

**BOREALIS EXPLORATION
LIMITED**
Annual Report
for the year ended 31 March 2001

BOREALIS EXPLORATION LIMITED

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BOREALIS EXPLORATION LIMITED

Registered No (Gibraltar) 66632

DIRECTORS AND OFFICERS

Directors

Rodney T Cox	Chief Executive officer
Wayne S Marshall	
Arnold A Turin	
Donald N Jones	
Isaiah W Cox	President/Chief Operating Officer
David Goldenberg	
Jean Francois Edelstein	(resigned 1 st August 2001)
Joseph J Cox	
Peter Vanderwicken	
Benjamin J Cox	(appointed 1 st August 2001)
Nechama Cox	(appointed 1 st August 2001)
Iris Cox	(appointed 24 th July 2001)

Secretary

Grays Services Limited	(resigned 21 st May 2001)
BDO Fidecs Management Limited	(appointed 21 st May 2001)

Registered Office

Suite 3G, Eurolife Building 1 Corral Road Gibraltar	(date of effect 21 st May 2001)
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Previous Registered Office

Suite 3C, Centre Plaza
Horse Barrack Lane
Gibraltar

Auditors

Moore Stephens
Suite 5 Watergardens 4
Waterport
Gibraltar

BOREALIS EXPLORATION LIMITED

DIRECTORS' REPORT

The directors submit their report and the audited financial statements for the company and the group for the year ended 31 March 2001.

BOREALIS FAMILY OF COMPANIES' PROFILE

The Group is defined as the "Borealis Family of Companies" comprising those companies listed in Note 9 of the financial statements.

The Company was primarily a mining company in prior years. While the Borealis Family of Companies intends to retain its 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 2001 and 2000 substantially all the Borealis Family of Companies' expenses relate to administrative expenses incurred whilst carrying out its research activities. These have all been written off in the year, costs are paid for by the issue of shares in subsidiary undertakings.

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

BUSINESS REVIEW

Mining Properties

Roche Bay Magnetite Project

A subsidiary company, Roche Bay Mining Company Limited, owns the interest in various mineral leases located near Roche Bay, Nunavut, Canada. These leases require annual lease payments of \$5,846 per year for those leases expiring in 2019 and \$5,906 per year for those leases expiring in 2021. All leases are renewable and are expected to be renewed. The leases and claims are located in the Baffin Mining District of Nunavut, Canada.

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

Freuchen Bay Property

Roche Bay Mining Company Limited, also owns the permits in the Freuchen Bay Area of the Keewatin Mining District of Nunavut, Canada. Claims were staked on these permits in 1992. The Borealis Family of Companies retains a 100% interest in the claim. These claims expire in 2002 if not taken to lease and require no annual payments. These claims are in the process of being taken to lease and it is expected this will be completed by January 2003.

BOREALIS EXPLORATION LIMITED

DIRECTORS' REPORT (Continued)

BUSINESS REVIEW (Continued)

On 24 July 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 \$97,500 in fines and penalties of \$16,250 related to the Group's failure to clear up the Fat Lake mine site. Approximately \$101,855 (2000 \$98,800) of the fine and penalties has been paid to date, and the remaining fine of \$11,895 and an estimate of the clean up cost of \$9,759 (2000 -\$9,750) have been provided for by this company. The Borealis Family of Companies 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.

Principal Technologies

Chorus Motor: The Borealis Chorus Motor is a radically improved electric motor that uses electromagnetic harmonics to greatly increase the motor's output, or torque. A Chorus Motor and drive is smaller, lighter, and costs much less to build and operate than a conventional motor with the same output. It is ideal for traction applications such as electric cars and trains.

Cool Chips: Cool Chips are solid-state devices that pump heat to produce cooling, refrigeration, or air conditioning. They are small, lightweight, non-polluting and non-corrosive and are projected to be more efficient than any existing thermal management technology.

Power Chips: Power Chips are similar devices that absorb heat to produce electrical power. They are silent, non-polluting, scalable, portable, and can operate anywhere there is a source of heat. We expect them to replace most existing technologies for generating electricity.

