

Borealis  
Exploration  
Limited

Annual Report

For the Year Ended  
31 March 2000

[www.borealis.com](http://www.borealis.com)

## Management Review of Operations and Financial Statements for Fiscal 2000

14 August 2000

Fellow Shareholders:

### General Overview

Borealis owns and develops industrial technologies, and is working to fundamentally change basic industries. We are developing industrial technologies for more efficient generation of electrical power, more effective electrical motors, and silent, non-polluting cooling and refrigeration systems. We anticipate that some of these technologies will open entirely new fields for scientific exploration and commercial development.

The Chorus™ motor is on the market. We are actively seeking purchase orders for Chorus™ motors for test purposes and we are very interested in selling exclusive worldwide licenses for particular market niches. The Chorus™ is a significantly improved electric motor, which provides considerably more torque and higher efficiencies than existing 3 phase electric drives. While the Chorus™ motor's operating specifications look very similar to permanent magnet (PM) motors, Chorus™ motors offer much higher reliability, at a fraction of the cost of a PM motor. We have built and tested three versions of the Chorus™ motor, with work well underway on a Delta version, an advanced engineering prototype.

In the opinion of our technical staff, the Chorus™ motor technology will change drive technology forever. Borealis is changing a commodity business into a proprietary business where our patented technology is expected to lead to substantial profit margins. The Chorus™ motor is an ideal source of motive power for traction applications, including elevators, hoists, conveyors, locomotives, ships and automobiles. We expect the Chorus™ motor to become the drive of choice for most applications. Because of cost and performance advantages, the Chorus™ motor will help make hybrid-electric cars an economic reality.

Borealis is also developing another new technology, Power Chips™, which produce electricity. These chips are small, lightweight, durable, versatile, silent, nonpolluting, and can operate without any moving parts. They will make it possible to generate electricity anywhere there is a source of heat. Alternatively, the chips can be operated as Cool Chips™ to absorb heat to provide cooling, refrigeration, and climate control. These devices are designed to be more efficient than any competing technology.

Power Chips™ should revolutionize electrical power generation across virtually all applications, just as Cool Chips™ should replace virtually every existing active cooling and thermal management technology. There seems to be a real shortage of usable electric generating capacity worldwide. Power Chip Technology should help alleviate this shortage. We are working on several prototypes of Power Chips™ and Cool Chips™. We are in an intensive build and test phase of this work.

Shareholders in subsidiary companies will soon be receiving the certificates for the private shares sold to date in Chorus Motors plc, Cool Chips plc and Power Chips plc. These companies own the worldwide license from Borealis Technical Limited for their respective technologies. We hope to make these companies full United States SEC reporting companies and hopefully get a public market established for the shares in relatively short order.

Borealis Technical Limited received two very important patents this year regarding Photon Power Limited and its work in Solar Power. We are working very hard to make sure of the scientific underpinnings of our work. When we are fully comfortable with the science and with our ability to mount a successful build effort, we will be actively selling private shares in this company.

With your help, your Company has mounted these serious scientific efforts, along with numerous others less developed, in areas of basic fundamental science where the world's large business

enterprises will not tread and the world's governments will not provide funding. These projects have been funded by you, members of the Borealis Family. Borealis has received no government support or help for our work, which means the Borealis Family of Companies own all of the resulting technology and intellectual property.

For most all these technologies, Borealis has patents and patents pending, representing the extensive intellectual property we have developed in recent years. Issued Borealis patents can be found on our web page, [www.borealis.com](http://www.borealis.com).

As a companion to our research and development work, Roche Bay Mining Company Limited, a subsidiary of Roche Bay Holdings Limited, owns one of the largest viable untapped magnetite deposits in the world. All expiring leases have been renewed after more than 30 years under direct Borealis Exploration Limited ownership. These properties hold tremendous value and we are working to unlock this asset for our shareholders.

Our technology work is managed out of Europe and we are a virtual company based in the European Union. All of the operating companies in the Borealis Family of Companies are now incorporated in Gibraltar. All reporting to the US and Canadian securities authorities is now done in US GAAP (Generally Accepted Accounting Principles), with notes of comparisons to Canadian GAAP. We are working to have all our public companies become fully reporting to the SEC in the United States.

### Some Borealis Properties and Operations

- A. Chorus Motors plc is changing motor technology. Our first motor patent has issued and many more can be expected to issue in the future.
- B. Cool Chips plc is working to develop cooling technology, and builds are underway. We are comfortable with our technical grasp of the technology, and our excellent patent position. Patents are issuing on a fairly regular basis.
- C. Power Chips plc is working to develop power generation technology. Builds are underway, and our issued and pending patents are strong.
- D. Photon Power Limited has work proceeding toward a go/no go decision on building these solar power devices. The issued patents on this technology are comprehensive.
- E. The Roche Bay Magnetite Deposits contain 4.3 billion tonnes of proven open pit magnetite ( $\text{Fe}_3\text{O}_4$ ) reserves, as defined under Ontario Securities Commission rules. According to our consultants, possible revenue from the sale of steel and the production and sale of the precious metals and other by products could be very large. The Canadian Government has renewed the leases that were scheduled to expire in 1998 and in 2000 for additional 21-year renewable terms. In 2001, we expect Roche Bay Mining Company Limited to run a PGE (Platinum Gold Exploration) program.
- F. Our consultants feel the Borealis One-Step Green Steel Technology is economically viable with the Roche Bay ore. We have failed to attract outside interest for this patented technology. We plan to use internal funding, when available, to begin serious work on a prototype one-step steel plant.
- G. Freuchen Bay Polymetallic Project, according to our technical staff, is a classic intracratonic rift, polymetallic structure. We hold this property in good standing until 2002, because of work carried out by Borealis with Kennecott Copper/RTZ. We must survey this property in 2001 to take it to long term lease in 2002. Concurrently, we plan some Winkie drilling to test the structure below the leached surface exposure.

## Virtual Company

Borealis is a virtual company, and the Internet plays a dominant role in our day-to-day work. It is the means by which we manage our business, discuss new ideas, and promote ourselves to the outside world. Modern communications technology has allowed us to circumvent the traditional problems associated with working on 4 continents and 18 time zones. Because of this, we have access to facilities and personnel about which a company of our size would normally only be able to dream.

Borealis has consultants around the world, all of whom work over e-mail. Management and technical discussions take place over the net. Borealis runs a continual Board of Directors meeting 24 X 365, with an annual traffic of over 2,500 messages to each Board Member. Borealis has intense direct participatory management, and many consultants to the Company sit in on the Board meetings and provide input even while they are not voting members.

Our Web Site, [www.borealis.com](http://www.borealis.com), makes information about our technology available, and informs shareholders, other companies, and the general public about Borealis. The Web site is always being updated; and some of our major technologies, like the Chorus™ Technology, are described on the site in detail. As the US Patent and Trademark Office issues more patents to Borealis, a more complete picture of our extensive research efforts will become publicly available on the Web site. Additionally, Borealis sends out a weekly update (as well as daily share prices) to shareholders and to all the major news organizations and other interested parties, detailing our ongoing work and progress (e-mail [pr@borealis.com](mailto:pr@borealis.com) if you would like to receive these updates). Through this wide distribution, we are able to keep people better informed than through traditional channels. Your management uses this technology to maintain a close relationship with our shareholders.

The Borealis Annual Report, including financials, proxy solicitation, information circulars, and the notice of annual meeting will all be available at [www.borealis.com](http://www.borealis.com) by 22 August 2000. We are, as we did last year, accepting electronic proxies, after 22 August 2000, for the 2000 Annual Meeting. Proxies can be voted either in hard copy, from a link on our web site, or by e-mail to [proxy@borealis.com](mailto:proxy@borealis.com).

