

COOL CHIPS™

Cool Chips plc
2005 Annual Report



About Cool Chips plc

Cool Chips plc was formed in 1996 to develop and market a new refrigeration technology called "Cool Chips", which use electrons to carry heat from one side of a vacuum diode to the other. The system contains no moving parts or motors and can be miniaturised for use in micro-electronic applications. Cool Chips will be the first entirely new technology for cooling or refrigeration in more than a century. They will be smaller, lighter, more efficient, and more useful than any previous technology. In almost every cooling application, an active cooling system powered by Cool Chips Technology will be superior to the more conventional passive solutions.

Cool Chips™ represent a fundamental advance for cooling, refrigeration, and thermal management. One of the first industrial applications of nanotechnology, Cool Chips use electron thermotunnelling technology to deliver up to a projected 55% of the maximum (Carnot) theoretical efficiency for heat pumps. Conventional refrigerators operate at up to 45% efficiency and current thermoelectric systems (Peltier Effect) operate at 5-8% efficiency.

Cool Chips plc is a majority-owned, publicly-traded subsidiary of Borealis Exploration Limited.

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Chairman's Letter to Members

6 June 2005

Fellow Members:

Getting product out the door is a humbling experience.

We have been humbled.

Our research facilities and staff are among the best in the world. Our research staff are making world-changing scientific discoveries. People used to doubt our science, but no more.

The issue is now: Can we build product? The answer appears to be a resounding yes.

To speed completion and commercialisation of Cool Chips™, we have divided research, development and production.

We have a development staff that is being assembled and a production staff that is slowly coming together to make Cool Chips a market reality.

We are working hard on helping our subsidiary company Cool Chips Military Sales plc close a large advance order for Cool Chips. This will provide the funding for us to put the pedal to the metal in all three areas.

We are negotiating to acquire a chip-manufacturing "fab" plant in the Western United States that will allow us to meet the military demand in probably 24 months. This is really a first-class facility.

It appears that we can, with Avto Metals™, as measured against the scale of semiconductor manufacturers, build Cool Chips for the military market and within 36 months we hope to enter the commercial markets.

Our first sales will be through Cool Chips Military Sales plc, a currently 100% owned subsidiary. In addition to the advance product sales that are being worked on, we are discussing with potential investors the possible sale of a 25% interest in Cool Chips Military Sales plc.

When we finally get the recipe right and can make Cool Chips consistently we then can complete the on-going work of packaging the prototype production devices for sale to our customers. We have sufficient capacity now to begin generating revenue from the high-value military market. We have begun selling chips for 50% down and the balance due upon delivery, with delivery being on a best-efforts basis for \$18,000/Watt though we expect our first actual production sales to be at \$50,000/Watt. The only significant sale that appears likely in the near term is the advance sale by Cool Chips Military Sales plc.

As our shareholders know well, Cool Chips are very much in demand. We receive queries for deliveries of samples and product-ready Cool Chips on a daily basis, from hardware businesses across the spectrum: from companies in electronics, semiconductor, aerospace, medical, automotive, etc. Cool Chips is the best solution, by far, for thermal problems in everything from computer chips to air conditioning, from cooling satellites to cooling beer. This is why, over the years, hundreds of engineers and product managers have contacted us trying to buy Cool Chips.

We have an extremely popular technology and we have under discussion potential orders well in the billions of dollars. The problem, of course, is that we do not yet have a finished saleable product, and so we cannot, as yet, meet the strong market demand for Cool Chips.

Cool Chips have been in development since 1994 (and as tunneling chips since 1996). This development cycle, much to our surprise, turns out to be average for a new technology breaking through into being able to ship completed products. If someone had asked us in 1996 if it could possibly take eight or nine years to get to product, we would have thought it simply unbelievable -- of course we would have product far sooner than 2000! One of our physicists, when told in 1997 by engineers from within a large industrial conglomerate that it would take the better part of a decade for Cool Chips to be ready for the market replied simply: "They don't know how smart we are." In hindsight, maybe they did, and just maybe they understood the awesome technical hurdles that we have overcome and wrestled into submission.

And so here we are, approaching the end of the development decade. The classic question bubbles yet again to the surface: Are we there yet?

