

**COOL CHIPS™**

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**Cool Chips plc**  
**2007 Annual Report**

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# COOL CHIPS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 57885

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## About Cool Chips plc

Cool Chips plc has created "Cool Chips" which use electrons to carry heat from one side of a vacuum diode to the other. The system, currently under development, contains no moving parts or motors and can be miniaturized for use in micro-electronic applications. In almost every electronics cooling application, an active cooling system powered by Cool Chips™ technology will be superior to the more conventional passive solutions.

Cool Chips plc is a majority-owned subsidiary of Borealis Exploration Limited (BOREF OTC-US), and is publicly traded on the Pink Sheets (COLCF OTC-US).

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## Chairman's Letter to Members

20 June 2007

### Fellow Members:

We have enormous demand. But we don't have product. Yet.

We have been working on this technology for a dozen years, and while we know a lot more than we did, and we have done a great deal of work, we are not there.

A key to working Cool Chips is found in the Avto Metal™ technology, which we publicly announced for the first time two summers ago. Avto Metals allows one to take an emitter like the cathode found in older televisions and computer monitors and make them work at lower temperatures. In conjunction with a nanometer-wide gap separating the electrodes, these temperatures are low enough to cool a computer chip or freeze water.

Highly optimized Avto Metals are necessary for making Cool Chips. The good news is that Avto Metals are, in principle, quite simple. Avto Metals are essentially a corrugated pattern on the surface of a thin layer of a material. The dimensions are rather small, which was the reason it took until 2005 to prove the concept. Development has also been slowed by more practical problems. For example, oxygen tends to react with most things, even just a little bit. Oxygenated layers on top of the corrugated pattern diminish or eliminate the Avto Effect. So either we work with materials that do not react with oxygen at all (there are a few, but not many), or materials that react minimally with oxygen, but that can only be tested in a vacuum. Working in vacuum is more complicated and slows things down a lot, but it is all doable with enough time and resources.

Over the past year, we have been working to stretch the Avto Metals theory to its limits, making a large number of different samples with different dimensions and characteristics and materials. We are pleased to report that all the experimental data continues to validate the theory – “better” physical samples give us better emitters, while “poorer” physical samples yield poorer results. We have also expanded our test work to show that the Avto Effect works just as well in other materials. In parallel, we have designed and built a new, compact and versatile enclosure for testing Cool Chips. This now patented method uses a ring-shaped piezo element that double functions as vacuum enclosure and gap control.

The work ahead of us is focused and requires high quality and thorough laboratory research. We need to make and test a sizable number of samples, continuing to check (and if necessary, refine) the theory, and to push it to its limits. It is near the limits of the Avto Metal theory that Cool Chips will become a product and a market reality, and we can start to meet the intense market demand and return value to our shareholders.

We have dedicated management capable of bringing Cool Chips to market. Hans J. Walitzki, who has decades of experience in administration, technology management and mass manufacturing, has become our Chief Development Officer. Dr. Walitzki has worked extensively in thin film and wafer technologies, spending many years with Wacker Chemitronic and later Wacker Siltronic, where he was Director of Technology. He founded his own company, soiTronic, Inc. in 1999 to bring new wafer technologies to the market, and successfully integrated his company into Isonics Corporation, becoming Vice President for Advanced Wafer Technology. Dr. Walitzki is expected to manage the final development and commercialization of Cool Chips.

And now the team is focused on optimizing the Avto Effect, both in gold (which does not react with oxygen), as well as in materials which are more likely to be suitable for mass-produced Cool Chips. This work has a lot of different technical facets and challenges, but it also has a lot of opportunities and possible solutions. Indeed, our biggest challenge right now is sorting out which of the possible approaches represent the best opportunities. It is the kind of thing for which one is always making decisions based on limited information – we can look back later and see how direct a path we took.

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This year has shown considerably patenting activity. In addition to the twenty-two patents issued before this year, four patents issued this year, and an additional seventeen patent applications were filed this year. (As always, we only count unique applications in this number; we don't multiply that by the number of countries in which we seek coverage.) We continue to ensure that we stay innovative and secure what we believe is already a dominant patent position for low temperature thermionic coolers.

In parallel, we continue to raise funds for development. The work represents a constant cash drain, and our efforts certainly have been constrained by limited resources. This problem has not been solved yet, and we continue to talk to potential investors and partners. We welcome any new opportunities.

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', with a large, stylized flourish above it.

Rodney T. Cox  
Chairman and Chief Executive Officer

## Management's Discussion and Analysis of Financial Results

We had no revenue for the year and our parent company charged us US\$186,335 for management fees in 2007, compared to US\$43,200 for management fees in 2006. Of the total management fee charged in 2007, development costs accounted for US\$143,135. The loss for the year was US\$186,335, as compared to US\$43,200 for 2006.