It should be noted that, while the annual meeting for 2000 will be physically in Gibraltar, barring unforeseen technical problems, it will also occur virtually, as it did last year, over the Net.

This virtual company structure is great to work with and allows us to have many people directly involved in the decision-making processes at Borealis. This approach may not be conventional, but the results to date have validated the business structure.

## Management Discussion of Audited Financial Results for Fiscal 2000

Borealis remains short of cash. The expenses involved in maintaining our far-reaching and geographically diverse activities are substantial for a company our size.

This report is in US GAAP, with reconciliation to Canadian GAAP. US GAAP and Canadian GAAP have different reporting requirements, and in some areas are contradictory.

Our operating loss last year under US GAAP was \$3,304,133 up from \$1,995,738 in 1999. Our basic loss per share was 66 cents compared to 40 cents per share in 1999.

Our operating profit, last year under Canadian GAAP (please see Note 17(c) to the Audited Financial Statements) would have been 29 cents a share as the dilution of subsidiary companies as a result of the subsidiaries issuing stock to other parties would be shown as a gain on the income statement.

We expect our activities to continue to step up. Please note that with the above loss and with \$156,087 in net costs capitalized, our negative net worth decreased from \$5,717,797 to \$4,099,797. To put this another way, our US GAAP loss for the year was \$3,304,133, but the capital employed in the business in the form of share capital and contributed surplus grew from \$28,902,562 in 1999 to \$33,668,344.

This is a very good sign for us, as it means that we are getting substantially increased support from the members of the Borealis Family as we step up activities.

Under Canadian GAAP (Note 17(b) to the Audited Financial Statements), your company would have a Positive Net Worth of \$522,203 with the capitalization of \$4,622,000 in exploration costs for mining properties.

Under US GAAP, our cumulative deficit at year end was \$38,490,792 as compared to \$35,186,659 at year end 1999. We can reasonably expect a similar loss for 2001, unless expected licensing and royalty revenue materializes.

Our current assets-to-liabilities ratio is extremely low, at \$9,956 in current assets to \$1,665,853 in current liabilities, giving a ratio of 0.00598 compared to \$20,969 in current assets to \$1,438,975 in current liabilities for a ratio of 0.01457 in 1999. We continue to have among the worst current asset-to-liability ratios of any viable operating company in the world.

Current liabilities have increased to \$1,665,858 from \$1,438,975 in 1999. Our total current liabilities, given the fact that we spent \$3,460,220 last year, including capitalized costs, shows that our burn rate is under control.

This year minority interests are recorded on the books for \$822,874 which represents the interest of minority shareholders in the net assets of our subsidiaries. We expect to continue to raise substantial sums through the sales of shares in the subsidiary companies. As soon as we have significant revenues, share sales will be suspended. The number of shares in the subsidiary companies that are scheduled to be public companies are effectively limited to 10,000,000, with Borealis indirectly owning at least 5,200,000 shares in each company. It should be remembered that Borealis has effectively limited the number of its own outstanding shares to 5,000,000.

As noted in the prior year's annual report, the royalty payable of \$1,874,675 USD is shown as a liability. As per the Notes to our financial statements, this amount is due upon sale of product from the Company's mineral properties, or sale of the properties themselves. The repayment of the balance is solely from proceeds on the sale of the Company's mineral properties or products thereof. Roche Bay Mining Company Limited has now assumed this contingent liability.

The mineral properties are now carried at zero on the consolidated books of the company under US GAAP.

All of our corporate share investments were previously written down to zero and these investments no longer appear on our balance sheet.

Borealis indirectly owns 5,200,000 shares each of Chorus Motors plc, Power Chips plc and Cool Chips plc. These companies are currently finishing up the private sale of a few of their shares at \$10 per share. The price will soon be increased to \$18 USD, and then to a minimum of \$50 USD. Future prices and amounts of private share placements in these companies will be determined by the market and our need for further outside funding. Borealis also indirectly owns 5,200,000 shares of Photon Power Limited, and 5,200,000 shares of Roche Bay Mining Company Limited, both of which still have significant private shares for sale at \$10 per share. As conditions warrant, we can expect these companies to become public companies and we hope that a market will develop for all of our public subsidiary companies' shares. It should be noted that, as each of these subsidiary companies is in a radically different business, your management felt the only rational operating model was to run the businesses as separate entities.

We continue with our desire, as reported last year, to reactivate Faraway Gold Mines Limited. We hope to be able to issue shares, in a new company being formed as Faraway Mines plc, to existing Faraway shareholders, in a share for share exchange, at our sole discretion.

All of Borealis' extensive Intellectual Property activities are also being carried on the books at a nominal value. We are only capitalizing patent office filing fees which amounted to a net total of

\$219,679 at year end 2000 compared to a net total of \$63,592 in 1999. These capitalized fees will increase as the patent base grows.

We are optimistic that our extensive processing equipment in Nunavut will finally arrive in Rankin Inlet in early 2001. It is our intent to sell this equipment there at that time.

As noted above, our financial statements possibly do not reflect the intrinsic value of our company assets. Borealis has always followed conservative accounting policies. Our liabilities are fully reported while most all our assets under US GAAP are valued at zero or at a nominal amount on our Financial Statements.

We are very optimistic about the future of Borealis and its prospects. We expect to dominate basic industrial research worldwide for decades to come. With the substantive laboratory results we have obtained to date, the funding of your family of Companies has been getting easier.

#### **Borealis Legal Matters**

The Federal Government of Canada fined Borealis \$150,000 CDN for allowing a teaspoon of oil to be spilled in a northern lake. We paid off the fine in 1998, and are now paying off the interest. Borealis will continue to pursue the Federal Government of Canada, the Canadian Federal Government officials and the private parties and companies who set this chain of events into motion, and who ransacked our camp, mine and processing facilities at Fat Lake. Government Officials on Environmental Inspections should not cause environmental damage, nor should they engage in looting. These matters are scheduled to be heard at some future date, as yet undecided, in the Canadian Court System.

We have a pending case against Eskimo Point Lumber Company for the theft of our company assets at Fat Lake. This case is ready to go to trial and we hope this will happen in fiscal 2001.

We have another legal action pending, in which we are the plaintiffs, against the Sheriff and Government of Manitoba. We expect to win this case in the end, and to collect serious damages. Settlement discussions are currently on hold with the many insurance companies who insured Manitoba, as we lost the first hearing with Master Ring. We are eager to get this matter into Court at the next Judicial level. We are attempting to get restitution from the Government of Manitoba, which has done a marvelous job of stalling this case for over a decade.

Borealis and its CEO are defendants in a case relating to 'flow-through exploration expenditures' from the 1980's. We made a settlement offer in court mandated arbitration last year. We have heard nothing further on this case though we remain willing and able to settle this case on the terms offered.

#### **Projections for Fiscal 2001**

Fiscal 2001 should yield improved operating results. The Chorus™ Motor has several purchase orders pending for development motors for specific customers. This is a very short step to market. Additional builds of the Chorus™ Motor have been basically completed, and we are beginning a public round of testing. We hope Chorus Motors plc will have both positive cash flow and earnings in fiscal 2001.

We are very close to having working prototypes of Cool Chips™ and Power Chips™ for demonstration. The production of these devices should be followed quickly by licensing agreements. With working devices, both Cool Chips plc and Power Chips plc should have positive cash flow and earnings in fiscal 2001.