The Company: Borealis Exploration Limited is a non-government funded research operation. This is a non capital intensive business where most of the expenditures are for staff and their support of the patenting and accounting work as we have current access to research facilities on excellent terms. The total research and development expenditures have been approximately the same for several years and it is anticipated that the research and development activities will remain at the current level or increase in the fiscal year 2002. In 2002 and subsequent years the company anticipates that significant expenditures will be incurred on the mineral exploration properties as Roche Bay will be placed into production as the directors believe there to be proven reserves. Finance will be provided by the issuance of further shares in the subsidiary.

FINANCIAL REVIEW

The Group results for the year are shown in the consolidated profit and loss account on page 7.

As of 31 March 2001, the Group had retained losses of \$23,444,874 (2000 restated - \$ 23,044,101) and a working capital deficiency of \$969,679 (2000 - \$1,655,897). The net asset surplus as at 31 March 2001 amounted to \$2,183,060 (2000 restated- \$2,069,852). The operations of the group in the current year were primarily funded by the proceeds from the issue of new shares in the subsidiary companies. The continued operation of the Borealis Family of Companies is dependent on its ability to receive continued financial support from its shareholders and creditors, to obtain sufficient equity financing or generate sufficient profits in the future. However, there can be no assurance that the Company or its Subsidiaries' efforts to generate further financing and profitable operations will be successful.

BOREALIS EXPLORATION LIMITED

DIRECTORS' REPORT (Continued)

FINANCIAL REVIEW (Continued)

As explained in Note 1(f), all costs relating to the Group's mineral concessions have been capitalised and these are accordingly reflected in the consolidated balance. The directors are confident however that the current market value of the concessions is very substantial, and well in excess of the Group's valuation of these mineral properties. This confidence, allied to their belief in the imminent realisation of certain of the technology investments and their conviction of the availability of additional finance from shareholders to enable the Group to meet its obligations as they fall due for the foreseeable future, justifies in the directors' belief, the going-concern basis as an appropriate one for the preparation of those financial statements.

These consolidated financial statements have been prepared under the historical cost convention and in accordance with the going concern concept, which assumes that the Borealis Family of Companies will be able to realise its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation.

The financial statements do not contain any adjustments that might be necessary if the Borealis Family of Companies is unable to continue as a going concern.

DIVIDENDS

There were no dividends declared or proposed during the current or preceding year.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year were as stated on page 1.

The interest of the directors in the shares of the Company were as follows:

Number of shares held at 31 March 2001

Isaiah W. Cox	243,165
Donald N. Jones	55,548
Arnold A. Turin	100
Iris Oren Cox	–
Joseph J. Cox	31,729
Rodney T. Cox	221,600
Benjamin J. Cox	10,540
Nechama Cohen Cox	14,700
David M. Goldenberg	100
Wayne S. Marshall	114,040
Peter Vanderwicken	27,500

BOREALIS EXPLORATION LIMITED

DIRECTORS' REPORT (Continued)

No director has any interest in Share Options outstanding at the balance sheet date.

DIRECTORS' RESPONSIBILITIES

Gibraltar company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and the group and of the group's profit or loss for that period. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Gibraltar Companies Ordinance 1930, the Gibraltar Companies (Accounts) Ordinance 1999 and the Gibraltar Companies (Consolidated Accounts) Ordinance 1999. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

During the year a vacancy of the office of auditor occurred on the resignation of BDO Dunwoody as a result of the redomiciliation of the Company from Canada. The directors exercised their power to appoint Moore Stephens as auditors.

A resolution to reappoint, Moore Stephens, will be proposed at the Annual General Meeting.

By order of the Board



.....
Isaiah W Cox
Director



.....
Rodney T Cox
Director

23rd January 2002

BOREALIS EXPLORATION LIMITED

AUDITORS' REPORT TO THE SHAREHOLDERS of Borealis Exploration Limited

We have audited the financial statements on pages 7 to 22 which have been prepared under the historical cost convention and the accounting policies set out on page 13 and 14.

