

**POWER CHIPS™**

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**Power Chips plc**  
**2008 Annual Report**

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# POWER CHIPS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 60528

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## About Power Chips plc

Power Chips plc has created "Power Chips" which use thermionics to convert heat into electricity. Power Chips plc is a majority-owned subsidiary of Borealis Exploration Limited (BOREF OTC-US), and is publicly traded on the Pink Sheets (PWCHF OTC-US).

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## Chairman's Letter to Members

19 June 2008

### Fellow Members:

The energy crisis continues, and the world is paying the price for increased demand of fossil fuels.

We need more power, without somehow using more of the fuel we do have - whether it is coal, oil, gas, nuclear or even solar energy. And the opportunities are indeed there. While internal combustion engines are a very mature and highly evolved technology, cars tap less than 20% of the thermal energy of fuel to turn the wheels. Over 80% of the energy in your fuel tank will be dumped out the tailpipe or radiator. The majority of fuel consumed in making electrical power or steel or aluminium is also vented to the environment, and thus wasted. Why? Because there is no current technology which can economically convert such heat, which is often as hot as 1000C (that's a cosy 1700F), into electrical power. The need for more efficient generation technologies has never been greater than it is now.

Power Chips™ are the solution to this problem.

The Power Chips technology is being designed to be optimal for operation at "waste heat" temperatures of 500 - 600 C and below. A paper published in the Global Powertrain Congress showed that if Power Chips reach their projected efficiency, they will be able to almost *double* the efficiency of a car or truck. There are more than 50 million automobiles built every year worldwide; almost doubling their fuel efficiency is going to make an enormous difference.

Power Chips are small and relatively simple devices with a large number of potential applications. In automotive and aerospace applications alone, there is a market of many *billions* of devices per year. And that is not counting all the other applications, like steel mills and aluminium smelters and power plants. We get inquiries every week from companies and individuals who would love to add Power Chips to their furnaces or cars or water heaters. When one begins to contemplate all the sources of waste heat in existence, one realizes how vast the potential for Power Chips really is.

There is just one significant problem. We cannot even begin to meet market demand, because we do not yet have functional Power Chips. However, we have finally sourced the materials, which specifications are proprietary but difficult to obtain small quantities for prototype building. We need to now produce functional Power Chips and we are looking for funding to finish product development. With funding we are looking to have product in approximately 12 months.

Power Chips are small diodes in which electrons move from one side to the other. The key to doing this at low temperatures is the Avto Metals™ technology, which we publicly announced for the first time three years ago. Avto Metals allow one to take an emitter, like the cathode found in older televisions and computer monitors, and make it work at temperatures low enough for use with exhaust pipes or smokestacks.

For use in Power Chips, however, Avto Metals need to be optimized for peak performance and long-term endurance at elevated temperatures. The good news is that Avto Metals are, in principle, quite simple. They are essentially a corrugated pattern on top of a thin layer of a material. The dimensions, however, are rather small, and thus it took quite a while to prove the concept. Development has also been slowed by 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 and sometimes even eliminate the Avto effect. Thus, some of these materials cannot be exposed to air during

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## Power Chips Chairman's Letter (Continued)

transportation. Therefore, either we work with materials that do not react with oxygen at all (there are a few, but not many), or we work with materials that react minimally with oxygen and thus must be tested in a vacuum. Working in a vacuum is more complicated and slows things down a great deal, but it is all doable with enough time and resources.

The work ahead of us is focused and requires high quality and thorough laboratory research - and funding, which we have not yet secured. We need to make and test a sizable number of samples, and continue to check (and if necessary, refine) the theory, and push it to its limits. We don't require dramatic improvements in electron emission at the design operating temperature to start making Power Chips; we need only slightly better results than we have already achieved, albeit in a different material.

We have dedicated management capable of bringing Power Chips to market. Hans Walitzki, who has decades of experience in administration, technology management and mass manufacturing, is 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 stages and commercialization of Power Chips.

