

C-Chip Technologies Corporation

(CCHI – OTC Bulletin Board)

Niche focus in burgeoning telematics / M2M industry.
Initial focus on new applications in underserved automotive sector.
Entering aggressive marketing phase with fully developed products.

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Jeff Howlett is a financial analyst who for over the past 10+ years has provided research services to companies lacking adequate coverage. Mr. Howlett was previously affiliated with a major Canadian investment firm specializing in Mergers & Acquisitions and has received a B.Sc. in Economics from the Wharton School of the University of Pennsylvania.

The Technology

C-Chip has developed a new wireless, web-based set of communication tools that offers users **access, remote control, and monitoring** of a wide range of assets, including vehicles, office equipment, and industrial machinery. It is part of a new and rapidly growing wireless industry sector, often termed telematics, now a multi-billion dollar market and **expected to grow to \$100+ billion by 2010**.

Focus on Underserved Markets

To date, those involved in the market have tended to focus on high value added uses, offering solutions with high initial and ongoing costs. **C-Chip has essentially stripped down the technology into solutions which incorporate less expensive components, yet capture the benefits / functionality of the core technology.** Products include:

- **Credit Manager**, a 1-way communications tool that gives users an ability to remotely activate / deactivate an asset. Has applicability for financial institutions, particularly the sub prime markets (buy here / pay here).
- **Tracking Manager**, which adds 2-way communication, GPS location technology, and monitoring functionality. Offers theft prevention, location, and monitoring. Has wide applicability for car insurance companies and fleets (car rental companies, corporate fleets, etc.)
- **Access Manager**, an effective wireless anti-theft device. Has wide applicability for virtually the entire vehicle market.

Market Potential

There are an estimated **240 million vehicles** on the road in North America and **50 million vehicle transactions** annually. Management estimates that the addressable market is for **20%** of the total, which represents virtually limitless growth opportunities for C-Chip.



Share Data (\$US):

Recent Price:	\$0.60
52-week Price Range:	\$0.06 - \$1.00
Shares Outstanding (current) (1)(2):	31.7 million
Fully Diluted Shares (3):	37.2 million
(1) Incl. conv. of \$2 million Conv. Deb (3.91 million restricted shares)	
(2) Incl. recently announced new issue (2.5 million units @ \$0.55 – each unit incl. 1 warrant @ \$1.00)	
(3) Incl. 2.93 million options @ \$0.20 - \$0.68.	

Capitalization (\$ US):

Market Capitalization:	\$19.0 million
Total Debt (6/30/03) (4):	\$733,566
(4) After conversion of \$2 million Conv. Deb. In August/03.	

Corporate Information:

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WE BELIEVE THAT C-CHIP HAS SUCCEEDED IN POSITIONING ITSELF WELL:

- ① **A well considered decision to initially focus on underserved markets in the large automotive sector.**
- ② **A fully developed product line.**
- ③ **A diversified marketing approach that has the potential to capture significant local, regional and national accounts throughout North America.**
- ④ **Early indications of success with near term sales potential and ongoing revenue streams.**
- ⑤ **Development of a platform technology that can be applied to new, large markets over the medium term.**
- ⑥ **Highly competent management with successful track records.**

Our analysis indicates that the market in general views this new sector very favorably, attributing Price / Sales multiples of 3x to over 10x for companies exhibiting strong growth in revenues (see p. 4). Assuming a range of potential sales levels that may be achievable by summer, 2004 of \$1 million - \$2.5 million per month, and applying reasonable price / sales multiples, we see plenty of upside in C-Chip stock should management capitalize on its competitive advantages.

THE COMPANY

A Focus on Market Applications Early On

C-Chip began operations in April, 2000 as a developer of new and innovative technologies in the field of wireless communications. Through 2002, *C-Chip successfully created a new wireless, web-based set of communication tools that offers users access, remote control, and monitoring of a variety of assets with potential applications that span several industries.* With a focus in the automotive sector, Management has taken its product line through the prototype stage and has commenced the production and commercialization of its initial offerings. In January, 2003, C-Chip went public on the OTC Bulletin Board.