Respective responsibilities of directors and auditors

As described in the report of the Directors, the company's Directors and management are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you. We have not audited the comparative figures, which were audited by other auditors, who expressed an unqualified opinion on the statements on which these are based.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the accounts and disclosure 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 2 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 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 and group as at 31st March 2001 and of the loss and cash flows of the group for the year then ended in accordance with Gibraltar Accounting Standards and have been properly prepared in accordance with the Gibraltar Ordinance 1930 and the Gibraltar Companies (Accounts) Ordinance 1999.



Moore Stephens
Chartered Accountants
Gibraltar

23rd January 2002

BOREALIS EXPLORATION LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT For the year ended 31 March 2001

	Note	2001 \$	2000 As restated \$
Expenditure		(3,124,026)	(3,252,441)
Operating loss	4	(3,124,026)	(3,252,441)
Financing Costs		(162,700)	(148,625)
Interest		(16,735)	(37,955)
Loss on ordinary activities before taxation		(3,303,461)	(3,439,021)
Taxation	8	—	—
Loss on ordinary activities after taxation		(3,303,461)	(3,439,021)
Gain on decrease in stake in subsidiaries		3,416,669	5,588,756
Equity Minority interest		(513,981)	(822,974)
(Loss) / profit for the financial year		<u>\$ (400,773)</u>	<u>\$ 1,326,761</u>
(Loss) / earnings per ordinary share	10	\$ (0.08)	\$ 0.27

The Borealis Family of Companies has had no discontinued activities during the year, accordingly, the above result for the company relates solely to continuing activities.

There is no difference between the loss on ordinary activities before taxation and the loss for the financial year stated above and their historical cost equivalents.

BOREALIS EXPLORATION LIMITED

STATEMENT OF GROUP TOTAL RECOGNISED GAINS AND LOSSES For the year ended 31 March 2001

	2001	2000
	\$	As restated \$
For the year ended 31 March		
(Loss) / Profit for the financial year	(400,773)	1,326,761
Prior year adjustments		
- Contingencies (Note 21)	1,874,675	—
- Other creditors (Note 16)	(592,165)	—
- Investment in mining properties (Note 14)	4,622,000	—
Total gains recognised since last report	<u>\$ 5,503,737</u>	<u>\$ 1,326,761</u>

Prior year adjustments

Contingencies - As more fully disclosed in note 21, the company previously recognised a liability which has now been reclassified as a contingent liability under FRS 12.

Other creditors - As more fully disclosed in note 17, the company has restated certain liabilities to reflect the market value of those liabilities as at the balance sheet date in accordance with FRS12.

Investments in Mining Properties – As more fully disclosed in note 14, the Company has capitalised the costs of maintaining the Mining Properties as allowed under Gibraltar GAAP as the directors are aware that proven reserves exist and intend to exploit the properties in the near future. Previously these costs under US GAAP had been written off to the profit and loss account.

BOREALIS EXPLORATION LIMITED

CONSOLIDATED BALANCE SHEET as at 31 March 2001

	Notes	2001 US\$	2000 As restated US\$
Fixed Assets			
Intangible assets	11	310,003	219,679
Tangible assets	12	27,065	34,070
Investments	13	138,000	–
Investments – mining properties	14	4,637,671	4,622,000
		<u>5,112,739</u>	<u>4,875,749</u>
Current assets			
Cash at bank and in hand		–	9,956
		<u>–</u>	<u>9,956</u>
Creditors: amounts falling due within one year	16	<u>969,679</u>	<u>1,665,853</u>
Net current liabilities		<u>(969,679)</u>	<u>(1,655,897)</u>
Total assets less current liabilities		<u>4,143,060</u>	<u>3,219,852</u>
Creditors: amounts falling due after more than one year	17	<u>1,960,000</u>	<u>1,150,000</u>
Net Assets		<u>\$ 2,183,060</u>	<u>\$ 2,069,852</u>
Capital and Reserves			
Called up Share Capital	18,19	49,826	49,826
Share Premium account	18,19	24,241,153	24,241,153
Profit and loss account	19	(23,444,874)	(23,044,101)
Total shareholders' funds		<u>846,105</u>	<u>1,246,878</u>
Minority interests - equity		<u>1,336,955</u>	<u>822,974</u>
		<u>\$ 2,183,060</u>	<u>\$ 2,069,852</u>