As of 31 March, we have 35 issued patents, and another 48 patents pending. Of those 48 applications, 16 were filed last year. We continue to ensure that we stay innovative and thereby secure what we believe is already a dominant patent position for low temperature thermionic power converters.

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

With best wishes,

Power Chips plc



Rodney T. Cox  
Chairman and Chief Executive Officer



Isalah W. Cox  
President and Chief Operating Officer

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## Management's Discussion and Analysis of 2008 Results

Borealis Technical Limited ("Technical"), the parent company, has conducted basic industrial research on its Power Chips technology since 1996, and it has many patents issued and pending covering this technology. We feel that Power Chips plc has a good chance to come to market with product in fiscal 2009 if we get funding in short order. An improvement in our understanding of the theory underpinning Avto Metals over the past year has helped us to better focus our R&D direction toward commercially viable results. Power Chips has the rights to Avto Metals™ for power production and the ability to control eV is central to making and dominating the power production market. All of the research expenditures to date have been undertaken by Technical and funded by Borealis Exploration Limited, the ultimate parent of the Company, and by the sale of Company shares with the proceeds being loaned to Technical. The funds received from all shares sales are due back to Power Chips plc. With funding, Power Chips plc will become a stand alone company.

An Intellectual Property Agreement was signed effective 1 January 1999, whereby Technical has granted the Company the exclusive worldwide rights for sublicensing the Power 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 Power Chips technology is still under development such that the Company has not made any related sublicense sales. The Company intends to retain its sublicense rights granted by Technical.

The Company has been in the development stage since its inception. 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 2008, the Company 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. Management of the Company has indicated they have no intention to demand repayment of the amounts owing from Technical until Power Chips are being sold into the market and/or licensing has commenced and the Company is both cash flow positive and has earnings. The Company and Technical are actively working together to negotiate product sales or further sublicensing of its technology to various parties, which activities are expected to generate profitable operations in the future. We are willing to be very creative in our funding and one proposal which is on the table involves the sale of shares in a company which will be sold the rights to power production for generating stations. The energy crisis certainly brings a constant stream of interested parties and we are working very hard on closing transactions that benefit the Power Chips plc shareholders which may involve product sales, license sales, share sales or combinations thereof. 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.

## 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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# **POWER CHIPS**

**PUBLIC LIMITED COMPANY**

Gibraltar Registered No. 60528

## **Financial Statements**

**for the year ended 31 March 2008**

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## DIRECTORS AND OFFICERS

### Directors

### Appointed

Rodney T. Cox	23 Mar 2000	Director, Chairman of the Board and Chief Executive Officer
Isaiah W. Cox	23 Mar 2000	Director, President and Chief Operating Officer
Wayne S. Marshall	23 Mar 2000	Director
Peter Vanderwicken	06 Sept 2000	Director
Nechama J. Cox	01 Aug 2001	Director
Stuart Harbron	23 July 2002	Director and Chief Patent Officer ( resigned 31 March 2008)
Giulio Pontecorvo	28 Aug 2003	Director

### Secretary

STM Fidecs Management Limited  
Montagu Pavilion  
8-10 Queensway  
Gibraltar

### Registered Office

Suite 3G, Eurolife Building  
1 Corral Road  
Gibraltar

### Auditors

Moore Stephens  
Suite 5 Watergardens 4  
Waterport  
Gibraltar



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## DIRECTORS' REPORT

The directors submit their report and the audited financial statements for the year ended 31 March 2008.

### Corporate Profile

The Company was incorporated on 11 February 1997 in Gibraltar. The Company's shares are publicly traded in the United States over-the-counter (OTC) market and quoted as PWCHF on the Pink Sheets at [www.pinksheets.com](http://www.pinksheets.com). As of year end, the last reported trade was at \$ 0.40 per share, with the yearly high at \$ 2.75 per share, and the low at \$ 0.27 per share.

### Activities

The principal activity of the Company is that of researching, developing and marketing Power Chips™ Technology. Power Chips are devices that absorb heat and use it to produce electrical power. They are silent, non-polluting, scalable, portable, and can operate anywhere there is a source of heat. We expect them to replace many existing technologies for generating electricity.