Our basic scientific research is of immense significance to many industries though none of our other projects is expected to be cash flow positive in Fiscal 2001. We are working to turn the reality of our superb science into positive cash flow and earnings. Our main goal now is to develop our technologies into marketable products, where

they can generate revenue, cash flow and earnings. While we still have not succeeded in our goal of generating revenue, our scientific advances are so substantive that we are very close to making sales of product and licenses. We feel confident that the Borealis Family will continue to fund our activities, as needed, as we transform the industrial world with the Borealis Industrial Revolution.

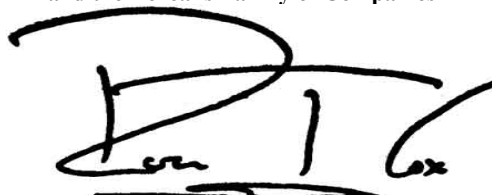
Please mail in your proxy, or vote at proxy@borealis.com, or on the web at [www.borealis.com](http://www.borealis.com).

These are exciting times as your Company changes the basic technology that has been driving the industrial world for the past century. Everyplace you look, it is an inescapable reality that the world needs the technologies your Company has developed and owns.

We want to thank you, the members of the Borealis Family, for continuing to fund your Company and the basic industrial research that is the basis of the Borealis Industrial Revolution. Your support has been wonderful. We are working to ensure that your financial rewards for this support will be abundant.

With warmest personal regards,

#### **Borealis Exploration Limited and the Borealis Family of Companies**



**Rodney T. Cox,**  
CEO/Chairman of the Board



**Isaiah W. Cox,**  
President/Chief Operating Officer

#### **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 may 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.

**Borealis Exploration Limited**  
**Consolidated Financial Statements**  
For the years ended March 31, 2000 and 1999

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**To the Shareholders of  
Borealis Exploration Limited**

We have audited the consolidated balance sheets of Borealis Exploration Limited as at March 31, 2000 and 1999 and the consolidated statements of changes in shareholders' deficiency, operations, and cash flows for the years then ended. We have also audited the consolidated statements of changes in shareholders' deficiency, operations and cash flows for the period from inception (August 26, 1968) through March 31, 2000, except that we did not audit these statements for the period from inception (August 26, 1968) through March 31, 1997; those statements were audited by other auditors, whose report dated August 7, 1997 expressed an unqualified opinion on those statements. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the consolidated statements of changes in shareholders' deficiency, operations and cash flows for the period from inception (August 26, 1968) through March 31, 1997.

We conducted our audits in accordance with generally accepted auditing standards in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, based on our audits and reports of other auditors, these consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company, as at March 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended and for the period from inception (August 26, 1968) through March 31, 2000, in accordance with generally accepted accounting principles as applied in the United States.

*BDO Dewaromy LLP*

**Chartered Accountants**

Calgary, Alberta  
August 9, 2000

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**Comments by Auditors for US Readers on Canada-US Reporting Differences**

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In the United States, reporting standards for auditors would require the addition of an explanatory paragraph following the opinion paragraph when the financial statements are affected by a significant uncertainty such as referred to in Note 1 regarding the Corporation's ability to continue as a going concern. Our report to the shareholders dated August 9, 2000 is expressed in accordance with Canadian reporting standards which do not permit a reference to such uncertainties in the auditors' report when the uncertainties are adequately disclosed in the financial statements.

*BDO Dewaromy LLP*

Chartered Accountants

Calgary, Alberta  
August 9, 2000

**Borealis Exploration Limited**  
**Consolidated Balance Sheets**  
(in US Dollars)

**As at March 31** **2000** **1999**

**Assets**

**Current**

Cash \$ **9,956** \$ 20,969

Mining and other equipment (Note 4) **34,070** 38,305

Patents (Note 5) **219,679** 63,592

**\$ 263,705** \$ 122,866

**Liabilities and Shareholders' Deficiency**

**Current**

Accounts payable (Note 6) \$ **1,632,273** \$ 1,421,443

Due to certain shareholders **33,580** 17,532

**1,665,853** 1,438,975

Deposits on share issue (Note 7) - 2,527,013

Royalty payable (Note 8) **1,874,675** 1,874,675

**3,540,528** 5,840,663

Minority interest (Note 7) **822,874** -

Share capital (Note 9) **24,290,979** 24,290,979

Due to directors (Note 11) **557,835** 398,295

Contributed surplus **9,377,365** 4,611,583

Cumulative translation adjustment **164,816** 168,005

Deficit **(38,490,792)** (35,186,659)

**(4,099,797)** (5,717,797)

**\$ 263,705** \$ 122,866

Approved on behalf of the Board:



Director

Rodney T. Cox



Director

Isaiah W. Cox

The accompanying notes are an integral part of these financial statements.

**Borealis Exploration Limited**  
**Consolidated Statements of Changes in Shareholders' Deficiency**  
**(in US Dollars)**

	Share Capital		Due to Directors	Contributed Surplus	Cumulative Translation Adjustment	Deficit Accumulated During the Development Stage	Total Shareholders Deficiency
	Number of Shares	Amount					
Shares issued on the date of inception of August 26, 1968 for mining permits and claims	1,500,000	\$ 46,059	\$ -	\$ -	\$ -	\$ -	\$ 46,059
Shares issued under private placement	752,212	3,058,537	-	-	-	-	3,058,537
Shares issued under flow-through agreement	719,212	13,872,477	-	-	-	-	13,872,477
Shares exercised under option	309,996	620,629	-	-	-	-	620,629
Shares issued to settle accounts and loans payable	1,233,871	2,416,091	-	-	-	-	2,416,091
Shares issued to settle debenture	220,524	2,148,728	-	-	-	-	2,148,728
Shares issued in exchange for services	777,223	4,438,170	-	-	-	-	4,438,170
Shares issued for mining claims	40,641	620,000	-	-	-	-	620,000
Shares issued for investment in shares	57,500	1,567,986	-	-	-	-	1,567,986
Share issue costs	-	(369,039)	-	-	-	-	(369,039)
Shares cancelled	(1,596,521)	(6,210,966)	-	-	-	-	(6,210,966)
Shares held by the Company	(17,395)	(38,769)	-	-	-	-	(38,769)
Adjustments from repurchase or disposition of Company shares	-	-	-	4,611,583	-	-	4,611,583
Foreign exchange adjustments for the period	-	-	-	-	9,151	-	9,151
Dividends in kind paid	-	-	-	-	-	(1,220,370)	(1,220,370)
Net losses for the period	-	-	-	-	-	(30,517,781)	(30,517,781)
<b>Balance, March 31, 1997</b>	<b>3,997,258</b>	<b>\$ 22,169,903</b>	<b>\$ -</b>	<b>\$ 4,611,583</b>	<b>\$ 9,151</b>	<b>\$(31,738,151)</b>	<b>\$(4,947,514)</b>

The accompanying notes are an integral part of these financial statements.