The answer is clearly "yes", as long as we have finally come to grips with our very spectacular scientific difficulties which seem to be tamed. On the technical front, Cool Chips has recently succeeded at achieving some striking technical advances, advances which, unless we are greatly mistaken, promise to make Cool Chips a shipping product by the end of 2006. We are confident enough in this conclusion that in recent months we have started to negotiate on acquiring suitable fabrication facilities, and we have added key people in the areas of wafer production and semiconductor manufacturing and packaging. Our newest talent additions have decades of experience in these fields, and they have aggressively turned their attention to the task of mass-producing Cool Chips. In essence, our research arm, which until recently was also responsible for delivering product, has been separated from this task and our new development and manufacturing arms, whose job it is to bring Cool Chips to the market as quickly as possible, are fast taking over the product delivery task.

In order to have a successful business, we first need a superior product. In this sense, Cool Chips is a man-child -- a highly mature startup company. We have a team of over 100 people worldwide working to make the technology and the Company successful. In many ways, from our audited financials to our robust patent portfolio, to expert technical teams, we are very mature. The Company's only debt is to its subsidiary, Cool Chips Military Sales plc, of \$69,333, while we have a current account receivable from our parent of \$8,333,318. In other ways, specifically in actually selling product to customers, we are still a startup. But in 2006, we expect this to change. We have been working on Cool Chips for a very long time, and we know how far we have come. We think we have a pretty good sense of how far we have to go, and it looks like we should be there within a year.

Let us get the advanced sales finished, let us get in hand the facilities we need for major production and we are away. We thought we could license product and this would be a great source of revenue to get product out the door. Our experience seems to indicate that basically industry will buy nothing that is not finished and will pay for no research that is not funded by the government. We are going to be stuck making and selling product.

Where the markets are billion-dollar-plus markets we will set up independent companies, with Cool Chips Military Sales plc as the model. Military sales and residential thermal management, for example, are wildly different markets and demand different people and different mindsets to be successful. We are very surprised by the incredible lack of adventure or the total lack of any risk-taking ability in worldwide industry. If the world was not this way, we probably would not have our business. It is our job to make Cool Chips plc the sole substantive name worldwide in thermal management.

As always, we are very appreciative to our shareholders, who by and large, have stuck with us through thick and thin. We have no shame in claiming the finest shareholders in the world. Our owners are what every company should have -- people who believe in what this Company can achieve, and who are ready, willing and able to roll up their sleeves, help out where possible, and keep the heat on management. We welcome any and all constructive criticism, and we graciously thank you for your support to date. The next year should prove very interesting as we accelerate our drive to marketable product.

With all good wishes,

Cool Chips plc

A handwritten signature in black ink, appearing to read "Rodney T. Cox". The signature is stylized with a large, sweeping initial "R" and "C".

Rodney T. Cox
Chairman and Chief Executive Officer

The Cool Chips Technology

Cool Chips are one of the first transformative technologies to emerge from the nanotechnology revolution. Cool Chips are wafer-thin diodes that are designed to produce cooling or refrigeration more efficiently and at a lower cost than any available technology. They use quantum mechanical electron tunneling as the primary cooling mechanism, and we expect that over the next few decades they will replace virtually every existing cooling, air conditioning, and thermal management technology in use today.

Because of the inherent advantages in cooling across a nanometer-scale gap between two electrodes, Cool Chips are projected to attain efficiencies higher than those previously available in cooling systems, and far greater cooling performance than compressors of the same size and weight. The devices are small, silent, lightweight diodes that are scalable in arrays to meet any thermal management need from cooling a single microprocessor to air-conditioning a factory or home. They can produce cooling for any heat load from hundreds of degrees to below freezing temperatures, at projected efficiencies of 55% (conventional compressor systems operate at 40-50% efficiencies).

Cool Chips will have thousands of applications, from refrigerating cargo ships and air conditioning cars to cooling X-ray machines or laptop computers. They can even be built into clothing to provide personal air conditioning. Already more than 2,000 distinct applications have been identified.

