

COOL CHIPS™

Cool Chips plc

2006 Annual Report



COOL CHIPS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 57885

About Cool Chips plc

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

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

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COOL CHIPS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 57885

Chairman's Letter to Members

14 June 2006

Fellow Members:

Your company has one heck of a story to tell.

Seen from one side, we are in a super position – one that should make Cool Chips plc the envy of the corporate world. Cool Chips™ are very much in demand, across a range of industries ranging from military markets such as radars and sensors and spacecraft to more earthbound opportunities like cooling ships, containers, cars, trucks, home, airplanes and trains. We receive queries for deliveries of samples and product-ready Cool Chips on a daily basis, from hardware businesses across the spectrum: from companies working in electronics, semiconductors, aerospace, medical, automotive, etc. Cool Chips is the best solution, by far, for thermal problems in everything from computer chips to air conditioning, from cooling satellites to cooling beer. This is why, over the years, hundreds of engineers and product managers have contacted us trying to buy Cool Chips. There are so many opportunities to sell Cool Chips that we can hardly keep track of them. The business opportunity is simply massive: we are talking about a total **yearly** market of quadrillions of BTUs of capacity or more than \$200 billion.

To add to that, we have a major advantage over most corporations in that we are our own competition. Cool Chips is the only company aiming to replace compressors (98% of the cooling market) outright, because we have the only technology that looks like it can achieve this goal. And Cool Chips are covered by dozens of patents, pending and issued.

There is only one small problem. We don't have product yet.

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

The key to working Cool Chips is found in the Avto Metal technology which we publicly announced for the first time last summer. Avto Metals are the key – they are the way to take an emitter like the cathode found in older televisions and computer monitors, and make them work at low temperatures, temperatures low enough to cool a computer chip or freeze water.

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

Over the past year, we have been working to stretch the Avto Metals theory to its limits, making a large number of different samples with different dimensions and characteristics and materials. We are pleased to report that all the experimental data continues to validate the theory – “better” physical samples give us better emitters, while “poorer” physical samples yield poorer results. We have also expanded our test work to show that the Avto Effect is seen in more than one material.

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

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In recent months, we have been doing a number of things which have set us firmly on a development pathway, to wit:

Nechama Katan has become the Program Manager of Cool Chips. She brings with her considerable experience within semiconductors as a whole, from R&D through to mass production, and her mandate is to drive Avto Metals and Cool Chips through to shipping product as rapidly as possible, which includes keeping in mind all of the packaging and manufacturing steps in Cool Chips' future. Nechama Katan is also working closely with key consultants in the nanotechnology arena, as well as a physicist who has decades of experience in semiconductor manufacturing.

We have added Dr. Alan Feinerman of University of Illinois at Chicago to our team, complementing the fine team at Portland State University led by Dr. Gertrude Rempfer, Dr. Marty Kordesch at Ohio University, and of course, Avto Tavkhelidze's team at Tiblisi State University. It is a good mix, combining both out-of-the-box thinking with hard-headed realism, in order to both proceed in a focused direction while still keeping our eyes open for other ways of achieving the same goals.

And now the team is focused on optimizing the Avto Effect, both in gold, as well as in materials which are more likely to be suitable for mass-produced Cool Chips and Power Chips. This work has a lot of different technical facets and challenges, but it also has a lot of opportunities and possible solutions. Indeed, our biggest challenge right now is sorting out which of the possible approaches represent the best opportunities. It is the kind of thing for which one is always making decisions based on limited information – we can always look back later and see how direct a path we took.

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

In the meantime, we continue to forge ahead. We project that with needed funding raised, we will be shipping Avto Metal cathodes to specific markets within 12 months, with Power Chips and then Cool Chips following as the technology develops. It may seem like a long time from now -- but recall that the Cool Chip was invented 11 years ago. We have come a very long way, and the path behind us gives us confidence that we are near the end of this critical stage of technology development.

Once we have laboratory devices working, we will start offering samples for sale to the very long list of companies who have asked to purchase Cool Chips, and start ramping up production!

As always, we are very appreciative to our shareholders, who by and large, have stuck with us through thick and thin. We have no shame in claiming the finest shareholders in the world. Our owners are what every company should have -- people who believe in what this Company can achieve, and who are ready, willing and able to roll up their sleeves, help out where possible, and keep the heat on management. We welcome any and all constructive criticism, and we graciously thank you for your support to date. The next year should prove very interesting as we accelerate our drive to marketable product.

With all good wishes,

Cool Chips plc

A handwritten signature in black ink, appearing to read "Rodney T. Cox". The signature is fluid and cursive, with a prominent "R" at the beginning.

