

COOL CHIPS

PUBLIC LIMITED COMPANY

Gibraltar Registered No. 57885

Financial Statements

for the year ended 31 March 2005

COOL CHIPS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 57885

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DIRECTORS AND OFFICERS

Directors	Appointed	
Rodney T. Cox	21 Dec 1999	Director, Chairman of the Board, and Chief Executive Officer
Isaiah W. Cox	21 Dec 1999	Director, President, and Chief Operating Officer
Wayne S. Marshall	21 Dec 1999	Director
Peter Vanderwicken	06 Sept 2000	Director
Iris Oren Cox	24 July 2001	(resigned 15 September 2004)
Nechama J. Cox	01 Aug 2001	Director
Stuart Harbron	23 July 2002	Director, and Chief Patent Officer
Giulio Pontecorvo	28 Aug 2003	Director
Robert T. Bauer	17 May 2004	Director

Secretary

Fidecs Management Limited

Registered Office

Montagu Pavilion
8-10 Queensway
Gibraltar

Auditors

Moore Stephens
Suite 5 Watergardens 4
Waterport
Gibraltar

COOL CHIPS PUBLIC LIMITED COMPANY

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DIRECTORS' REPORT

The directors submit their report and the audited financial statements for the year ended 31 March 2005.

Corporate Profile

The Company was incorporated on 23 April 1996 in Gibraltar. The Company's shares are publicly traded in the United States over-the-counter (OTC) market and quoted as COLCF on the Pink Sheets at www.pinksheets.com. The last reported trade was at \$2.51 per share, with the yearly high at \$13.50 per share, and the low at \$2.25 per share.

Activities

The principal activity of the Company is that of researching, developing and building the Cool Chips™ Technology.

Results and Review of Business

The results for the year are shown in the Profit and Loss Account on page 5.

Borealis Technical Limited ("Technical"), the parent company, has conducted basic industrial research on its Cool Chips technology since 1995, for which it has patents issued and pending. All of the research expenditures to date have been undertaken by Technical and funded by Borealis Exploration Limited, the ultimate parent of the Company. Technical had received deposits in the current and prior years on behalf of the Company towards the issue of shares in the Company.

Cool Chips Military Sales plc was incorporated on 8 February 2005, as a subsidiary of the Company, as it is expected that the first sales of Cool Chips technology will be delivery of products to US military contractors.

An Intellectual Property Agreement was signed effective 1 January 1999, whereby Technical has granted the Company the exclusive worldwide rights for sublicensing the Cool Chips technology. In consideration for the rights granted to the Company, the Company shall pay Technical an 8% royalty based on net sales of licensed products and services sold by the Company and 50% of all sublicense income. To date the Cool Chips technology is still under development such that the Company has not made any related sublicense sales.

The Company has been in the development stage since its inception. The Company intends to retain its sublicense rights granted by Technical. These financial statements have been prepared in accordance with generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. From inception to 31 March 2005, the Company has lent money raised on its behalf to Technical and Borealis Exploration Limited, who are also in a development stage. The present circumstances therefore raise certain doubts about the ability of the Company to continue as a going concern. The Company is a publicly traded company with a market in its shares that are being traded at prices well above par. This affects its ability to raise funds for future development. Management of the Company has indicated they have no intention to demand repayment of the amounts owing from Technical until the Cool Chips technology is being licensed in the marketplace. The Company and Technical are actively working together to negotiate sales or further sublicensing of its technology to various parties, which is expected to generate profitable operations in the future. To the extent additional funds are required, the Company will attempt to raise these funds through future sales of licences, of products and issues of further shares. There can be no assurance that the Company will be successful in its actions. The financial statements do not contain any adjustments that might be necessary if the Company is unable to continue as a going concern.

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DIRECTORS' REPORT (Continued)

Dividends

There were no dividends declared during the year.

Directors and their Interests

The directors who served during the year were as stated on page 1.

The interest of the directors in the shares of the Company in the year were as follows.

