

POWER CHIPS

PUBLIC LIMITED COMPANY

Gibraltar Registered No. 60528

Financial Statements

for the year ended 31 March 2013

POWER CHIPS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 60528

About Power Chips plc

Power Chips plc has created "Power Chips™" which use a form of 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).

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

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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

Secretary

STM Fidecs Management Limited
Montagu Pavilion
8-10 Queensway
P.O. Box 575
Gibraltar

Registered Office

Suite 2F/2, Eurolife Building
1 Corral Road
P.O. Box 575
Gibraltar

Auditors

Moore Stephens Limited
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 2013.

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.

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. With Avto Metals™, and the ability to control Electron Volt (eV) our technical staff is quite confident that we can make a commercially viable product. As we take no government funding, because we wish to make a serious return on our substantial expenditures to date, our funding efforts to date have been very slow and painful. Our Technical Staff are confident that with an investment of US\$10 million we can make working prototypes of Power Chips™ with at least 20% of Carnot efficiency.

Results and Review of Business

The results for the year are shown in the Profit and Loss Account on page 9.

Power Chips plc lost \$168,804 this year. This compares to a loss of \$169,000 in 2012. Our cumulative loss carry forward is now \$2,256,255 compared to \$2,087,451 in 2012.

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 5,212,683 of our 8,035,118 outstanding shares, or 64.87% of our shares. Like our parent and most Family companies, Power Chips plc is incorporated in Gibraltar. Power Chips plc owns almost ten million Asamera Limited shares which has the license for stationary power units of over 1 Mega Watt and may obtain other rights to Power Chips™ as we plan on using Asamera Limited as one of the funding vehicle for Power Chips plc.

Our parent company, Borealis Technical Limited, owes us \$3,267,109 compared to \$3,551,109 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 that have been undertaken by Technical are funded by Borealis Exploration Limited, the ultimate parent of the Company. Technical had received deposits in prior years on behalf of the Company towards the issue of shares in the Company which deposits were then due back to Power Chips plc. During FY2013, the Company was charged Consulting and Development Fees of \$164,804 (\$169,000 – 2011).

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

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DIRECTORS' REPORT (Continued)

made any related sub licence sales. Power Chips plc has licensed Avto Metals plc technology for use in making Power Chips.

We seem to be in constant negotiations to sell licenses and product using various corporate structures under favourable terms for all parties involved. Power Chips plc has issued one licence to Asamera Limited and may issue others. It now appears that selling shares in Asamera Limited and in Power Chips plc will be the most practical means to procure the funds to be a manufacturer and supplier of Power Chips to most of our markets including the high value market. Under NDA Business Plans are available.

The Company has been in the development stage since its inception. The Company intends to retain its sub licence 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. The Company is being charged for management and project fees, and is also paying its direct costs of research. 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 Asamera Limited and the sale of further shares of the Company. 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 2.

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

	Shares held at 31 March 2013	Shares held at 31 March 2012
Rodney T. Cox	233,160	233,160
Isaiah W. Cox	21,750	21,750
Wayne S. Marshall	72,800	73,164
Peter Vanderwicken	24,758	18,758
Nechama J. Cox	20,275	20,275

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DIRECTORS' REPORT (Continued)

Directors' Responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year which meet the requirements of the Gibraltar Companies (Accounts) Act 1999 and Gibraltar Companies Act 1930. In addition the Directors have elected to prepare the financial statements in accordance with Gibraltar Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable Gibraltar Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Gibraltar Companies (Accounts) Act 1999 and Gibraltar Companies Act 1930. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Investor Information

Extensive information for investors can be found on our Website at 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. Under NDA we can make extensive disclosure.

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DIRECTORS' REPORT (Continued)

Auditor

A resolution to reappoint Moore Stephens Limited was passed at the Annual General Meeting.

By order of the Board on 26 June 2013

Signed

Wayne S. Marshall
Director

Signed

Rodney T. Cox
Director

Independent auditors' report to the shareholders of Power Chips Public Limited Company

We have audited the financial statements of Power Chips plc for the year ended 31 March 2013 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 182 of the Gibraltar Companies Act. 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.

Directors' responsibilities for the financial statements

The directors are responsible for the preparation and true and fair representation of these financial statements in accordance with applicable law and Gibraltar Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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AUDITORS' REPORT (Continued)

Opinion

In our opinion the financial statements give a true and fair view, in accordance with Gibraltar Generally Accepted Accounting Standards, of the state of the company's affairs as at 31 March 2013 and of its loss for the year then ended.

Emphasis of matter

Without modifying our opinion, we draw attention to note 1 in the financial statements which describes material uncertainty that raises doubt about the company's ability to continue as a going concern.

Report on other legal and regulatory matters

In addition to reporting on the financial statements, Gibraltar legal and regulatory requirements also require us to:

- a. Report to you our opinion as to whether the financial statements have been properly prepared in accordance with the Gibraltar Companies Act 1930, the Gibraltar Companies (Accounts) Act 1999 and other applicable legislation.
- b. State in our report whether in our opinion the information given in the directors' report is consistent with the financial statements.
- c. Report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

Opinion

In our opinion the financial statements have been properly prepared in accordance with the Gibraltar Companies Act 1930, the Gibraltar Companies (Accounts) Act 1999 and other applicable legislation; and the information given in the directors' report is consistent with the financial statements.

