB 2013-9) was issued in December 2013 which included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.</p>	1 January 2018	1 July 2018

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

Reference	Title	Summary	Application date of standard	Application date for Group
IFRS 15	Revenue from Contracts with Customers	<p>In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which replaces IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations (IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue—Barter Transactions Involving Advertising Services)</p> <p>The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:</p> <ul style="list-style-type: none"> (a) Step 1: Identify the contract(s) with a customer (b) Step 2: Identify the performance obligations in the contract (c) Step 3: Determine the transaction price (d) Step 4: Allocate the transaction price to the performance obligations in the contract (e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation <p>Early application of this standard is permitted.</p>	1 January 2017	1 July 2017

Adoption of other standards and amendments that have been issued but are not yet effective is not expected to have a significant impact on the Group's financial report.

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

Note 2 Summary of Significant Accounting Policies (continued)

(c) Basis of Consolidation

The consolidated financial statements comprise the financial statements of Bluechiip Limited and its subsidiaries (the Group) (as outlined in Note 29) as at and for the year ended 30 June 2014.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee.

The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

(d) Foreign currency translation

(i) Functional and presentation currency

Both the functional and presentation currency of Bluechiip Limited and its subsidiaries are in Australian dollars (\$).

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

Note 2 Summary of Significant Accounting Policies (continued)

(e) Cash and Cash Equivalents – refer Note 11

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

(f) Trade and other receivables – refer Note 12 and 13

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Other receivables relate largely to the R&D tax incentive.

Collectability of trade and other receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 90 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

(g) Inventories – refer Note 14

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Finished goods, raw materials and work in progress: Purchase cost on a first in, first out basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Amounts paid to manufacturer as advances are recorded as Other Current Assets on the Statement of Financial Position and also recognised under the same valuation principles as inventory.

(h) Non-current assets – refer Note 15

(i) Property, Plant and Equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in the Statement of Comprehensive Income as incurred.

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

Note 2 Summary of Significant Accounting Policies (continued)

(h) Non-current assets – refer Note 15 (continued)

(i) Property, Plant and Equipment (continued)

Depreciation is calculated on a diminishing value method basis over the estimated useful life of the specific assets as follows:

Computer & Office Equipment – 10% to 66.67%

Furniture and Fittings – 10% to 20%

Technical Equipment and Tools – 10% to 66.67%

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

(ii) Software

Software is recorded at cost. Software has a finite life and is carried at cost less any accumulated amortisation and impairment losses. It has an estimated useful life of two and a half years and is amortised using the straight line method at 40% per annum.

(i) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the Group are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the year.

Leased assets are depreciated on a reducing balance basis over the shorter of their estimated useful lives where it is likely that the Group will obtain ownership of the asset or over the term of the lease.

Operating lease payments are recognised as an operating expense in the Statement of Comprehensive Income on a straight-line basis over the lease term.

Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

(j) Impairment of non-financial assets

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Bluechiip Limited conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

Note 2 Summary of Significant Accounting Policies (continued)

(j) Impairment of non-financial assets (continued)

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(k) Research and development costs

Research and development costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

No development costs have been capitalised to date.

(l) Trade and other payables – refer Note 16

Trade and other payables are carried at amortised cost and due to their short-term nature they are not discounted. 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 between 30 days and 60 days of recognition.

(m) Interest-bearing loans and borrowings – refer Note 17

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

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 reporting date.

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

Note 2 Summary of Significant Accounting Policies (continued)

(n) Provisions and Employee Benefits – refer Note 18

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

Employee leave benefits

(i) Short term benefits

Liabilities for wages and salaries, including non-monetary benefits and certain annual leave benefits expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. Annual leave balances that are expected to be settled after 12 months are measured at present value. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long term benefits

The liability for long service leave and certain annual leave benefits are recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and years of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

Note 2 Summary of Significant Accounting Policies (continued)

(o) Share-based payment transactions – refer Note 24

(i) Equity-settled transactions

The Group provides benefits to its employees and directors (including key management personnel) in the form of share-based payments, whereby services are rendered in exchange for shares or rights over shares (equity-settled transactions).

There are currently two plans in place to provide these benefits:

- The Employee Share Option Plan (ESOP), which provides benefits to directors and senior executives; and
- The Employee Share Acquisition Plan (ESAP), which provides benefits to all employees, including KMP.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial option pricing model, or a barrier option pricing model for options with market based performance hurdles.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than (if applicable):

- Non-vesting conditions that do not determine whether the Group or Company receives the services that entitle the employees to receive payment in equity or cash; and
- Conditions that are linked to the price of the shares of Bluechiip Limited (market conditions).

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the Statement of Comprehensive Income is the product of:

- (a) The grant date fair value of the award;
- (b) The current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and
- (c) The expired portion of the vesting period.