**Borealis Exploration Limited**  
**Consolidated Statements of Changes in Shareholders' Deficiency**  
**(Continued)**  
**(in US Dollars)**

	Share Capital		Due to Directors	Contributed Surplus	Cumulative Translation Adjustment	Deficit Accumulated During the Development Stage	Total Shareholders' Deficiency
	Number of Shares	Amount					
<b>Balance, March 31, 1997</b>	3,997,258	\$ 22,169,903	\$ -	\$ 4,611,583	\$ 9,151	\$(31,738,151)	\$(4,947,514)
Shares issued to settle accounts payable	855,226	1,852,693	-	-	-	-	1,852,693
Foreign exchange adjustment for the year	-	-	-	-	14,930	-	14,930
Net loss for the year	-	-	-	-	-	(1,455,250)	(1,455,250)
<b>Balance, March 31, 1998</b>	4,852,484	24,022,596	-	4,611,583	24,081	(33,193,401)	(4,535,141)
Shares exercised under option	130,121	268,383	-	-	-	-	268,383
Proceeds from shares sold that were loaned from Directors	-	-	398,295	-	-	-	398,295
Foreign exchange adjustment for the year	-	-	-	-	143,924	-	143,924
Net loss for the year	-	-	-	-	-	(1,993,258)	(1,993,258)
<b>Balance, March 31, 1999</b>	4,982,605	24,290,979	398,295	4,611,583	168,005	(35,186,659)	(5,717,797)
Proceeds from shares sold that were loaned from Directors	-	-	159,540	-	-	-	159,540
Foreign exchange adjustment for the year	-	-	-	-	(3,189)	-	(3,189)
Adjustment for dilution of subsidiary companies after share issues	-	-	-	4,765,782	-	-	4,765,782
Net loss for the year	-	-	-	-	-	(3,304,133)	(3,304,133)
<b>Balance, March 31, 2000</b>	4,982,605	\$ 24,290,979	\$ 557,835	\$ 9,377,365	\$ 164,816	\$(38,490,792)	\$ (4,099,797)

The accompanying notes are an integral part of these financial statements.

**Borealis Exploration Limited**  
**Consolidated Statements of Operations**  
(in US Dollars)

	Cumulative amounts from date of inception (August 26, 1968) through March 31, 2000	For the year ended March 31, 2000	For the year ended March 31, 1999
<b>Expenses</b>			
Salaries and fees for services	\$ 12,771,171	\$ 2,605,871	\$ 1,553,701
Office, travel and miscellaneous	4,089,218	297,418	235,977
Legal and accounting	2,142,631	330,620	174,770
Amortization	925,090	18,532	13,755
Interest	2,839,151	37,955	6,604
Mineral property expenditures	17,327,150	13,737	10,931
	<u>40,094,411</u>	<u>3,304,133</u>	<u>1,995,738</u>
<b>Other items</b>			
Contract revenue and recoveries	333,906	-	-
Gain on disposal of capital assets	445,832	-	-
Gain on disposal of investments	2,440,375	-	-
Gain on settlement of debts	328,620	-	2,480
Interest revenue	181,353	-	-
Writedown of investments	(906,097)	-	-
	<u>2,823,989</u>	<u>-</u>	<u>2,480</u>
<b>Net loss for the period</b>	<b>\$ (37,270,422)</b>	<b>\$ (3,304,133)</b>	<b>\$ (1,993,258)</b>
<b>Other comprehensive income</b>			
Realized and unrealized foreign exchange gains(losses)	164,816	(3,189)	143,934
<b>Comprehensive income (loss) for the period</b>	<b>\$ (37,105,606)</b>	<b>\$ (3,307,322)</b>	<b>\$ (1,849,324)</b>

The accompanying notes are an integral part of these financial statements.

**Borealis Exploration Limited**  
**Consolidated Statements of Cash Flows**  
**(in US Dollars)**

	Cumulative amounts from date of inception (August 26, 1968) through March 31, 2000	For the year ended March 31, 2000	For the year ended March 31, 1999
Cash flows from operating activities			
Net loss for the period	\$ (37,270,422)	\$ (3,304,133)	\$ (1,993,258)
Adjustment for:			
Amortization	925,090	18,532	13,755
Gain on disposal of capital assets	(445,832)	-	-
Gain on disposal of investments	(2,440,375)	-	-
Write-down of investments	906,097	-	-
Shares issued in exchange for mining claims and permits	666,059	-	-
Shares issued in exchange for services provided	4,438,170	-	-
Compensation for services provided by deposits(Note 13)	1,493,781	1,403,031	90,750
	<u>(31,727,432)</u>	<u>(1,882,570)</u>	<u>(1,888,753)</u>
Changes in non-cash working capital balances			
Accounts payable	7,476,268	1,241,591	1,059,390
Foreign exchange on working capital items	164,816	(3,189)	143,934
	<u>(24,086,348)</u>	<u>(644,168)</u>	<u>(685,429)</u>
Cash flows from financing activities			
Issue of share capital of Company for cash	17,820,026	-	283,383
Share issue costs	(369,039)	-	-
Deposits on issue of shares by subsidiary received in cash (Note 13)	1,814,839	627,851	151,950
Financing costs applied against deposits	-	-	(103,512)
Advances (to) from shareholders	738,405	16,048	918
Debenture payable	2,148,728	-	-
Loans payable	-	-	(17,205)
Royalty payable	1,874,675	-	-
Net cost of repurchase of Company shares	(1,638,152)	-	-
Proceeds raised from shares advanced by directors	557,935	159,640	398,295
	<u>22,947,417</u>	<u>803,539</u>	<u>713,829</u>
<b>Cash flows from investing activities</b>			
Mining and other equipment and patent additions	(1,179,087)	(170,384)	(13,019)
Proceeds on sale of capital assets	446,080	-	-
Purchase of investments	(265,673)	-	-
Proceeds from the sale of investments	2,147,567	-	-
	<u>1,148,887</u>	<u>(170,384)</u>	<u>(13,019)</u>
<b>Increase (decrease) in cash</b>	<b>9,956</b>	<b>(11,013)</b>	<b>15,381</b>
Cash, beginning of period	-	20,969	5,588
<b>Cash, end of period</b>	<b>\$ 9,956</b>	<b>\$ 9,956</b>	<b>\$ 20,969</b>

The accompanying notes are an integral part of these financial statements.

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**Borealis Exploration Limited**  
**Notes to Consolidated Financial Statements**

**March 31, 2000 and 1999**

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**1. Development Stage Operations and Going Concern**

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The Company has been in the development stage since its inception.

The Company was primarily a junior mining company in prior years. While the Company intends to retain its remaining properties for future development, it has also added to its operations the business of conducting basic industrial research for which it has patents issued or pending. In 2000 and 1999 substantially all of the Company's expenses relate to its research activities.

These consolidated 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. As of March 31, 2000, the Company had a deficit of \$38,490,792 (1999 - \$35,186,659) and a working capital deficiency of \$1,402,148 (1999 - \$1,418,006). These conditions raise substantial doubt about the ability of the Company to continue as a going concern. The operations of the Company in the current year were primarily funded by increased accounts payable and further funds raised by subsidiaries for the issue of shares. The continued operation of the Company is dependent on its ability to receive continued financial support from shareholders and creditors, complete sufficient equity financing or generate profitable operations in the future. However, there can be no assurance that the Company's efforts to generate profitable operations will be successful. The financial statements do not contain any adjustments that might be necessary if the Company is unable to continue as a going concern.

On October 19, 1998, the Company successfully completed a continuance out of Canada into Gibraltar. Accordingly the Company received a Certificate of Discontinuance from Industry Canada and a Certificate of Redomiciliation of a Company from the Register of Companies in Gibraltar. This move was consistent with the fact that most of the Company's technology research was already being managed in Europe.