The financial statements on pages 7 to 22 were approved by the Board of Directors on 23rd January 2002 and signed on their behalf by:



.....
Isaiah W Cox
Director



.....
Rodney T Cox
Director

BOREALIS EXPLORATION LIMITED

COMPANY BALANCE SHEET as at 31 March 2001

	Notes	2001 \$	2000 As restated \$
Fixed Assets			
Intangible assets	11	310,003	219,679
Tangible assets	12	27,065	34,070
Investments	13	138,000	—
		<u>475,068</u>	<u>253,749</u>
Investments in subsidiary undertakings	8	580	580
		<u>475,648</u>	<u>254,329</u>
Current assets			
Cash at bank and in hand		—	9,956
Debtors	15	52,000	—
		<u>—</u>	<u>9,956</u>
Creditors: amounts falling due within one year	16	<u>(4,697,988)</u>	<u>(2,125,069)</u>
Net current liabilities		<u>(4,645,988)</u>	<u>(2,115,113)</u>
Total assets less current liabilities		<u>(4,170,340)</u>	<u>(1,860,784)</u>
Creditors: amounts falling due after more than one year	17	<u>1,960,000</u>	<u>1,150,000</u>
Total net liabilities		<u>\$ (6,130,340)</u>	<u>\$ (3,010,784)</u>
Deficiency in assets			
Called up Share Capital	18,19	49,826	49,826
Share Premium account	18,19	24,241,153	24,241,153
Profit and loss account	19	(30,421,319)	(27,301,763)
Total deficit in shareholders funds		<u>\$ (6,130,340)</u>	<u>\$ (3,010,784)</u>

The financial statements on pages 7 to 22 were approved by the Board of Directors on 23rd January 2002 and signed on their behalf by:



.....
Isaiah W Cox
Director



.....
Rodney T Cox
Director

BOREALIS EXPLORATION LIMITED

CONSOLIDATED CASH FLOW STATEMENT for the year ended 31 March 2001

	2001 \$	2000 \$
Net cash outflow from operating activities	(3,783,125)	(1,995,507)
Returns on investments and servicing of finance		
Interest paid	(16,735)	(37,955)
Net cash outflow from returns on investments and servicing of finance	(16,735)	(37,955)
Capital expenditure and financial investment		
Patent additions	(99,760)	(170,384)
Purchase of tangible fixed assets	(1,299)	–
Purchase of fixed asset investment	(138,000)	–
Lease costs of mining properties	(15,671)	(13,737)
Net cash outflow from capital expenditure and financial investment	(254,730)	(184,121)
Acquisitions and disposals		
Cash received for issuance of shares by subsidiaries	659,932	627,851
Compensation for services provided by deposits	2,756,737	1,403,031
Net cash inflow from disposals	3,416,669	2,030,882
Net cash outflow before financing	(637,921)	(186,701)
Financing		
Advances (to) / from shareholders	(33,580)	16,048
Proceeds raised from sale of shares advanced by directors	647,300	159,640
Net cash inflow from financing	613,720	175,688
Decrease in cash	\$ (24,201)	\$ (11,013)

BOREALIS EXPLORATION LIMITED

CONSOLIDATED CASH FLOW STATEMENT (Continued) for the year ended 31 March 2001

RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2001	2000
	\$	\$
Operating loss	(3,124,026)	(3,252,441)
Depreciation of tangible fixed assets	8,304	9,096
Amortisation of patents	9,436	9,436
(Decrease)/Increase in trade creditors	(676,839)	1,241,591
Translation difference	—	(3,189)
Net cash outflow from operating activities	<u><u>\$ (3,783,125)</u></u>	<u><u>\$ (1,995,507)</u></u>

MOVEMENT IN CASH AND ANALYSIS OF CASH BALANCES

Movement in net cash	2001	2000
	\$	\$
At 1 April	9,956	20,969
Decrease in cash in the year	(24,201)	(11,013)
At 31 March	<u><u>\$ (14,245)</u></u>	<u><u>\$ 9,956</u></u>