Our parent company owes us US\$8,169,782 compared to US\$8,304,118 at the previous year-end. Until this year our parent paid all our bills and we advanced 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. Now we are being charged for our actual expenditures and some charge for overheads.

We own 6,933,348 shares of Cool Chips Military Sales plc, which was newly formed at the end of fiscal 2005.

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 look to 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.

## **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.

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## DIRECTORS AND OFFICERS

<b>Directors</b>	<b>Appointed</b>	
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
Nechama J. Cox	01 Aug 2001	Director
Stuart Harbron	23 July 2002	Director and Chief Patent Officer
Giulio Pontecorvo	28 Aug 2003	Director

## Secretary

STM Fidecs Management Limited  
(formerly known as Fidecs Management Limited)

## Registered Office

Suite 3G, Eurolife Building  
1 Corral Road  
Gibraltar

## Auditors

Moore Stephens  
Suite 5 Watergardens 4  
Waterport  
Gibraltar

# **COOL CHIPS**

**PUBLIC LIMITED COMPANY**

Gibraltar Registered No. 57885

## **Financial Statements**

**for the year ended 31 March 2007**

# COOL CHIPS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 57885

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## DIRECTORS' REPORT

The directors submit their report and the audited financial statements for the year ended 31 March 2007.

### 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](http://www.pinksheets.com). At 31 March 2007 the last reported trade was at \$1.50 per share, with the yearly high at \$4.00 per share, and the low at \$1.10 per share.

### Activities

The principal activity of the Company is that of researching, developing and building Cool Chips™. We are building Cool Chips using several technologies. We now feel that Avto Metals™, which allow us to custom design electron volt work functions (eV), are key to an efficient mass produced build technology. We have exclusive rights to use this technology for Cool Chips. Within a year of Avto Metal commercialization, we can expect our first Cool Chips to be available for testing by a few of our many potential customers.

### Results and Review of Business

The results for the year are shown in the Profit and Loss Account on page 12.

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 this year 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. The Company is now being charged for some overheads and for research work carried out.

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 and to the US Department of Defense.

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 2006, the Company lent money raised on its behalf to Technical and Borealis Exploration Limited, who are also in a development stage. Now the Company is being charged a nominal management fee and is also paying its direct costs of research. 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. All share sales that have been made in the past two years have been at prices that are well above the quoted price of the Cool Chips plc shares. We expect to continue to raise funds at prices well above the quoted prices. This affects its ability to raise funds for future development though the policy does protect current shareholders investment from dilution.



# COOL CHIPS PUBLIC LIMITED COMPANY

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## DIRECTORS' REPORT (Continued)

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, sale of shares in subsidiary companies 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 on page 5.

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

	Shares held at 31 March 2007	Shares held at 31 March 2006
Rodney T. Cox	234,000	234,000
Isaiah W. Cox	22,600	22,600
Wayne S. Marshall	64,303	64,303
Peter Vanderwicken	13,259	12,009
Nechama J. Cox	17,275	17,275
Stuart Harbron	15,500	16,200
Giulio Pontecorvo	6,000	6,000

### Share Options

As of 31 March 2007, 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 judgments 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.

### Investor Information

Extensive information for investors can be found on our Website at [www.coolchips.gi](http://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 share prices.

If you have a question about Cool Chips, please write to us at [pr@coolchips.gi](mailto:pr@coolchips.gi).

# COOL CHIPS PUBLIC LIMITED COMPANY

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## DIRECTORS' REPORT (Continued)

### Auditor

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

By order of the Board on 20 June 2007



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Isaiah W. Cox  
Director



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Rodney T. Cox  
Director

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COOL CHIPS PUBLIC LIMITED COMPANY

We have audited the financial statements of Cool Chips plc for the year ended 31 March 2007 set out on pages 12 to 17. These financial statements have been prepared under the historical cost convention and the accounting policies set out on page 14.

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 are responsible for the preparation of financial statements in accordance with applicable law and Gibraltar Accounting Standards (Gibraltar Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant Gibraltar legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the relevant financial reporting framework and are properly prepared in accordance with Gibraltar Law. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the Directors' Report and other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements within it or material inconsistencies with the financial statements.

### **Basis of opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland). 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 judgments 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 connection with the other information contained in the Annual Report we also draw attention to the content of the Forward-Looking Statement on page 4.

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## AUDITORS' REPORT (Continued)

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 2007, 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, the Gibraltar Companies (Accounts) Ordinance 1999, and the Gibraltar Companies (Consolidated Accounts) Ordinance 1999.