Rodney T. Cox
Chairman and Chief Executive Officer

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Management's Discussion and Analysis of Financial Results

We had no revenue for the year and our parent company charged us \$43,200 for management fees in 2006, compared to \$88,200 for management fees in 2005. The loss for the year was \$43,200, which was the same for 2005, and has been the standard administrative charge from our parent company.

Our parent company owes us \$8,304,118 compared to \$8,333,318 at the previous year-end. Our parent pays all our bills and we advance to our parent all funds raised and these are due back to us on demand loan, with the understanding that the parent company will be in a position to repay the loan once profit distributions start as expected.

We own 6,933,342 shares of Cool Chips Military Sales plc, which was newly formed at the end of fiscal 2005. Our consultants tell us we can reasonably expect in 2007 to complete an advance sale for Cool Chips, and we have for sale 25% of the shares of Cool Chips Military Sales plc. The advance sale is a good probability for fiscal 2007 and the share sale will most likely happen when and if an advance product sale has been completed.

Again, it seems that most businesses are entirely risk averse even with a must-have product like Cool Chips. Companies will not take any degree of risk with research unless the government is paying - and if the government pays for research then the company loses its largest customer as anything but a cost-plus customer. We look to make one relatively large advanced sale of product and this should give us sufficient capital to get product for both military and commercial markets out the door in good order.

We will probably not sell any licences until we have product for sale and by then we will probably set up independent companies that each have the potential of at least \$1 billion in annual sales and let them handle the different markets. Aerospace markets are different from residential HVAC markets, and this degree of difference applies to a wide range of thermal management applications.

The next year should prove very enlightening and with the scientific advances our research team is making, our development and production teams should really be able to get this end of the business together. We have done our business so far on very little cash out. Our expenditures are going to grow significantly, as we have discovered we have a very expensive business to grow and develop and drive for product, sales and profits.

Forward-Looking Statement

The discussion of the Company's business and operations in this report includes in several instances forward-looking statements, which are based upon management's good faith assumptions relating to the financial, market, operating and other relevant environments that will exist and affect the Company's business and operations in the future. All technical, scientific, and commercial statements regarding technologies and their impacts are based on the educated judgment of the Company's technical and scientific staff. No assurance can be made that the assumptions upon which management based its forward-looking statements will prove to be correct, or that the Company's business and operations will not be affected in any substantial manner by other factors not currently foreseeable by management or beyond the Company's control.

All forward-looking statements involve risks and uncertainty. The Company undertakes no obligation to publicly release the result of any revisions to these forward-looking statements that might be made to reflect the events or circumstances after the date hereof, or to reflect the occurrence of unanticipated events; including those described in this report, and such statements shall be deemed in the future to be modified in their entirety by the Company's public pronouncements, including those contained in all future reports and other documents filed by the Company with the relevant Securities Commissions.

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DIRECTORS AND OFFICERS

Directors Appointed

Rodney T. Cox	21 Dec 1999	Director, Chairman of the Board, and Chief Executive Officer
Isaiah W. Cox	21 Dec 1999	Director, President, and Chief Operating Officer
Wayne S. Marshall	21 Dec 1999	Director
Peter Vanderwicken	06 Sept 2000	Director
Nechama J. Cox	01 Aug 2001	Director
Stuart Harbron	23 July 2002	Director, and Chief Patent Officer
Giulio Pontecorvo	28 Aug 2003	Director
Robert T. Bauer	17 May 2004	(resigned 22 July 2005)

Secretary

Fidecs Management Limited

Registered Office

Suite 3G, Eurolife Building
1 Corral Road
Gibraltar

Auditors

Moore Stephens
Suite 5 Watergardens 4
Waterport
Gibraltar

COOL CHIPS PUBLIC LIMITED COMPANY

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DIRECTORS' REPORT

The directors submit their report and the audited financial statements for the year ended 31 March 2006.

Corporate Profile

The Company was incorporated on 23 April 1996 in Gibraltar. The Company's shares are publicly traded in the United States over-the-counter (OTC) market and quoted as COLCF on the Pink Sheets at www.pinksheets.com. At 31 March 2006 the last reported trade was at \$4.00 per share, with the yearly high at \$8.00 per share, and the low at \$2.25 per share.

Activities

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

Results and Review of Business

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

Borealis Technical Limited ("Technical"), the parent company, has conducted basic industrial research on its Cool Chips technology since 1995, for which it has patents issued and pending. All of the research expenditures to date 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.

Cool Chips Military Sales plc was incorporated on 8 February 2005, as a subsidiary of the Company, as it is expected that the first sales of Cool Chips technology will be delivery of products to US military contractors and to the US Department of Defense.