Analysis of cash balances	2001	2000
	\$	\$
Cash at bank	-	9,956
Bank overdrafts	(14,245)	-
Net cash at 31 March	<u><u>\$ (14,245)</u></u>	<u><u>\$ 9,956</u></u>

BOREALIS EXPLORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2001

1 PRINCIPAL ACCOUNTING POLICIES

Borealis Exploration Limited was incorporated in Canada and redomiciled to Gibraltar in 1998. Accordingly, the financial statements for all years up to and including 31 March 2000 were compiled in accordance with accounting principles generally accepted in the United States ('US GAAP'). The financial statements for years prior to this one were reported on by another firm of independent public accountants. In compliance with Gibraltar legislation, the Company now presents its financial statements for the year ended 31 March 2001 in accordance with Gibraltar Accounting Standards and the Gibraltar Companies Ordinance 1930, the Gibraltar (Companies Accounts) Ordinance 1999 and the Gibraltar (Consolidated Accounts) Ordinance 1999 (together, 'Gibraltar GAAP')

A summary of the principal accounting policies, which have been applied consistently except for such changes as were required by the change from US GAAP to Gibraltar GAAP (see note c below), is set out below:

a. Basis of accounting

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

b. Basis of Consolidation

The consolidated accounts include the Company and its subsidiary undertakings. Intra-group balances and transactions are eliminated fully on consolidation.

c. Change in accounting polices

Royalty payment:- The company previously reported under US GAAP and recognised a royalty payment as a liability in the prior years financial statements. Under Gibraltar GAAP this liability has been reclassified as a contingent liability under FRS 12 and the resulting adjustment has been made to the financial statements as a prior year adjustment in accordance with FRS 3. The circumstances surrounding this contingent liability are more fully disclosed in Note 21.

Other creditors: As more fully disclosed in note 17, the company has restated certain liabilities to reflect the market value of those liabilities as at the balance sheet date in accordance with FRS12. The resulting adjustment has been made to the financial statements as a prior year adjustment in accordance with FRS 3

Investments in Mining Properties - As more fully disclosed in note 14, the Company has capitalised the costs of maintaining the Mining Properties as allowed under Gibraltar GAAP as the directors are aware that proven reserves exist and intend to exploit the properties in the near future. Previously these costs under US GAAP had been written off to the profit and loss account.

BOREALIS EXPLORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2001 – continued

d. Fixed Assets

Tangible fixed assets and intangible fixed assets are stated at their purchase cost, together with any incidental expenses of acquisition.

Depreciation is provided on all fixed assets to write off their cost less residual value over their estimated useful lives. The rates in use on a reducing balance method is as follows:

Mining and geological equipment	30%
Other equipment	20%

Patents are depreciated on the straight-line method at a rate of 4% per year. The carrying value of patents is reviewed annually by the Group. If, as a result of such a review, it is determined that the value has been permanently impaired, any diminution in value is taken to the profit and loss account in accordance with FRS 11. To the extent that such diminution in value is subsequently reversed, this reversal is credited to the profit and loss account.

e. Fixed Assets Investments

Fixed asset investments are stated at their historical cost less any provision for permanent diminution in value.

f. Mineral reserves

The directors are confident that proven reserves have been established in the mineral properties, and intend to exploit the properties in the near future. Consequently under Gibraltar GAAP these costs of maintaining the properties have been capitalised.

g. Research and Development

Research and Development costs are written off in the year they are incurred

h. Reporting currency

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

i. Foreign currency translation

Transactions in currencies other than US Dollar are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in such currencies are translated at the rate of exchange ruling at the balance sheet date.

j. Going Concern

These financial statements have been prepared under the going concern concept which assumes that the Group will continue in operational existence for the foreseeable future having adequate funds to meet its obligations as they fall due. Further information is set out in the Directors' Report on pages 2 to 5 and within note 2 below.

k. Taxation including deferred tax.