Cool Chips offer a unique cooling solution and the first viable replacement option for the over century-old compressor technology that is now dominant in nearly all forms of thermal management, including air conditioning, refrigeration, chilling, freezing, and cooling. Their potential market is huge; the global cooling industry has sales of more than \$200 billion a year. Cool Chips offer a number of benefits over traditional systems that will give them a significant competitive advantage in capturing this large and mature market. In addition to their size, weight, and efficiency advantages, Cool Chips have no moving parts, operate silently, require little or no maintenance, and use no environmentally harmful refrigerants and significantly enhance the engineering envelope of applications.

We have been working on new cooling technology since 1994, and on our proprietary, patented thermotunneling technology since 1996. This is a long time for development of a new technology—longer than most companies could tolerate—but we believe the results will be worth the wait. No significant new cooling technology has emerged since

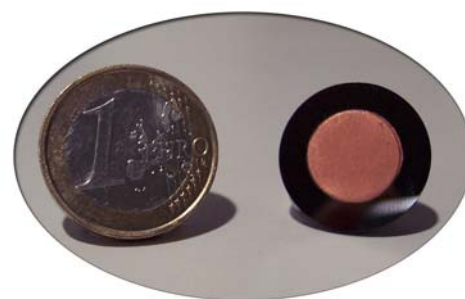
Willis Carrier patented the air conditioner compressor system in 1902 based on work done in the 19th Century. We expect that Cool Chips will become the cooling technology of choice, for virtually all applications, for the 21st Century.

Key Advantages:

Attribute	Benefit
High efficiency	Low power consumption, large ΔT
Highly compact	Space and mass efficient
Modular	Can be scaled as needed
Standalone	Localized cooling. Requires no lines to a central cooler.
Solid-State	No vibrations, no sound
Operation from 1k-1800K	Can be applied to virtually any cooling application.
Electronic control	Precise cooling, no cycling

Once we have completed working Cool Chips, we expect that direct sale revenues will soon follow. Our discussions with hundreds of companies worldwide over the last several years have shown there is intense interest in our technology and intense demand for better cooling solutions. We anticipate that, with working chips, Cool Chips plc will experience one of the fastest demand-growth curves for any new industrial product in history. Indeed, we expect to achieve significant revenue and income within a few months of getting the production technology to where it is consistently repeatable.

Much more information about our Company and our technology, full texts of issued patents, and extensive descriptions of our Cool Chips technology, is available on our Website at www.coolchips.gi.



Prototype Chip shown with a 1-Euro coin for size comparison

Organisation and Operations

Cool Chips plc is a member of the Borealis Family of Companies and is a publicly-traded indirectly majority-owned subsidiary of Borealis Exploration Limited. Borealis owns 5,203,081 of our 8,245,347 outstanding shares, or 63% of our shares. Like our parent and most associated companies, Cool Chips plc is incorporated in Gibraltar.

While our headquarters and legal domicile are in Gibraltar, Cool Chips operates as a virtual company, and the Internet plays a dominant role in our day-to-day work. It is the means by which we manage our businesses, discuss new ideas, and promote ourselves to the outside world. Modern communications technology has allowed us to circumvent the traditional problems associated with working on four continents and twenty time zones. We control facilities and have personnel working for us about which a company of our size would normally only be able to dream.

Cool Chips has consultants around the world, all of whom work over e-mail. Management and technical discussions take place over the Net. We have a continual Board of Directors meeting 24 x 365, with an annual traffic of over 4,000 messages to each board member. Cool Chips has intense direct participatory management, and many consultants to the Company sit in on the board meetings and provide input even though they are not voting members.

Our Website, www.coolchips.gi, makes information about our technology available, and informs shareholders, other companies, and the general public about Cool Chips. As patent offices issue more patents, a more complete picture of our extensive research efforts will become publicly available on the Website. Additionally, our parent company, Borealis, sends out a weekly update (as well as daily share trades with both Borealis and Cool Chips prices) to shareholders and to all the major news organizations and other interested parties, detailing our ongoing work and progress (please e-mail pr@coolchips.gi if you would like to receive these updates). Through this wide distribution, we are able to keep people better informed than through traditional channels. Your management uses this technology to maintain a close relationship with our shareholders.

This virtual company structure is great to work with and allows us to have many people directly involved in the decision-making processes at Cool Chips. This approach may not be conventional, but the results to date have validated the business structure.

