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CEO on Interview



Open Briefing interview with MD/CEO Andrew McLellan

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In this Open Briefing®, Andrew discusses:

- Capital raising progress
- Genea contract update
- Contract wins and pipeline execution
- Intellectual property registration for major new market

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You have extended the closing date for the rights issue by a week from 5pm today to next Friday, 16 September. Can you tell us why you extended and update us on progress for the rights issue?

MD Andrew McLellan

The capital raising is progressing well. We are pleased both in terms of the rights applications already received and the commitments we have in place for any shortfall and, depending on demand, additional placement shares.

The reason we extended the rights closing by one week is to give all shareholders time to absorb our 1 September announcement regarding a major new provisional patent and our trial agreement with a US Auto ID and Data capture (AIDC) company

All of the directors have taken up their full entitlement and several shareholders have also applied for additional shares. I would encourage other shareholders to consider doing the same.

I have also elected to take 1.5m shares in part payment of my FY16 performance bonus. From an accounting perspective you won't see this in the June 2016 accounts but I want investors to know of my commitment and belief in this business.

In addition to the \$1.5 m rights issue we also have an additional placement capacity to raise a further \$1.0m and we are confident that this will allow us to introduce new shareholders to the register. As noted, we are also seeing good demand for the rights, including applications from the directors and also from a number of existing shareholders for additional shares.

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Will the capital you expect to raise from the entitlement offer fully fund BCT's ramp up to positive operating cash flow as it executes on the pipeline of potential contracts?

MD Andrew McLellan

As noted, the rights issue will raise up to \$1.5m and we can increase the total capital raised to \$2.5m through a placement and we are pleased with the response we've had.

The expectation is that this capital will take us to the point where we have demonstrated to the market that we have a strong, sustainable business with consistent and growing revenues being generated by a validated product suite and patented technology that is going into the market through some very major partners.

The Board's view is that we are dramatically undervalued given the growing revenues from contracts we've won and the pipeline we are executing. Once we demonstrate the businesses progress we will have mitigated a lot of the capital risks in the business and this will allow the board and company to look to the future with a very sound springboard and for the company's value to be reflected in the share price. We expect to be in quite a different place by the middle of next year.

Genea Biomedx signed an agreement with you in December 2015. Can you update us on the status of that contract?

MD Andrew McLellan

The Genea Biomedx agreement is going very well.

We are currently receiving fees for engineering services and prototype parts. We expect to see a steadily growing revenue stream from early 2017 as our client launches products containing BCT's technology into the market. These products will be distributed through Genea Biomedx's global pharmaceuticals partner.

You'll note that the progression from signed agreement in December 2015 has been relatively quick. In February 2016 we moved through technology due diligence and received a license fee payment shortly thereafter. Over the last four months we have progressed with development and engineering services for which we are receiving income and in early 2017 we expect to see a growing revenue stream when the products go to market.

The revenue potential from this one market and customer is very large. There are 1.8 million IVF cycles performed globally per annum and for each of those cycles there are multiple samples in a number of different consumables that could include BCT technology that require identification and temperature tracking where Bluechiip's technology provides significant advantages.

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You have a significant pipeline of potential contracts which are at various stages of negotiation. When should we expect to hear further contract wins?

MD Andrew McLellan

You've seen two contracts announced in the last two months.

Currently we have well over 15 potential contracts in the pipeline and are seeing the pipeline build every month.

Over the next six months, we expect to see a number of these pipeline opportunities progressing to supply agreements. This is based on clients we have in the pipeline and in our multi staged engagement process.

First in our engagement process, after initial contact and discussion to ascertain what the client needs we execute a confidentiality agreement where we continue to define the client's

requirements; followed by trial and developer kit sales where potential clients test the product; progressing to development and supply agreements of the type we have with Genea Biomedx and finally into product incorporating Bluechiip technology release into the market place which is the stage Genea Biomedx is moving towards for early 2017.

Most recently you'll see we announced a trial agreement in the USA with an auto ID and data capture company. Companies in this market supply identification and tracking technologies such as barcode and RFIDs to multiple markets and we are pleased to be gaining traction with companies that have the reach to penetrate into a broad range of applications including aerospace who can see the advantages Bluechiip offers for tracking and temperature sensing.

Our protein crystallography and cell therapy pipeline partnerships continue to develop while the developer kit in place with a partner in San Francisco is continuing to be used to explore end customer applications.

The Chinese CDC have brought the system as an end user rather than as an OEM and they are also a key reference site for BCT.

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Your provisional patent application for an "over temperature chip" was announced last week. What's the process for converting this into a full patent and can you expand your comment that this could increase the value of BCT's chip "ten-fold"?

MD Andrew McLellan

We have had a number of requests from major OEM partners wanting the ability to have a permanent visual and electronic "over temperature" record on a sample that is being shipped, stored or transported. These OEMs have indicated they would be willing to pay ten times what they would pay for the existing BCT chip.

The problem they want us to solve and that we are confident our new technology addresses is that current technology in biological storage, say at -80 Celsius or at liquid nitrogen temperatures -196 Celsius, does not provide a mechanism whereby you can identify whether a sample has been above a critical temperature. For instance, certain genetic materials start to degrade if their temperature increase above -120 and -130 Celsius after being stored at -196 Celsius, in these instances the sample may not be suitable for its intended use.

As part of a co-funded government research program where we are working with the Centre for Neural Engineering at Melbourne University, we have developed technology that will deliver just what these OEM customers have been asking for. We are confident in the technology and innovation that has commenced development and progressed to a filing of a patent application. It builds on the current BCT technology and allows us to grow into markets adjacent to where we are now.

While we expect the production costs of the technology to be higher than our existing chip we anticipate it will be significantly less than the 10-fold price increase our customers have said they would be willing to pay for it versus our existing chip. So from a financial perspective it stacks up extremely well.

From a market perspective, it also allows us to take a dramatic step forward. It gives us a platform not just into bio samples but also into food, cold chain logistics and pharmaceuticals.

This is the second provisional patent we've filed in the last 4 months and we continue to build our base of IP.

Importantly we now have an engineering team that is able to respond to the needs of the market and based on our expanding intellectual property portfolio we are able to very rapidly respond to the needs of our OEM partners to demonstrate Bluechiip's applicability, capability and advantages. An example of this is the Bluetray product, for tracking of ID and temperature burning transport, which we have on show in Europe next week to gain market and end customer feedback, proof of our ability to respond quickly to customer needs.

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BCT's June 2016 accounts show an acceleration of revenues in the second half, albeit from a small base and a reduction in full year operating costs. How should we think about the cost base as revenues grow?

MD Andrew McLellan

We expect revenues to rapidly grow as we execute in FY17 with costs growing at a much slower rate as we approach a cash flow positive position in coming years.

Our revenue base is still small but the revenue run rate accelerated through FY16. In the last 4 months of the year we generated \$150k of revenue. Looking into FY17 we expect revenues to grow dramatically especially in calendar year 2017 as we execute both on the contracts we have announced in recent months and also on contracts which are at various stages of negotiation in our pipeline.

On the cost front, we're pleased that we could reduce our cost base during FY16 and cost control will remain a focus for us. So, whilst you will see some cost growth as revenues grow, the cost growth is expected to be much slower than revenue growth. This means we are now seeing a clear pathway to an expected cash flow positive position in the coming years.

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Thank you Andrew.

For more information about Bluechiip, visit <http://www.bluechiip.com/> or Andrew McLellan on +61 457 823 470.

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