No provision is made for corporation tax, nor for deferred tax, as the company and the subsidiaries are exempt from paying corporation tax on their profits.

BOREALIS EXPLORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2001 – continued

2. GOING CONCERN.

The continued operation of the Borealis Family of Companies is dependent on its ability to receive continued financial support from its shareholders and creditors, to obtain sufficient equity financing or generate sufficient profits in the future. The directors are confident that sufficient support will be secured and accordingly the going concern basis of preparation of the financial statements is appropriate. However, there can be no assurance that the Company or its Subsidiaries' efforts to generate further financing and profitable operations will be successful. The financial statements do not contain any adjustments that might be necessary if the Borealis Family of Companies is unable to continue as a going concern.

3. SEGMENTAL REPORTING

The Borealis Family of Companies has two reportable operating segments. The group's mining exploration operations are conducted on properties in Canada. The only assets utilised in this business segment are the mining and other equipment. All other assets relate to the group's other reportable operating segment, which is the business of conducting basic industrial research with the intent to commercialise these technologies. While the technical rights and/or patents are owned by a company registered in Gibraltar, the research activities are mainly carried out elsewhere in Europe.

4. OPERATING PROFIT

	2001	2000
Operating profit is stated after charging	\$	\$
Depreciation	8,304	9,096
Amortisation	9,436	9,436

5. DIRECTORS EMOLUMENTS

The total amount of emoluments paid to directors during the year was \$618,700.

In addition, rent totalling approximately \$101,500 (2000 - \$ 91,000) has been charged to the group by the chief executive officer for provision of office space.

6. EMPLOYEE INFORMATION

The company has no employees during the current or preceding period. Services to the company are provided by way of consultancy agreements.

BOREALIS EXPLORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2001 – continued

7. PROFITS OF HOLDING COMPANY

Of the loss for the financial year a deficit of \$3,170,455 is dealt with in the financial statements of the parent company. The directors have taken advantage of the exemption available under section 10 of the Gibraltar Companies (Consolidated Accounts) Ordinance 1999 and not presented a profit and loss account for the company alone.

8. TAXATION

The company and its subsidiaries have 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 £225 it will not be subject to Gibraltar Corporation Tax for a period of twenty five years from 24 August 1999, the date on which it was granted such status.

9. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

The Company has the following principal ownership interests and invested amounts in its subsidiaries, all of which (other than Borealis Exploration Inc, which is registered in USA) are registered in Gibraltar:

Directly held by the Company	Ownership Interest		Investments	
	2001	2000	2001	2000
			\$	\$
Borealis Technical Limited	99%	99%	160	160
Credit Holdings Limited	99%	99%	160	160
Roche Bay Holdings Limited	99%	99%	160	160
Borealis Exploration Inc	100%	100%	100	100
Total investments			580	580

Indirectly held by the company	Ownership Interest	
	2001	2000
Chorus Motors Public Limited Company ⁽¹⁾	89.2%	91.9%
Cool Chips Public Limited Company ⁽²⁾	72.1%	72.5%
Photon Power Limited	99.8%	99.9%
Power Chips Public Limited Company ⁽³⁾	72.1%	72.7%
Roche Bay Mining Company Limited	98.9%	99.6%
Borealis Roche Bay Limited	99%	99%

⁽¹⁾ This company changed its name from Borealis Motor Manufacturing Limited to Chorus Motors Limited on 1st June 2000, and further changed its name as noted, upon re-registration in Gibraltar as a public limited company on 27th July 2000.

⁽²⁾ This company changed its name from Borealis Cool Manufacturing Limited to Cool Chips Limited on 1st June 2000, and further changed its name as noted, upon re-registration in Gibraltar as a public limited company on 27th July, 2000

BOREALIS EXPLORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2001 – continued

- (3) This company changed its name from Borealis Power Manufacturing Limited to Power Chips Limited on 1st June 2000, and further changed its name as noted, upon re-registration in Gibraltar as a public limited company on 27th July 2000.

The Group has funded itself in the past with the proceeds of the issue of shares in its subsidiaries, which has resulted in the dilution of the Company's holdings in these subsidiaries. The issue of these shares is either for a cash consideration or payment for goods and services received by agreement with the creditor.

