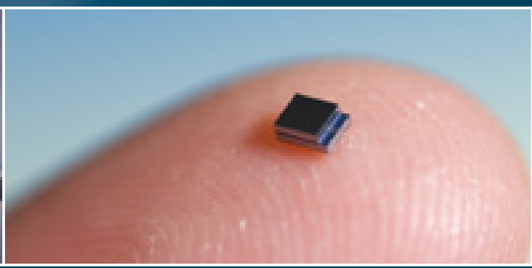
BLUECHIIP LIMITED
ABN 79 104 795 922

bluechiip
TRACKING SOLUTIONS


Annual Report 2011

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"Bluechiip has grown in a relatively short time from a start-up technology company to an early stage commercial enterprise on the cusp of major success."

7 October 2011

Dear Shareholder

It gives me great pleasure to present the 2011 annual report, our first as a listed company. I warmly welcome all new shareholders to the company.

The past year has been particularly busy, not least because of the significant effort required to get the company listed on Australian Securities Exchange (ASX). The $3 million raised was the minimum subscription sought. In the difficult financial conditions of the time, we were in many ways fortunate to get over the line. Notably, Bluechiip was one of the few non-resource companies to achieve a listing this year. We are very grateful to have a very faithful and supportive group of shareholders.

Since our listing on the 9th June, the global economic scene and financial markets continue to be dominated primarily by bankers and politicians in the USA and the European Union trying to kick start their respective economies, at the same time figuring out how to fund their extraordinary deficits. As a consequence, Australian companies in the micro-cap category are finding it difficult, if not impossible, to attract any meaningful investor attention.

Against this backdrop, any review of the performance of Bluechiip's shares since listing is arguably moot. However, I do note with some disappointment that a few pre-IPO shareholders chose to sell shares in an extremely thin market leading up to, and since, the financial year end. These few sales, collectively about $150,000 in total, reduced the company's market value from $20 million to $12 million. This is one of the potential downsides of listing on the ASX.

Bluechiip has grown in a relatively short time from a start-up technology company to an early stage commercial enterprise on the cusp of major success. By international standards we have achieved this on a metaphorical shoe-string. This is typical of the enduring enterprise and doggedness of Australian entrepreneurial companies. The IPO has provided the cash injection needed to take the key steps to secure commercial product. Your Managing Director and CEO, Brett Schwarz, and his small but very talented team have worked hard to secure partners and commercial product as expeditiously as possible. Clear goals for management have been agreed with the board, and include: having commercial product available for launch in early 2012; securing agreements with development, manufacturing and distribution partners; and ongoing field trials with key institutions which continue to stress test and further validate our product.

Importantly all this valuable work continues to add significantly to the company's attractiveness on the international stage.

In our first annual report as a listed company we aim to give shareholders as much meaningful information as possible and to this end I refer you to the operating and financial review section of the director's report contained in this annual report. Needless to say as a result of the increasing prescription of legal and accounting requirements, the annual report also contains a considerable quantity of complex and technical material which, for many shareholders, is an anathema. I commend you to the other regular progress reports provided to the investment community. Please note that to reduce costs and the adverse environmental impact we prefer to send all these communications electronically. We ask you all to assist in this objective, and not request reports to be printed and posted out unless absolutely unavoidable.

Chairman's Letter

I acknowledge on behalf of the board the efforts of the very small, dedicated group of employees and contractors who do so much with so little. All of them hold a very genuine interest in the company and its future. These technical people are amazingly innovative and deservedly win accolades from both their peers and from local and international companies.

Brett Schwarz, in addition to running the company, handles many time-consuming financial and administrative tasks. Since the financial year end, the board has taken steps to reduce his responsibility with these tasks, allowing him to spend his time where it matters most – our future customers and business partners.

Finally, I offer my gratitude and thanks to my fellow directors for their significant and ongoing efforts during this important year in Bluechiip's history.

We look forward to meeting you at the AGM in Melbourne on 10 November 2011.

Iain Kirkwood
Chairman

Your directors submit their report for the year ended 30 June 2011.

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 period 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 is currently serving as Chairman. 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 years he has also served as a Director of the following other listed companies:

- Avexa Limited (Appointed 9 August 2010)
- Medical Developments International Limited (Appointed 27 October 2003)
- Vision Group Holdings Limited (Appointed November 2004)
- Calzada Limited (previously Metabolic Pharmaceuticals Limited) (Appointed 1 July 2008; Resigned 16 April 2009)

Brett G Schwarz
Managing Director and CEO

Qualifications: BComm, CA

Co-founded Bluechiip in 2003 and has built the company to the unique emerging technology company that it is today. Under his leadership, Bluechiip is gaining a reputation as an exciting new technology on the world stage of innovation.

Has been a director of Bluechiip since its foundation and CEO since August 2008. Since late 2005, he has been instrumental in raising funds from private equity, government grants and tax concessions to commercialize Bluechiip's innovative tracking system.

He has built important relationships with potential customers and partners and has secured a strong network of key suppliers who can support the successful global commercialization of the bluechiip technology. He has established a small and highly qualified team which is the foundation of Bluechiip's commercial future ambitions.

Commenced his career as a chartered accountant with Arthur Andersen and then Gaddie Metz Kahn (now GMK Partners), 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.

He holds a Bachelor of Commerce from the University of Melbourne and is a member of the Institute of Chartered Accountants of Australia (ICAA).

Joe M Baini
Non-Executive Director

Qualifications: BSc, Post Grad Diploma of Business Management

Has more than 20 years in the pharmaceutical industry, focused on commercialization, marketing and sales including partnership, government and licensing negotiations. Most notably, he is 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.

Has been involved with Bluechiip since mid-2008 and has been a key contributor to the organization in strategy and business development, including key partner discussions and negotiations on behalf of Bluechiip. This continues to ensure Bluechiip operations are kept in line with the company's vision of providing solutions to the healthcare sector as an initial market strategy. Has also been instrumental in assisting Bluechiip's product development and customer interactions through proof-of-concept studies and pilot trials.

He is the CEO of ASX listed Immuron Limited (ASX: IMC), an Australian biotechnology company, where he has held this position since January 2011. He is also a Director and founder of eXec Factor Pty Limited, an executive leadership consulting company. He is currently on the Board of the BioMelbourne Network.

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

Avexa Limited (Appointed 22 April 2009; Resigned 18 April 2011)

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

He joined the board of Bluechiip Limited in August 2010.

Larry R Lopez
Non-Executive Director
Qualifications: BSc Bus Admin, Graduate PCBS, MAICD

Has over 25 years operational and transactional experience financing technology companies, including commercial banking, investment banking, funds management and venture capital. Prior to moving to Australia in 2006, he held a number of senior and executive positions at Silicon Valley Bank (SVB) Financial Group in Palo Alto, California between 1989 and 2006. SVB is the Silicon Valley based global leader in financial services for innovative companies and investors. Over the years he has served on the boards of numerous private companies and non profit organizations in the USA, Australia and Europe.

Currently a Principal Consultant and Director at Australian Venture Consultants, a Perth based management consulting firm focussed on assisting knowledge based companies to develop and execute strategies that achieve commercial outcomes and create stakeholder value from the development of intellectual property. He is also currently the Chairman of Commercial Advisory Committee of the National Centre of Excellence in Desalination.

He joined the board of Bluechiip Limited in September 2010.

Dr Ronald B Zmood
Non-Executive Director
(resigned in August 2010)

Dr Zmood co-founded Bluechiip Limited in May 2003 and was the company's CTO until September 2007. He was a director from May 2003 through to August 2010. He is the inventor of the initial core device patents of the bluechiip® technology. He is recognized as one of the world's experts in magnetic MEMS technology and has been at the forefront of MEMS technology in Australia over the last 20 years. Dr Zmood has more than 40 years of engineering and research experience in both industry and academia. He has extensive experience managing complex research and development projects which have led to successful commercial outcomes.

Dr Mike J Murray
Non-Executive Director
(resigned in August 2010)

Dr Murray was appointed to the Board in September 2004 and resigned in August 2010.

He has extensive experience in commercializing IP. Dr Murray worked for 26 years with Australia's Commonwealth Scientific and Industrial Research Organization (CSIRO), including 10 years as the Chief of the Division of Materials Science and Technology, followed by 5 years as a Corporate Executive seeking major initiatives with industry and academia. He is the co-founder of listed companies Ceramic Fuel Cells Limited (listed on the ASX (ASX: CFU) and the AIM in London) and X-Ray Technologies Limited. He founded the Australian Industrial Synchrotron Roundtable which originated the concept of, and laid the business foundation for the Australian Synchrotron currently being constructed in Victoria, Australia. Dr Murray was Chairman until November 2007 and a member of the company's Remuneration Committee.