	Shares held at 31 March 2005	Shares held at 31 March 2004
Rodney T. Cox	234,380	234,380
Isaiah W. Cox	22,600	22,750
Wayne S. Marshall	64,303	73,003
Peter Vanderwicken	12,009	10,167
Iris Oren Cox (resigned 15 September 2004)	2,000	2,000
Nechama J. Cox	17,275	17,275
Stuart Harbron	16,200	16,200
Giulio Pontecorvo	6,000	6,000
Robert T. Bauer	1,000	1,000

Share Options

As of 31 March 2005, there were no share options outstanding.

Directors' Responsibilities

The directors are responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss for that year and which comply with the Gibraltar Companies Ordinance 1930 and the Gibraltar Companies (Accounts) Ordinance 1999. In preparing the financial statements, appropriate accounting policies have been used and applied consistently, reasonable and prudent judgements and estimates have been made, and applicable accounting standards have been followed. The directors are responsible for maintaining adequate accounting records, for safeguarding the assets of the Company, and for preventing and detecting fraud and other irregularities.

Auditor

A resolution to reappoint Moore Stephens will be proposed at the Annual General Meeting.

By order of the Board on 3 June 2005



Isaiah W. Cox
Director



Rodney T. Cox
Director

COOL CHIPS PUBLIC LIMITED COMPANY

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REPORT OF THE AUDITORS

To the members of Cool Chips Public Limited Company

We have audited the financial statements on pages 5 to 10, which have been prepared under the historical cost convention and the accounting policies set out on page 7.

This report is made solely to the Company's members as a body, in accordance with the Companies Ordinance 1930. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the report of the Directors, the Company's Directors and management are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board in the United Kingdom. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

In forming our opinion, we have considered the disclosures made in Note 1 of the financial statements in connection with the application of the going concern basis and the uncertainty with regards to securing continued financial support. In view of the significance of these matters we consider they should be drawn to your attention but our opinion is not qualified in these respects.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 March 2005, and of the loss for the year then ended in accordance with Gibraltar Accounting Standards and have been properly prepared in accordance with Gibraltar Companies Ordinance 1930 and the Gibraltar Companies (Accounts) Ordinance 1999.



Gibraltar
3 June 2005

Moore Stephens
CHARTERED ACCOUNTANTS

COOL CHIPS PUBLIC LIMITED COMPANY

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PROFIT AND LOSS ACCOUNT For the year ended 31 March 2005

	Notes	2005 \$	2004 \$
Revenue	1	45,000	–
Expenditure			
Administrative fees	7	(88,200)	(43,200)
Retained loss for the year		(43,200)	(43,200)
Retained losses brought forward		(342,000)	(298,800)
Retained losses carried forward		<u>\$ (385,200)</u>	<u>\$ (342,000)</u>

The Company has had no discontinued activities during the year, accordingly, the above result for the Company relates solely to continuing activities.

No statement of recognised gains and losses has been produced as the only recognised gains and losses occurring in the year are those disclosed in the Profit and Loss Account.

The notes on pages 7 to 10 form part of these Financial Statements.

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BALANCE SHEET as at 31 March 2005

	Notes	2005 \$	2004 \$
Investments	2	69,333	–
Current Assets			
Debtors	3	8,333,318	6,732,811
Creditors – amounts falling due within one year	4	69,333	–
Net current assets		<u>8,263,985</u>	<u>6,732,811</u>
Total Net Assets		<u>\$ 8,333,318</u>	<u>\$ 6,732,811</u>
Capital and Reserves			
Called up Share Capital	5,6	126,629	124,912
Share Premium Account	5,6	8,591,889	6,949,899
Profit and Loss account	6	(385,200)	(342,000)
Total Shareholders' Funds		<u>\$ 8,333,318</u>	<u>\$ 6,732,811</u>

Signed on behalf of the Board of Directors on 3 June 2005



Isaiah W. Cox
Director



Rodney T. Cox
Director

The notes on pages 7 to 10 form part of these Financial Statements.

