

**BOREALIS EXPLORATION
LIMITED**
Annual Report
for the year ended 31 March 2002

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	
Joseph J Cox	
Jean Francois Edelstein	(appointed 6 th September 2000, resigned 1 st August 2001)
Peter Vanderwicken	
Benjamin J Cox	(appointed 1 st August 2001)
Nechama Cox	(appointed 1 st August 2001)
Iris Cox	(appointed 24 th July 2001)
Rebecca D Cox	(appointed 27 th December 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 2002.

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 prior to 1992. While the Borealis Family of Companies retains its mining 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. Since 1995 most of the Borealis Family of Companies' expenses relate to expenses incurred whilst carrying out its research and development activities. These R&D costs have all been written off in the year incurred, and most costs are funded by the issue of shares in subsidiary undertakings.

On 19 October 1998, the Company successfully completed a redomiciliation out of Canada into Gibraltar. Accordingly 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: www.rochebay.com

A subsidiary company, Roche Bay plc, owns the mineral leases located near Roche Bay, Nunavut, Canada which contain one of the world's largest, mineable resource of Magnetite(Fe₃O₄). 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 on renewal dates. The leases are located in the Baffin Mining District of Nunavut, Canada. Significant work is currently underway in an attempt to bring these properties into production.

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

Faraway plc, owns 100% of these claims in the Freuchen Bay Area of the Keewatin Mining District of Nunavut, Canada. These claims cover a series of geophysical/geochemical anomalies that our consultants tell us sit astride an intracratonic rift. The claims were staked on permits in 1992. Faraway plc retains a 100% interest in these claims. If survey documents are not filed by October 2002 these claims will expire. If and when successfully taken to lease, the leases will run for 21 years with the ability to renew and will require annual payments of \$1.12 per acre per year. The group has made payments on the property to January 2003 on the assumption that the claim will be successfully taken to lease.

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 \$105,115 of the fine and penalties has been paid to date. The remaining fine of \$8,635 has been provided for by this company. The clean up costs have been paid at the date of these accounts. 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: www.chorusmotors.gi

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: www.coolchips.gi

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: www.powerchips.gi

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 operates a non-government funded research operation. This is a non capital intensive business where most of the expenditures are for staff and the 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 2003. Subject to the availability of adequate finance it is expected that a high value research/production fabrication facility will be built by subsidiary companies in 2003. On the minerals side, in 2003 and subsequent years the company anticipates that significant expenditures will be incurred on the development at Roche Bay as work is progressing on putting the Roche Bay mineral resource into production. Finance will be provided by the issuance of further shares in the subsidiary. Various proposals for development and or sale are under discussion.

FINANCIAL REVIEW

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

As of 31 March 2002, the Group had retained losses of \$24,441,054 (2001 - \$23,444,874) and a working capital deficiency of \$862,446 (2001 - \$969,679). The net asset surplus as at 31 March 2002 amounted to \$1,985,032 (2001 - \$2,183,060). 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. There has been recent demand in the shares of some of its subsidiary companies, two of which are currently quoted on the public market with 2 others expected to follow in 2003. Therefore the directors feel confident of the group's ability to generate sufficient equity finance, on which it is presently dependent, until it is able to generate sufficient profits.

BOREALIS EXPLORATION LIMITED

DIRECTORS' REPORT (Continued)

FINANCIAL REVIEW (Continued)

There can be no assurance that the Company or its Subsidiaries' efforts to generate further financing and achieve profitable operations will be successful.

As explained in Note 1(f), all costs relating to the Group's mineral claims and leases have been capitalised and these costs are accordingly reflected in the consolidated balance sheet. The directors are confident that the current market value of the leases is very substantial, and well in excess of their cost. The commercial potentials of certain of the technology investments, as evidenced by the recent market valuations of share issue in subsidiary companies, also justifies the use of the going-concern basis as appropriate for the preparation of these 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.

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 2002	Number of shares held at 31 March 2001
Isaiah W. Cox	243,165	243,165
Donald N. Jones	55,548	55,548
Arnold A. Turin	100	100
Joseph J. Cox	31,329	31,729
Rebecca D Cox	2,000	-
Rodney T. Cox	161,600	221,600
Iris Cox	2,000	-
Benjamin J. Cox	39,353	10,540
Nechama Cohen Cox	16,700	14,700
David M. Goldenberg	100	100
Wayne S. Marshall	114,040	114,040
Peter Vanderwicken	27,500	27,500

BOREALIS EXPLORATION LIMITED

DIRECTORS' REPORT (Continued)

There are no share options outstanding in the Company 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 this is considered inappropriate

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

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

By order of the Board

The image shows two handwritten signatures in black ink. The signature on the left is a stylized, cursive signature that appears to be 'Isaiah W Cox'. The signature on the right is also cursive and includes the letters 'R T Cox' in a more legible font within the signature.