The charge to the Statement of Comprehensive Income for the year is the cumulative amount as calculated above less the amounts already charged in previous years. There is a corresponding entry to equity.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition or non-vesting condition is considered to vest irrespective of whether or not that market condition or non-vesting is fulfilled, provided that all other conditions are satisfied.

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

Note 2 Summary of Significant Accounting Policies (continued)

(o) Share-based payment transactions — refer Note 24 (continued)

If a non-vesting condition is within the control of the Group, Company or the employee, the failure to satisfy the condition is treated as a cancellation. If a non-vesting condition within the control of neither the Group, Company nor employee is not satisfied during the vesting period, any expense for the award not previously recognised is recognised over the remaining vesting period, unless the award is forfeited.

(i) Equity-settled transactions (continued)

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see Note 10).

(p) Contributed equity — refer Note 19

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, net of tax, from the proceeds.

(q) Revenue recognition — refer Notes 6 and 7

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sales revenue

Sales revenue comprises revenue earned (net of returns, discounts and allowances) from the provision of services and products to purchasers external to the Group. Sales revenue from services is recognised in the Statement of Comprehensive Income when the services are performed, generally on a billing entitlement basis, net of any discounts and matched against related cost incurred. Where fixed price contracts are used, revenue recognition is based on stage of completion. The stage of completion is measured by reference to the labour hours incurred to-date as a percentage of estimated total labour hours. Revenue from the sale of goods is recognised when significant risk and rewards of ownership and title have been transferred to the purchasers. When the Company invoices customers prior to revenue being earned, the gross amount is recorded as deferred revenue in the Statement of financial position and is recognised in the Statement of Comprehensive Income once the revenue recognition criteria is met.

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

Note 2 Summary of Significant Accounting Policies (continued)

(q) Revenue recognition — refer Notes 6 and 7 (continued)

License agreements are structured such that payments are receivable when certain milestones are achieved. In such instances license revenues are recognised when milestones are achieved to the satisfaction of both parties. In the absence of such milestone arrangements, license fees will be recognised over the term in line with the substance of the arrangement.

(ii) Interest revenue

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant year using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. All revenue is stated net of the amount of goods and services tax (GST).

(r) Income tax and other taxes — refer Note 9

No taxation has been provided for and no deferred tax assets have been recognised in view of losses incurred.

Deferred tax assets are only brought to account where it is probable that future tax profits will be available against which deductible temporary differences can be utilised. In view of the going concern disclosures provided in Note 2 to this report that the Company has just commenced generating revenues, deferred tax assets are not recognised in respect of the assessed and estimated tax losses to be carried forward on the basis that recoupment is not probable at 30 June 2014.

Current tax assets and liabilities for the current year are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current year's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Trade receivables and other payables, which are stated with the amount of GST included.

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

Note 2 Summary of Significant Accounting Policies (continued)

(r) Income tax and other taxes — refer Note 9 (continued)

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(s) Government grants — refer Note 7

Government grants are recognised in the Statement of Comprehensive Income as other income when the grant is received.

The R&D tax offset is brought to account only when the amount receivable has been quantified and is supported by appropriate claim documentation.

The proceeds received/receivable are reflected as other income in the Statement of Comprehensive Income.

(t) Earnings per share — refer Note 10

Basic earnings per share is calculated as net profit/(loss) attributable to members of the parent, adjusted to exclude any costs of servicing equity, divided by the weighted average number of ordinary shares.

Diluted earnings per share is calculated as net profit/(loss) attributable to members of the parent, adjusted for:

- Costs of servicing equity; and
- Other non-discretionary changes in revenues or expenses during the year that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

As the Group incurred a loss during the year, the impact of options was anti-dilutive and as such, basic and diluted EPS are the same amount.

(u) Financial Instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is the equivalent to the date that the Group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value. Subsequent to initial recognition these instruments are measured as set out below.

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

Note 2 Summary of Significant Accounting Policies (continued)

(u) Financial Instruments (continued)

Classification and subsequent measurement

Financial instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

- (a) the amount at which the financial asset or financial liability is measured at initial recognition;
- (b) less principal repayments;
- (c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the *effective interest method*; and
- (d) less any reduction for impairment.

The *effective interest method* is used to allocate interest income or interest expense over the relevant year and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries as being subject to the requirements of accounting standards specifically applicable to financial instruments.

(i) 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 subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting year.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

Note 2 Summary of Significant Accounting Policies (continued)

(u) Financial Instruments (continued)

Classification and subsequent measurement (continued)

Available-for-sale financial assets are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting year.

(iii) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed is recognised in profit or loss.

(v) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

When the Group has retrospectively applied an accounting policy or makes a retrospective restatement or reclassifies items in its financial statements, an additional Statement of Financial Position as at the beginning of the earliest comparative year will be disclosed.