We have nothing to report to you in respect of our responsibility set out in (c) above.

Signed

Kieran Power

Statutory Auditor
For and on behalf of
MOORE STEPHENS LIMITED

Suite 5
Watergardens 4
Waterport
Gibraltar

26 June 2013

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PROFIT AND LOSS ACCOUNT for the year ended 31 March 2013

	Notes	2013 \$	2012 \$
Expenditure			
Administrative fees	7	(164,804)	(165,000)
Development Expenses	7	<u>(4,000)</u>	<u>(4,000)</u>
Loss for the year		<u><u>\$(168,804)</u></u>	<u><u>\$(169,000)</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 11 to 14 form part of these Financial Statements.

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BALANCE SHEET as at 31 March 2013

	Notes	2013 \$	2012 \$
Investments	2	<u>100,000</u>	<u>100,000</u>
Current Assets			
Debtors	3	<u>3,213,305</u>	<u>3,382,109</u>
Current Liabilities			
Creditors	4	<u>(100,000)</u>	<u>(100,000)</u>
Net Current Assets		<u>3,113,305</u>	<u>3,282,109</u>
Total Net Assets		<u><u>\$3,213,305</u></u>	<u><u>\$3,382,109</u></u>
Capital and Reserves			
Called up Share Capital	5,6	123,781	123,781
Share Premium Account	5,6	5,345,779	5,345,779
Accumulated Loss	6	<u>(2,256,255)</u>	<u>(2,087,451)</u>
Total Shareholders' Funds		<u><u>\$3,213,305</u></u>	<u><u>\$3,382,109</u></u>

Signed on behalf of the Board of Directors on 26 June 2013

Signed

Wayne S. Marshall
Director

Signed

Rodney T. Cox
Director

The notes on pages 11 to 14 form part of these Financial Statements.

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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2013

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. Revenue

At present the Company is engaged in development of products which have not yet reached the point of generation revenue. Once revenue commences, it will be accounted for on the basis of the accounting period in which the work was carried out or invoiced

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

In terms of an exemption under Section 8 of the Companies (Consolidated Accounts) Act 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

In order to meet future expenditures and cover administrative costs, the Company may need to raise additional financing. Although the Company has been successful in raising funds to date, there can be no assurance that adequate funding will be available in the future, or available under terms favourable to the Company. These financial statements have been prepared on a going concern basis that assumes the Company will be able to realise its assets and discharge its liabilities in the normal course of business. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. Further information is set out in the Directors' Report on pages 3 to 6.

g. 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 the Gibraltar Financial Reporting Standard 1: Cash Flow Statements, it has not prepared a cash flow statement.

h. Taxation

The company is subject to the Gibraltar Tax Act 2010 which requires companies with businesses managed and controlled in Gibraltar, to pay 10% Gibraltar Corporation Tax on profits to the extent that this is accrued in or derived from Gibraltar.

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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2013 (Continued)

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

i. 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.

2. INVESTMENTS

	Ownership Interest		Investments	
	2013	2012	2013	2012
	\$	\$	\$	\$
Asamera Limited	<u>100.00%</u>	<u>100.00%</u>	<u>\$100,000</u>	<u>\$100,000</u>

3. DEBTORS

	2013	2012
	\$	\$
Loan to parent company	<u>\$3,213,305</u>	<u>\$3,382,109</u>

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

4. CREDITORS

	2013	2012
	\$	\$
Due to subsidiary	<u>\$100,000</u>	<u>\$100,000</u>

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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2013 (Continued)

5. CALLED UP SHARE CAPITAL

	2013 \$	2012 \$
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 \$
At 31 March 2011	8,035,118	123,781	5,345,779	5,469,560
Shares issued during the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 March 2012	8,035,118	123,781	5,345,779	5,469,560
Shares issued during the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 March 2013	<u>8,035,118</u>	<u>\$123,781</u>	<u>\$5,345,779</u>	<u>\$5,469,560</u>

6. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

	Share Capital \$	Share Premium Account \$	Profit & Loss Account \$	Total \$
At 31 March 2011	123,781	5,345,779	(1,918,451)	3,551,109
Shares issued during the year	-	-	-	-
Loss for the year	<u>-</u>	<u>-</u>	<u>(169,000)</u>	<u>(169,000)</u>
At 31 March 2012	123,781	5,345,779	(2,087,451)	3,382,109
Shares issued during the year	-	-	-	-
Loss for the year	<u>-</u>	<u>-</u>	<u>(168,804)</u>	<u>(168,804)</u>
At 31 March 2013	<u>\$123,781</u>	<u>\$5,345,779</u>	<u>\$(2,256,255)</u>	<u>\$3,213,305</u>

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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2013 (Continued)

7. RELATED PARTY TRANSACTIONS

In addition to related party transactions disclosed elsewhere in these financial statements, during the year ended 31 March 2013 the Company was charged US\$168,804 (2012 – US\$169,000) in fees for administrative services and development expenses provided by Technical.

8. CONTROLLING PARTY

The ultimate controlling party is Borealis Exploration Limited, a company incorporated in Gibraltar whose registered office is Suite 2F/2, Eurolife Building, 1 Corral Road, Box 757, Gibraltar.

The immediate controlling party is Borealis Technical, a majority owned company by Borealis Exploration Limited.