

## **BOREALIS EXPLORATION LIMITED**

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### **REPORT OF THE AUDITORS TO THE MEMBERS IN RELATION TO THE UK GAAP RECONCILIATION at 31 March 2000**

We have reviewed the audited financial statements as prepared under US GAAP on pages 1 to 18 and have obtained all the information and explanations required for the purpose of our review which is limited solely to commenting on the US to UK GAAP reconciliation as set out on pages 20 to 21.

The purpose of our review is to enable the accounts to be submitted to the Gibraltar authorities in the correct manner.

#### ***Respective Responsibilities of Directors and Auditors***

The directors are responsible for preparing the annual report. As described in the directors' report this includes responsibility for preparing the financial statements in accordance with Gibraltar Financial Reporting Standards. Our responsibilities as independent auditors are established in Gibraltar by statute, the United Kingdom's auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the UK GAAP reconciliation gives a true and fair view and is prepared in accordance with Gibraltar legislation.

#### ***Basis of Opinion***

We conducted our review in accordance with Auditing Standards issued by the United Kingdom Auditing Practices Board. 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 review 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 reconciliation is free from material misstatement, whether caused by fraud or other irregularity or error.

#### ***Going concern***

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 of the financial statements concerning the uncertainty as to the continuation and renewal of the company's financial support. In view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect, this is in accordance with the observations made by the auditors under US GAAP.

#### ***UK GAAP Reconciliation***

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 the United Kingdom and Gibraltar legislation ("UK GAAP") except for those adjustments listed on pages 20 to 21.

#### ***Opinion***

In our opinion the UK GAAP reconciliation adjustments on pages 20 to 21 reflect the changes that are required to be made to the Financial Statements as prepared under US GAAP for submission of the accounts under the Companies Ordinance 1930, as amended.

**BDO Fidecs  
Chartered Accountants**

## UK GAAP RECONCILIATION

The Financial Statements confirm in all material respects with generally accepted accounting principles in UK and Gibraltar legislation ("UK 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 UK 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 UK GAAP.

Under UK GAAP, exploration costs would only be capitalized were it is probable that mineral reserves exist. It is understood that the directors and independent engineers believe that this is the case. Consequently the 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 UK 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, as detailed in Note 7, 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.

Under UK GAAP, this adjustment would be shown as a gain on the income statement, which would accordingly affect earnings per share.

(d) Effects on Earnings per Share from the above adjustments

The above adjustments would mean that the Earnings per Share would move from (\$0.66) to \$0.30 per share for the year ended 31<sup>st</sup> March 2000.

The diluted Earnings per Share is calculated by adjusting profit, after tax and minority interest, and the weighted average number of shares for the effects of all dilutive potential shares. The dilutive impact of the stock options is to reduce Earnings per Share from \$0.30 to \$0.28.

	<b>2000</b>
(e) Directors Remuneration	<u>\$180,000</u>
(f) Auditors Remuneration	<u>\$20,000</u>
(g) Statement of Recognized Gains and Losses	
The company has no other recognized gains or losses in the year other than those disclosed in the profit and loss account and the UK GAAP reconciliation adjustments.	

**Borealis Exploration Limited**  
**Further disclosure under UK GAAP**

Company Balance Sheet (in US Dollars)

<b>As at March 31</b>	<b>2000</b>
<b>Assets</b>	
<b>Fixed Assets</b>	
Mining Properties	\$ 4,621,990
<b>Patents (Note 5)</b>	219,679
<b>Mining and other equipment (Note 4)</b>	34,070
<b>Current</b>	
Cash	9,956
	<b>\$ 4,885,695</b>
<hr style="border: 1px solid black;"/>	
<b>Liabilities and Shareholders' Deficiency</b>	
<b>Current</b>	
Accounts payable (Note 6)	\$ 1,632,273
Due to certain shareholders	33,580
	1,665,853
<b>Deposits on share issue (Note 7)</b>	-
<b>Royalty payable (Note 8)</b>	1,874,675
	3,540,528
<b>Minority Interest (Note 7)</b>	822,974
<b>Share capital (Note 9)</b>	24,290,979
<b>Due to directors (Note 11)</b>	557,835
<b>Contributed surplus</b>	4,611,583
<b>Cumulative translation adjustment</b>	164,816
<b>Deficit</b>	(29,103,020)
	(522,193)
	<b>\$ 4,885,695</b>

Approved on behalf of the Board:

\_\_\_\_\_ Director  
 Rodney T. Cox

\_\_\_\_\_ Director  
 Isaiah W. Cox