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	7,317,460	4,150,000
Brett Schwarz	8,296,000	8,000,000
Joe Baini	136,000	2,010,000
Larry Lopez	–	2,000,000

Company Secretary

Lee Mitchell

Qualifications: BA, LLM

Was previously a partner in a premier mid-tier law firm in their corporate group. He remains a qualified solicitor practising principally in corporate and commercial law advising on corporate and securities regulation, capital raisings, formulation and implementation of mergers and acquisitions, corporate governance and secretarial matters.

He joined Bluechiip Limited as Company Secretary in September 2010.

Dividends

No dividends were paid or declared since the start of the financial year (2010: Nil). No recommendation for payment of dividends has been made.

Principal Activities

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

Bluechiip Limited had not yet generated commercial revenues as at 30 June 2011 or at the date of this report.

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

Operating and Financial Review

Operating Results

The consolidated loss of the Group for the financial year after providing for income tax amounted to $3,615,702 (2010: loss of $3,162,172).

Results of operations

Other revenue increased from $261,012 to $725,584 due to:

- an increase in interest income from $3,675 to $37,769, mainly due to interest generated on IPO funds whilst held in trust by Computershare.
- an increase in the R&D tax concession from $243,338 to $674,361 due to the much higher level of eligible R&D activities undertaken by the company.

Loss before income tax increased from $3,162,172 to $3,615,702 due to:

- Higher employee benefits expense – $736,339 (2010 – $506,871) due to employment of additional staff, slightly higher base salary levels for staff including incentive bonuses to key executives.
- Higher employee share plan expense – $1,019,696 (2010 – $7,032) due to the value of shares issued to employees and directors, in September 2010.
- Higher R&D expenses – $656,365 (2010 – $58,818) due to increased level of R&D activities as the company progresses development towards commercial product, including costs incurred for the development of the chip, the reader hardware, software industrial design work and regulatory costs.
- Higher patent costs – $66,087 (2010 – $30,129) due to further patent application filings and renewal costs.
- Higher one-off legal, secretarial, tax, accounting and audit fees – $248,035 (2010 – $90,657) as a result of the conversion from a private to public company and the preparation of the company for listing on the ASX.
- Previous year result (2010) included $2,288,448 for the fair value movement of financial liabilities/derivatives being the preference shares.
- Share based payment expense relating to the value of the options issued to employees and directors – $959,994 (2010 – $Nil).

After deducting Employee share plan and share based payment expenses as well as fair value movements in financial liabilities, operating expenses increased from $1,127,704 to $2,361,596, in line with the overall increased activity made possible by funds substantially sourced from the company's successful listing on the ASX during the year.

Capital structure

During the financial year ended 30 June 2011, the following material movements in share capital occurred:

- During May and June 2011, 11,947,000 ordinary shares were issued at a price of $0.25 per share pursuant to a successful Initial Public Offering (IPO) and a related placement of shares, raising a gross value before fees of $2,986,750
- Capitalised share issue costs relating to the IPO totalled $903,426 and have been offset against the issued capital

- The company listed on the Australian Securities Exchange (ASX) under the ASX symbol BCT and its shares commenced trading on 9 June 2011.

Significant Change in the State of Affairs

The only significant change in the state of affairs of the parent entity that occurred during the financial year was that the company became a listed public company on the Australian Stock Exchange (ASX) from 9 June 2011 after closing an IPO in which it raised gross share capital of $2,986,750 before costs.

Significant Events after Balance Date

Subsequent to the year end, the company lent $500,000 to the Chairman, Iain Kirkwood, to purchase shares. The loan facility is unsecured, carries interest at 12.95% per annum and is repayable in full by no later than 30 June 2012. The remaining terms of the loan facility are on usual terms for a facility of this nature.
All remuneration and any other compensation that would otherwise be payable to the Chairman will be applied towards repayment of the loan facility. At the date of this Report, the balance of the loan was $429,191.

Likely Developments and Expected Results

The directors are confident that the 2012 financial year will see the final stage of development towards commercial product and sales revenue.

The funds raised in the IPO, government grants that will be applied for and R&D Tax Concession receipts will be used to complete the final development of the bluechiip® technology through to commercial product for sale.
These funds will also be used for working capital requirements including the expansion of the product development, business development and operational capacity of the company.

The company is engaged with third parties to manufacture the commercial chips/tags and readers.

Significant effort is being put towards preparing the biobanking market in particular, including working closely with prospective customers and end-users, as well as partners. This includes raising the profile of the company through attendance and involvement at industry events and the conduct of proof-of-concept studies and pilot trials.

The company is actively seeking to secure commercial partnerships.

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.

Share Options

Unissued shares

As at the date of this report, there were 28,973,422 unissued ordinary shares under options (28,973,422 at the reporting date). Refer to the remuneration report for further details of the options outstanding.

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.

Insurance of directors and officers

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 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 $23,506.

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:

	Eligible	Director's meetings Attended	Remuneration & Nomination committee meetings	Audit & Risk committee meetings
Number of meetings held	10	10	–	–
Number of meetings attended				
I Kirkwood	10	10	–	–
B G Schwarz	10	10	–	–
J M Baini	9	9	–	–
L R Lopez	8	8	–	–
M J Murray	1	1	–	–
R B Zmood	1	1	–	–

No Remuneration & Nomination committee meetings were held during the year. A meeting scheduled in June 2011 had to be postponed until post year end, with one recently being held on 26 August 2011.

No Audit & Risk committee meetings were held during the year. A meeting scheduled in June 2011 had to be postponed until post year end, with one recently being held on 26 August 2011.

Committee membership

As at the date of this report, the company had an audit and risk 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 and Risk	Remuneration and Nomination
Larry Lopez (Chairman)	Iain Kirkwood (Chairman)
Iain Kirkwood	Joe Baini
Joe Baini	Larry Lopez

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.

Auditor independence declaration

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

Non-audit services

The following non-audit services were provided by the entity's auditor, Ernst & Young. 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 and scope of non-audit services provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

	$
Independent Accountant Report for IPO	67,770

Auditor's Independence Declaration

Ernst & Young

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8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

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Fax: +61 3 8650 7777
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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 2011, 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

Ernst & Young

Painter

Stuart Painter
Partner
2 September 2011

This report outlines the compensation arrangements in place for Directors and senior executives of the Company. All sections contained herein have been subject to audit. Remuneration is referred to as compensation in this report.

Individual key management personnel (KMP) disclosures

Details of KMP of the Company are set out below:

(i) Directors

Iain Kirkwood	Chairman (non-executive)
Brett Schwarz	Managing Director and Chief Executive Officer (CEO)
Joe Baini	Director (non-executive) – appointed 6 August 2010
Larry Lopez	Director (non-executive) – appointed 2 September 2010
Dr Ronald Zmood	Director (non-executive) – resigned 6 August 2010
Dr Mike Murray	Director (non-executive) – resigned 6 August 2010

(ii) Executives

Dr Jason Chaffey	Chief Technology Officer (CTO)

There were no changes to the KMP's after the reporting date and before the date the financial report was authorised for issue.

Principles of Compensation

The Board assumes full responsibility for compensation policies and packages applicable to Directors and senior executives of the Company. The broad compensation policy 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. Employees may receive at-risk incentive payments remunerated as cash or share options based on the achievement of specific goals related to the performance of the individual and the Company as determined by the Directors. Incentives are provided to senior managers for the achievement of individual and strategic objectives with the broader view of creating value and wealth for shareholders.

Fixed Compensation

Fixed compensation consists of a base compensation package and employer contributions to superannuation funds.

Fixed compensation levels for staff are reviewed annually by the Chief Executive Officer (CEO) through a process that considers the employee's personal development, achievement of key performance objectives for the year, industry benchmarks wherever possible and CPI data. Compensation recommendations for staff are given by the CEO who conducts the review and makes recommendations to the Board for approval.

Key Performance Indicators (KPIs) are individually tailored for each employee each year, and reflect an assessment of how that employee can fulfil his or her particular responsibilities in a way that best contributes to Company performance and shareholder wealth in that year. KPIs and compensation levels are set by the CEO and for the CEO by the Board adopting the same process as that adopted for staff, with close alignment to each individual's role and responsibility within the organisation and in conjunction with the strategic objectives of the Company.

Performance Linked Compensation and Short Term Performance Incentives

All employees other than Non-Executive Directors may receive at-risk incentive payments and/or share options 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 factors include traditional financial considerations such as operating performance and cash consumption; in addition, the other major factors taken into account include commercial deals concluded and industry-specific factors relating to the advancement of the company's product development, introduction of novel ideas which can contribute significantly to the product development portfolio, collaborations and relationships with third parties.

Employment contracts for staff other than the CEO provide for at-risk incentive compensation of up to 10 per cent of their total fixed compensation package (although higher incentive compensation payments may be made at the Board's discretion). Typically incentive compensation is split 50 per cent on personal performance and 50 per cent on Company performance.

The Board at its sole discretion determines the total amount of performance-linked 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 performance-linked 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 performance-linked compensation should be paid to that person.

The CEO makes a recommendation annually to the Board in respect of incentive compensation for all staff based on the same principles and processes. The Board similarly reviews the performance of the CEO and resolves accordingly on the appropriate level of performance incentive to be paid.