Patents and Intellectual Property

All patents relating to the Cool Chips technology are held by our direct parent, Borealis Technical Limited, which has granted Cool Chips plc an exclusive, perpetual, worldwide licence to all of our cooling technologies for all cooling-related applications. Borealis Technical Limited so far has been granted more than 18 U.S. and international patents for its scientific and technological advances in cooling and refrigeration with many more applied for in one form or another. In fiscal 2005 we were granted three new U.S. patents and filed 13 new patent applications covering the Cool Chips technology. Borealis Technical was granted a total of 8 new patents in 2005 and applied for an additional 38 patents.

We expect the courts to eventually declare that many of our Cool Chips patents are “pioneer” patents, reflecting the fact that they are the first patents to be issued in an entirely new field of technology, or represent a technical revolution in a previously defined field. Pioneer patents are those to which most later patents in a field make reference, or on which later patents build by adding new improvements to the field. Because pioneer patents represent the result of groundbreaking scientific discoveries or development, the courts have found that they merit a wide breadth of protection in construing their claims and specifications.

Because our scientific discoveries and technical advances are the core of our business, we are very careful about protecting these assets. Patenting and otherwise protecting our technologies is an important activity at Cool Chips and consumes a considerable portion of our resources. We have developed an extensive library of intellectual property and we intend to protect it vigorously. Our scientific efforts continue apace and the intensity of our discoveries is only gaining momentum and increasing as we get further and further into the nitty-gritty of actually producing production prototype Cool Chips.

Management's Discussion and Analysis of Financial Results

We had nominal revenue for the year and our parent company charged us \$88,200 for management fees in 2005. The loss for the year was \$43,200, which was the same for 2004, and has been the standard administrative charge from our parent company.

Our parent company owes us \$8,333,318 compared to \$6,732,811 at the previous year-end. Our parent pays all our bills and we advance to our parent all funds raised and these are due back to us on demand loan, with the understanding that the parent company will be in a position to repay the loan once profit distributions start as expected.

We own 6,933,342 shares of Cool Chips Military Sales plc, which was newly formed during the year. Our consultants tell us we can reasonably expect in 2006 to complete an advance sale for Cool Chips, and we have for sale 25% of the shares of Cool Chips Military Sales plc. The advance sale is a good probability for fiscal 2006 and the share sale will most likely happen when and if the advance product sale has been completed.

Again, it seems that most businesses are entirely risk averse even with a must-have product like Cool Chips. Companies will not take any degree of risk with research unless the government is paying — and if the government pays for research then the company loses its largest customer as anything but a cost-plus customer. We will make one relatively large advanced sale of product and this should give us sufficient capital to get product for both military and commercial markets out the door in good order.

We will probably not sell any licences until we have product for sale and by then we will probably set up independent companies that each have the potential of at least \$1 billion in annual sales and let them handle the different markets. Aerospace markets are different from residential HVAC markets, and this degree of difference applies to a wide range of thermal management applications.

The next year should prove very enlightening and with the scientific advances our research team is making, our development and production teams should really be able to get this end of the business together.

We have done our business so far on very little cash out. Our expenditures are going to grow significantly, as we have discovered we have a very expensive business to grow and develop and drive for product, sales and profits.

Investor Information

Extensive information for investors can be found on our Website at www.coolchips.gi. Our annual and quarterly reports for the past several years are posted there, as well as full information about the Company and our technologies. The site also has links to quotation systems that report our current stock prices. If you have a question about Cool Chips, please write to us at pr@coolchips.gi.

Forward Looking Statement

The discussion of the Company's business and operations in this report includes in several instances forward-looking statements, which are based upon management's good faith assumptions relating to the financial, market, operating and other relevant environments that will exist and affect the Company's business and operations in the future. All technical, scientific, and commercial statements regarding technologies and their impacts are based on the educated judgment of the Company's technical and scientific staff. No assurance can be made that the assumptions upon which management based its forward-looking statements will prove to be correct, or that the Company's business and operations will not be affected in any substantial manner by other factors not currently foreseeable by management or beyond the Company's control.