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

Note 3 Financial risk management objectives and policies

The Group's financial instruments consist mainly of deposits with banks, accounts receivable, accounts payable and interest bearing liabilities.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

		2014 \$	2013 \$
Financial Assets			
Cash and cash equivalents	11	609,684	867,084
Trade and other receivables	12	659,640	1,138,890
Total Financial Assets		1,269,324	2,005,974
Financial Liabilities			
Trade, other payables and deferred revenue	16	473,475	701,464
Interest-bearing liabilities	17	257,514	957,113
Total Financial Liabilities		730,989	1,658,577

Financial Risk Management Policies

The directors' overall risk management strategy seeks to assist the Company in meeting its financial targets, whilst minimising potential adverse effects on financial performance. Risk management policies are approved and reviewed by the Board of Directors on a regular basis.

Specific Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk relating to interest rate risk. The Group is also exposed to a certain degree of foreign currency risk as some of its transactions with suppliers and customers are denominated in foreign currencies.

(a) Credit risk

Credit risk is minimised through investing surplus funds in financial institutions that maintain a high credit rating.

Credit Risk Exposures

The maximum exposure to credit risk by class of recognised financial assets at balance date, excluding the value of any collateral or other security held, is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the statement of financial position. There were no guarantees given at the balance date.

Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Aggregates of such amounts are as detailed at Note 12.

Credit risk related to balances with banks and other financial institutions is managed by management in accordance with the approved Board policy.

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

Note 3 Financial risk management objectives and policies (continued)

(b) Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages risk through the following mechanisms:

- preparing forward looking cash flow analysis in relation to its operational, investing and financial activities;
- managing credit risk related to financial assets;
- only investing surplus cash with major financial institutions; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

The table below reflects an undiscounted contractual maturity analysis for financial liabilities.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates.

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

Note 3 Financial risk management objectives and policies (continued)

		Less than 6 months		6 to 12 months		1 year to 5 years		Over 5 Years		Total Contractual Cash Flow	
	Notes	2014 \$	2013 \$	2014 \$	2013 \$	2014 \$	2013 \$	2014 \$	2013 \$	2014 \$	2013 \$
Financial assets – cash flows realisable											
Cash and cash equivalents	11	609,684	867,084	-	-	-	-	-	-	609,684	867,084
Trade and other receivables	12	659,640	1,138,890	-	-	-	-	-	-	659,640	1,138,890
Total		1,269,324	2,005,974	-	-	-	-	-	-	1,269,324	2,005,974
Financial liabilities due for payment											
Trade and other payables	16	473,475	701,464	-	-	-	-	-	-	473,475	701,464
Interest-bearing liabilities	17	271,376	1,020,131	10,682	9,912	4,857	15,270	-	-	286,915	1,045,313
Total		744,851	1,721,595	10,682	9,912	4,857	15,270	-	-	760,390	1,746,777
Net inflow/(outflow) on financial instruments		524,473	284,379	(10,682)	(9,912)	(4,857)	(15,270)	-	-	508,934	259,197

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Notes to the Financial Statements continued

For the Year Ended 30 June 2014

Note 3 Financial risk management objectives and policies (continued)

(c) Market risk

i. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Borrowings (see Note 17) are negotiated at fixed rates to assist in managing the risk and that in determining the interest rates, reference is made to bank lending or borrowing rates at the time the loan is entered into.

ii. Sensitivity Analysis

The following table illustrates sensitivities to the Group's exposures to changes in interest rates. The table indicates the impact on how profit and equity values reported at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

	Profit	Equity
	\$	\$
Year Ended 30 June 2014		
+1% in interest rates	6,097	-
-1% in interest rates	(6,097)	-
Year Ended 30 June 2013		
+1% in interest rates	8,671	-
-1% in interest rates	(8,671)	-

The above sensitivities calculation assumption is based on cash and cash equivalent financial assets reported at balance date. Interest on borrowings are fixed.

Note 4 Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires the directors to evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group. Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Employee entitlements

In calculating the present value of future cash flows in respect of provision for long service leave, directors have used their judgement in determining the probability of retention of the employees.

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

Note 4 Significant accounting judgements, estimates and assumptions (continued)

Share based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The related assumptions are detailed in Note 24. The accounting estimates and assumptions relating to equity-settled share-based payments would not have an impact on the carrying amounts of assets and liabilities within the next annual reporting year however can impact on the Statement of Comprehensive Income and the employee equity benefits reserve.

Estimation of useful lives

The estimation of useful lives of assets has been based on historical experience for property, plant and equipment. In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life.

Note 5 Operating segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer and Managing Director (the chief operating decision maker or CODM) in assessing performance and in determining the allocation of resources. The CODM only reviews consolidated financial information and as such, it has been determined that there is only one segment at the present time. Furthermore, the Group's business activities are not organised on the basis of differences in related products and services or differences in geographical areas of operations. Given the Company's stage of development, the Directors consider this to be appropriate.