An Intellectual Property Agreement was signed effective 1 January 1999, whereby Technical has granted the Company the exclusive worldwide rights for sublicensing the Cool Chips technology. In consideration for the rights granted to the Company, the Company shall pay Technical an 8% royalty based on net sales of licensed products and services sold by the Company and 50% of all sublicense income. To date the Cool Chips technology is still under development such that the Company has not made any related sublicense sales.

The Company has been in the development stage since its inception. The Company intends to retain its sublicense rights granted by Technical. These financial statements have been prepared in accordance with generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. From inception to 31 March 2006, the Company has 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. The Company is a publicly traded company with a market in its shares that are being traded at prices well above par. This affects its ability to raise funds for future development.

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DIRECTORS' REPORT (Continued)

Management of the Company has indicated they have no intention to demand repayment of the amounts owing from Technical until the Cool Chips technology is being licensed in the marketplace. The Company and Technical are actively working together to negotiate sales or further sublicensing of its technology to various parties, which is expected to generate profitable operations in the future. To the extent additional funds are required, the Company will attempt to raise these funds through future sales of licences, of products and issues of further shares. There can be no assurance that the Company will be successful in its actions. The financial statements do not contain any adjustments that might be necessary if the Company is unable to continue as a going concern.

Dividends

There were no dividends declared during the year.

Directors and their Interests

The directors who served during the year were as stated on page 5.

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

	Shares held at 31 March 2006	Shares held at 31 March 2005
Rodney T. Cox	234,000	234,380
Isaiah W. Cox	22,600	22,600
Wayne S. Marshall	64,303	64,303
Peter Vanderwicken	12,009	12,009
Nechama J. Cox	17,275	17,275
Stuart Harbron	16,200	16,200
Giulio Pontecorvo	6,000	6,000
Robert T. Bauer (resigned 22 July 2005)	1,000	1,000

Share Options

As of 31 March 2006, there were no share options outstanding.

Directors' Responsibilities

The directors are responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss for that year and which comply with the Gibraltar Companies Ordinance 1930 and the Gibraltar Companies (Accounts) Ordinance 1999. In preparing the financial statements, appropriate accounting policies have been used and applied consistently, reasonable and prudent 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.coolchips.gi. Our annual and quarterly reports for the past several years are posted there, as well as full information about the Company and our technologies. The site also has links to quotation systems that report our current share prices.

If you have a question about Cool Chips, please write to us at pr@coolchips.gi.

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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 14 June 2006



Isaiah W. Cox
Director



Rodney T. Cox
Director

COOL CHIPS PUBLIC LIMITED COMPANY

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**COOL CHIPS
PUBLIC LIMITED COMPANY**

Gibraltar Registered No. 57885

Financial Statements

for the year ended 31 March 2006

COOL CHIPS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 57885

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

We have audited the financial statements of Cool Chips plc for the year ended 31 March 2006 set out on pages 12 to 17. These financial statements have been prepared under the historical cost convention and the accounting policies set out on page 14.

This report is made solely to the Company's members as a body, in accordance with the Companies Ordinance 1930. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the report of the Directors, the Company's Directors are responsible for the preparation of financial statements in accordance with applicable law and Gibraltar Accounting Standards (Gibraltar Generally Accepted Accounting Practice).

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

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

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

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland). An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and 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 4.

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AUDITORS' REPORT (Continued)

In view of the significance of these matters we consider they should be drawn to your attention but our opinion is not qualified in these respects.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 March 2006, and of the loss for the year then ended in accordance with Gibraltar Accounting Standards and have been properly prepared in accordance with Gibraltar Companies Ordinance 1930, the Gibraltar Companies (Accounts) Ordinance 1999, and the Gibraltar Companies (Consolidated Accounts) Ordinance 1999.



Moore Stephens
CHARTERED ACCOUNTANTS

Gibraltar
14 June 2006

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Financial Statements and Notes

PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2006

	Notes	2006	2005
		\$	\$
Revenue		--	45,000
Expenditure			
Administrative fees	7	(43,200)	(88,200)
Retained loss for the year		(43,200)	(43,200)
Retained losses brought forward		(385,200)	(342,000)
Retained losses carried forward		\$ (428,400)	\$ (385,200)

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

No statement of recognised gains and losses has been produced as the only recognised gains and losses occurring in the year are those disclosed in the Profit and Loss Account.

The notes on pages 14 to 17 form part of these Financial Statements.