All forward-looking statements involve risks and uncertainty. The Company undertakes no obligation to publicly release the result of any revisions to these forward-looking statements that might be made to reflect the events or circumstances after the date hereof, or to reflect the occurrence of unanticipated events; including those described in this report, and such statements shall be deemed in the future to be modified in their entirety by the Company's public pronouncements, including those contained in all future reports and other documents filed by the Company with the relevant Securities Commissions.

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 10.

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.

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.

Dividends

There were no dividends declared during the year.

Directors and their Interests

The directors who served during the year were as stated below.

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

Report of the Auditors

To the members of Cool Chips Public Limited Company

We have audited the financial statements on pages 10 to 14, which have been prepared under the historical cost convention and the accounting policies set out on page 12.

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.

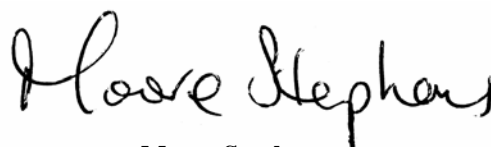
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

Financial Statements and Notes

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		\$ (385,200)	\$ (342,000)

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 12 to 14 form part of these Financial Statements.

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 12 to 14 form part of these Financial Statements.

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 7 to 8.

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.

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	\$ -

Notes to the Financial Statements
for the year ended 31 March 2005 (Continued)

3. DEBTORS

	2005	2004
	\$	\$
Loan to parent company	\$ 8,333,318	\$ 6,732,811

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	\$ –

5. CALLED UP SHARE CAPITAL

	2005	2004
	\$	\$
Authorised share capital		
10,000,000 ordinary shares @ £0.01 each	\$ 160,000	\$ 160,000

	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

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

Notes to the Financial Statements
for the year ended 31 March 2005 (Continued)

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	<u>\$ 126,629</u>	<u>\$ 8,591,889</u>	<u>\$ (385,200)</u>	<u>\$ 8,333,318</u>

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.

Cool Chips plc Officers and Directors

OFFICERS

Rodney T. Cox, Chairman and Chief Executive Officer
and Acting Chief Financial Officer
Isaiah W. Cox, President and Chief Operating Officer
Stuart Harbron, Chief Patent Officer
James S. Magdych, Chief Information Officer

Fidecs Management Limited, Secretary

BOARD OF DIRECTORS

Rodney T. Cox, Ph.D. ^{1,2,3}	(Appointed 21 December 1999)
Isaiah W. Cox, A.B. ^{1,3}	(Appointed 21 December 1999)
Wayne S. Marshall, Ph.D. ^{1*,2,3*}	(Appointed 21 December 1999)
Peter Vanderwicken, A.B. ^{2*}	(Appointed 6 September 2000)
Nechama J. Cox, Ph.D.	(Appointed 1 August 2001)
Stuart Harbron, Ph.D. ¹	(Appointed 23 July 2002)
Giulio Pontecorvo, Ph.D.	(Appointed 28 August 2003)
Robert T. Bauer, M.S.	(Appointed 17 May 2004)

Committees: ¹ Executive ² Audit ³ Compensation * Chairman

Corporate Information

Corporate Headquarters

Montagu Pavilion
8-10 Queensway
Gibraltar
Tel: +350.59995 or +350.586.99000
Fax: + 44-(0)20-7504-3593
www.coolchips.gi

Senior Corporate Financial Advisor

Morris J. Pinto

Corporate Counsel

Antonio Garrigues Walker
Garrigues, Abogados y Asesores Tributarios
Madrid, Spain

Public Relations

Chris Bourne, Head
Tel: +44-(0)208-571-5216
pr@coolchips.gi

Auditors

Moore Stephens
Suite 5 Watgardens 4
Waterport
Gibraltar

Stock Trading Information

Quoted in the United States over-the-counter market on the Pink Sheets, at www.pinksheets.com
Symbol: **COLCF**
CUSIP # X16065 10 8

Registrar and Transfer Agent

OTR, Inc.
Securities Transfer Agent & Registrar
1000 SW Broadway, Suite 920
Portland, Oregon 97205-3061, U.S.A.
Tel: +1.503.225.0375
Fax: +1.503.273.9168

Incorporated

Gibraltar Company Number 57885
23 April 1996