Note 6 Net revenue from operating activities

	2014 \$	2013 \$
Gross revenue from sale of product	106,141	84,781
Less: Trade discount	(79,862)	-
Net revenue from sale of product	26,279	84,781
Less: Deferred revenue (refer Note 16(d))	(4,342)	-
	21,937	84,781
Licence income	20,000	-
Total	41,937	84,781

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

	2014 \$	2013 \$
Note 7 Other Income		
Other revenue		
- Interest income from bank	19,911	19,405
- Government grants	97,085	-
- R&D tax incentive / concession	625,047	1,138,840
- Other	-	46
Total other income	742,043	1,158,291

Note 8 Expenses

(a) Finance costs

Interest expense - external	56,952	16,931
Debt establishment fee (refer Note 17(b) for further detail)	58,800	-
Total finance costs	115,752	16,931

(b) Depreciation and amortisation

Depreciation of property, plant and equipment	36,429	31,827
Amortisation of non-current assets	1,598	2,505
Total	38,027	34,332

(c) Other Expenses:

Share registry, administration and secretarial	101,866	113,524
Insurance	40,190	30,614
Advertising and Branding	53,003	98,079
Conference and seminar	25,237	38,119
Telecommunications	24,856	32,979
Membership and subscriptions	4,018	35,868
Website development	75,853	-
Others	132,385	83,853
Total Other Expenses	457,408	433,036

Note 9 Income Tax Expense

No taxation has been provided in view of the losses incurred for the year (2013: Nil). Tax losses for the 2014 financial year are \$1,948,016. The amount available of carried forward tax losses for offset against future taxable income is \$8,036,907. These amounts are unconfirmed and not recouped. The deferred tax asset of \$2,411,072 (2013: \$1,826,667) associated with carried forward tax losses as well as deferred tax assets arising from temporary differences of \$209,231 (2013: \$227,074) have not been recorded on the basis that its recovery is not probable at this time. There are no deferred tax liabilities arising from temporary differences on assets.

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

Note 9 Income Tax Expense (continued)

On the basis that compliance with the continuity of ownership test and/or the same business test have not yet been determined and are required to be assessed at the time the losses are utilised rather than now, there remains uncertainty as to the availability of the carried forward tax losses to be offset against future taxable income.

The prima facie tax on the loss from ordinary activities is reconciled to the income tax credit shown in the Statement of Comprehensive Income as follows:

	2014 \$	2013 \$
Prima facie tax on loss from ordinary activities before income tax at 30% (2013: 30%)		
- consolidated entity	(766,788)	(1,075,841)
	(766,788)	(1,075,841)
Add/(Deduct):		
Tax effect of:		
- non-deductible expenses	29,307	259,200
- research and development tax effect	229,184	421,741
- Deferred tax assets arising not brought to account as at balance sheet date because realisation is not considered probable	508,297	394,900
Income tax credit attributable to the consolidated entity	-	-

Note 10 Earnings per share

Earnings/(loss) used to calculate basic and dilutive EPS	(2,555,961)	(3,586,138)
	2014 No.	2013 No.
For basic and diluted EPS		
Weighted average number of ordinary shares outstanding during the year – No. used in calculating basic EPS	113,535,439	93,455,355

As the Group incurred a loss during the year, the impact of options were anti-dilutive and as such, basic and diluted EPS are the same amount.

	2014 \$	2013 \$
Note 11 Current assets - Cash and Cash Equivalents		
Cash at bank	609,684	867,084

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

	2014 \$	2013 \$
Note 12 Current assets - Trade and Other Receivables		
Trade receivables	32,426	-
R&D tax off-set receivable	625,047	1,138,840
Related party (a)	2,167	-
Other	-	50
	<u>659,640</u>	<u>1,138,890</u>

(a) Related party loan

The amount was in relation to the balance of proceeds to be received from Mr Iain Kirkwood, Chairman arising from his commitment to subscribe to shares in the Company in the private placement held on 20 August 2013. Refer to the Related Party Transactions (Note 22(b)(ii)) for further details.

(b) The ageing analysis of receivables is

0-30 days	631,764	1,138,890
31-60 days	16,597	-
61-90 days (past due not impaired)	-	-
91+ days (past due not impaired)	11,279	-
Total Trade and other receivables	<u>659,640</u>	<u>1,138,890</u>

Note 13 Other current assets

Other debtors	10,238	-
Prepayment	30,438	27,052
Deposit (a)	193,557	233,342
	<u>234,233</u>	<u>260,394</u>

(a) The deposit represents the balance of a supplier payment for the purchase of raw materials to manufacture the Company's Matchbox™ readers.

Note 14 Inventory

Raw materials	86,553	-
Finished goods	54,842	73,555
Total inventory	<u>141,395</u>	<u>73,555</u>

The above raw materials consists of chips and tags. The finished goods consists of Bluechiip's commercial cryotags, Matchbox™ readers, cryovials and racks. During 2014, \$116,887 (2013: Nil) was recognised as an expense for inventories. This is recognised in Cost of sales.