.....
Isaiah W Cox
Director

.....
Rodney T Cox
Director

22nd July 2002

BOREALIS EXPLORATION LIMITED

AUDITORS' REPORT TO THE SHAREHOLDERS of Borealis Exploration Limited

We have audited the financial statements on pages 7 to 21 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.

Basis of opinion


We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board in the United Kingdom. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

In forming our opinion, we have considered the disclosures made in note 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 2002 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 Companies Ordinance 1930 and the Gibraltar (Accounts) Companies Ordinance 1999.



Moore Stephens
CHARTERED ACCOUNTANTS

Gibraltar

22nd July 2002

BOREALIS EXPLORATION LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2002

		2002	2001
		\$	\$
Expenditure		(3,315,383)	(3,124,026)
		<hr/>	<hr/>
Operating loss	4	(3,315,383)	(3,124,026)
Financing Costs		(430,000)	(162,700)
Interest		(19,573)	(16,735)
		<hr/>	<hr/>
Loss on ordinary activities before taxation		(3,764,956)	(3,303,461)
Taxation	8	—	—
		<hr/>	<hr/>
Loss on ordinary activities after taxation		(3,764,956)	(3,303,461)
Gain on decrease in stake in subsidiaries		3,566,927	3,416,669
Equity Minority interest		(798,151)	(513,981)
		<hr/>	<hr/>
Loss for the financial year		\$ (996,180)	\$ (400,773)
		<hr/> <hr/>	<hr/> <hr/>
Loss per ordinary share	10	\$ (0.20)	\$ (0.08)

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.

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

BOREALIS EXPLORATION LIMITED

STATEMENT OF GROUP TOTAL RECOGNISED GAINS AND LOSSES For the year ended 31 March 2002

	2002	2001
	\$	\$
For the year ended 31 March		
(Loss) for the financial year	(996,180)	(400,773)
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 (losses)/gains recognised since last report	<u>\$ (996,180)</u>	<u>\$ 5,503,737</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.

Investment 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 exists 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 2002

		2002 US\$	2001 US\$
Fixed Assets			
Intangible assets	11	318,741	310,003
Tangible assets	12	20,302	27,065
Investments	13	–	138,000
Investments – mining properties	14	4,708,435	4,637,671
		<u>5,047,478</u>	<u>5,112,739</u>
Current assets			
Cash at bank and in hand		20,162	–
		<u>20,162</u>	<u>–</u>
Creditors: amounts falling due within one year	16	882,608	969,679
		<u>862,446</u>	<u>969,679</u>
Net current liabilities			
		<u>4,185,032</u>	<u>4,143,060</u>
Total assets less current liabilities			
Creditors: amounts falling due after more than one year	17	2,200,000	1,960,000
		<u>\$ 1,985,032</u>	<u>\$ 2,183,060</u>
Net Assets			
		<u><u>\$ 1,985,032</u></u>	<u><u>\$ 2,183,060</u></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	(24,441,054)	(23,444,874)
		<u>(150,075)</u>	<u>846,105</u>
Total shareholders' funds			
		<u>2,135,107</u>	<u>1,336,955</u>
Minority interests - equity		<u>\$ 1,985,032</u>	<u>\$ 2,183,060</u>
		<u><u>\$ 1,985,032</u></u>	<u><u>\$ 2,183,060</u></u>

The financial statements on pages 7 to 21 were approved by the Board of Directors on 22nd July 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 2002