C-Chip devices combine wireless communications with web-based remote control to facilitate a virtually endless range of functionality.

THE TECHNOLOGY & GENERAL MARKET

C-Chip's core technology is represented by a modular sensor which includes a communications receiver and microprocessor. This sensor can be integrated into any vehicle or electronic product and linked to various components of the asset (i.e. the starter, fuel pump, etc.). Communication can include 1-way messaging, 2-way messaging, or cellular, depending on the need. A host of additional devices, including GPS devices, can be included to allow as much functionality as desired. The use of the Internet facilitates ease of communication, flexibility, and powerful applications.

This kind of technology is part of a new and rapidly evolving industry often called telematics or M2M (machine to machine), which is about interconnecting machines with IT infrastructure and mobile assets. *It is now a multi billion dollar market and is expected to continue growing to 100+ billion by 2010* (McKinsey & Company).

Uses for mobile telematics is virtually unlimited and can include remote control, location determination, monitoring, dispatching, messaging, event confirmation or notification, signature verification, forms processing, project management and timekeeping.

The C-Chip Competitive Advantage

The great majority of those involved in the market offer products that have high initial and ongoing monthly costs. C-Chip has successfully "stripped down" the technology into a solution which incorporates much less expensive components yet captures the many benefits and functionality of the core technology.

C-CHIP's PRODUCT LINE

C-Chip has several products that are ready to market that have application in each of the market segments given above.

Products Now Being Marketed	
Credit Manager	<ul style="list-style-type: none"> This is C-Chip's basic product that simply employs its core technology. It is a 1-way communications tool that enables its user to remotely activate / deactivate a vehicle. It offers the credit grantor, using a simple web-based application, the ability to "turn on" / "turn off" leased or financed vehicles through connecting a sensor to the starter.
Tracking Manager	<ul style="list-style-type: none"> Has the same capabilities as the Credit Manager, but adds 2-way communication, GPS location / tracking, and other monitoring features. Options include notification of excess speed, direction, notification in case of theft, starter and fuel pump interrupt, door unlock and navigation aid. Requests are charged on a pay-per-use basis.
Access Manager	<ul style="list-style-type: none"> An effective wireless anti-theft device that uses RFID technology to identify authorized users. A transponder is attached to the keychain that talks to wireless kill switches (i.e. starter, fuel pump, transmission, ignition, doors lock). If the transponder does not talk to the switches, the car simply will not start.

The Company's essential competitive advantage is its unique combination of pricing (low cost), high functionality, and also the physical characteristics of its units. Its' technology offers much lower hardware costs and service charges are strictly based on actual usage. This opens up very large, but underserved markets that have demonstrable but more basic needs for telematics services.

C-Chip does not cater to retail consumer markets, which is an entirely different market sector.

AUTOMOTIVE APPLICATIONS

C-Chip has focused on the automotive market, which is a business segment that is increasingly embracing telematics applications at all levels and has many high value uses for these devices. Within this sector, management has identified particular segments that require basic functionality that C-Chip caters to. Primary, near term *corporate* markets and customer types are as follows.

Market Segment	Use of Technology	Most Logical Customers / Size
Financial Institutions (incl. leasing co's & buy-here / pay-here dealers).	Credit Management – the ability to remotely deactivate the vehicle upon the client missing payments. Benefit-denial technologies can reduce payment delinquency by as much as 90%.	Focus on higher risk segment of credit markets (sub prime market). <ul style="list-style-type: none"> ● 50 million vehicle transactions per year. ● About 15% - 20% of consumers do not meet conventional requirements
Car Insurance companies	Security Management – theft prevention and automatic location of stolen vehicles. Asset Management – monitoring functions allow tailoring of rates to use and driving habits.	There are hundreds of insurance companies in North America. <ul style="list-style-type: none"> ● The prime market is for 20% of the 240 million vehicles now on the road in North America.
Fleets (several types)	Asset Management – monitoring use, dispatch, notification, route planning, delivery, messaging. Security Management – theft prevention and automatic location of stolen vehicles.	Several large sectors representing subsets of 240 million North American vehicle market. <ul style="list-style-type: none"> ● Car rental companies. ● Small urban corporate fleets. ● Car dealerships

At its most basic level, the *addressable market* for C-Chip products can be viewed as roughly 20% of the total market for each application.