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

	2014 \$	2013 \$
Note 15 Non-current assets - Property, Plant and Equipment		
Plant and equipment at cost	229,060	127,135
Accumulated depreciation	(116,341)	(101,431)
Total plant and equipment	112,719	25,704
Furniture fixture and fittings at cost	18,156	15,151
Accumulated depreciation	(8,973)	(7,917)
Total furniture, fixture and fittings	9,183	7,234
Computer equipment at cost	103,681	97,416
Accumulated depreciation	(82,510)	(62,047)
Total computer equipment	21,171	35,369
Capitalised software, at cost	56,368	56,368
Accumulated amortisation	(56,246)	(54,648)
Total capitalised software	122	1,720
Total property, plant and equipment	143,195	70,027

(a) Movements in Carrying Amounts

Movement in the carrying amount for each class of property, plant and equipment between the beginning and the end of the current financial year:

Consolidated

	Plant and Equipment \$	Furniture, Fixtures and Fittings \$	Computer Equipment \$	Capitalised Software \$	Total \$
Balance at 30 June 2014					
Balance at the beginning of year	25,704	7,234	35,369	1,720	70,027
Additions	101,925	3,005	6,265	-	111,195
Depreciation/amortisation expense	(14,910)	(1,056)	(20,463)	(1,598)	(38,027)
Carrying amount at the end of 30 June 2014	112,719	9,183	21,171	122	143,195
Balance at 30 June 2013					
Balance at the beginning of year	28,721	8,137	16,076	4,225	57,159
Additions	5,710	91	41,399	-	47,200
Depreciation/amortisation expense	(8,727)	(994)	(22,106)	(2,505)	(34,332)
Carrying amount at the end of 30 June 2013	25,704	7,234	35,369	1,720	70,027

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

	2014 \$	2013 \$
Note 16 Current liabilities – Trade, Other Payables and Deferred Revenue		
Trade payables (c)	320,390	507,398
Sundry payables and accrued expenses	148,743	194,066
Deferred revenue (d)	4,342	-
	<u>473,475</u>	<u>701,464</u>

(a) Financial liabilities at amortised cost classified as trade and other payables

Trade		
- Total Current	473,475	701,464
Financial liabilities as trade and other payables (Note 3)	<u>473,475</u>	<u>701,464</u>

(b) Fair value

Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value.

(c) Trade payables as at 30 June 2014 includes directors fees accrued of \$16,043 (2013: \$17,416).

(d) Deferred revenue:

At 1 July	-	75,241
Invoices raised during the year (excluding GST)	46,279	9,540
Recognised in the Statement of Comprehensive Income (Refer Note 6)	(41,937)	(84,781)
At 30 June	<u>4,342</u>	<u>-</u>

Note 17 Interest-bearing loans and borrowings

CURRENT

Loan payable to Dr Stephen Woodford (a)	-	112,813
Bank loan (b)	251,397	888,118
Directors & Officers premium funding	20,247	20,243
Finance lease (c)	10,413	8,869
Deferred borrowing costs (b)	(29,400)	(88,200)
Total Interest-bearing liabilities	<u>252,657</u>	<u>941,843</u>

(a) Relates to principal and interest payable on loan made by Dr Stephen Woodford (related party). The amount was fully paid during the current financial year (Refer Note 22(b)(i)).

(b) Relates to a facility agreement entered into by the Company with Macquarie Bank Ltd on 27 June 2013. The Company had made an initial drawdown of \$888,118 which was fully paid in October 2013. Further drawdowns totalling \$251,397 were made by the Company during the financial year subsequent to the repayment of the initial drawdown. The facility is fully secured by the Company's present and future assets, undertakings and rights and expires on 31 December

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

Note 17 Interest-bearing loans and borrowings (continued)

2014. Debt establishment fees of \$88,200 were incurred which is recognised over the term of the loan using the effective interest rate method. As at 30 June 2014, \$360,000 of the facility is still available for further drawdown subject to satisfying certain conditions under the facility agreement.

(c) Relates to a three year finance lease for an IT infrastructure upgrade that expires in November 2015. The lease liability is effectively secured on the right to the leased assets recognised in the financial statements and will revert to the lessor in the event of default (refer to Note 25(b) for further details).

	2014 \$	2013 \$
NON-CURRENT		
Interest-bearing liabilities ((c) above)	4,857	15,270
Total interest-bearing liabilities	257,514	957,113

Note 18 Employee Entitlements

CURRENT		
Annual Leave provision	82,801	110,343
Long Service Leave provision	44,215	34,572
	127,016	144,915
NON-CURRENT		
Long Service Leave provision	5,573	39,992
TOTAL PROVISIONS	132,589	184,907

Refer to Note 2(n) for the relevant accounting policy and a discussion of the significant estimations and assumptions applied in the measurement of this provision.