COOL CHIPS PUBLIC LIMITED COMPANY

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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2005

1. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Gibraltar Accounting Standards and the Gibraltar Companies Ordinance 1930 and the Gibraltar (Companies Accounts) Ordinance 1999 (together, 'Gibraltar GAAP').

a. Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

b. Revenue

Revenue was received for a contract payment in relation to delivery of prototype Cool Chips™. The performance of this contract was passed onto the parent company, who has therefore increased the management charges to allow for these costs.

c. Reporting currency

The Company's financial statements are presented in US dollars, which is the functional currency for operations.

d. Foreign currency translation

Transactions in foreign currency are recorded at the rate at the date of the transaction. Any monetary assets or liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

e. Consolidation

Consolidated accounts are not presented since the accounts of the company and its subsidiaries are consolidated in the accounts of the ultimate parent company.

f. Going Concern

These financial statements have been prepared under the going concern concept, which assumes that the Company will continue in operational existence for the foreseeable future having adequate funds to meet their obligations as they fall due. Further information is set out in the Directors' Report on pages 2 to 3.

g. Cash Flow Statements

The Company meets the size criteria for a small company set by the Companies Act 1985, and therefore, in accordance with FRS1: Cash Flow Statements, it has not prepared a cash flow statement.

h. Taxation

The Company has been granted exempt status under the Gibraltar Companies (Taxation and Concessions) Ordinance. Providing the Company continues to satisfy the criteria for such status, including the payment of an annual government charge of £225 it will not be subject to Gibraltar Corporation Tax until 2010, the date at which the status of all Gibraltar exempt companies will be subject to new legislation.

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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2005 (Continued)

2. INTERESTS IN GROUP UNDERTAKING

The Company has the principal ownership interests and invested amounts in its subsidiary:

	Ownership Interest		Investments	
	2005 \$	2004 \$	2005 \$	2004 \$
Cool Chips Military Sales plc	100.00%	N/A	\$ 69,333	\$ –
			<u> </u>	<u> </u>

3. DEBTORS

	2005 \$	2004 \$
Loan to parent company	\$ 8,333,318	\$ 6,732,811
	<u> </u>	<u> </u>

Amounts due from the Company's parent company are non-interest bearing, unsecured, and with no fixed terms of repayment

4. CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005 \$	2004 \$
Amounts due to subsidiary undertakings:		
Cool Chips Military Sales plc	\$ 69,333	\$ –
	<u> </u>	<u> </u>

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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2005 (Continued)

5. CALLED UP SHARE CAPITAL

			2005 \$	2004 \$
Authorised share capital 10,000,000 ordinary shares @ £0.01 each			\$ 160,000	\$ 160,000
			<u> </u>	<u> </u>
	Number of Shares	Share Capital \$	Share Premium Account \$	Total \$
At 31 March 2003	7,997,138	123,278	5,388,163	5,511,441
Shares issued during the year	162,403	1,634	1,561,736	1,563,370
At 31 March 2004	8,159,541	124,912	6,949,899	7,074,811
Shares issued during the year	85,806	1,717	1,641,990	1,643,707
At 31 March 2005	8,245,347	\$ 126,629	\$ 8,591,889	\$ 8,718,518
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The shares issued were partly to raise additional finance (cash received in Technical) and partly to settle amounts owing to creditors by Technical.

6. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

	Share Capital \$	Share Premium Account \$	Profit & Loss Account \$	Total \$
At 31 March 2003	123,278	5,388,163	(298,800)	5,212,641
Shares issued during the year	1,634	1,561,736	–	1,563,370
Loss for the year	–	–	(43,200)	(43,200)
At 31 March 2004	124,912	6,949,899	\$ (342,000)	6,732,811
Shares issued during the year	1,717	1,641,990	–	1,643,707
Loss for the year	–	–	(43,200)	(43,200)
At 31 March 2005	\$ 126,629	\$ 8,591,889	\$ (385,200)	\$ 8,333,318
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2005 (Continued)

7. RELATED PARTY TRANSACTIONS

In addition to related party transactions disclosed elsewhere in these financial statements, during the year ended 31 March 2005, the Company was charged \$ 88,200 (2004 - \$43,200) in fees for administrative services provided by Technical.

8. ULTIMATE PARENT COMPANY

The ultimate parent company is Borealis Exploration Limited, a company incorporated in Gibraltar whose registered office is at Montagu Pavilion, 8-10 Queensway, Gibraltar.