An amount of $21,172 (2010: $Nil) has been accrued at the end of the 2011 financial year by way of an employee benefit provision in respect of performance for the 2011 financial year. $21,172 (2010: $Nil) was paid in the July 2011 payroll in respect of staff performance for the 2011 financial year.

The CEO has the discretion to recommend the offer of options to acquire ordinary shares to any member of staff in recognition of exemplary performance. Such options may vest immediately upon issue given that they are issued as a reward for past performance rather than as a long term incentive. Any issue of options proposed as incentive compensation requires approval by the Board and is subject to the option limits imposed by the Corporations Act. The Board considers that the performance linked compensation structure is operating effectively.

Employment Contracts

All staff are employed under contracts with the following common terms and conditions:

- no fixed term and no termination payment prescribed;
- terminable by either party on the giving of one months notice in writing; and
- the Company may terminate any contract for Cause as defined.

Long Term Incentive

From time to time Board approval may be sought for the issue of options to acquire ordinary shares to staff and KMPs as a means of providing a long term incentive for performance and loyalty. Any such options 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 an approximate three year life and a vesting profile as shown following.

2011:

Employee	Number of Employee Options	Exercise price	Expiry date	Additional conditions
Brett Schwarz	8,000,000	$0.20	31/08/2013	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
Jason Chaffey	4,000,000	$0.20	31/08/2013	1/2 tenure – equal at each of 30/6/2011, 2012 and 2013; 1/2 subject to securing first commercially saleable chips and readers
Iain Kirkwood	4,000,000	$0.20	31/08/2013	Listed share price to be > $0.375 per share (50% increase on listing price)
Joe Baini	2,000,000	$0.20	31/08/2013	Listed share price to be > $0.375 per share (50% increase on listing price)
Larry Lopez	2,000,000	$0.20	31/08/2013	Listed share price to be > $0.375 per share (50% increase on listing price)
Ian Johnston	800,000	$0.20	31/08/2013	1/2 tenure – equal at each of 30/6/2011, 2012 and 2013; 1/2 subject to securing first commercially saleable chips and readers
Miroslav Miljanic	800,000	$0.20	31/08/2013	All tenure based; 1/3 at each of 30/6/2011, 2012 and 2013
	21,600,000			

2010:

No issues of options occurred in 2010.

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 30 November 2010.

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.

Directors' base fees of $45,000 and $75,000 for the Non-Executive Directors and Chairman respectively have applied from 9 June 2011.

From 1 July 2011, the Chairman of the Audit and Risk Committee and the Remuneration and Nomination Committee will each receive an additional $5,000 per annum, inclusive of superannuation, in recognition of these additional duties.

Directors' and Executive Officers' Compensation Tables

Details of the nature and amount of each major element of the compensation of each Director of the Company and each of the named officers of the Company receiving the highest compensation for the period that the Director or officer held that position during the current and prior financial years 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 2010 and 2011 financial years.

Details of the Company's policy in relation to the proportion of compensation that is 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 Agreements' earlier in this report. Figures in brackets represent the value of bonuses/incentives and options respectively as a percentage of total compensation.

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 period. Refer to the next sections of this report for full details of the option valuations.

Loan

Subsequent to the 30 June 2011, an unsecured short term loan of $500,000 was provided to the Chairman. All remuneration and any other compensation payable to the Chairman are to be applied against the loan.

Remuneration of Key Management Personnel

			Short-term Benefits	Post Employment:
	Salary and fees	Non-cash Benefits	Bonuses/ Incentives	Superannuation Contributions
	$	$	$	$
2011:				
DIRECTORS				
Non-executive				
Iain Kirkwood	47,783	–	–	4,301
Joe Baini (i)	11,250	–	–	–
Larry Lopez (ii)	24,083	–	–	2,167
Dr Ronald Zmood (iii)	2,738	–	–	246
Dr Mike Murray (iv)	2,738	–	–	246
Executive				
Brett Schwarz	211,715	–	21,172	20,960
Total Compensation	300,307	–	21,172	27,920
EXECUTIVES				
Other Key Management Personnel				
Dr Jason Chaffey	150,000	–	7,500	14,175
Total Compensation	**150,000**	**–**	**7,500**	**14,175**
2010:				
DIRECTORS				
Non-executive				
Iain Kirkwood	7,645	–	–	688
Joe Baini	–	–	–	–
Larry Lopez	–	–	–	–
Dr Ronald Zmood	4,587	–	–	413
Dr Mike Murray	4,587	–	–	413
Robert Payne (v)	2,500	–	–	–
Executive				
Brett Schwarz	172,018	–	–	15,482
Total Compensation	191,337	–	–	16,996
EXECUTIVES				
Other Key Management Personnel				
Dr Jason Chaffey	131,135	–	–	11,802
Total Compensation	**131,135**	**–**	**–**	**11,802**

(i) Appointed 6 August 2010 (ii) Appointed 2 September 2010 (iii) Resigned 6 August 2010
(iv) Resigned 6 August 2010 (v) Appointed 15 April 2010; Resigned 21 May 2010

Long-term Benefits	Share-based Payments:			
Long Service Leave	Shares issued	Options issued	Total Compensation	% of remuneration paid as bonus
$	$	$	$	
–	194,787	130,167	377,038	0.0%
–	–	65,084	76,334	0.0%
–	–	65,084	91,334	0.0%
–	65,147	–	68,131	0.0%
–	68,958	–	71,942	0.0%
8,284	441,516	349,052	1,052,699	2.0%
8,284	770,409	609,387	1,737,479	1.2%
5,902	208,479	245,589	631,645	1.2%
5,902	**208,479**	**245,589**	**631,645**	**1.2%**
–	–	–	8,333	0.0%
–	–	–	–	0.0%
–	–	–	–	0.0%
–	–	–	5,000	0.0%
–	–	–	5,000	0.0%
–	–	–	2,500	0.0%
4,188	–	–	191,688	0.0%
4,188	–	–	212,521	0.0%
1,420	–	–	144,357	0.0%
1,420	**–**	**–**	**144,357**	**0.0%**

In addition to the above Directors' remuneration, consultancy fees of $45,300 were paid to eXec Factor Pty Ltd (a company associated with Mr Baini) including $42,000 between August 2010 to February 2011 during which time Mr Baini was a director of the company.

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

There were 21,600,000 options granted as compensation during the financial year to any applicable person in the Directors' and Executive Officers' compensation tables. During the financial year no options held by these persons lapsed. There were no options exercised during the financial year by any of these persons nor were there any alterations or modifications to existing terms and conditions other than in accordance with ASX Listing Rule adjustments to option exercise prices following pro rata issues of securities.

2011

	Options Granted		Number and % vested in year	Financial years in which grant vests	Value yet to vest in $
Executive and title	**Number**	**Date**			
Iain Kirkwood (Non-Executive Chairman)	4,000,000(i)	8/11/2010	Nil	2010-2013	406,633
Joe Baini (Non-Executive Director)	2,000,000(ii)	8/11/2010	Nil	2010-2013	203,316
Larry Lopez (Non-Executive Director)	2,000,000(iii)	8/11/2010	Nil	2010-2013	203,316
Brett Schwarz (Managing Director & CEO)	8,000,000(iv)	8/11/2010	Nil	2010-2013	410,785
Dr Jason Chaffey (CTO)	4,000,000(v)	8/11/2010	Nil	2010-2013	270,014
	20,000,000(v)				1,494,064

(i) Listed share price to be > $0.375 per share (50% increase on listing price)

(ii) Listed share price to be > $0.375 per share (50% increase on listing price)

(iii) Listed share price to be > $0.375 per share (50% increase on listing price)

(iv) ⅓ tenure – equal at each of 30/6/2011, 2012 and 2013; ⅓ subject to securing first commercial revenues >$100,000; ⅓ subject to company being cash EBITDA positive by 31/12/2012

(v) ½ tenure – equal at each of 30/6/2011, 2012 and 2013; ½ subject to securing first commercially saleable chips and readers

2010

There were no options issued to KMP's during the 2010 financial year.

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.

2011

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
4,000,000 to Iain Kirkwood	8/11/2010	31/08/2013	$0.12447 to $0.14690	$0.20	$0.25	4.99%	60-80%
2,000,000 to Joe Baini	8/11/2010	31/08/2013	$0.12241 to $0.14599	$0.20	$0.25	4.99%	60-80%
2,000,000 to Larry Lopez	8/11/2010	31/08/2013	$0.12241 to $0.14599	$0.20	$0.25	4.99%	60-80%
8,000,000 to Brett Schwarz	8/11/2010	31/08/2013	$0.12447 to $0.14690	$0.20	$0.25	4.99%	60-80%
4,000,000 to Dr Jason Chaffey	8/11/2010	31/08/2013	$0.12447 to $0.14690	$0.20	$0.25	4.99%	60-80%

2010

There were no options issued during the 2010 financial year.

