

POWER CHIPS

PUBLIC LIMITED COMPANY

Gibraltar Registered No. 60528

Annual Report

for the year ended 2017

About Power Chips plc

Power Chips plc (“the Company”) 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 revolutionise 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, thereby greatly increasing the efficiency of the internal combustion engine. Power Chips will make possible safe, efficient distributed power, enabling buildings and 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 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 Technical Limited, which in turn is a majority-owned subsidiary of Borealis Exploration Limited (PRG: BOREY; US OTC: BOREF).

POWER CHIPS PUBLIC LIMITED COMPANY

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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 which are either 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

DIRECTORS AND OFFICERS

| Director | Appointed | |
|-----------------------|------------------|---|
| Rodney T. Cox, PhD | 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 PhD | 23 Mar 2000 | Director |
| Peter Vanderwicken | 06 Sept 2000 | Director |
| Nechama J. Cox, PhD | 01 Aug 2001 | Director |
| Ing. Jan Váňa | 01 Mar 2013 | Director |
| Warren L. Serenbitz | 01 Mar 2014 | Director (Resigned 29 Nov 2016) |

Secretary

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

Registered Office

Suite 1
43 Main Street
GX11 1AA
Gibraltar

Auditors

Moore Stephens Limited
Suite 5 Watergardens 4
Waterport
GX11 1AA
Gibraltar

POWER CHIPS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 60528

DIRECTORS' REPORT

The directors submit their report and the audited financial statements for the year ended 30 September 2017.

All references to year 2017 refer to the 12 months ended 30 September 2017. Comparatives shown in these financial statements are for the 18-month fiscal year ended 30 September 2016 and may therefore not be entirely comparable.

Corporate Profile

The Company was incorporated on 11 February 1997 in Gibraltar to develop and market the Power Chip technology.

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 thus far has 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 plus the ability to control work functions, our technical staff are 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 expect that with an investment of US\$10 million we can make working prototypes of Power Chips with at least 20% of Carnot efficiency.

POWER CHIPS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 60528

DIRECTORS' REPORT (Continued)

Results and Review of Business

The results for the period are shown in the Profit and Loss Account on page 11.

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 (“Technical”), our parent company, has conducted basic industrial research on its Power Chips technology since 1996 and 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 then due back to Power Chips plc. During the 12 months ended 30 September 2017, the Company was charged Consulting Fees of \$190,812, as compared to \$225,838 in 2016, which was an 18-month fiscal year.

An intellectual property agreement was signed effective 1 January 1999, pursuant to which Technical 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 sub-licence income. To date the Power Chips technology is still under development, such that the Company has not made any related sub-licence 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 realise 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.

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 and/or further sublicensing of its technology to various parties, which are 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.

POWER CHIPS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 60528

DIRECTORS' REPORT (Continued)

Dividends

There were no dividends declared during the year (2016: nil).

Directors and their Interests

The directors who served during the period were as stated on page 3.

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

| | Shares held at 30 September 2017 | Shares held at 30 September 2016 |
|--------------------|--|--|
| Rodney T. Cox | 1 | 22,299 |
| Isaiah W. Cox | 26,997 | 25,648 |
| Wayne S. Marshall | 57,252 | 57,363 |
| Peter Vanderwicken | 10,111 | 6,000 |
| Nechama J. Cox | 16,179 | 16,211 |
| Jan Váña | 1 | 1 |

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 Act 2014. 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, and
- 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 Act 2014. 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.

POWER CHIPS PUBLIC LIMITED COMPANY

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DIRECTORS' REPORT (Continued)

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.

If you have a question about Power Chips, please write to us at pr@powerchips.gi. Under NDA we can make extensive disclosure.

Auditor

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purpose of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

A resolution to reappoint Moore Stephens Limited was passed at the 2016 Annual General Meeting and the Directors are considering a resolution to reappoint Moore Stephens Limited to audit the Company's 2018 financial statements.

By order of the Board on 30 January 2018:

Isaiah W. Cox
Director

Rodney T. Cox
Director

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF POWER CHIPS PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Power Chips plc (the Company), which comprise the balance sheet as at 30 September 2017, and the profit and loss account, statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with Gibraltar Financial Reporting Standards; and
- have been prepared in accordance with the Companies Act 2014.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

Without modifying our opinion, we draw attention to note 1(e) 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 had net assets as at 30 September 2017 of \$2,438,514 of which \$2,438,514 represents amounts due from related parties in which there is also the existence of a material uncertainty relating to conditions that may cast doubt about the company's ability to continue as a going concern.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with applicable law in Gibraltar and Gibraltar Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF POWER CHIPS PLC

Report on the Audit of the Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF POWER CHIPS PLC

Report on Other Legal and Regulatory Requirements

Opinion on other matter prescribed by the Companies Act 2014

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report has been prepared in accordance with the requirements of the Companies Act 2014.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report.

Matters on which we are required to report by exception

We have nothing to report in respect of the matter where the Companies Act 2014 requires us to report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 257 of the Companies Act 2014 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.