Note 19 Issued Capital

127,526,037 (2013: 99,761,762) Ordinary shares	18,925,437	15,859,524
Less: Capitalised share issue costs	(1,258,286)	(1,064,071)
Total	17,667,151	14,795,453

(a) Ordinary shares

At the beginning of the reporting year	14,795,453	12,225,146
Issue of ordinary shares	3,065,913	2,713,765
Less: Capitalised share issue costs	(194,215)	(143,458)
Total	17,667,151	14,795,453

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

Note 19 Issued Capital (continued)

(b) Number of Ordinary Shares	2014 No.	2013 No.
At the beginning of the reporting year	99,761,762	86,142,938
Shares issued during the year:		
Issue of ordinary shares	27,334,275	13,568,824
Shares issued under ESAP	430,000	50,000
Total issued and fully paid ordinary shares	127,526,037	99,761,762

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

The Employee Share Acquisition Plan (ESAP) is designed as a plan to permit employees and directors of Bluechiip Limited to participate, at the invitation of the Board, in the acquisition of shares on terms and conditions determined by the Board. All shares issued under the ESAP are issued at Nil cash consideration.

At the shareholders meetings, each ordinary share is entitled to one vote when a poll is called; otherwise each shareholder has one vote on a show of hands.

(c) Capital Management

Management controls the capital of the Group in order to ensure that the Company can fund its operations and continue as a going concern. The Group's debt and capital includes share capital and financial liabilities, supported by financial assets. There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Company's financial risk and adjusting its capital structure in response to changes in these risks and in the market. There have been no changes in the strategy adopted by management.

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

	2014 \$	2013 \$
Note 20 Employee Equity Benefits Reserve		
Opening balance	4,672,659	3,839,835
Employee Share Acquisition Plan (ESAP) expense (a)	42,366	25,666
Employee Share Option Plan (ESOP) expense issued during the year	-	807,158
Total Employee Equity Benefits Reserve	<u>4,715,025</u>	<u>4,672,659</u>

The employee equity benefits reserve is used to record the value of share based payments and option based payments provided to employees, including Key Management Personnel, as part of their remuneration. Refer to Note 24 for further details of this plan.

(a) Included in the ESAP for 2014 was an amount of \$25,000 provided as part of remuneration to the Chairman, Mr Iain Kirkwood for his role as Executive Chairman, subject to shareholders' approval at the next Annual General Meeting.

The option expense under the ESOP has been determined based on the fair values of the options granted to Directors and officers calculated at grant date using a barrier option pricing model to value the options with market based performance hurdles, and a binomial option pricing model to value the options without market based performance hurdles. A zero dividend yield assumption has been adopted in every valuation.

Note 21 Cash Flow Statement Reconciliation

Reconciliation of Net Loss after Tax to Net Cash Flows from Operations

Net loss	(2,555,961)	(3,586,138)
Non-cash flows in loss		
- Amortisation	1,598	2,505
- Depreciation	36,429	31,827
- Interest payable to Dr. Stephen Woodford	794	12,693
- Share based payment expense	42,366	832,824
- Share issue in lieu of payment to suppliers	58,914	30,000
<i>Changes in assets and liabilities</i>		
- (Increase)/decrease in trade and other receivables	479,250	(113,652)
- (Increase)/decrease in other assets	26,161	(233,164)
- (Increase)/decrease in interest bearing facilities	58,800	-
- (Increase)/decrease in inventory	(67,840)	(73,555)
- (Decrease)/increase in trade ,other payables and deferred revenue	(227,989)	117,023
- (Decrease)/increase in employee entitlements	(52,318)	64,501
	<u>(2,199,796)</u>	<u>(2,915,136)</u>

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

Note 22 Related Party Disclosures

(a) Key Management Personnel (KMP)

Details relating to KMP, including remuneration paid, shares issued and options issued under the ESAP and ESOP respectively, are included in Note 23 and the Remuneration Report.

(b) Transactions with related parties

Other than disclosed below and in Notes 12(a), 16 and 17, there were no other transactions with related parties during the year.

Shares and options issued to directors and KMP of the Company are disclosed in the Remuneration Report.

(i) Loan – Dr Stephen Woodford (a substantial shareholder) - provided the Company with a loan of \$200,000 in February 2011 to assist in funding various working capital and development costs whilst the IPO was being closed. The Company entered into an unsecured loan agreement with Dr Woodford on 10 February 2011 whereby interest was paid at a commercial arms-length rate of 10% per annum. In November 2012, an amount of \$50,000 was paid by the Company into the share placement escrow account on Dr Stephen Woodford's behalf to acquire shares as part of the private placement, leaving a closing balance, including interest accrued to 30 June 2013 of \$112,813. This balance, including interest was fully settled during the financial year. Refer to Note 17(a) for further details.