OTHER APPLICATIONS

Management has identified at least 3 additional business segments, including *industrial equipment*, *office equipment*, and *consumer electronic products*.

NEW FINANCING

We note that C-Chip just announced on October 6, 2003 the closing of the first tranche (US \$900,000) of a US \$1.4 million financing. The remaining portion is expected to close in the very near term. As noted in the news release, these funds will be mainly used to institute its new sales and marketing campaign. We see this milestone as highly positive.

EXPECTATIONS FOR C-CHIP

To date, C-Chip has been working with several major accounts which span each business segment targeted. Management has also successfully concluded an agreement with a major distributor, *Pay Technologies LLC*, a multi-million dollar distributor of innovative credit solutions for difficult payment collection issues. We understand that interest is high on the part of large corporate customers as well as other resellers. The company is now instituting a much more exhaustive sales effort and has hired a new VP-Sales to build a strong sales infrastructure.

We believe that this effort has excellent chances for success. The inherent problem in projecting any future sales levels is that many of these potential customers have potential to change the overall amounts realized.

We believe that based on reasonable assumptions and taking into account a weighted average of possible outcomes, a reasonable scenario one year out (i.e. June, 2004) is that C-Chip could be on an annual run rate in sales of Cdn \$1.5 - \$2.5 million per month (a broad range of Cdn \$15 - \$30 million annually). Should the company reach even the low end of this range, we would expect the company to be at least at the breakeven levels.

SECTOR VALUATION PARAMETERS

We see some fairly strong evidence that the market likes this new emerging sector of wireless. Although most companies are in various stages of growing their business and are not as yet profitable, they are becoming so. Accordingly, *this sector appears to trade at multiples of sales*, and these multiple appear to be substantial, indicating a very favorable market view for the sector. We have assembled data on several companies, as shown below:

Company / Symbol	Currency	Recent Price	Market Cap	Sales (millions)	Net Income (millions)	Price / Sales
At Road (ARDI – Nasd NM)	US \$	\$14.25	\$696.45	\$63.1	-\$0.23	11.0
Minorplanet Systems PLC (MPS – LSE)	UK £	£1.11	£95.97	£73.6	-£2.80	1.3
Minorplanet Systems USA (MNPL – Nasd SC)	US \$	\$0.63	\$30.46	\$43.6	-\$4.40	0.7
WebTech Wireless (WEW – TSX Venture)	Cdn \$	\$0.48	\$13.03	\$3.2	-\$0.34	4.1
Wireless Matrix (WRX – TSX)	US \$	\$1.44	\$85.41	\$26.3	-\$1.13	3.2

Notes:

Sales are latest quarter annualized (ttm for WRX due to change in accounting policy)

Net Income is latest quarter only

POSSIBLE VALUE OUTCOMES

We have evaluated C-Chip on the basis of our sales expectations, taking a broad range of potential outcomes that may be attainable by the end of this fiscal year (i.e. by June, 2004) as discussed above.

Given the expected nature of the company's future customers, these amounts could vary even more widely than shown, and we believe there is some blue sky potential to the company beyond the amounts shown.

Sales Levels – Summer / 2004 (Cdn \$ millions)			
Revenue (per month)	\$1.00	\$1.75	\$2.50
Revenue (annualized)	\$12.00	\$21.00	\$30.00
Company Value @ Indicated Sales Multiple			
2.0	\$24.00	\$42.00	\$60.00
3.0	\$36.00	\$63.00	\$90.00
4.0	\$48.00	\$84.00	\$120.00
Value Per Share (see note below)			
2.0	\$0.82	\$1.44	\$2.06
3.0	\$1.24	\$2.16	\$3.09
4.0	\$1.65	\$2.88	\$4.12
Note – no dilution included from future stock issues.			

CONCLUSIONS

We believe that C-Chip offers investors much promise in view of several factors:

- ① *A well considered decision to initially focus on underserved markets in the large automotive sector.*
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