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BALANCE SHEET as at 31 March 2006

	Notes	2006 \$	2005 \$
Investments	2	69,333	69,333
Current Assets			
Debtors	3	8,304,118	8,333,318
Creditors – amounts falling due within one year	4	69,333	69,333
Net current assets		8,234,785	8,263,985
Total Net Assets		\$ 8,304,118	\$ 8,333,318
Capital and Reserves			
Called up Share Capital	5,6	126,649	126,629
Share Premium Account	5,6	8,605,869	8,591,889
Profit and Loss Account	6	(428,400)	(385,200)
Total Shareholders' Funds		\$ 8,304,118	\$ 8,333,318

Signed on behalf of the Board of Directors on 14 June 2006



Isaiah W. Cox
Director



Rodney T. Cox
Director

The notes on pages 14 to 17 form part of these Financial Statements.

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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2006

1. PRINCIPAL ACCOUNTING POLICIES

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

a. Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

b. Reporting currency

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

c. Foreign currency translation

Transactions in foreign currency are recorded at the rate at the date of the transaction. Any monetary assets or liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

d. Consolidation

Consolidated accounts are not presented since the accounts of the company and its subsidiaries are consolidated in the accounts of the ultimate parent company.

e. Going Concern

These financial statements have been prepared under the going concern concept, which assumes that the Company will continue in operational existence for the foreseeable future having adequate funds to meet their obligations as they fall due. Further information is set out in the Directors' Report on pages 6 to 8.

f. Cash Flow Statements

The Company meets the size criteria for a small company set by the Companies Act 1985, and therefore, in accordance with FRS1: Cash Flow Statements, it has not prepared a cash flow statement.

g. Taxation

The Company has been granted exempt status under the Gibraltar Companies (Taxation and Concessions) Ordinance. Providing the Company continues to satisfy the criteria for such status, including the payment of an annual government charge of £450 it will not be subject to Gibraltar Corporation Tax until 2010, the date at which the status of all Gibraltar exempt companies will be subject to new legislation.

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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2006 (Continued)

2. INTERESTS IN GROUP UNDERTAKING

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

	Ownership Interest		Investments	
	2006 \$	2005 \$	2006 \$	2005 \$
Cool Chips Military Sales plc	100.00%	100.00%	\$ 69,333	\$ 69,333

3. DEBTORS

	2006 \$	2005 \$
Loan to parent company	\$ 8,304,118	\$ 8,333,318

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

4. CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006 \$	2005 \$
Amounts due to subsidiary undertakings:		
Cool Chips Military Sales plc	\$ 69,333	\$ 69,333

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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2006 (Continued)

5. CALLED UP SHARE CAPITAL

		2006 \$	2005 \$	
	Number of Shares	Share Capital \$	Share Premium Account \$	Total \$
Authorised share capital 10,000,000 ordinary shares @ £0.01 each		\$ 160,000	\$ 160,000	
		<hr/>	<hr/>	<hr/>
At 31 March 2004	8,159,541	124,912	6,949,899	7,074,811
Shares issued during the year	85,806	1,717	1,641,990	1,643,707
At 31 March 2005	8,245,347	126,629	8,591,889	8,718,518
Shares issued during the year	1,400	20	13,980	14,000
At 31 March 2006	<hr/> 8,246,747	<hr/> \$ 126,649	<hr/> \$ 8,605,869	<hr/> \$ 8,732,518
	<hr/>	<hr/>	<hr/>	<hr/>

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

6. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

	Share Capital \$	Share Premium Account \$	Profit & Loss Account \$	Total \$
At 31 March 2004	124,912	6,949,899	(342,000)	6,732,811
Shares issued during the year	1,717	1,641,990	–	1,643,707
Loss for the year	–	–	(43,200)	(43,200)
At 31 March 2005	126,629	8,591,889	(385,200)	8,333,318
Shares issued during the year	20	13,980	–	14,000
Loss for the year	–	–	(43,200)	(43,200)
At 31 March 2006	<hr/> \$ 126,649	<hr/> \$ 8,605,869	<hr/> \$ (428,400)	<hr/> \$ 8,304,118
	<hr/>	<hr/>	<hr/>	<hr/>

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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2006 (Continued)

7. RELATED PARTY TRANSACTIONS

In addition to related party transactions disclosed elsewhere in these financial statements, during the year ended 31 March 2006, the Company was charged \$ 43,200 (2005 - \$88,200) in fees for administrative services provided by Technical.

8. ULTIMATE PARENT COMPANY

The ultimate parent company is Borealis Exploration Limited, a company incorporated in Gibraltar whose registered office is at Suite 3G, Eurolife Building, 1 Corral Road, Gibraltar.