Gibraltar  
20 June 2007

**Moore Stephens**  
CHARTERED ACCOUNTANTS

# COOL CHIPS PUBLIC LIMITED COMPANY

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## Financial Statements and Notes

### PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2007

	Notes	2007 \$	2006 \$
<b>Revenue</b>		--	--
<b>Expenditure</b>			
Administrative fees	7	(43,200)	(43,200)
Development Costs	7	(143,135)	--
		<u>(186,335)</u>	<u>(43,200)</u>
<b>Retained loss for the year</b>		(428,400)	(385,200)
<b>Retained losses brought forward</b>		<u>(614,735)</u>	<u>(428,400)</u>
<b>Retained losses carried forward</b>		<u><u>(614,735)</u></u>	<u><u>(428,400)</u></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 14 to 17 form part of these Financial Statements.

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## BALANCE SHEET as at 31 March 2007

	Notes	2007 \$	2006 \$
Investments	2	69,333	69,333
<b>Current Assets</b>			
Debtors	3	8,169,782	8,304,118
<b>Creditors – amounts falling due within one year</b>	4	(69,333)	(69,333)
<b>Net current assets</b>		<u>8,100,449</u>	<u>8,234,785</u>
<b>Total Net Assets</b>		<u>\$ 8,169,782</u>	<u>\$8,304,118</u>
<b>Capital and Reserves</b>			
Called up Share Capital	5,6	126,752	126,649
Share Premium Account	5,6	8,657,765	8,605,869
Profit and Loss Account	6	(614,735)	(428,400)
<b>Total Shareholders' Funds</b>		<u>\$ 8,169,782</u>	<u>\$ 8,304,118</u>

Signed on behalf of the Board of Directors on 20 June 2007



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Isaiah W. Cox  
Director



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Rodney T. Cox  
Director

The notes on pages 14 to 17 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 2007

### 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. Reporting currency**

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

**c. 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.

**d. 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.

**e. 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 9.

**f. Cash Flow Statements**

The Company meets the size criteria for a small company set by the Gibraltar (Companies Accounts) Ordinance 1999, and therefore, in accordance with FRS1: Cash Flow Statements, it has not prepared a cash flow statement.

**g. 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 £450 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 2007 (Continued)

### 2. INTERESTS IN GROUP UNDERTAKING

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

	Ownership Interest		Investments	
	2007 \$	2006 \$	2007 \$	2006 \$
Cool Chips Military Sales plc	100.00%	100.00%	\$ 69,333	\$ 69,333
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

The investments were acquired at par, representing 6,933,348 shares at \$0.01 each.

### 3. DEBTORS

	2007 \$	2006 \$
Loan to parent company	\$ 8,169,782	\$ 8,304,118
	<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

	2007 \$	2006 \$
Amounts due to subsidiary undertakings:		
Cool Chips Military Sales plc	\$ 69,333	\$ 69,333
	<u>          </u>	<u>          </u>



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## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2007 (Continued)

### 5. CALLED UP SHARE CAPITAL

			<b>2007</b>	<b>2006</b>
			<b>\$</b>	<b>\$</b>
Authorised share capital 10,000,000 ordinary shares @ £0.01 each			\$ 160,000	\$ 160,000
			<u>          </u>	<u>          </u>
	<b>Number of Shares</b>	<b>Share Capital \$</b>	<b>Share Premium Account \$</b>	<b>Total \$</b>
<b>At 31 March 2005</b>	8,245,347	126,629	8,591,889	8,718,518
Shares issued during the year	1,400	20	13,980	14,000
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>At 31 March 2006</b>	8,246,747	126,649	8,605,869	8,732,518
Shares issued during the year	5,200	103	51,896	51,999
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>At 31 March 2007</b>	8,251,947	\$ 126,752	\$ 8,657,765	\$ 8,784,517
	<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

	<b>Share Capital \$</b>	<b>Share Premium Account \$</b>	<b>Profit &amp; Loss Account \$</b>	<b>Total \$</b>
<b>At 31 March 2005</b>	126,629	8,591,889	(385,200)	8,333,318
Shares issued during the year	20	13,980	–	14,000
Loss for the year	–	–	( 43,200)	( 43,200)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>At 31 March 2006</b>	126,649	8,605,869	(428,400)	8,304,118
Shares issued during the year	103	51,896	–	51,999
Loss for the year	–	–	(186,335)	(186,335)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>At 31 March 2007</b>	\$ 126,752	\$ 8,657,765	\$ (614,735)	\$ 8,169,782
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2007 (Continued)

### 7. RELATED PARTY TRANSACTIONS

In addition to related party transactions disclosed elsewhere in these financial statements, during the year ended 31 March 2007, the Company was charged \$ 186,335 (2006 - \$43,200) in fees for administrative services and development costs 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 Suite 3G, Eurolife Building, 1 Corral Road, Gibraltar.