Shares Issued on Exercise of Options

During the financial year no options were exercised (2010: Nil).

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

Alteration to Option Terms

Other than in accordance with ASX Listing Rule adjustments to option exercise prices following pro rata issues of securities, 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 Performance on Shareholder Wealth

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.

B. G Schwarz
Managing Director

2 September 2011

Corporate Governance Statement
30 June 2011

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

The CGC's recommendations were amended in 2010 and these amendments will apply to the Company's first financial year commencing on or after 1 January 2011. Accordingly, disclosure against the recommendations as amended in 2010 will be made in relation to the Company's financial year ending 30 June 2012. The report below is made against the recommendations prior to their amendment in 2010.

However, the Company does wish to report that it has adopted a Diversity Policy in accordance with the new recommendation 3.2. A copy of the Company's Diversity Policy is available on the Company's website. The Company is currently developing measurable objectives for achieving gender diversity and will report against these in relation to its financial year ending 30 June 2012.

	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 18	ASX CGC 1.1
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Yes	Page 20	ASX CGC 1.2
1.3	Companies should provide the information indicated in the guide to reporting on Principle 1.	Yes	Page 20	ASX CGC 1.3
Principle 2 — Structure the board to add value				
2.1	A majority of the board should be independent directors.	No	Page 19/20	ASX CGC 2.1
2.2	The chair should be an independent director.	No	Page 19	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 19	ASX CGC 2.3
2.4	The board should establish a nomination committee.	Yes	Page 20	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 20	ASX CGC 2.5
2.6	Companies should provide the information indicated in the guide to reporting on Principle 2.	Yes	Page 20/21	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: • 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

	Recommendation	Comply Yes/No	Reference/ explanation	ASX Listing Rule/CGC Recommendations
3.2	Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.	Yes	Page 20	ASX CGC 3.2
3.3	Companies should provide the information indicated in the guide to reporting on Principle 3.	Yes	Page 20	ASX CGC 3.3
Principle 4 — Safeguard integrity in financial reporting				
4.1	The board should establish an audit committee.	Yes	Page 21	ASX CGC 4.1
4.2	The audit committee should be structured so that it: • 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	Yes	Page 21	ASX CGC 4.2 ASX LR 12.7
4.3	The audit committee should have a formal charter.	Yes	Page 21	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 23	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 23	ASX CGC 6.1
6.2	Companies should provide the information indicated in the guide to reporting on Principle 6.	Yes	Page 23	ASX CGC 6.2
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	Page 21/22	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 21	ASX CGC 7.2

Recommendation		Comply Yes/No	Reference/ explanation	ASX Listing Rule/CGC Recommendations
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 22	ASX CGC 7.3
7.4	Companies should provide the information indicated in the guide to reporting on Principle 7.	Yes	Page 22	ASX CGC 7.4
Principle 8 — Remunerate fairly and responsibly				
8.1	The board should establish a remuneration committee.	Yes	Page 20	ASX CGC 8.1
8.2	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
8.3	Companies should provide the information indicated in the guide to reporting on Principle 8.	Yes	Page 20	ASX CGC 8.3

Bluechiip Limited's corporate governance practices were in place on and from 8 November 2010 in readiness for its IPO and admission to the official list of ASX. Prior to that time none of the recommendations set by the ASX Corporate Governance Council were strictly followed by the Company as it was an unlisted public company and its structure did not then require or warrant compliance with the CGG Principles and Recommendations.

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/governance/index.html

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 accountability, risk management and ethical conduct.

The board seeks to identify the expectations of the 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 Group is delegated, by the board, to the 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 CEO and other employees.

Whilst at all times the board retains full responsibility for guiding and monitoring the Group, 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
- Remuneration Committee and
- Nomination Committee.

The roles and responsibilities of these committees are discussed throughout 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 including:

- Board setting overall financial goals for the Company;
- approval of strategies, objectives and plans for the Company to achieve these goals;
- monitoring executive management and business performance in the implementation and achievement of strategic and business objectives;
- Ongoing development of the strategic plans and approving initiatives and strategies designed to ensure the continued growth and success of the entity;
- Implementation of financial plans and budgets by management and monitoring progress against budget on an ongoing basis — via the establishment and reporting of both financial and non-financial key performance indicators.

Other functions reserved to the board include:

- Approval of the annual and half-yearly financial reports;
- Approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- Ensuring that any significant risks that arise are identified, assessed, appropriately managed and monitored;
- Reporting to shareholders.

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 Group 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:

Name	Position
Mr Joe M Baini	Non-executive director – appointed 6 August 2010
Mr Larry R Lopez	Non-executive director – appointed 2 September 2010
Dr Ronald B Zmood	Non-executive director – resigned 6 August 2010
Dr Mike J Murray	Non-executive director – resigned 6 August 2010

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 regarded as independent as he is a substantial shareholder of the Company and is also party to a $500,000 loan facility provided by the Company.

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

Therefore only 2 of the Company's 4 directors are currently independent. The Board considers that the Company is not currently of a size, nor are its affairs of such complexity, to justify the expense of an appointment of a majority of independent directors. However, 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

Further, there are procedures in place, agreed by the board, to enable directors in furtherance of their duties to seek independent professional advice at the Company's expense.

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 M Kirkwood	4 years
Mr Brett G Schwarz	8 years
Mr Joe M Baini	1 year
Mr Larry R Lopez	1 year

For additional details regarding board appointments, please refer to our website.

Performance

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

The Nominations and Remuneration Committees will conduct an annual review of the role of the board, assess the performance of the board over the previous 12 months and examine ways of assisting the board in performing its duties more effectively.

The review will include:

(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.

A similar review will be 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.

The Nominations and Remuneration Committees will oversee the performance evaluation of the executive team. This evaluation is based on specific criteria, including the business performance of the Company and its subsidiaries, whether strategic objectives are being achieved and the development of management and personnel.

Directors whose performance is consistently unsatisfactory may be asked to retire.

Trading policy

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 committee

The board has established a nomination committee, which meets at least annually, to ensure that the board continues to operate within the established guidelines, including when necessary, selecting candidates for the position of director. The nomination committee comprises non-executive directors.

The nomination committee comprised the following members throughout the year:

Iain Kirkwood (Committee Chairman)

Joe Baini (independent)

Larry Lopez (independent)

For details of directors' attendance at meetings of the nomination committee, refer to the directors' report.

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. 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:

Larry Lopez (Committee Chairman) (independent)

Iain Kirkwood

Joe Baini (independent)

Qualifications of audit committee members

Larry Lopez has 25 years operational and transactional experience financing technology companies, including commercial banking, investment banking, funds management and venture capital. Over the years Larry has served on the boards of numerous private companies and non profit organizations in the USA, Australia and Europe.

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 was an Executive Director of the Company from August 2010 to February 2011, having consulted to the Company since July 2008. He has more than 20 years in the pharmaceutical industry, focused on commercialization, marketing and sales including partnership, government and licensing negotiations.

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.

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.

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 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 the following 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 programme 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;
- 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;
- The occurrence of force majeure events by significant suppliers;
- Increasing costs of operations, including labour costs, materials, suppliers or other items and equipment.

As part of its duties, the company's internal audit function conducts a series of risk-based and routine reviews based on a plan agreed with management and the audit committee with the objective of providing assurance on the adequacy of the company's risk framework and the completeness and accuracy of risk reporting by management.

CEO and CFO certification

In accordance with section 295A of the Corporations Act, the CEO has provided a written statement to the board that:

- His view provided on the Company's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the board
- 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 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 is responsible for determining and reviewing compensation arrangements for the directors themselves, the CEO and executive team. The board has established a remuneration committee, comprising three non-executive directors. Members of the remuneration committee throughout the year were:

Iain Kirkwood (Committee Chairman)

Joe Baini

Larry Lopez

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.

Shareholder communication policy

Pursuant to 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.