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**2. Significant Accounting Policies**

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The Company's financial statements are prepared in accordance with accepted accounting principles in the United States ("US GAAP") in US dollars. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgement with reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries in which the Company has ownership interests, as follows:

	2000	1999
Borealis Exploration Incorporated	100%	100%
Borealis Gold Limited	100%	100%
Borealis Technical Limited	99%	99%
Chorus Motors Public Limited Company <sup>(1)</sup>	91.9%	100%
Cool Chips Public Limited Company <sup>(2)</sup>	72.5%	100%
Photon Power Limited <sup>(3)</sup>	99.9%	100%
Power Chips Limited Company <sup>(4)</sup>	72.7%	100%
Roche Bay Mining Company Limited	99.6%	100%

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**Borealis Exploration Limited**  
**Notes to Consolidated Financial Statements**

**March 31, 2000 and 1999**

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**2. Significant Accounting Policies - Continued**

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- (1) This company changed its name from Borealis Motor Manufacturing Limited to Chorus Motors Limited on June 1, 2000, and further changed its name as noted upon re-registration in Gibraltar as a public limited company on July 27, 2000. This company has issued more shares after year-end to July 31, 2000, further reducing the Company's interest to 91.4%.
- (2) This company changed its name from Borealis Cool Manufacturing Limited to Cool Chips Limited on June 1, 2000, and further changed its name as noted upon re-registration in Gibraltar as a public limited company on July 27, 2000. This company has issued a minimal number of further shares after year-end to July 31, 2000, which has made no significant change in the Company's interest.
- (3) This company has issued a minimal number of further shares after year-end to July 31, 2000, which has made no significant change in the Company's interest.
- (4) This company changed its name from Borealis Power Manufacturing Limited to Power Chips Limited on June 1, 2000, and further changed its name as noted upon re-registration in Gibraltar as a public limited company on July 27, 2000. This company has issued a minimal number of further shares after year-end to July 31, 2000, which has made no significant change in the Company's interest.
- (5) This company has issued a minimal number of further shares after year-end to July 31, 2000, which has made no significant change in the Company's interest.

All significant intercompany transactions have been eliminated upon consolidation.

(b) Reporting currency

The Company's financial statements are presented in US dollars, which is the functional currency for consolidated operations. Any amounts designated in Canadian dollars have been clearly identified as such (CDN\$).

(c) Mineral properties

The Company is in the exploration stage with respect to its mineral properties. All property acquisition, general prospecting, evaluation, exploration and expenditures for the development and definition of mineralization are expensed as incurred until proved and probable reserves established are confirmed with independent engineers and financing is available to economically produce these reserves. Once proved and probable reserves of a property are confirmed by independent engineers and financing is committed, the Company will thereafter capitalize the related costs of the property.

In accordance with FAS 121, management is required to review the net carrying value of each exploration and development project on a periodic basis. Management would assess the future recoverability of capitalized costs, based on estimated future cash flows, using estimated prices and operating, capital and reclamation costs for estimated contained mineralization expected to be classified as proven and probable reserves upon completion of a feasibility or engineering study. Reductions in carrying value of each property would be recorded to the extent that the Company's carrying value in each property exceeds its estimate of future net cash flows.

As all acquisition, general prospecting, evaluation, exploration and related costs have been expensed to date, no evaluation is currently required for the properties as no amount has been capitalized to the balance sheet at March 31, 2000.

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**Borealis Exploration Limited**  
**Notes to Consolidated Financial Statements**

**March 31, 2000 and 1999**

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**2. Significant Accounting Policies - Continued**

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(d) Amortization

Capital assets are amortized using the declining balance method at the following rates:

Mining and geological equipment	30%
Other equipment	20%

Patents are amortized on the straight-line method at a rate of 4% per year. The carrying value of patents is reviewed annually by the Company. If, as a result of such evaluation, it is determined that the value has been permanently impaired, a write-down to fair market value will be charged against retained earnings.

(e) Foreign currency translation

At the transaction date, each asset, liability, revenue or expense is translated into US dollars by using the then prevailing exchange rate. At the year end, all assets and liabilities are translated into US dollars by using the exchange rate in effect at that date. Adjustments resulting from the translation of financial statements into US dollars are included in the cumulative translation adjustment component of shareholders' equity.

(f) Research and development costs

The Company is incurring costs related to research and development of basic industrial technology. These costs are expensed as incurred.

(g) Financial instruments

The Company carries various financial instruments. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

(h) Loss per share

Statement of Financial Accounting Standards ("SFAS") No. 128 requires dual presentation of basic EPS and diluted EPS on the face of all income statements issued after December 15, 1997 for all entities with complex capital structures. Basic EPS is computed as net income divided by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock options and warrants and other convertible securities. As the Company's stock options and warrants are antidilutive for all periods presented, only basic EPS is presented.

(i) Income taxes

Income taxes are provided based on the liability method of accounting pursuant to SFAS No. 109, "Accounting for Income Taxes." Under this approach, deferred income taxes are recorded to reflect the tax consequences on future years of differences between the tax basis of assets and liabilities and their financial reporting amount at each year end. A valuation allowance is recorded against deferred tax assets if management does not believe the Company has met the "more likely than not" standard imposed by SFAS No. 109 to allow recognition of such an asset.

(j) Stock based compensation

The Company accounts for its stock based compensation plans for employees using the intrinsic value method as described in Accounting Principles Board Opinion ("APB") No. 25 "Stock Based Compensation" as permitted by SFAS No. 123 "Accounting for Stock-Based Compensation." As such, compensation expense is recorded if on the measurement date, which is generally the date of grant, the current fair value of the underlying security exceeds the exercise price.

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**Borealis Exploration Limited**  
**Notes to Consolidated Financial Statements**

**March 31, 2000 and 1999**

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**2. Significant Accounting Policies - Continued**

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(j) Stock based compensation (Continued)

The equity instruments issued to non-employees are accounted for at fair value. The fair value of the equity instrument is determined using either the fair value of the underlying stock or the Black-Scholes option pricing model. In the prior years, subsidiaries had granted stock options to certain non-employees of the Company, however, no compensation expense has been recorded since there has been no trading market for these shares.

(k) Recently issued accounting standards

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 requires companies to recognize all derivative contracts as either assets or liabilities in the balance sheet and to measure them at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge, the objective of which is to match the timing of gain or loss recognition on the hedging derivative with the recognition of (i) the changes in the fair value of the hedged asset or liability that are attributable to the hedge risk or (ii) the earnings effect of the hedged forecasted transaction. For a derivative not designated as a hedging instrument, the gain or loss is recognized as income in the period of change. SFAS No. 133 as amended by SFAS No. 137 and 138 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. Based on its current and planned future activities relative to derivative instruments, the Company believes that the adoption of SFAS No. 133 will not have a significant effect on its consolidated financial statements.

In October 1998 FASB issued SFAS No. 134 and subsequently issued SFAS No. 135 in February 1999, and SFAS No. 136 in June 1999. These are statements issued for enterprises in industries other than those applicable to the industries in which the Company operates in.

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**3. Mineral Properties**

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As per Note 2(c), all mineral property expenditures incurred to date have been expensed since proven and probable reserves have not been conformed with independent engineers and the fact that there is no financing available to develop these reserves.

Roche Bay Magnetite Project

In 1965 the mineral rights were acquired in benefit for the Company, which became Borealis Exploration Limited in 1968, by permit and have been converted to a 100% working interest in various mineral leases and claims located near Roche Bay. These 21 year leases require annual lease payments of CDN\$10,916 per year for those leases expiring in 2019 and CDN\$11,030 per year for those leases expiring in 2021. All leases are expected to be renewed. The leases and claims are located in the Baffin Mining District of Nunavut. In 1998 these mineral rights were transferred to the Company's wholly owned subsidiary, Roche Bay Mining Company Limited.

By agreement dated March 1, 1979, the Company granted a royalty interest to a corporation based on 5% of the crown royalty interest on 10,973 acres of mining leases currently held by the Company. On March 6, 1979, the Company granted royalties based on 18.75% of the crown royalty.

Freuchen Bay Property

In 1989, the Company acquired permits in the Freuchen Bay Area of the Keewatin Mining District of Nunavut. Claims were staked on these permits in 1992. The Company retains a 100% interest in the FB 1 through FB 6 claims. These claims expire in 2002 if not taken to lease and require no annual payments.

