

POWER CHIPS

PUBLIC LIMITED COMPANY

Gibraltar Registered No. 60528

Financial Statements

for the year ended 31 March 2015

POWER CHIPS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 60528

About Power Chips plc

Power Chips plc is developing "Power Chips™," a new technology that uses the physical mechanisms of thermionics and quantum thermotunnelling to generate electrical power directly from heat, with no moving parts, and with a higher projected efficiency than any current technology.

Power Chips should revolutionize electrical power generation across virtually all applications. In present large generating stations, adding Power Chips to capture heat that is now wasted will enable power plants to produce at least 20% more power with no increase in fuel consumption or emissions. Eventually, more-efficient power plants, using only Power Chips to produce power, will become common.

In automobiles and other vehicles, Power Chips initially are likely to replace the alternator, using waste heat from the radiator and exhaust and greatly increasing the efficiency of the internal combustion engine. Power Chips will make possible safe, efficient distributed power, enabling buildings or factories to generate their own electricity. They will make it possible to bring plentiful electric power to regions of the world whose peoples and economies now suffer from inadequate electric power, at a fraction of the cost to do so using current generating technologies. Power Chips will be among the first economically and environmentally transformative fruits of the emerging nanotechnology revolution.



Power Chip prototype (shown with a US Quarter for size comparison)

Power Chips plc is a majority-owned subsidiary of Borealis Exploration Limited (PRG: BOREY; USOTC: BOREF), and is publicly traded on the U.S. over-the-counter market (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 |
| Ing. Jan Váňa | 01 Mar 2013 | Director |
| Warren J. Serenbetz Jr | 01 Mar 2014 | Director |

Secretary

Mark Radom
Suite 2
Nachal Maor 1
Ramat Bet Shemesh
Israel 99623

Registered Office

Suite 1
43 Main Street
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 2015.

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 commercializing the 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. The underlying technology, called Avto Metals™, makes possible the reduction of the electron-volt work function in materials, thus enabling electrons to escape the materials more easily and thus to produce electrical power more efficiently.

Development work in fiscal 2015 focused on building and testing of successive Avto Metal samples to reduce electron-volt work function and enable construction of commercially-useful prototypes. To date, all such tests have confirmed that the scientific theory underlying Avto Metals is sound, that the technology does in fact reduce the electron-volt work function of a material, and that commercially-useful devices can be built with currently-available technology, at low cost and in large volume. Adequate funding to advance this work, however, remains a major constraint. To the extent additional funds are required, the Company will attempt to raise these funds through future sales of its own shares and through the sale of product or any other financing opportunity that protects the interests of current shareholders. However, there can be no assurance that the Company will be successful in its efforts.

With Avto Metals, and the ability to control work functions, 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 ended 31 March 2015 are shown on page 10. The directors do not recommend the payment of a dividend (2014: nil) and consequently the loss for the financial year has been added to the accumulated loss.

Power Chips plc lost \$176,448 this year. This compares to a loss of \$181,693 in 2014. Our cumulative loss at the year end is now \$2,614,369 compared to \$2,437,948 in 2014.

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 5,222,583 of our 8,035,118 outstanding shares, or 65.00% 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 \$2,855,164 compared to \$3,031,612 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 more than 40 patents issued and pending. All of the research expenditures until fiscal 2013 that had been undertaken by Technical were 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

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DIRECTORS' REPORT (Continued)

then due back to Power Chips plc. During FY2015, the Company was charged Consulting and Development Fees of \$176,448 (\$181,693 – 2014). 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 will 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. Power Chips plc has also licensed Avto Metals plc technology for use in making Power Chips.

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.

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 (2014: \$nil).

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 2015 | Shares held at 31 March 2014 |
|--------------------|---------------------------------|---------------------------------|
| Rodney T. Cox | 22,343 | 22,387 |
| Isaiah W. Cox | 25,750 | 25,750 |
| Wayne S. Marshall | 65,177 | 65,800 |
| Peter Vanderwicken | 6000 | 24,758 |
| Nechama J. Cox | 16,243 | 16,275 |
| Jan Váňa | 1 | 1 |

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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. 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. 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

Moore Stephens Limited, the auditors during the year, being eligible for reappointment, have expressed their willingness to continue in office for the following year.

By order of the Board on date: 28 July 2015

Signed

Signed

Wayne S. Marshall
Director

Rodney T. Cox
Director

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

Report on the financial statements

We have audited the financial statements of Power Chips plc for the year ended 31st March 2015 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, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 182 of the Companies Act and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Directors' responsibilities for the financial statements

The directors are responsible for the preparation and true and fair presentation of these financial statements in accordance with applicable law in Gibraltar and Gibraltar Accounting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation 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.

Auditors' 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 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 auditors' judgement, 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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Independent auditors' report to the members of Power Chips Public Limited Company – continued

Basis for qualified opinion

The financial statements do not include the Statement of Cash Flows which is required by Gibraltar Financial Reporting Standard No. 1 and by the Companies (Accounts) Act 1999.

Qualified opinion

In our opinion, except for the effects of the matter referred to in the preceding paragraph, the financial statements:

- give a true and fair view, in accordance with Gibraltar Generally Accepted Accounting Practice of the state of the company's affairs as at 31st March 2015 and of the company's loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act and the Companies (Accounts) Act 1999.

Emphasis of matter

Without modifying our opinion, we draw attention to note 1(f) in the notes to the financial statements which highlights the existence of a material uncertainty relating to conditions that may cast doubt about the company's ability to continue as a going concern. The Company has reported net assets as at 31 March 2015 of \$2,855,164 which represents amount due from shareholder.