.....
Kieran Power
Statutory auditor
For and on behalf of
Moore Stephens Limited
Gibraltar

Date: 30 January 2018

POWER CHIPS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 60528

PROFIT AND LOSS ACCOUNT for the year ended 30 September 2017

| | | 2017 | 18 months period 2016 |
|---------------------------------|-------|---------------------------|-----------------------------|
| | Notes | \$ | \$ |
| Expenditure | | | |
| Administrative fees | 8 | (190,812) | (225,838) |
| | | <hr/> | <hr/> |
| Loss for the year/period | | <u><u>\$(190,812)</u></u> | <u><u>\$(225,838)</u></u> |

The Company has had no discontinued activities during the period, accordingly, the above result for the Company relates solely to continuing activities.

The notes on pages 14-19 form part of these Financial Statements.

POWER CHIPS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 60528

BALANCE SHEET at 30 September 2017

| | Notes | 2017 \$ | 2016 \$ |
|----------------------------------|-------|---------------------------|---------------------------|
| Investments | 4 | <u>4,636,000</u> | <u>4,636,000</u> |
| Current Assets | | | |
| Accounts receivable | 5,8 | <u>2,438,514</u> | <u>2,629,326</u> |
| Current Liabilities | | | |
| Accounts payable | 6 | <u>(4,636,000)</u> | <u>(4,636,000)</u> |
| Net Current Assets | | <u>(2,197,486)</u> | <u>(2,006,674)</u> |
| | | | |
| Net Assets | | <u><u>\$2,438,514</u></u> | <u><u>\$2,629,326</u></u> |
| | | | |
| Capital and Reserves | | | |
| Called up share capital | 7 | 80,351 | 80,351 |
| Share premium account | 7 | 5,389,209 | 5,389,209 |
| Accumulated loss | | <u>(3,031,046)</u> | <u>(2,840,234)</u> |
| Total Shareholders' Funds | | <u><u>\$2,438,514</u></u> | <u><u>\$2,629,326</u></u> |

The financial statements have been prepared in accordance with the provisions of the Financial Reporting Standard 102 (effective 1st January 2015).

These financial statements were approved and authorized for issue by the board on 30 January 2018

Isaiah W. Cox
Director

Rodney T. Cox
Director

The notes on pages 14-19 form part of these Financial Statements.

POWER CHIPS PUBLIC LIMITED COMPANY

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STATEMENT OF CHANGES IN EQUITY for the year ended 30 September 2017

| | Share Capital \$ | Share Premium Account \$ | Profit & Loss Account \$ | Total \$ |
|---------------------------------|------------------------|-----------------------------------|-----------------------------------|--------------------|
| At 31 March 2015 | 80,351 | 5,389,209 | (2,614,396) | 2,855,164 |
| Shares issued during the period | - | - | - | - |
| Loss for the period | - | - | (225,838) | (225,838) |
| At 30 September 2016 | 80,351 | 5,389,209 | (2,840,234) | 2,629,326 |
| Shares issued during the year | - | - | - | - |
| Loss for the year | - | - | (190,812) | (190,812) |
| At 30 September 2017 | <u>\$80,351</u> | <u>\$5,389,209</u> | <u>\$(3,031,046)</u> | <u>\$2,438,514</u> |

The notes on pages 14-19 form part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2017

1. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and on a going concern basis. The financial statements have been prepared in accordance with Gibraltar Financial Reporting Standard 102 ("GFRS 102") and the Gibraltar Companies Act 2014.

a. Basis of accounting

These financial statements have been prepared under the historical cost convention applying the Accounting Policies set out below.

b. 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 recognized.

c. Reporting currency

The Company has a presentational currency of US dollars (USD).

The Company has determined that USD is its functional currency, as this is the currency of the economic environment in which the Company predominantly operates.

d. Foreign currency translation

Transactions in currencies other than USD are recorded at the rate of exchange at the date of the transaction. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on exchange are included in profit or loss.

e. 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 4-7.

f. Cash Flow Statements

The company has taken advantage of the exemption available for subsidiaries under GFRS 102, section 1.8, not to present a cash flow statement as these are presented in the consolidated financial statements of the ultimate parent company, Borealis Exploration Limited.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2017 (Continued)

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

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 they accrue in or derive from Gibraltar.

h. Investments

Investments relates to subsidiary undertakings and are stated at cost, less any provision for impairment, where recoverable amount is 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 assets recoverable amount is estimated. Impairment losses are recognised in the profit and loss account.

i. Financial assets and liabilities

General

Financial instruments are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at transaction price unless the arrangement constitutes a financing transaction which includes transaction costs for financial instruments not subsequently measured at fair value. Subsequent to initial recognition, they are measured as set out below. A financing transaction is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Classification

Financial instruments are classified as either 'basic' or 'other' in accordance with Chapter 11 of FRS 102.