(ii) Mr Iain Kirkwood has in connection with the Company's private placement held on 20 August 2013 subscribed for 666,666 ordinary shares of the Company at an issue price of \$0.15 per share and on the basis the Company issued 333,333 free attaching options exercisable at a price of \$0.20 each and expiring on 31 December 2014. The commitment was made at the request of the Company and with the approval of the other directors in order to ensure the success of the private placement and was subject to shareholders' approval. As with other persons who provided a similar commitment, Mr Kirkwood is entitled to be paid a commitment fee of \$6,000. No commitment fee has been paid. As at the date of this report, shares pursuant to the abovementioned commitment have been issued to Mr Kirkwood and a balance of \$2,167 outstanding was fully paid.

(iii) During the financial year and prior to his appointment as a Non-Executive Director, the Company entered into an agreement with Olivab Pty Ltd, an entity controlled by Mr Matthew Morgan, to provide Bluechiip Limited with a review and recommendations regarding Bluechiip's commercialisation strategy at a fee of \$12,500 (plus GST). The service provided was over and above the personal services provided by Mr Matthew Morgan, in his capacity as Non-Executive Director of Bluechiip Limited. The amount was fully paid in the financial year.

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

Note 23 Key Management Personnel

Compensation for key management personnel

The total remuneration provided and /or paid to key management personnel of the Group during the year are as follows (refer to table in Remuneration Report for further detail):

	2014 \$	2013 \$
Short-term employee benefits (#)	568,497	697,599
Post-employment benefits	34,839	49,394
Long-term employee benefits	44,311	13,203
Share-based payments	38,250	664,547
Termination payments	64,073	-
	749,970	1,424,743

The short-term employee benefits paid include non-executive directors fees paid amounting to \$174,585 (2013: \$187,379).

Note 24 Share-based Payment Plans

(a) Employee Share Acquisition Plan

The Employee Share Acquisition Plan (ESAP) is designed as a plan to permit employees and directors of Bluechiip Limited to participate, at the invitation of the Board, in the acquisition of shares on terms and conditions determined by the Board. All shares issued under the ESAP are issued at Nil cash consideration.

	2014	2013
(b) Number of shares issued under the employee share acquisition plan		
Number of shares issued under the plan to employees	430,000	50,000

Bluechiip issued 430,000 (2013: 50,000) incentive and tenure based share awards to its employees under the ESAP in the year ended 30 June 2014 of which the shares issued were determined based on the market closing price of \$0.05 per share as at 5 June 2014. The entire 430,000 (2013: 50,000) shares of this award vested in the current year.

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

Note 24 Share-based Payment Plans (continued)

(c) Expenses arising from share-based payment transactions

The expense of shares issued under the ESAP has been determined by reference to the share price on grant date. Shares vest immediately under the terms of the ESAP.

The option expense under the ESOP has been determined based on the fair values of the options granted to Directors and officers calculated at grant date using a barrier option pricing model to value the options with market based performance hurdles, and a binomial option pricing model to value the options without market based performance hurdles. A zero dividend yield assumption has been adopted in every valuation.

	2014 \$	2013 \$
Shares issued under Employee Share Acquisition Plan	42,366	25,666
Shares to be issued for termination payment (#)	42,715	-
Short term incentive payable in shares (*)	8,250	-
Options issued under Employee Share Option Plan	-	807,158
Total	93,331	832,824

This is in relation to 284,774 new ordinary shares to be issued to Brett Schwarz's for his termination payment. The new shares to be issued are subject to shareholders' approvals at the Company's next AGM. In the event shareholders do not approve the issue of the shares, the Company must instead pay an amount of \$42,715 to Mr Schwarz in cash.

* Represents the portion of performance/incentive bonus to Dr Jason Chaffey which is payable in shares subject to shareholder approval at the next AGM.

(d) Number of employee share options

At the beginning of the reporting year	22,100,000	21,600,000
Options issued/(expired) during the year	(22,100,000)	500,000
At reporting date	-	22,100,000

Options expired during the year were as follows:

Grant date	Expired	Exercise price	Number of options
8 November 2010	31 August 2013	\$0.20	21,600,000
19 October 2012	30 June 2014	\$0.25	500,000

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

Note 25 Commitments

(a) Operating Lease Commitments

Non-cancellable operating leases contracted for:

	2014 \$	2013 \$
Payable - minimum lease payments:		
- not later than 12 months	35,955	67,282
	<u>35,955</u>	<u>67,282</u>

The above lease commitment for 2014 is in respect of office premises rental (2013: office premises rental and leased of two (2) units of Agilent network analyser test equipment).

(b) Finance Lease Commitments

The Company entered into a finance lease for the upgrade of IT infrastructure in FY13. There are no restrictions to the use placed upon the lessee by entering into the lease.