### Results and Review of Business

The results for the year are shown in the Profit and Loss Account on page 14.

Power Chips plc lost \$ 429,716 last year. This compares to our loss of \$ 206,335 in 2007. Our cumulative loss carry forward is now \$ 1,028,451 compared to \$ 598,735 in 2007.

Power Chips plc is a member of the Borealis Family of Companies and is a publicly-traded indirect majority-owned subsidiary of Borealis Exploration Limited. Borealis Technical Limited, our direct parent company, owns 5,222,983 of our 8,035,118 outstanding shares, or 65% of our shares. Like our parent and most Family companies, Power Chips plc is incorporated in Gibraltar.

Our parent company, Borealis Technical Limited, owes us \$ 4,441,109 compared to \$4,870,825 in the previous year.

Borealis Technical Limited ("Technical"), the parent company, has conducted basic industrial research on its Power Chips technology since 1996, 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 and will become a stand alone company with proper funding.

An Intellectual Property Agreement was signed effective 1 January 1999, whereby Technical has granted the Company the exclusive worldwide rights for sublicensing the Power 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 Power Chips technology is still under development such that the Company has not made any related sublicense sales.

We are negotiating to sell licenses and product using various corporate structures under favourable terms for all parties involved. There have been no sales as of yet. It now appears that licensing and being a direct manufacturer and supplier of Power Chips to most of our markets will be our business structure.

# POWER CHIPS PUBLIC LIMITED COMPANY

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## **DIRECTORS' REPORT (Continued)**

The Company has been in the development stage since its inception. The Company intends to retain its sublicence 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 share of group management and project fees, and is also paying its direct costs of research. The present circumstances raise certain doubts about the ability of the Company to continue as a going concern. The Company is a publicly traded company.

Management of the Company has indicated they have no intention to demand repayment of the amounts owing from Technical until the Power 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.

### **Patents and Intellectual Property**

All patents relating to the Power Chips technology are held by our parent, Borealis Technical Limited, which has granted Power Chips plc an exclusive worldwide license to them for all power generation applications. Borealis Technical Limited so far has been granted more than 35 U.S. and international patents, and has 48 pending patent applications with 16 filed in 2008 for its scientific and technological advances in thermotunneling, thermionics, reduction of work function, and power generation.

### **Dividends**

There were no dividends declared during the year.

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## DIRECTORS' REPORT (Continued)

### Directors and their Interests

The directors who served during the year were as stated on page 7.

The interest of the directors in the shares of the Company at the year end were as follows:

	Shares held at 31 March 2008	Shares held at 31 March 2007
Rodney T. Cox	114,280	114,280
Isaiah W. Cox	25,600	25,600
Wayne S. Marshall	73,164	72,664
Peter Vanderwicken	18,758	18,758
Nechama J. Cox	20,275	20,275
Stuart Harbron	14,500	14,500
Giulio Pontecorvo	5,000	5,000

### Share Options

As of 31 March 2008, 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 Act 1930 and the Gibraltar Companies (Accounts) Act 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.

### Investor Information

Extensive information for investors can be found on our Website at [www.powerchips.gi](http://www.powerchips.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 Power Chips, please write to us at [pr@powerchips.gi](mailto:pr@powerchips.gi).

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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 19 June 2008



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Isaiah W. Cox  
Director



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Rodney T. Cox  
Director

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

We have audited the financial statements of Power Chips plc for the year ended 31 March 2008 set out on pages 14 to 18. These financial statements have been prepared under the accounting policies set out on page 16.

This report is made solely to the Company's members as a body, in accordance with the Companies Act 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 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 connection with the other information contained in the Annual Report we also draw attention to the content of the Forward Looking Statement on page 5.

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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 2008, 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 Act 1930, the Gibraltar Companies (Accounts) Act 1999.

A handwritten signature in black ink that reads "Moore Stephens". The signature is written in a cursive, flowing style.