Subsequent measurement

At the end of each reporting period, debt instruments classified as basic are measured at amortised cost using the effective interest rate method. All financial instruments not classified as basic are measured at fair value at the end of the reporting period, with the resulting changes recognised in profit or loss. Where their fair value cannot be reliably measured, they are recognised at cost less impairment.

Derecognition

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire, or when the Company has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised only once the liability has been extinguished through discharge, cancellation or expiry.

j. Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2017 (Continued)

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

k. Impairment of financial assets

Assets carried at cost or amortised cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be estimated reliably.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- i. Significant financial difficulty of the issuer or obligor;
- ii. A breach of contract, such as a default or delinquency in interest or principal payments;
- iii. The Company, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- iv. It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- v. Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

- (a) Adverse changes in the payment status of borrowers in the portfolio; and
- (b) National or local economic conditions that correlate with defaults on the assets in the portfolio.

As an initial step the Company assesses whether objective evidence of impairment exists.

The amount of the loss is measured, in the case of assets measured at amortised cost, as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced to the present value of estimate future cash flows and the amount of the loss is recognised in the profit and loss account.

In the case of financial assets measured at cost, the impairment loss will be the difference between the asset's carrying amount and the best estimate of the sales price that would be achieved at the reporting date.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the profit and loss account.

l. Accounts payable

Accounts payable are classified as creditors falling due within one year if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as creditors falling due after more than one year.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2017 (Continued)

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing the financial statements, management is required to make estimates and assumptions which affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates, together with past experience and expectations of future events that are believed to be reasonable under the circumstances. Actual results in the future could differ from such estimates.

Administrative services – these represent recharges from ultimate parent company Borealis Exploration Limited. The parent company incurs all administrative expenses and recharges on a quarterly basis between 9 subsidiaries (2016:9).

3. FINANCIAL RISK MANAGEMENT

The Company has exposure to the following risks from its use of financial instruments:

Liquidity risk
Credit risk

The board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

Liquidity risk management

The Company manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

The Company uses revenues and costs from other activities that are predictable contractually. This assists with monitoring cash flow requirements and optimising treasury strategies.

The Company has not made any significant guarantees of third party or related party actual or potential obligations.

Credit risk management

Potential material areas of credit risk consist of trade accounts receivable.

Trade accounts receivable consist of only one debtor, the parent company Borealis Technical Limited. The Company's management monitors the financial position of the parent company on an ongoing basis.

The Company has a significant concentration of credit risk, with exposure concentrated on one trade debtor. The Company does not deposit short term cash investments with major institutions but keeps it on current accounts.

POWER CHIPS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 60528

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2017 (Continued)

4. INVESTMENTS

| | 2017 % holding | 2016 % holding | 2017 \$ | 2016 \$ |
|---|-------------------|-------------------|--------------------|--------------------|
| Asamera Limited, a dormant company | 100.00% | 100.00% | 100,000 | 100,000 |
| Shares in subsidiary under common control | 0.52% | 0.52% | 4,536,000 | 4,536,000 |
| | | | <u>\$4,636,000</u> | <u>\$4,636,000</u> |

5. ACCOUNTS RECEIVABLE

| | 2017 \$ | 2016 \$ |
|------------------------|--------------------|--------------------|
| Loan to parent company | <u>\$2,438,514</u> | <u>\$2,629,326</u> |

This loan is interest free, unsecured, and with no fixed terms of repayment.

6. ACCOUNTS PAYABLE

| | 2017 \$ | 2016 \$ |
|--|--------------------|--------------------|
| Due to subsidiary company | 100,000 | 100,000 |
| Due to subsidiary under common control | 4,536,000 | 4,536,000 |
| | <u>\$4,636,000</u> | <u>\$4,636,000</u> |

These loans are interest free, unsecured, and with no fixed terms of repayment.

POWER CHIPS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 60528

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2017 (Continued)

7. CALLED UP SHARE CAPITAL

| | 2017 | 2016 |
|---|------------------|------------------|
| | \$ | \$ |
| 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 2015 | 8,035,118 | 80,351 | 5,389,209 | 5,469,560 |
| Shares issued during the period | - | - | - | - |
| At 30 September 2016 | 8,035,118 | 80,351 | 5,389,209 | 5,469,560 |
| Shares issued during the year | - | - | - | - |
| At 30 September 2017 | <u>8,035,118</u> | <u>80,351</u> | <u>5,389,209</u> | <u>5,469,560</u> |

8. RELATED PARTY TRANSACTIONS

In addition to related party transactions disclosed elsewhere in these financial statements, during the year ended 30 September 2017 the Company was charged \$190,812 (18 months ended 30 September 2016: \$225,838) in fees for administrative services and development expenses provided by Borealis Technical Limited. Amounts due to Borealis Technical Limited, parent Company, as at 30 September 2017 was \$2,438,514 (2016: \$2,629,326).

9. 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 Limited, of which Borealis Exploration Limited is in turn the majority owner.

10. SUBSEQUENT EVENTS

The directors have nothing to report under this section.