Payable - minimum lease payments:

- within 12 months	12,134	12,134
- later than 12 months but not later than five years	5,056	17,189
	<u>17,190</u>	<u>29,323</u>

Future finance charges

(1,920)	(5,184)
<u>15,270</u>	<u>24,139</u>

Representing finance lease liabilities (refer Note 17 for further details)

Current	10,413	8,869
Non-current	4,857	15,270
	<u>15,270</u>	<u>24,139</u>

(c) Contractual Commitments

Subsequent to 30 June 2014, the Company has committed to USD130,000 for the development and production of chips.

Note 26 Contingencies

The Company has no contingent liabilities or contingent assets as at 30 June 2014.

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

Note 27 Significant Events After the Balance Sheet Date

On 1 July 2014, Dr Jason Chaffey was appointed CEO and Managing Director of the Company. On 1 August 2014 Joseph Baini and Ron Finkel resigned from the Company as Non-Executive Directors.

Mr Iain Kirkwood, who assumed the role of Executive Chairman on 28 January 2014, reverted to a role of non-executive Chairman with effect from 1 July 2014.

In July 2014, the Company drew down a further \$234,761 from Macquarie Bank Ltd.

On 8 September 2014, the Company completed a capital raising of \$1,095,000 to sophisticated and professional investors via a placement comprising 10,950,000 ordinary fully paid shares at \$0.10 per ordinary share with one free attached unlisted share option per new share issued with an exercise price of \$0.13 per option with an expiry 31 March 2015 (options have not been issued and approval for their issue will be sought at the Company's 2014 AGM). In addition, the Company also announced a SPP which will allow participation from eligible existing Bluechiip's shareholders to purchase further fully paid ordinary shares in the Company at \$0.10 per share.

Except as disclosed in other sections to the report and the above, there were no other matters or circumstances that have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Group, the results of these operations or the state of affairs of the Group in future financial years.

Note 28 Auditor's Remuneration

The auditor of Bluechiip Limited is Ernst & Young.

Amounts received or due and receivable by Ernst & Young (Australia) for:

	2014 \$	2013 \$
- An audit or review of the financial report of the entity and any other entity in the consolidated group	72,597	84,700
- Other services in relation to the entity and any entity in the consolidated group	9,000	4,750
	81,597	89,450

Note 29 Controlled Entities

	Country of Incorporation	Percentage Owned (%)* 2014	Percentage Owned (%)* 2013
Parent Entity:			
Bluechiip Limited	Australia		
Subsidiaries of parent entity:			
Bluechiip IVF Pty Limited	Australia	100%	100%
Bluechiip Employees Pty Limited	Australia	100%	100%
Bluechiip, Inc.(a)	United States	100%	100%
Bluechiip Holdings, Inc.(a)	United States	100%	100%

* Percentage of voting power is in proportion to ownership

(a) These companies (which are dormant) are in the process of dissolution as the Directors opine that the subsidiaries are not required at this moment.

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Notes to the Consolidated Financial Statements (continued)

For the Year Ended 30 June 2014

Note 30 Parent entity information

	2014 \$	2013 \$
Information relating to Bluechiip Limited		
Current assets	1,644,952	2,339,923
Total assets	1,788,147	2,409,950
Current liabilities	853,148	1,788,222
Total liabilities	863,578	1,843,484
Issued capital	17,667,151	14,795,453
Reserves	4,715,025	4,672,659
Retained earnings	(21,457,607)	(18,901,646)
Total shareholder's equity	924,569	566,466
Loss of the parent entity	(2,555,961)	(3,586,138)
Total comprehensive income of the parent entity	(2,555,961)	(3,586,138)

Bluechiip Limited

ABN 79 104 795 922

Directors' Declaration

In accordance with a resolution of the directors of Bluechiip Limited, I state that:

1. In the opinion of the directors:
 - (a) The financial statements and notes of Bluechiip Limited for the financial year ended 30 June 2014 are in accordance with the *Corporations Act 2001*, including:
 - i. Giving a true and fair view of its financial position as at 30 June 2014 and performance for the period ended on that date
 - ii. Complying with Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*
 - (b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2(a)
 - (c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving declarations required to be made to the Directors in accordance with Section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2014.

On behalf of the board.



Iain Kirkwood
Chairman

19 September 2014

Independent auditor's report to the members of Bluechiip Limited

Report on the financial report

We have audited the accompanying financial report of Bluechiip Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that 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 that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

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 judgment, 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 controls relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal controls. 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*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

- a. the financial report of Bluechiip 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 Note 2.

Significant uncertainty regarding continuation as a going concern

Without qualifying our opinion, we draw attention to Note 2 in the financial report which indicates that there is significant uncertainty regarding the ability of the entity to continue as a going concern. Unless the entity can obtain further funding, as referred to in Note 2, there is significant uncertainty whether the entity will be able to continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the entity not continue as a going concern.

Report on the remuneration report

We have audited the Remuneration Report included in 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.

Opinion

In our opinion, the Remuneration Report of Bluechiip Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



David Petersen
Partner
Melbourne
19 September 2014