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**Borealis Exploration Limited**  
**Notes to Consolidated Financial Statements**

**March 31, 2000 and 1999**

Freuchen Bay Property (Continued)

On July 24, 1995, the Attorney General of Canada filed a Notice of Seizure of Goods relating to these mineral properties due to the Company's failure to pay \$150,000 CDN in fines and penalties of \$25,000 CDN related to the Company's failure to clear up the Fat Lake mine site. Approximately \$152,000 CDN (1999 - \$152,000 CDN) of the fine and penalties has been paid to date, and the remaining fine of \$23,000 CDN and an estimate of the clean up cost of \$ 15,000 CDN (1999 - \$30,000 CDN) have been recorded as liabilities in these financial statements. The Company has made arrangements to complete payment of the fine and ensure the site is cleaned up. When this has been completed, it is anticipated that the Seizure Notice will be lifted.

**4. Mining and Other Equipment**

	2000		1999	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Mining and geological equipment	\$ 406,071	\$ 402,835	\$ 406,071	\$ 401,448
Camp equipment	217,722	202,395	217,722	198,563
Office equipment	49,179	34,957	44,317	31,402
Drilling equipment	32,015	30,730	32,015	30,407
	<b>\$ 704,987</b>	<b>\$ 670,917</b>	<b>\$ 700,125</b>	<b>\$ 661,820</b>
Net Book Value	<b>\$34,070</b>		<b>\$38,305</b>	

**5. Patents**

	2000		1999	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Patents	\$ 235,909	\$ 16,230	\$ 70,386	\$ 6,794
Net Book Value	<b>\$ 219,679</b>		<b>\$ 63,592</b>	

**6. Accounts Payable**

At March 31, 2000, 10,200 (1999 - 10,200) shares related to outstanding accounts payable of \$22,950 CDN (1999 - \$22,950 CDN) have not been accepted by creditors. These shares were issued and accounted for as a settlement of these payables. No further action has been initiated by these creditors in the current year.

**Borealis Exploration Limited**  
**Notes to Consolidated Financial Statements**

**March 31, 2000 and 1999**

**7. Deposits on Share Issue and Minority Interest**

From 1997 to March 31, 2000, the Company's subsidiaries have received deposits for the issue of shares by wholly-owned subsidiaries, Chorus Motors Public Limited Company ("Chorus"), Cool Chips Public Limited Company ("Cool"), Photon Power Limited ("Photon"), Power Chips Public Limited Company ("Power"), and Roche Bay Mining Company Limited ("Roche") (Note 2(a)).

The deposits outstanding at March 31, 1999 had represented a reduction of Cool and Power holdings by approximately 28%. In 1999, the Company received additional deposits for the issue of shares of Chorus, another wholly-owned subsidiary which represented a reduction of the Company's holdings by approximately 4% as at March 31, 1999. These shares had not been issued. These deposits were reflected as a liability as the Company was obligated to return these funds upon demand if a demand was made prior to issue of shares by the subsidiaries.

In 2000, further deposits were received for Chorus, Cool, Photon, Power, and Roche. Effective March 31, 2000, shares in all of these companies were issued in exchange for funds already on deposit and the company's interest in the subsidiaries reduced as detailed in Note 2(a). Therefore, a minority interest of \$822,874 in the subsidiaries is presented on the balance sheet effective March 31, 2000 as well as an addition to contributed surplus of \$4,765,782 for the effect of dilution of the Company's interest in the subsidiaries.

**8. Royalty Payable**

In 1993, the Company renegotiated its loan with Mr. G. Gillet, which had been assigned to Boston Safe Deposit & Trust Company ("Boston Safe"). Under the terms of the agreement with Boston Safe, the loan was converted into 10,000 common shares of Borealis Exploration Limited and a \$1,874,675 USD royalty. The royalty is to be paid from 25% of the net proceeds from the lease, sale or other disposition, or production on or from its mineral properties. As security for payment of the royalty, the Company gave an assignment of all receivables derived from its mineral properties. To date, US\$2,625 has been paid to Boston Safe. In 1995, Boston Safe assigned its interest to its nominee, Mitlock Limited Partnership.

**9. Share Capital**

(a) Authorized  
5,000,000 common shares with a par value of \$0.01 US per share

(b) Issued

	2000		1999	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of year	5,000,000	\$ 24,329,748	4,869,879	\$ 24,061,365
Issued during the year:				
Shares exercised under option	-	-	130,121	268,383
	5,000,000	24,329,748	5,000,000	24,329,748
Less shares held by the Company	(17,395)	(38,769)	(17,395)	(38,769)
	4,982,605	\$ 24,290,979	4,982,605	\$ 24,290,979

**9. Share Capital - Continued**

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**Borealis Exploration Limited**  
**Notes to Consolidated Financial Statements**

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**March 31, 2000 and 1999**

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As at March 31, 2000, Borealis Gold Limited owned 16,895 (1999 – 16,895) common shares of the Company and the Company owned 500 (1999 – 500) shares of itself.

By authorization of the Company, the president, at his sole discretion, can authorize the issue of up to 12,000 shares in aggregate per annum to any individual as compensation for work done for or on behalf of the Company. Prior to 1998 the Company granted options expiring March 29, 2002 to a director and officer to acquire a total of 200,000 shares of the Company for a price of \$5.00 US per share. These options are still outstanding at the end of the current year. In addition 130,121 options granted in 1995, to acquire shares of the Company at a price of \$3.00 CDN per share before April 30, 1998, were exercised in the prior year. No further options were issued in 1998, 1999 or 2000.

Currently the Company has issued common shares up to the authorized limit of 5,000,000 shares. Therefore it is management's view that further disclosures about stock options under SFAS No. 123, Accounting for Stock Based Compensation, does not currently provide meaningful information.

(c) Stock compensation of subsidiary companies

During the year ended March 31, 2000, the Company issued bonuses for services rendered for the Company to certain officers, employees, and consultants of the Company whereby the Company issued various shares of the subsidiary companies for \$537,000. The Company has measured this stock compensation based on an estimate of fair value determined by using the most recent share prices being sold privately for cash by these subsidiary companies as of the date of the bonus being declared.

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**10. Loss per Share**

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The basic loss per share is \$0.66 (1999 – \$0.40) for the year ended March 31, 2000. The weighted average number of shares for the year ended March 31, 2000 was 4,982,605 (1999 – 4,971,910).

At March 31, 1999 and 2000, outstanding options to purchase 200,000 shares (1999 – 200,000 shares) of the Company's common stock were not included in the computation of diluted EPS as their effect would be antidilutive.

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**11. Due to Directors**

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During the current year, certain directors of the Company have entered into an arrangement to loan a maximum of 350,000 common shares (the "loaned shares") to Borealis Technical Limited, a wholly owned subsidiary. As at March 31, 1999 a total of 234,031 shares had been loaned to the Company and were sold for total net proceeds of \$395,295US). In 2000 a net total of a further 56,375 shares had been loaned to the Company and were sold for \$162,540, resulting in 290,406 total shares loaned for and sold for total net proceeds of \$557,835US as of March 31, 2000. These loaned shares have been sold privately and on the open market and the proceeds were used to finance the operations of the Company. As per the agreement with these directors, the Company has an obligation to return the loaned shares once the Company is able to return these shares either by the issue of additional shares or the acquisition of the Company's shares on the open market.

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**Borealis Exploration Limited**  
**Notes to Consolidated Financial Statements**

**March 31, 2000 and 1999**

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**11. Due to Directors – Continued**

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This commitment to the directors has been reflected as a separate component of the Company's shareholders equity as the Company can settle the obligation via the issue of additional shares solely at the option of the Company. The amount due to directors has been recorded at the realized carrying values with no adjustment being made for the change in the trading prices of the shares. The fair value of the obligation based on trading prices in effect at March 31, 2000 would be approximately \$1,153,000US (\$1,670,000CDN); (1999 - \$620,000US (\$936,000CDN)).