Consolidated Statement of Financial Position

As at 30 June 2011

	Note	2011 $	2010 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	10	1,492,102	191,545
Trade and other receivables	11	695,154	260,304
TOTAL CURRENT ASSETS		**2,187,256**	**451,849**
NON-CURRENT ASSETS			
Property, plant and equipment	12	53,633	47,777
TOTAL NON-CURRENT ASSETS		**53,633**	**47,777**
TOTAL ASSETS		**2,240,889**	**499,626**
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	13	818,600	114,899
Interest-bearing loans and borrowings	14	1,919	–
Employee entitlements	15	34,235	14,352
TOTAL CURRENT LIABILITIES		**854,754**	**129,251**
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	14	135,798	–
Employee entitlements	15	29,166	19,017
TOTAL NON-CURRENT LIABILITIES		**164,964**	**19,017**
TOTAL LIABILITIES		**1,019,718**	**148,268**
NET ASSETS		**1,221,171**	**351,358**
EQUITY			
Issued capital	16	10,657,271	8,151,446
Reserves	17	3,009,648	1,029,958
Accumulated losses		(12,445,748)	(8,830,046)
TOTAL EQUITY		**1,221,171**	**351,358**

Consolidated Statement of Comprehensive Income
For the Year Ended 30 June 2011

	Note	2011 $	2010 $
Other income	6	725,585	261,013
Employee benefits expense		(736,339)	(506,871)
Employee share plan expense		(1,019,696)	(7,032)
Depreciation, amortisation and impairments	7 (b)	(18,724)	(23,785)
Research and Development		(656,365)	(58,818)
Patent costs		(66,087)	(30,129)
Consultancy fees		(173,545)	(153,768)
Travel and accommodation		(126,704)	(139,305)
Occupancy costs		(35,730)	(24,592)
Legal and professional fees		(248,035)	(90,657)
Trademark expenses		(10,906)	(12,321)
Fair value movements in financial liabilities	3(d)	–	(2,288,448)
Share based payment expense	21(c)	(959,994)	–
Other expenses		(272,992)	(85,193)
Finance costs	7 (a)	(16,170)	(2,266)
Loss before income tax		**(3,615,702)**	**(3,162,172)**
Income tax	8	–	–
Total comprehensive income/(loss) for the year		**(3,615,702)**	**(3,162,172)**
Earnings per share			
Basic earnings per share (cents)	9	(5.5)	(11.2)
Diluted earnings per share (cents)	9	(5.5)	(11.2)

Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2011

	Note	Ordinary Shares $	Employee Equity Benefits Reserve $	Accumulated Losses $	Total $
At 1 July 2010		8,151,446	1,029,958	(8,830,046)	351,358
Shares issued during the year		3,409,251	1,019,696	–	4,428,947
Transaction costs on share issue		(903,426)	–	–	(903,426)
Issue of share options		–	959,994	–	959,994
Total comprehensive income/ (loss) attributable to members of the entity		–	–	(3,615,702)	(3,615,702)
At 30 June 2011		**10,657,271**	**3,009,648**	**(12,445,748)**	**1,221,171**
At 1 July 2009		375,102	1,022,926	(5,667,874)	(4,269,846)
Conversion of preference shares into ordinary shares		6,865,344	–	–	6,865,344
Shares issued during the year		911,000	7,032	–	918,032
Total comprehensive income/ (loss) attributable to members of the entity		–	–	(3,162,172)	(3,162,172)
At 30 June 2010		**8,151,446**	**1,029,958**	**(8,830,046)**	**351,358**

Consolidated Statement of Cash Flows
For the Year Ended 30 June 2011

	Note	2011 $	2010 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from government grants		13,455	93,272
Payments to suppliers and employees		(1,892,748)	(1,207,329)
Interest received		37,769	3,675
Interest paid		(6,089)	(2,266)
R&D tax concession received		243,338	283,361
Net cash flows used in operating activities	18	(1,604,275)	(829,287)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	12	(24,579)	(4,530)
Net cash flows used in investing activities		(24,579)	(4,530)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of preference shares		–	100,000
Proceeds from issue of ordinary shares		3,409,251	911,000
Transaction costs on share issue		(608,157)	–
Proceeds from borrowings		311,996	–
Repayment of borrowings		(183,679)	–
Net cash flows from financing activities		2,929,411	1,011,000
Net increase in cash held		1,300,557	177,183
Cash and cash equivalents at beginning of financial year		191,545	14,362
Cash and cash equivalents at end of financial year	10	1,492,102	191,545

Note 1 Corporate Information

The consolidated financial report of Bluechiip Limited for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the directors on 2 September 2011.

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 director's 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.

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

Going Concern

The Group has not yet generated sales revenues and in the year ended 30 June 2011 had a net operating cash outflow of $1,604,275.

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:

- future capital raisings;
- generating positive operating cash flows through expected sales of the bluechiip system;
- Australian state and federal grants;
- receipts from the Federal R&D Tax concession programme; and
- co-development funding from third party joint ventures or collaborations.

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 information.

In the event that such activities are not entered into or concluded on a timely basis, there is likely to be significant 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

- Inability to secure sales revenue; or
- An inability of the Group to obtain adequate funding.

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 consolidated entity not continue as a going concern.

(a) Compliance with IFRS

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

(b) New Accounting Standards and Interpretations

(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 new and amended Australian Accounting Standards and AASB

Interpretations as of 1 July 2010:

- AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] effective 1 January 2010
- AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139] effective 1 July 2010.
- Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments effective 1 July 2010.

The adoption of these Standards or Interpretations is not deemed to have a significant impact on the financial statements or performance of the Group.

(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 2011, outlined below:

Reference	Title	Summary	Application date of standard*	Application date for Group*
The impact of adoption on the Group financial report has not yet been determined for the following new standards:				
AASB 9	Financial Instruments	Improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of AASB 139.	1 January 2013	1 July 2013
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	These amendments arise from the issuance of AASB 9 *Financial Instruments* that sets out requirements for the classification and measurement of financial assets.	1 January 2013	1 July 2013
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023, & 1038 and interpretations 2, 5, 10, 12, 19 & 127]	Where the fair value option is used for financial liabilities the change in fair value is accounted for as follows: • The change attributable to changes in credit risk are presented in other comprehensive income (OCI) • The remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.	1 January 2013	1 July 2013
AASB 12	Disclosure of Interests in Other Entities	IFRS 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities.	1 January 2013	1 July 2013
AASB 13	Fair Value Measurement	IFRS 13 establishes a single source of guidance under IFRS for determining the fair value of assets and liabilities.	1 January 2013	1 July 2013

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 *(c) Basis of Consolidation*

The consolidated financial statements comprise the financial statements of Bluechiip Limited and its subsidiaries and special purpose entities (the Group) (as outlined in Note 26) as at and for the period ended 30 June 2011 each year.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period 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.

Investments in subsidiaries held by Bluechiip Limited are accounted for at cost in the separate financial statements of the parent entity at cost less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate profit and loss statement of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

(d) Foreign currency translation

(i) Functional and presentation currency

Both the functional and presentation currency of Bluechiip Limited and its subsidiaries is 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.

(ii) Transactions and balances (continued)

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.

(e) Cash and Cash Equivalents – refer Note 10

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 11

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 concession and GST credit refunds.

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 60 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) Property, Plant and Equipment – refer Note 12

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 profit or loss as incurred.

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

Computer Equipment – 10% to 66.67%

Furniture and Fittings – 10% to 20%

Technical Equipment and Tools – 10% to 40%

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

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.

(h) 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 period.

Leased assets are depreciated on a straight-line 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.

(i) Impairment of non-financial assets – refer Note 12

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.

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 to sell 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.

(j) 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.

(k) Trade and other payables – refer Note 13

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 within 30 days of recognition.

(l) Interest-bearing loans and borrowings – refer Note 14

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.

There were no fees payable on establishment of these loans and borrowings.

(m) Provisions and Employee Benefits – refer Note 15

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) Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. 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 service leave

The liability for long service leave is 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 using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods 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.

(n) Share-based payment transactions – refer Note 21

(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;
- The Employee Share Acquisition Plan (ESAP), which provides benefits to all employees, excluding 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
- 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.

(c) The expired portion of the vesting period

The charge to the statement of comprehensive income for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. 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.

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.

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 9).

(o) Contributed equity — refer Note 16

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.

(p) Revenue recognition — refer Note 6

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) 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 period 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.

(ii) Other revenue

Other revenue is recognised when the right to receive the revenue has been established.

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

(q) Income tax and other taxes – refer Note 8

No taxation has been provided 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 1(a) to this report that the company is not yet generating revenues, the directors have considered it prudent not to bring to account deferred tax assets in respect of the assessed and estimated tax losses to be carried forward on the basis that recoupment is not probable at 30 June 2011.

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period'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.
- Receivables and payables, which are stated with the amount of GST included.

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.

(r) Government grants – refer Note 6

Government grants are recognised in the profit and loss 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 a credit to the income tax expense for the year and as a consequence are not recognised in income.

(s) Earnings per share – refer Note 9

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, adjusted for any bonus element.

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

Costs of servicing equity

- Other non-discretionary changes in revenues or expenses during the period 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 and was anti-dilutive and as such, basic and diluted EPS are the same amount.

(t) 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.

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 represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. 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 period 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 period. (All other loans and receivables are classified as non-current assets.)

(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.

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 period. (All other financial assets are classified as current assets).

(ii) Financial liabilities

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

(iv) Preference shares –financial liabilities at fair value through profit or loss

The company's preference shares on issue had terms which resulted in classification as a financial liability which contain an embedded financial derivative. The embedded derivative is the holder's option to convert the preference shares into ordinary shares of the company. As the embedded derivative cannot be reliably measured, the entire preference share is designated as a financial liability at fair value through profit or loss.

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.

(u) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(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 period will be disclosed.

Note 3 Financial risk management objectives and policies

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

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:

		2011 $	2010 $
Financial Assets			
Cash and cash equivalents	10	1,492,102	191,545
Trade and other receivables	11	674,826	253,351
Total Financial Assets		**2,166,928**	**444,896**
Financial Liabilities			
Trade and other payables	13	818,600	114,900
Interest-bearing liabilities	14	137,717	–
Total Financial Liabilities		**956,317**	**114,900**

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.