Gibraltar  
19 June 2008

**Moore Stephens**  
CHARTERED ACCOUNTANTS

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## PROFIT AND LOSS ACCOUNT for the year ended 31 March 2008

	Notes	2008 \$	2007 \$
<b>Expenditure</b>			
Administrative fees	5	(280,000)	(43,200)
Development expenses	5	<u>(149,716)</u>	<u>(163,135)</u>
<b>Retained loss for the year</b>		(429,716)	(206,335)
<b>Retained losses brought forward</b>		<u>(598,735)</u>	<u>(392,400)</u>
<b>Retained losses carried forward</b>		<u><u>\$ (1,028,451)</u></u>	<u><u>\$ (598,735)</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 16 to 18 form part of these Financial Statements.

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## BALANCE SHEET as at 31 March 2008

	Notes	2008 \$	2007 \$
<b>Current Assets</b>			
Debtors	2	4,441,109	4,870,825
<b>Total Net Assets</b>		<u>\$ 4,441,109</u>	<u>\$ 4,870,825</u>
<b>Capital and Reserves</b>			
Called up Share Capital	3,4	123,781	123,781
Share Premium Account	3,4	5,345,779	5,345,779
Profit and Loss Account	4	<u>(1,028,451)</u>	<u>(598,735)</u>
<b>Total Shareholders' Funds</b>		<u>\$ 4,441,109</u>	<u>\$ 4,870,825</u>

Signed on behalf of the Board of Directors on 19 June 2008



Isaiah W. Cox  
Director



Rodney T. Cox  
Director

The notes on pages 16 to 18 form part of these Financial Statements.



# POWER CHIPS PUBLIC LIMITED COMPANY

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## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2008

### 1. PRINCIPAL ACCOUNTING POLICIES

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

**a. Basis of accounting**

The financial statements are prepared under the Accounting Policies set out.

**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. 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 8 to 11.

**e. Cash Flow Statements**

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

**f. Taxation**

The Company has been granted exempt status under the Gibraltar Companies (Taxation and Concessions) Act. 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.

**g. Investments**

Investments in the shares of subsidiary companies or other group companies are stated at average cost and the profit or loss on disposals is calculated based on this historical average cost of the inventory.

# POWER CHIPS PUBLIC LIMITED COMPANY

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## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2008 (Continued)

### 2. DEBTORS

	2008 \$	2007 \$
Loan to parent company	<u>\$4,441,109</u>	<u>\$ 4,870,825</u>

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

### 3. CALLED UP SHARE CAPITAL

	2008 \$	2007 \$
Authorised share capital 10,000,000 ordinary shares @ £0.01 each	<u>\$ 160,000</u>	<u>\$ 160,000</u>

	Number of Shares	Share Capital \$	Share Premium Account \$	Total \$
<b>At 31 March 2006</b>	8,035,118	123,781	5,345,779	5,469,560
Shares issued during the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>At 31 March 2007</b>	8,035,118	123,781	5,345,779	5,469,560
Shares issued during the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>At 31 March 2008</b>	<u>8,035,118</u>	<u>\$ 123,781</u>	<u>\$5,345,779</u>	<u>5,469,560</u>

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

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## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2008 (Continued)

### 4. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

	Share Capital	Share Premium	Profit & Loss	Total
	\$	\$	\$	\$
<b>At 31 March 2006</b>	123,781	5,345,779	(392,400)	5,077,160
Shares issued during the year	-	-	-	-
Loss for the year	-	-	(206,335)	(206,335)
<b>At 31 March 2007</b>	123,781	5,345,779	(598,735)	4,870,825
Shares issued during the year	-	-	-	-
Loss for the year	-	-	(429,716)	(429,716)
<b>At 31 March 2008</b>	<u>\$ 123,781</u>	<u>\$ 5,345,779</u>	<u>\$ (1,028,451)</u>	<u>\$ 4,441,109</u>

### 5. RELATED PARTY TRANSACTIONS

In addition to related party transactions disclosed elsewhere in these financial statements, during the year ended 31 March 2008 the Company was charged US\$429,716 (2007 - US\$206,335) in fees for administrative services and development expenses provided by Technical.

### 6. 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.