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**12. Contingencies and Commitments**

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Certain creditors have initiated legal proceedings to receive payment for amounts which have been recorded in these financial statements. In conjunction with this action, the creditors have had liens registered against certain of the Company's mineral properties.

In 1996, statements of claim were filed by the Attorney General of Canada, the Kilvalli Inuit Association and the Baffin Region Inuit Association for failure to clean up sites in Fat Lake, Roche Bay and near Naguak Lake. The Company has filed countersuits against these parties. A hearing has been scheduled for a later date. At the present time, the result of these claims and any potential cost to the Company is not determinable and no liability for this has been recorded in these financial statements.

The Company, in prior years, had granted to various majority owned subsidiaries, the worldwide rights for sublicensing certain basic industrial research technologies that are under development. However, during the 2000 fiscal year Chorus Motors Public Limited Company (formerly Borealis Motor Manufacturing Limited), a subsidiary of the Company (Note 2(a)), entered into an agreement with a certain contractor. Pursuant to this agreement, the subsidiary, is granting the contractor certain licensing rights for the "Chorus motor" technologies in the Canadian market. In consideration for the rights granted to this contractor, the subsidiary will be entitled to a 4% royalty based on net sales of licensed products and services sold by the contractor and 50% of all sublicense income in the Canadian market. The subsidiary will have the right to terminate such sublicense rights to the contractor, on or before April 1, 2004, should the value of certain stock and stock options of the subsidiary already issued to the contractor and further any cash or securities paid to the contractor exceed \$10,000,000 CDN.

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**13. Statement of Cash Flows**

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Supplemental cash flow information:

2000

Deposits on share issues (Note 7) increased as a result of the following non-cash transactions in the year:

Settlement of accounts payable	\$1,030,761
In exchange for services provided	<u>1,403,031</u>
	\$2,433,792

As at March 31, 2000, shares were issued in the subsidiaries for the funds previously held on deposit with the Company.

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**Borealis Exploration Limited**  
**Notes to Consolidated Financial Statements**

**March 31, 2000 and 1999**

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**13. Statement of Cash Flows - Continued**

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1999

Deposits on share issues (Note 7) increased as a result of the following non-cash transactions in the year:

Settlement of accounts payable	\$ 544,450
Settlement of loans to shareholders	704,825
In exchange for services provided	<u>90,750</u>
	\$1,340,025

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**14. Related Party Transactions**

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During the year ended March 31, 2000, management fees totalling approximately \$335,000 (1999 - \$300,000) have been paid to a Partnership controlled by the Chief Executive Officer of the Company.

Rent totalling approximately \$91,000 (1999 - \$84,000) have been charged to the Company by a Partnership controlled by the Chief Executive Officer of the Company.

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**15. Income Taxes**

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Under Canadian Income Tax Law, mining development and exploration expenditures are subject to certain restrictions in deductibility. The Company had total expenditures of approximately \$8,294,000 CDN available as at March 31, 1998 to reduce future taxable income. The Company had total estimated Canadian and US non-capital loss carryforwards of approximately \$6,493,000 CDN which may be carried forward to reduce future taxable income. The availability of these amounts was subject to confirmation by the relevant tax authorities upon departure from Canada.

As at March 31, 2000 and 1999 there are approximately \$2,665,000 CDN of total mining development and exploration expenditures to reduce future taxable income for a subsidiary company that owns a mining property in Canada. During 1999 the Company completed an internal reorganization as detailed in Note 1. The status of some of the available tax pools available in North America is currently not determinable. It is management's estimate that \$ 1,900,000US of loss carryforwards remain available to shelter future taxable income in the US. As per Note 2(i), no deferred tax assets have been setup since they are offset by a valuation allowance.

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**16. Segmented Information**

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As discussed in Note 1, the Company has two reportable operating segments. The Company's mining exploration operations are conducted on properties in Canada. The only assets under this business segment are the mining and other equipment. All other assets relate to the Company's other reportable operating segment, which is the business of conducting basic industrial research with the intent to commercialize these technologies. While the technical rights and/or patents are housed in Gibraltar, the research activities are carried out in various locations around the world.

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**Borealis Exploration Limited**  
**Notes to Consolidated Financial Statements**

**March 31, 2000 and 1999**

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**17. Canadian GAAP Reconciliation**

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The financial statements of the Company have been prepared in accordance with United States generally accepted accounting principles ("US GAAP"). The financial statements confirm in all material respects with generally accepted accounting principles in Canada ("Canadian GAAP") except for the following:

(a) Foreign currency translations

Under US GAAP, all revenues and expenses are translated into the reporting currency at the transaction date rate. At year end, all assets and liabilities are translated into the reporting currency by using the exchange rate in effect at that date. Resulting foreign exchange gains and losses are reflected as a separate component of shareholders equity.

Under Canadian GAAP, non-monetary assets and liabilities would be translated at historical exchange rates. Given that mining and other equipment and patents are the only non-monetary items held by the Company, this difference is not material to the financial statements.

(b) Mineral properties

Under US GAAP, junior mining companies expense all property acquisition, general prospecting, evaluation, exploration and expenditures for the development and definition of mineralization as incurred until proved and probable reserves are established. Once proved and probable reserves of a property are confirmed by independent engineers and financing is committed, capitalization of related costs would commence. This is significantly different from the accounting policy allowed under Canadian GAAP.

Under Canadian GAAP, companies in the exploration stage follow the practice of capitalizing all costs related to exploration projects, until such time as the projects are put into commercial production, sold, abandoned or management determines that a writedown to net realizable value is required. Under Canadian GAAP, property examination costs that do not result in the successfully acquisition of an interest in or an agreement on a mineral property are expensed in the year incurred.

Under Canadian GAAP, exploration costs for mineral properties that would have been capitalized are as follows:

<u>For each of the years ended March 31</u>	<u>2000</u>	<u>1999</u>
Mineral exploration costs	<u>\$ 13,737</u>	<u>\$ 10,931</u>

In addition, under Canadian GAAP the total exploration costs for mineral properties that would be capitalized as at March 31, 2000 would be approximately \$4,622,000(1999 - \$4,608,000).

(c) Gain on dilution of subsidiary companies

Under US GAAP the adjustment of \$4,765,782 from the dilution of subsidiaries companies as a result of the subsidiaries issuing stock to other parties is shown as a credit to contributed surplus on the balance sheet as detailed in Note 7.

Under Canadian GAAP, this adjustment would be shown as a gain on the income statement.

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**Borealis Exploration Limited**  
**Notes to Consolidated Financial Statements**

**March 31, 2000 and 1999**

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**17. Canadian GAAP Reconciliation - Continued**

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(d) Uncertainty Due to Year 2000 Issue

Under US GAAP, there is no further disclosure of this issue after 1999, however Canadian GAAP still requires the following disclosure:

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

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**Borealis Exploration Limited** trades in Canada on the CDN and we have been verbally informed that we will be invited to trade on the CDNX starting 1 September 2000. Our Canadian symbol is BSXC. Current quotes can be found on our web site at [www.borealis.com](http://www.borealis.com) and they are available from most quote services worldwide.

The share trading for the last 28 months under the symbol BSXC in Canadian Dollars as reported below. There are some questions as to the accuracy of these figures, without considering rounding errors, as the daily reported share trades do not match the summary annual totals provided by CDN.