(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.

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 11.

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

(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.

	Within 1 Year		1 to 5 years		Over 5 Years		Total Contractual Cash Flow	
	2011	2010	2011	2010	2011	2010	2011	2010
	$	$	$	$	$	$	$	$
Financial assets – cash flows realisable								
Cash and cash equivalents	1,492,102	191,545	–	–	–	–	1,492,102	191,545
Trade and other receivables	674,826	253,351	–	–	–	–	674,826	253,351
Total	2,166,928	444,896	–	–	–	–	2,166,928	444,896
Financial liabilities due for payment								
Trade and other payables including interest-bearing liabilities (excluding estimated annual leave)	820,519	114,900	135,798	–	–	–	956,317	114,900
Total	820,519	114,900	135,798	–	–	–	956,317	114,900
Net inflow/(outflow) on financial instruments	1,346,409	329,996	(135,798)	–	–	–	1,210,611	329,996

(c) Market risk

i. Interest rate risk

Loans with related parties (see Note 19) 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.

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 2011		
+1% in interest rates	13,544	–
-1% in interest rates	(13,544)	–
Year Ended 30 June 2010		
+1% in interest rates	1,915	–
-1% in interest rates	(1,915)	–

(d) Net Fair Values

Under AASB 7 Financial Instruments, there is a requirement to classify and measure financial instruments under a level 1 – 3 classification. The only financial instruments required to be measured at fair value for the Group are preference shares (2010 only). These are classified and measured as follows:

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data (non market observable inputs).

Fair value has been determined by reference to the intrinsic value of the underlying ordinary share which is estimated based on recent prices paid by investors per share prior to balance sheet and conversion dates.

Reconciliation of Level 3 fair value movements

	2011 $	2010 $
Opening balance	–	4,476,896
Preference shares issued	–	100,000
Net loss on movement in fair value through profit or loss	–	2,288,448
Transferred to equity on conversion to ordinary shares	–	(6,865,344)
Closing balance	–	–

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.

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 21. 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 period.

Estimation of useful lives

The estimation of useful lives of assets has been based on historical experience for 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) in assessing performance and in determining the allocation of resources.

As the group has not yet began to generate revenue from the sale of its product, internal reports that are provided to the directors are not split into separate operating businesses.

Note 6 Other Income

	2011 $	2010 $
Other revenue		
– Interest income (a)	37,769	3,675
– Government grants	13,455	14,000
– R&D tax concession	674,361	243,338
Total other income	725,585	261,013

(a) Interest income

Interest income from:		
– bank	12,156	3,539
– Computershare (i)	25,597	–
– Other	15	135
	37,768	3,674

(i) On monies received for application of shares into IPO

Note 7 Expenses

	2011 $	2010 $
(a) Finance costs		
Interest expense external	16,170	2,266
Total finance costs	16,170	2,266
(b) Depreciation and amortisation		
Depreciation of property, plant and equipment	18,203	22,090
Amortisation of non-current assets	523	1,694
Total	18,726	23,784
(c) Expense information:		
Foreign currency transaction losses/(gains)	(860)	387
Charges to provision for annual leave	19,883	2,271
Charges to provision for long service leave	10,149	5,590
Charges for superannuation	54,820	41,447

Note 8 Income Tax Expense

No taxation has been provided in view of the losses incurred (2010: Nil). The amount available of carried forward tax losses for offset against future taxable income per the 2010 tax assessment is $2,864,553. Estimated tax losses for the 2011 financial year are $809,230. These amounts are unconfirmed and unrecouped. The deferred tax asset of $1,102,135 (2010: $859,366) associated with these carried forward tax losses has not been recorded on the basis that its recovery is not probable at this time.

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:

	2011 $	2010 $
Prima facie tax on loss from ordinary activities before income tax at 30% (2010: 30%)		
– consolidated entity	(1,084,711)	(948,652)
	(1,084,711)	(948,652)
Add/(Deduct):		
Tax effect of:		
– non-deductible expenses	615,289	628,607
– research and development tax effect	238,462	105,480
– Deferred tax assets arising not brought to account as at balance sheet date because realisation is not considered probable	230,960	214,565
Income tax credit attributable to the consolidated entity	–	–

Note 9 Earnings per share

	2011 $	2010 $
Earnings used to calculate basic and dilutive EPS	(3,615,702)	(3,162,172)

	2011 No.	2010 No.
For basic and diluted EPS		
Weighted average number of ordinary shares outstanding during the year – No. Used in calculating basic EPS	65,663,867	3,521,200
Weighted average number of ordinary shares outstanding during the year – No. Used in calculating basic EPS *		28,169,600*

* For comparative purposes, the 2010 EPS figure takes into account the effect of the 1:8 subdivision of shares approved at the Company's AGM on 30 November 2010.

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

Note 10 Current assets – Cash and Cash

	2011 $	2010 $
Equivalents		
Cash on hand	–	11
Cash at bank	1,492,102	191,534
	1,492,102	191,545

Note 11 Current assets – Trade and Other Receivables

	2011 $	2010 $
Prepayments	20,328	6,953
R&D tax off-set receivable	674,361	243,338
Other receivables	465	10,013
	695,154	260,304

(a) Ageing analysis

The ageing analysis of receivables is as follows:

0-30 days	674,826	253,351
31-60 days	–	–
61-90 days (past due not impaired)	–	–
91+ days (past due not impaired)	–	–
Total R&D tax off-set and other receivables	674,826	253,351

Note 12 Non-current assets – Property, Plant and Equipment

	2011 $	2010 $
Plant and equipment at cost	112,742	103,865
Accumulated depreciation	(83,604)	(73,349)
Total plant and equipment	29,138	30,516
Furniture fixture and fittings at cost	11,750	11,699
Accumulated depreciation	(6,052)	(5,234)
Total furniture, fixture and fittings	5,698	6,465
Computer equipment at cost	43,922	31,714
Accumulated depreciation	(28,535)	(21,406)
Total computer equipment	15,387	10,308
Capitalised software, at cost	53,551	50,107
Accumulated amortisation	(50,141)	(49,619)
Total capitalised software	3,410	488
Total property, plant and equipment	53,633	47,777

(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 2011					
Balance at the beginning of year	30,516	6,465	10,308	488	47,777
Additions	8,877	51	12,208	3,444	24,580
Depreciation/amortisation expense	(10,255)	(818)	(7,129)	(522)	(18,724)
Carrying amount at the end of 30 June 2011	29,138	5,698	15,387	3,410	53,633
Balance at 30 June 2010					
Balance at the beginning of year	45,592	7,347	11,911	2,183	67,033
Additions	–	–	4,530	–	4,530
Disposals	–	–	(2,007)	–	(2,007)
Depreciation/amortisation expense	(15,076)	(882)	(4,126)	(1,694)	(21,778)
Carrying amount at the end of 30 June 2010	30,516	6,465	10,308	489	47,778

Note 13 Current liabilities – Trade and Other Payables

	2011 $	2010 $
Trade payables	504,951	42,028
Sundry payables and accrued expenses	313,649	72,871
	818,600	114,899

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

Trade		
– Total Current	818,600	114,889
Financial liabilities as trade and other payables (Note 3)	818,600	114,889

(b) Fair value

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

(c) Related party payables

For terms and conditions relating to related party payables refer to Note 19.

(d) Interest rate, foreign exchange and liquidity risk

Information regarding interest rate, foreign exchange and liquidity risk exposure is set out in Note 3.

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Note 14 Interest-bearing loans and borrowings

	2011 $	2010 $
CURRENT		
Interest-bearing liabilities[(a)]	1,919	–
	1,919	–

(a) Relates to interest payable on loan by Iain Kirkwood (related party) (Refer Note 19(b))

NON-CURRENT		
Interest-bearing liabilities[(b)]	135,798	–
	135,798	–

(b) Relates to principal and interest payable on loan by Dr Stephen Woodford (Refer Note 19(b))

Total interest-bearing liabilities	137,717	–

Note 15 Provisions

CURRENT		
Annual Leave provision	34,235	14,352
NON-CURRENT		
Long Service Leave provision[(a)]	29,166	19,017
TOTAL PROVISIONS	63,401	33,369

(a) Long service leave

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

Note 16 Issued Capital

	2011 $	2010 $
78,276,688 (2010: 7,329,746) Ordinary shares	11,560,697	8,151,446
Less Capitalised share issue costs	(903,426)	–
Total	10,657,271	8,151,446

	No.	No.
(a) Number of Ordinary Shares		
At the beginning of the reporting period	7,329,746	2,107,496
Shares issued during the year:		
Preference shares converted to ordinary shares	–	4,576,896
Issue of ordinary shares	281,668	640,666
Shares issued under ESAP	679,797	4,688
Sub-division of ordinary shares (1:8)	58,038,477	–
Sub-total	66,329,688	7,329,746
Issue of ordinary shares under IPO	11,947,000	–
Total issued and fully paid ordinary shares	78,276,688	7,329,746

(b) Ordinary Shares

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

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.