Opinion on other matter prescribed by the Companies Act

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Except for the failure to include the Statement of Cash Flows, we have nothing to report in respect of the following matters where the Companies Act requires us to report to you if, in our opinion:

- the company has not kept proper accounting records; or
- if information specified by law regarding directors' remuneration and other transactions is not disclosed; or
- we have not received all the information and explanations we require for our audit.

Kieran Power
Statutory Auditor
For and on behalf of
Moore Stephens Limited

Suite 5
Watergardens 4
Gibraltar

Date: 28 July 2015

POWER CHIPS PUBLIC LIMITED COMPANY

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PROFIT AND LOSS ACCOUNT for the year ended 31 March 2015

| | Notes | 2015 \$ | 2014 \$ |
|--------------------------|-------|---------------------------|---------------------------|
| Expenditure | | | |
| Administrative fees | 7 | (176,448) | (179,693) |
| Development Expenses | 7 | <u>-</u> | <u>(2,000)</u> |
| Loss for the year | | <u><u>\$(176,448)</u></u> | <u><u>\$(181,693)</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 separate statement of recognised gains and losses has been prepared as all such gains and losses have been included in the profit and loss account. The loss is stated on an historical cost basis.

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

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BALANCE SHEET as at 31 March 2015

| | Notes | 2015 \$ | 2014 \$ |
|----------------------------------|-------|---------------------------|---------------------------|
| Investments | 2 | <u>100,000</u> | <u>100,000</u> |
| Current Assets | | | |
| Debtors | 3 | <u>2,855,164</u> | <u>3,031,612</u> |
| Current Liabilities | | | |
| Creditors | 4 | <u>(100,000)</u> | <u>(100,000)</u> |
| Net Current Assets | | <u>2,755,164</u> | <u>2,931,612</u> |
| | | | |
| Total Net Assets | | <u><u>\$2,855,164</u></u> | <u><u>\$3,031,612</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 |
| Profit and Loss Account | 6 | <u>(2,614,396)</u> | <u>(2,437,948)</u> |
| Total Shareholders' Funds | | <u><u>\$2,855,164</u></u> | <u><u>\$3,031,612</u></u> |

Signed on behalf of the Board of Directors on: 28 July 2015

Wayne S. Marshall
Director

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 2015

1. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Gibraltar Generally Accepted Accounting Principles, 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 have been prepared under the historical cost convention and on a going concern basis. The financial statements are prepared under the historical cost convention applying the Accounting Policies set out below.

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 generating revenue. Once trading commences, revenue will be recognised.

d. Foreign currency translation

Transactions in foreign currency are translated in US Dollars at the exchange rate ruling at the date of the transaction. Any monetary assets or liabilities denominated in foreign currencies are translated into US Dollars 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 4 to 7.

g. 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 2015 (Continued)

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

h. Investment and provisions for impairment

Investments comprises subsidiary undertakings and are stated at cost, less any provisions for impairment, where the recoverable amount of the investments are considered to be less than cost.

The recoverable amount is reviewed at each balance sheet date to determine if there are any indicators of impairment. If such indicators exist then the recoverable amount is estimated. Impairment losses are recognised in the profit and loss account.

2. INVESTMENTS

| | Ownership Interest | | Investments | |
|-----------------|--------------------|---------|-------------|-----------|
| | 2015 | 2014 | 2015 | 2014 |
| | \$ | \$ | \$ | \$ |
| Asamera Limited | 100.00% | 100.00% | \$100,000 | \$100,000 |

This is a dormant company incorporated in Gibraltar.

3. DEBTORS

| | 2015 | 2014 |
|------------------------|--------------------|--------------------|
| | \$ | \$ |
| Loan to parent company | <u>\$2,855,164</u> | <u>\$3,031,612</u> |

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

4. CREDITORS

| | 2015 | 2014 |
|-------------------|------------------|------------------|
| | \$ | \$ |
| Due to subsidiary | <u>\$100,000</u> | <u>\$100,000</u> |

Amounts due to the subsidiary are non-interest bearing, unsecured, and with no fixed terms of repayment.

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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015 (Continued)

5. CALLED UP SHARE CAPITAL

| | 2015 | 2014 |
|--|------------------|------------------|
| | \$ | \$ |
| 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 2013 | 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 2014 | 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 2015 | <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 2013 | 123,781 | 5,345,779 | (2,256,255) | 3,213,305 |
| Shares issued during the year | - | - | - | - |
| Loss for the year | <u>-</u> | <u>-</u> | <u>(181,693)</u> | <u>(181,693)</u> |
| At 31 March 2014 | 123,781 | 5,345,779 | (2,437,948) | 3,031,612 |
| Shares issued during the year | - | - | - | - |
| Loss for the year | <u>-</u> | <u>-</u> | <u>(176,448)</u> | <u>(176,448)</u> |
| At 31 March 2015 | <u>\$123,781</u> | <u>\$5,345,779</u> | <u>\$(2,614,396)</u> | <u>\$2,855,164</u> |

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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015 (Continued)

7. RELATED PARTY TRANSACTIONS

In addition to related party transactions disclosed elsewhere in these financial statements, during the year ended 31 March 2015 the Company was charged US\$176,448 (2014 – US\$181,693) in fees for administrative services and development expenses provided by ultimate Parent Company.

8. CONTROLLING PARTY

The ultimate controlling party is Borealis Exploration Limited, a company incorporated in Gibraltar whose registered office is Suite 1, 43 Main Street, Gibraltar.

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

9. STATEMENT OF CASH FLOWS

The financial statements do not include the Statement of Cash Flows which is required by Gibraltar Financial Reporting Standard No. 1 and by the Companies (Accounts) Act 1999. This represents a departure from Gibraltar Generally Accepted Accounting Practice. The statement has been omitted as the consolidated financial statements of the Family contain consolidated statement of cash flows. It is noted that the company does not have a bank account.