<b>Fiscal 1999</b>	<b>High CDN</b>	<b>Low CDN</b>	<b>Last CDN</b>	<b>Share Totals</b>
April - June 1998, First Quarter Fiscal 1999	\$4.20	\$2.75	\$3.15	122,980
July - September 1998, Second Quarter Fiscal 1999	\$4.45	\$1.75	\$2.65	301,990
October - December 1998, Third Quarter Fiscal 1999	\$7.25	\$1.75	\$6.00	428,345
January - March 1999, Fourth Quarter Fiscal 1999	\$6.75	\$3.50	\$5.38	207,276
Totals for Fiscal 1999	\$7.25	\$1.75	\$5.38	1,060,591

**Fiscal 2000**

April - June 1999, First Quarter Fiscal 2000	\$6.25	\$3.60	\$4.35	273,583
July - September 1999, Second Quarter Fiscal 2000	\$7.50	\$3.20	\$5.88	373,862
October - December 1999, Third Quarter Fiscal 2000	\$5.75	\$3.75	\$5.63	266,392
January - March 2000, Fourth Quarter Fiscal 2000	\$6.00	\$4.35	\$5.50	219,272
Totals for Fiscal 2000	\$7.50	\$3.20	\$5.50	1,133,109

**Fiscal 2001 to July 30, 2000**

April - June 2000, First Quarter Fiscal 2001	\$7.38	\$4.00	\$5.00	186,882
July 2000	\$6.25	\$4.25	\$5.88	41,370

**Borealis Exploration Limited** trades in the United States on the NASD system as a 12(g) Registration under the symbol BOREF. Current quotes can be found on our web site at [www.borealis.com](http://www.borealis.com) and they are available from most quote services worldwide.

The share trading, for the last 28 months is as below. We consider these numbers suspect, even without considering the rounding errors. Nobody reports a summary of weekly, monthly, quarterly or annual trading of our shares. We have generated these numbers by adding up individual reported daily trading numbers as provided by the NASD to the quote services.

<b>Fiscal 1999</b>	<b>High US</b>	<b>Low US</b>	<b>Last US</b>	<b>Share Totals</b>
April - June 1998, First Quarter Fiscal 1999	\$2.63	\$1.85	\$2.03	51,400
July - Sept 1998, Second Quarter Fiscal 1999	\$3.15	\$1.30	\$1.40	31,900
October - December 1998, Third Quarter Fiscal 1999	\$4.75	\$1.13	\$4.22	54,700
January - Mach 1999, Fourth Quarter Fiscal 1999	\$4.28	\$2.65	\$3.47	38,230
Totals for Fiscal 1999	\$4.75	\$1.13	\$3.47	176,230

**Fiscal 2000**

April - June 1999, First Quarter Fiscal 2000	\$4.25	\$2.50	\$2.93	52,500
July - September 1999, Second Quarter Fiscal 2000	\$5.13	\$2.38	\$3.40	96,800
October - December 1999, Third Quarter Fiscal 2000	\$3.88	\$2.55	\$3.60	48,300
January - March 2000, Fourth Quarter Fiscal 2000	\$3.97	\$2.46	\$3.97	82,650
Totals for Fiscal 2000	\$5.13	\$2.38	\$3.97	280,250

**Fiscal 2001 to July 30, 2000**

April - June 2000, First Quarter Fiscal 2001	\$3.25	\$2.81	\$2.90	51,360
July 2000	\$4.35	\$3.06	\$4.21	23,800

# Corporate Information

## Some Members of the Borealis Family of Companies:

### **Borealis Exploration Limited**

Dominion Charter: 26 August 1968  
Dominion Continuance: 10 September 1979  
Dominion Continuance: 6 July 1988  
Redomiciled Gibraltar: 19 October 1998  
Gibraltar Company Number 66632  
CUSIP # 099720 10 4

### **Borealis Exploration Incorporated**

Incorporated 1 November 1982

### **Borealis Technical Limited**

Incorporated 23 April 1996  
Gibraltar Company Number 57884

### **Roche Bay Holdings Limited**

Incorporated 4 February 1994  
Gibraltar Company Number 50515

### **Credits Holdings Limited**

Gibraltar Company Number 50526  
Incorporated 7 February 1994

### **Chorus Motors plc**

Incorporated 18 March 1999  
Gibraltar Company Number 68312  
CUSIP # X1305M 10 5

### **Cool Chips plc**

Incorporated 23 April 1996  
Gibraltar Company Number 57885  
CUSIP # X16065 10 8

### **Power Chips plc**

Incorporated 11 February 1997  
Gibraltar Company Number 60528  
CUSIP #X6919W 10 0

### **Photon Power Limited**

Incorporated 16 March 1999  
Gibraltar Company Number 68278  
CUSIP # X 8698W 10 3

### **Roche Bay Mining Company Limited**

Incorporated 11 February 1997  
Gibraltar Company Number 60527  
CUSIP # X73580 10 6

### **Borealis Roche Bay Limited**

Incorporated 23 April 1996  
Gibraltar Company Number 57886

## Some Internet Domain Names Owned or Reserved by Borealis and its Subsidiaries:

borealis.com  
borealis.gi  
borealistech.com  
borealistechical.com  
borealis.co.il  
borealis.co.uk  
borealis.ch  
borealis.li  
borealis.lu  
coolchips.com  
coolchips.gi  
greensteel.com  
powerchips.gi

## BOARD OF DIRECTORS

Rodney T. Cox, Ph.D.	rtc@borealis.com
Isaiah W. Cox, A.B.	isaiah@borealis.com
Joseph J. Cox, B.A.	jjcox@borealis.com
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Donald N. Jones, M.Sc.	jones@borealis.com
Wayne S. Marshall, Ph.D.	wsm@borealis.com
A. Asher Turin, Ph.D.	turin@borealis.com
Peter Vanderwicken, A.B.	peterv@borealis.com

## OFFICERS

Rodney T. Cox, Chief Executive Officer/Chairman of the Board  
Isaiah W. Cox, President/Chief Operating Officer  
Abraham Cohen, Secretary

## COUNSEL

David M. Goldenberg	Jeffery S. Warren, J.D.
Goldenberg Crisfield Zimmerman	Oppenheimer and Warren
Barristers & Solicitors	Attorneys at Law
dmg@borealis.com	jw@borealis.com

## PUBLIC RELATIONS

Chris Bourne	pr@borealis.com
To subscribe to BoreyNet™ send your request via e-mail to	isaiah@borealis.com
Web Site is www.borealis.com	

## AUDITORS 2000

BDO Dunwoody LLP  
Chartered Accountants

## STOCK EXCHANGE LISTING

Canadian Dealing Network, Toronto Ontario, Symbol: BSXC  
United States Security and Exchange Commission 12(g) Registration Number 82-1656, Symbol: BOREF

## REGISTRAR AND TRANSFER AGENT

Computershare Investors Services, Inc.  
530 - 8th Avenue S.W.  
Calgary, Alberta T2P 3S8

## INCORPORATED

Dominion Charter: 26 August 1968  
Dominion Continuance: 10 September 1979  
Dominion Continuance: 6 July 1988  
Redomiciled Gibraltar: 19 October 1998

## HEAD OFFICE

Suite 3 C, Centre Plaza  
Horse Barrack Lane  
Gibraltar

## DATE OF ANNUAL GENERAL MEETING

**6 September 2000**

To Vote by E-Mail: proxy@borealis.com

To Vote via the World Wide Web: www.borealis.com

To Vote via standard mail, mail proxy to any Office of the Company

To Vote via telecopier, fax proxy to any Office of the Company

Proxy forms are printed with the Notice of Meeting, and can also be downloaded from www.borealis.com