As a result of a resolution passed at the Annual General Meeting on 30 November 2011, all ordinary shares issued by the company were subdivided at a 1:8 ratio.

(c) Preference Shares

	2011 No.	2010 No.
At the beginning of the reporting period	–	4,476,896
Shares issued during the year	–	100,000
Shares converted to ordinary shares	–	(4,576,896)
At reporting date	–	–

As a result of a resolution passed at an extra ordinary general meeting on 23 March 2010, all preference shares issued by the company were converted into ordinary shares at a 1:1 ratio.

(d) Capital Management

Management controls the capital of the Group in order to maintain a good debt to equity ratio and 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.

Note 17 Employee Equity Benefits Reserve

	2011 $	2010 $
Opening balance	1,029,958	1,022,926
Shares issued during the year	1,019,696	7,032
Options issued during the year	959,994	–
Total Employee Equity Benefits Reserve	3,009,648	1,029,958

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 21 for further details of this plan.

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Note 18 Cash Flow Statement Reconciliation

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

	2011 $	2010 $
Net loss	(3,615,702)	(3,162,172)
Non-cash flows in loss		
– Amortisation	523	1,693
– Depreciation	18,203	22,091
– Interest	9,397	–
– Employee equity benefit expense	1,019,696	7,032
– Share based payment expense	959,994	–
– Fair value movement of derivatives	–	2,288,448
Changes in assets and liabilities		
– (Increase)/decrease in trade and other receivables	(434,850)	126,723
– (Decrease)/increase in trade and other payables	408,432	(120,962)
– Decrease/(increase) in provisions	30,032	7,860
	(1,604,275)	(829,287)

Note 19 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 20.

(b) Transactions with related parties

Other than disclosed below and in Note 20, there were no other transactions with the related parties during the year.

Transactions with shareholders, and shares and options issued to directors and employees of the company subsequent to year end are disclosed in Note 24.

(a) eXec Factor – Joe Baini is a Director of eXec Factor Pty Limited ("eXec Factor"). Whilst Mr Baini was an Executive Director, with the title Executive VP – Business Development, between the period 1 July 2010 through to 28 February 2011, the company engaged eXec Factor to provide strategic advice and business development services, for which it paid $45,300. From 1 March 2011, Mr Baini became a Non-Executive director with his directors' fee for 1 March 2011 through 30 June 2011 totalling $11,250 being paid through eXec Factor. The amount of $4,125 was owing at 30 June 2011 for June 2011 directors fees.

(b) 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 to be 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% interest. A total of $7,478 interest was accrued to 30 June 2011. The company repaid $71,680 on 28 June 2011. The closing balance at 30 June 2011 was $135,798. Refer Note 14.

(c) Loan – Iain Kirkwood (Chairman) – provided the company with a loan of $50,000 in February 2011 and a further $11,000 in April 2011 to assist in funding various working capital and development costs whilst the IPO was to be closed. The company entered into an unsecured loan agreement with Mr Kirkwood on 14 February 2011 whereby interest was paid at a commercial arms-length rate of 10% interest. A total of $1,919 interest was accrued to 30 June 2011. The company repaid $61,000 on 17 June 2011. The closing balance at 30 June 2011 was $1,919. Refer Note 14.

(d) Loan advances by Brett Schwarz (Managing Director and CEO) – during the course of the year, Mr Schwarz advanced the company funds to assist in funding various working capital costs whilst the IPO was to be closed, totalling $50,996. No formal loan agreement was entered into as these advances were included in the regular expense reimbursement claims submitted by Mr Schwarz. These advances were fully repaid by 30 June 2011 with no amount owing at that date. The company also reimbursed Mr Schwarz for the interest incurred during the year totalling $6,072.

(e) During the course of the IPO, the Chairman and Managing Director/CEO granted put options which required them to purchase shares from certain shareholders within 30 days of the IPO if the options were exercised. 2,248,000 options were subsequently exercised.

(f) Fixed commitments – Joe Baini (Director) and Iain Kirkwood (Chairman) were paid $600 and $12,000 respectively for their roles in underwriting the IPO. These fees represented 2.5% of the dollar amount of the fixed commitment plus 3.5% of the commitment called upon. Iain was paid a further $3,000 on the amount he loaned the company of $50,000 which would have otherwise been included as a fixed commitment and application for shares into the IPO.

Note 20 Key Management Personnel

(a) Compensation for key management personnel

The totals of remuneration paid to key management personnel of the Group during the year are as follows:

	2011 $	2010 $
Short-term employee benefits	478,979	322,473
Post employment benefits	42,095	28,798
Long-term employee benefits	14,186	5,608
Share-based payments	1,833,864	–
	2,369,124	356,879

The short-term benefits paid include non-executive directors fees paid amounting to $88,590 (2010: $19,320).

(b) Shareholdings of key management personnel

The number of ordinary shares (2010: ordinary shares) in Bluechiip Limited held by or controlled by each key management person of the Group during the financial year is as follows. All persons acting as key management personnel were directors during the periods noted.

	Balance at 1 July 2010	Granted as remuneration	Applied for in IPO	Subscribed for during year	On exercise of options	Net change other # *	Balance 30 June 2011
30 June 2011							
I Kirkwood	436,262	129,858	600,000	527,000	–	3,962,840	5,655,960
B G Schwarz	697,656	294,344	–	–	–	6,944,000	7,936,000
J Chaffey	61,014	138,986	–	–	–	1,345,778	1,545,778
J M Baini	12,000	–	16,000	–	–	84,000	112,000
L R Lopez	–	–	–	–	–	–	–
M J Murray	325,695	45,972	–	–	–	2,601,669	2,973,336
R B Zmood	567,839	43,431	–	–	–	4,278,890	4,890,160
Total	2,100,466	652,591	616,000	527,000	–	19,217,177	23,113,234

\# Relates to subdivision of ordinary shares at a 1:8 ratio as a result of a resolution passed at the Annual General Meeting on 30 November 2011.

* J Chaffey sold 54,222 shares in June 2011.

(b) Shareholdings of key management personnel (continued)

	Balance at 1 July 2009	Granted as remuner- ation	Applied for in IPO	Sub- scribed for during year	On exercise of options	Net change other #	Balance 30 June 2010
30 June 2010							
I Kirkwood	414,586	–	–	21,676	–	–	436,262
B G Schwarz	742,656	–	–	–	–	(45,000)	697,656
J Chaffey	61,014	–	–	–	–	–	61,014
J M Baini	12,000	–	–	–	–	–	12,000
L R Lopez	–	–	–	–	–	–	–
M J Murray	325,695	–	–	–	–	–	325,695
R B Zmood	567,839	–	–	–	–	–	567,839
Total	2,123,790	–	–	21,676	–	(45,000)	2,100,466

Relates to transfer of shares to non-related party

(c) Options holdings of key management personnel

	Balance at beginning of period 1 July 2010	Granted as remuner- ation	Other issue *	Options Exercised	Net change Other #	Balance at end of period 30 June 2011	Total	Exercis- able	Not exercis- able
30 June 2011									
I Kirkwood	–	500,000	150,000	–	3,500,000	4,150,000	4,150,000	150,000	4,000,000
B G Schwarz	–	1,000,000	–	–	7,000,000	8,000,000	8,000,000	888,889	7,111,111
J Chaffey	–	500,000	–	–	3,500,000	4,000,000	4,000,000	666,667	3,333,333
J M Baini	–	250,000	4,000	–	1,750,000	2,004,000	2,004,000	4,000	2,000,000
L R Lopez	–	250,000	–	–	1,750,000	2,000,000	2,000,000	–	2,000,000
M J Murray	–	–	–	–	–	–	–	–	–
R B Zmood	–	–	–	–	–	–	–	–	–
Total	–	2,500,000	154,000	–	17,500,000	20,154,000	20,154,000	1,709,556	18,444,444

* Relates to 1 free options issued for every 4 shares subscribed for into the Initial Public Offering (IPO)

Relates to subdivision of ordinary shares at a 1:8 ratio as a result of a resolution passed at the Annual General Meeting on 30 November 2011.

No options were issued in 2010 under the Employee Share Option Plan (ESOP).

Note 21 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.

Shares issued under the ESAP are subject to a disposal restriction such that the participant cannot deal (i.e. sell or transfer) in the shares for a minimum period of three years (or earlier if their employment ceases).

(b) Number of shares issued under the employee share acquisition plan

	2011 $	2010 $
Number of shares issued under the plan to employees (before sub-division)	679,797	4,688

(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 of the most recent observable share issue to non-employee shareholders prior to the date of the grant. Shares vest immediately under the terms of the ESAP.