In 2001, further funds were raised by the issue of shares at a premium by Chorus Motors Plc, Cool Chips Plc, Photon Power Limited, Power Chips Plc and Roche Bay Mining Company Limited. A minority interest of \$ 1,336,955 (2000 - \$822,974) in the subsidiaries is presented on the balance sheet effective 31st March 2001. The Equity of the Borealis Group in the share premiums paid by third parties during the year of \$3,416,669 (2000 - \$5,588,756) is shown as a gain in the profit and loss account.

10. EARNINGS PER SHARE

Earnings / (losses) per share is calculated by dividing the earnings / (losses) attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. Diluted earnings / (losses) per share is calculated by adjusting basic earnings / (losses) and the weighted average number of shares for the effects of all dilutive potential shares.

	Earnings	2001 Weighted average number of shares	Per share Amount	Earnings (as restated)	2000 Weighted average number of shares	Per share amount (as restated)
	\$	\$	\$	\$	\$	\$
Basic EPS						
(Losses) /Earnings attributable to ordinary shareholders	(400,773)	4,982,605	(0.08)	1,326,761	4,982,605	0.27

BOREALIS EXPLORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2001 – continued

11. INTANGIBLE FIXED ASSETS – PATENTS

	Cost \$	Amortisation \$	Total \$
At 1 April 2000	235,909	16,230	219,679
Additions / Charge in year	99,760	9,436	90,324
At 31 March 2001	<u>\$ 335,669</u>	<u>\$ 25,666</u>	<u>\$ 310,003</u>

12. TANGIBLE FIXED ASSETS

	Mining, Drilling and Camp Equipment \$	Office Equipment \$	Total \$
Cost			
At 1 April 2000	655,808	49,179	704,987
Additions	–	1,299	1,299
At 31 March 2001	<u>655,808</u>	<u>50,478</u>	<u>706,286</u>
Depreciation			
At 1 April 2000	635,960	34,957	670,917
Charge for year	6,366	1,938	8,304
At 31 March 2001	<u>642,326</u>	<u>36,895</u>	<u>679,221</u>
Net book value			
At 31 March 2001	<u>\$13,482</u>	<u>\$13,583</u>	<u>\$27,065</u>
At 31 March 2000	<u>\$ 19,848</u>	<u>\$ 14,222</u>	<u>\$ 34,070</u>

13. FIXED ASSETS INVESTMENTS

The sole investment comprises a 30 year advance at 7% per annum to a senior employee of the company, secured by mortgage on US real estate. The loan was made to enable the employee to acquire a share interest in subsidiary undertakings.

	2001 \$	2000 \$
Investments – amount receivable	\$138,000	\$ –
	<u> </u>	<u> </u>

BOREALIS EXPLORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2001 – continued

14. INVESTMENT – MINING PROPERTIES

	2001 \$	2000 \$
Mining Properties	\$ 4,637,671	\$ 4,622,000

The investment in the mining properties located at Roche Bay and Freuchen Bay relates to leases granted by the Government of Canada for the exploitation of these Sites with regards to the mineral reserves. To date costs for the maintenance of these leases along with expenses in preliminary studies of the properties have been capitalised. The directors are confident that proven reserves have been established in these properties.

Change of accounting Policy

Under US GAAP, the costs of maintaining the Mineral Properties were required to be expensed, however under UK GAAP these costs maybe capitalised should proven reserves be established to exist. This has resulted in the reinstatement of \$4,622,000 as at 31 March 2000 as an asset in the balance sheet by way of a prior year adjustment.

15. DEBTORS

	Group		Company	
	2001 \$	2000 \$	2001 \$	2000 \$
Amounts due from group undertakings	\$ –	\$ –	\$ 52,000	\$ –

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2001 \$	2000 \$	2001 \$	2000 \$
Bank loans and overdrafts	14,245	–	14,245	–
Trade creditors	955,434	1,632,273	955,434	1,632,273
Amounts due to group undertakings	–	–	3,728,309	459,216
Other creditors	–	33,580	–	33,580
	\$ 969,679	\$ 1,665,853	\$ 4,697,988	\$ 2,125,069

Amounts due to group undertakings are unsecured, interest free and repayable on demand.