Shares issued under Employee Share Acquisition Plan	1,019,696	7,032
Options expenses	959,994	–
Total	1,979,690	7,032

(d) Options

At the beginning of the reporting period	–	–
Options issued during the year	2,700,000	–
Sub-division of options (1:8)	18,900,000	–
At reporting date	21,600,000	–

Grant date	Date of expiry	Exercise price	Number of options
8 November 2010	31 August 2013	$0.20	21,600,000

Note 22 Commitments

(a) Operating Lease Commitments

Non-cancellable operating leases contracted for:

	2011 $	2010 $
Payable – minimum lease payments:		
– not later than 12 months	15,296	8,454
	15,296	8,454

The above commitments are in respect of office premises at 1 Dalmore Drive, Scoresby.

The company expects to renegotiate this lease for a further 12 months in November 2011.

(b) Contractual Commitments

The Company has committed to pay STMicroelectronics NV an amount of USD660,000 in instalments over the period of the agreed development program. At 30 June 2011, USD220,000 had been invoiced and USD110,000 had been paid.

The company entered into a Consultancy Agreement on 31 May 2011 with Dr Ronald Zmood the inventor of Bluechiip's technology and a non-executive director until 6 August 2010. This Agreement relates to the provision of Consultancy Services for a minimum period of 12 months for an annual fee of up to $100,000 and provides the company with access to Dr Zmood's technical expertise.

Note 23 Contingencies

The company has no contingent liabilities or contingent assets as at 30 June 2011.

Note 24 Significant Events After the Balance Sheet Date

Subsequent to the year end, the company lent $500,000 to the Chairman, Iain Kirkwood, to purchase shares. The loan facility is unsecured, carries interest at 12.95% per annum and is repayable in full by no later than 30 June 2012. The remaining terms of the loan facility are on usual terms for a facility of this nature. In approving the loan, due consideration was given to an assessment of the recoverability of the loan. All remuneration and any other compensation that would otherwise be payable to the Chairman will be applied towards repayment of the loan facility. At the date of this Report, the balance of the loan was $429,191.

Except for the above, no other matters or circumstances 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.

Note 25 Auditors' Remuneration

	2011 $	2010 $
The auditor of Bluechiip Limited is Ernst & Young.		
Amounts received or due and receivable by Ernst & Young (Australia) for:		
– An audit or review of the financial report of the entity and any other entity in the consolidated group	74,160	15,000
– Other services in relation to the entity and any entity in the consolidated group		
– Independent Accountant Report for IPO	60,770	–
	134,930	15,000

Note 26 Controlled Entities

	Country of Incorporation	Percentage Owned (%)* 2011	Percentage Owned (%)* 2010
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.	United States	100%	100%
Bluechiip Holdings, Inc.	United States	100%	100%

* Percentage of voting power is in proportion to ownership

Note 27 Parent entity information Information relating to Bluechiip Limited

	2011 $	2010 $
Current assets	2,187,256	451,849
Total assets	2,240,889	499,627
Current liabilities	854,754	129,252
Total liabilities	1,019,718	148,269
Issued capital	10,657,271	8,151,446
Reserves	3,009,648	1,029,958
Retained earnings	(12,445,748)	(8,830,046)
Total shareholder's equity	1,221,171	(351,358)
Loss of the parent entity	(3,615,702)	(3,162,172)
Total comprehensive income of the parent entity	(3,615,702)	(3,162,172)

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 2011 are in accordance with the Corporations Act 2001, including:

    (i) Giving a true and fair view of its financial position as at 30 June 2011 and performance

    (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 2011.

On behalf of the board.

B. G Schwarz
Managing Director

2 September 2011

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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 2011, 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(a), 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.

ERNST & YOUNG

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 2011 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(a).

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 consolidated entity to continue as a going concern. The consolidated entity incurred operating cash outflows during the year ended 30 June 2011 of $1,604,275, and had net assets of $1,221,171.

The ability of the consolidated entity to continue as a going concern is dependent upon the consolidated entity being successful in:
- The generation of positive operating cashflows through commercialisation of the bluechiip technology
- Pursuing Australian state and federal grants
- Pursuing discussions with development parties to secure co-development funding

Unless the consolidated entity can generate positive operating cashflows through commercialisation, as referred to in the above matters, there is significant uncertainty whether the consolidated 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 consolidated entity not continue as a going concern.

Report on the remuneration report

We have audited the Remuneration Report included in pages 9 to 15 of the directors' report for the year ended 30 June 2011. 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 2011, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Stuart Painter
Partner
Melbourne
2 September 2011

ASX Additional Information

Additional information required by the ASX Listing Rule 4.10 and not shown elsewhere in this report is as follows. The information is current as at 16 September 2011.

(a) Distribution of equity securities

(i) Ordinary shares

78,512,938 fully paid ordinary shares are held by 352 individual shareholders

All issued ordinary shares carry one vote per share and carry the rights to dividends.

(ii) Unlisted options

28,973,422 options are held by 514 individual option holders

Options do not carry a right to vote.

The number of shareholders, by size of holding, in each class are:

Investor range	Shareholders	Number of fully paid ordinary shares	Option holders	Number of unlisted options
1 - 1,000	0	0	0	0
1,001 - 5,000	12	40,991	432	1,063,000
5,001 - 10,000	137	1,150,500	45	415,750
10,001 - 100,000	133	5,127,486	22	543,000
100,001 and over	70	72,193,961	15	26,951,672
	352	**78,512,938**	**514**	**28,973,422**
Holding less than a marketable parcel	7	19,434	0	0

(b) Substantial shareholders

	Fully paid	
Shareholder	Number	Percentage
Stephen Woodford	11,742,664	14.96
Roshi Blue Pty Ltd	5,310,664	6.76
Rainbow Investments (Aust) Pty Ltd	4,536,000	5.78
Zalpere Pty Ltd	4,196,824	5.35
Iain Kirkwood	3,944,052	5.02
	29,730,204	**37.87**

(c) Twenty largest holders of quoted equity securities

	Fully paid	
Ordinary shareholders	**Number**	**Percentage**
Stephen Woodford	11,742,664	14.96
Roshi Blue Pty Ltd	5,310,664	6.76
Rainbow Investments (Aust) Pty Ltd	4,536,000	5.78
Zalpere Pty Ltd	4,196,824	5.35
Iain Kirkwood	3,944,052	5.02
Brett Schwarz	3,400,000	4.33
Edward St Consulting Pty Ltd	3,373,408	4.30
3rd Pulitano Incorporation Pty Ltd	2,600,000	3.31
VIP-MEMS Pty Ltd	2,388,176	3.04
Alltogether Pty Ltd	2,200,000	2.80
Brightside Pty Ltd	2,080,000	2.65
Joseph Khougaz	1,756,000	2.24
Jason Chaffey	1,545,778	1.97
Stephen Woodford and Patricia Woodford	1,420,000	1.81
Fraser Clayton	1,298,324	1.65
Hilsel Investment Company Limited Partnership	1,248,000	1.59
Majust Pty Ltd	1,200,000	1.53
Yarna Pty Ltd	1,066,672	1.36
Information City Victoria Investment Fund Pty Ltd	1,028,783	1.31
Mike Murray	893,336	1.14
	57,228,681	**72.89**

(d) Securities under escrow

(i) Ordinary shares

Expiry date	Number
20 September 2011	296,668
9 June 2013	24,698,181
Total	**24,994,849**

(ii) Unlisted options

Expiry date	Exercise Price	Number
20 September 2012	$0.20	1,186,672
31 August 2013	$0.20	16,000,000
Total		**17,186,672**

(e) Use of cash and assets

The Company confirms that the cash and assets it held as at the date of admission to the official list of ASX have been used in a way consistent with its business objectives.

Corporate Information

Directors

Mr Iain M Kirkwood
Non-Executive Chairman

Mr Brett G Schwarz
Managing Director

Mr Joe M Baini
Non-Executive Director
(appointed 6 August 2010)

Mr Larry R Lopez
Non-Executive Director
(appointed 2 September 2010)

Dr Ronald B Zmood
(Resigned Non-Executive Director
6 August 2010)

Dr Mike J Murray
(Resigned Non-Executive Director
6 August 2010)

Company Secretary

Mr Lee D Mitchell

Registered office

C/- GMK Partners
Level 27, 150 Lonsdale Street
Melbourne Victoria 3000

Principal place of business

1 Dalmore Drive
Caribbean Business Park
Scoresby Victoria 3000

Phone: 61 3 9763 9763
Fax: 61 3 9763 9764

Share registry

Computershare Investor Services Pty Ltd
Level 2, 45 St Georges Terrace
Perth WA 6000

Phone: 61 8 9323 2000
Fax: 61 8 9323 2033

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

Solicitors

Minter Ellison Lawyers
Rialto Towers
Level 23, 525 Collins Street
Melbourne Victoria 3000

Bankers

National Australia Bank Limited
Melbourne, Victoria

Auditors

Ernst & Young
8 Exhibition Street
Melbourne Victoria 3000

Website

www.bluechiip.com

bluechiip

TRACKING SOLUTIONS