BOREALIS EXPLORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2001 – continued

17. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2001	2000 As restated	2001	2000 As restated
	\$	\$	\$	\$
Other creditors	\$1,960,000	\$1,150,000	\$1,960,000	\$1,150,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Other Creditors represent loans made to the company by certain directors with regards to helping to finance the operations of the company. In order to be in a position to make this loan the directors have sold 490,406 shares (2000 – 290,406). The Group is obliged to return the loan once it is in a position to do so, by repaying to the directors sufficient funds to allow the directors to repurchase 490,406 shares on the open market. The amount due to directors is determined at each year end according to the market value of 490,406 shares at the trading prices of the shares at the year end.

Prior year adjustment

For the year ended 31 March 2000, the obligation represented by shares loaned by the directors to the company was reported at the amount of the proceeds obtained at sale of the shares. This obligation has now been restated to reflect the market value of the shares as at the balance sheet date.

BOREALIS EXPLORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2001 - continued

18. CALLED UP SHARE CAPITAL

		2001	2000	
		\$	\$	
Authorised share capital 5,000,000 ordinary shares @ \$0.01 each		\$ 50,000	\$ 50,000	
		<u> </u>	<u> </u>	
	Number of Shares	Share Capital \$	Share Premium Account \$	Total \$
Issued share capital At 31 March 2000 and 2001	4,982,605	\$ 49,826	\$ 24,241,153	\$ 24,290,979
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

Group	Share Capital \$	Share Premium Account \$	Profit & Loss Account \$	Total \$
At 31 March 1999 (as restated)	49,826	24,241,153	(24,370,862)	(79,883)
Profit for the year (as restated)	—	—	1,326,761	1,326,761
At 31 March 2000 (as restated)	49,826	24,241,153	(23,044,101)	1,246,878
Loss for the year	—	—	(400,773)	(400,773)
At 31 March 2001	<u>\$ 49,826</u>	<u>\$ 24,241,153</u>	<u>\$ (23,444,874)</u>	<u>\$ 846,105</u>

BOREALIS EXPLORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2001 - continued

20. RELATED PARTY TRANSACTIONS

There are no related party transactions other than as described elsewhere in these financial statements. (see note 5)

A related party, called Shiloh International Limited, received \$136,871 during the year for management services.

21. CONTINGENT LIABILITIES

Environmental claim

Following the claim in 1995, as described in the directors report, in 1996, further 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 Group has filed countersuits against these parties. At the present time, the result of these claims and any potential cost to the group is not determinable and no liability for this has been recorded in these financial statements.

Royalty payment

In 1993, Borealis renegotiated its loan with Mr. G. Gillet, which had been assigned to Boston Safe Deposit & Trust Company (Boston Safe). Under the agreement with Boston Safe, the loan was converted into 10,000 common shares of Borealis 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. To date, US \$2,625 has been paid to Boston Safe. In 1995, Boston Safe assigned its interest to its nominee, Mitlock Limited Partnership.

In previous years this royalty payment of \$1,874,675 was accounted for in the balance sheet as a liability. However, the liability only becomes payable if the company sells, disposes or commences production of the mineral properties. Consequently under Gibraltar GAAP this liability has been reported as a contingent liability.

22. Post Balance Sheet Events

Cool Chips Technology Confirmed

On November 30, 2001 The Boeing Company issued a press release concerning the Cool Chips Evaluation that was conducted by the Boeing Phantom Works, the advanced Research & Development unit of Boeing. Under the terms of the agreement with Cool Chips Plc Boeing has the right of the first refusal on this technology for aerospace applications.

License Agreement

On November 27, 2001 The Company "Borealis" issued a press release concerning a license agreement that has been entered into with Beckett Elevator International. Under the agreement, Beckett has an exclusive worldwide licence for the use of Chorus[™] Technology in the elevator market.