	Notes	2002 \$	2001 \$
Fixed Assets			
Intangible assets	11	318,741	310,003
Tangible assets	12	20,302	27,065
Investments	13	—	138,000
		<u>339,043</u>	<u>475,068</u>
Investments in subsidiary undertakings	9	580	580
		<u>339,623</u>	<u>475,648</u>
Current assets			
Cash at bank and in hand		20,162	—
Debtors	15	52,000	52,000
		<u>72,162</u>	<u>—</u>
Creditors: amounts falling due within one year	16	<u>(7,916,880)</u>	<u>(4,697,988)</u>
Net current liabilities		<u>(7,844,718)</u>	<u>(4,645,988)</u>
Total assets less current liabilities		<u>(7,505,095)</u>	<u>(4,170,340)</u>
Creditors: amounts falling due after more than one year	17	<u>2,200,000</u>	<u>1,960,000</u>
Total net liabilities		<u>\$ (9,705,095)</u>	<u>\$ (6,130,340)</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	<u>(33,996,074)</u>	<u>(30,421,319)</u>
Total deficit in shareholders funds		<u>\$ (9,705,095)</u>	<u>\$ (6,130,340)</u>

The financial statements on pages 7 to 21 were approved by the Board of Directors on 22nd July 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 2002

	2002 \$	2001 \$
Net cash outflow from operating activities	(3,367,096)	(3,591,926)
Returns on investments and servicing of finance		
Interest paid	(19,573)	(16,735)
Net cash outflow from returns on investments and servicing of finance	(19,573)	(16,735)
Capital expenditure and financial investment		
Patent additions	(23,088)	(99,760)
Purchase of tangible fixed assets	–	(1,299)
Purchase of fixed asset investment	138,000	(138,000)
Lease costs of mining properties	(70,764)	(15,671)
Net cash inflow(outflow) from capital expenditure and financial investment	44,148	(254,730)
Acquisitions and disposals	1,162,375	659,932
Cash received for issuance of shares by subsidiaries	2,404,553	2,656,538
Compensation for services provided by deposits	3,566,928	3,225,470
Net cash inflow from disposals	224,407	(637,921)
Net cash inflow (outflow) before financing		
Financing		
Advances (to) / from shareholders	–	(33,580)
Funds received / (repaid) from sale (purchase) of shares advanced by directors	(190,000)	647,300
Net cash inflow from financing	(190,000)	613,720
Increase / (Decrease) in cash	\$ 34,407	\$ (24,201)

BOREALIS EXPLORATION LIMITED

CONSOLIDATED CASH FLOW STATEMENT (Continued) for the year ended 31 March 2002

RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2002	2001
	\$	\$
Operating loss	(3,315,383)	(3,124,026)
Depreciation of tangible fixed assets	6,763	8,304
Amortisation of patents	14,350	9,436
Decrease in trade creditors	(72,826)	(485,640)
	<u> </u>	<u> </u>
Net cash outflow from operating activities	\$ (3,367,096)	\$ (3,591,926)
	<u> </u>	<u> </u>

MOVEMENT IN CASH AND ANALYSIS OF CASH BALANCES

Changes in net cash	2002	2001
	\$	\$
At 1 April	(14,245)	9,956
Increase / (Decrease) in cash in the year	34,407	(24,201)
	<u> </u>	<u> </u>
At 31 March	\$ 20,162	\$ (14,245)
	<u> </u>	<u> </u>

Analysis of cash balances	2002	2001
	\$	\$
Cash at bank	20,162	--
Bank overdrafts	--	(14,245)
	<u> </u>	<u> </u>
Net cash at 31 March	\$ 20,162	\$ (14,245)
	<u> </u>	<u> </u>

BOREALIS EXPLORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2002

1 PRINCIPAL ACCOUNTING POLICIES

In compliance with Gibraltar legislation, the Company now presents its financial statements for the year ended 31 March 2002 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 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. 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 are as follows:

Mining and geological equipment	30%
Other equipment	20%

Patents are accounted for on the basis of the costs of registering the worldwide rights. All costs of development and legal works of the products have been written off in the year incurred. These 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.

d. Fixed Assets Investments

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

e. Mineral reserves

The directors are confident that mineral resources 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.

f. Research and Development

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

BOREALIS EXPLORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2002 – continued

g. Reporting currency

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

h. 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.

i. 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.

j. 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.

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. The Company has free trading shareholdings in many of the subsidiary Borealis Family of companies that are carried at nominal value. One of those companies is now quoted on the public market. 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 currently mainly carried out outside Gibraltar.

4. OPERATING LOSS

	2002	2001
	\$	\$
Operating profit is stated after charging		
Depreciation	6,763	8,304
Amortisation	14,350	9,436

BOREALIS EXPLORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2002 – continued

5. DIRECTORS EMOLUMENTS

The total amount of emoluments paid to directors during the year was \$ 1,052,600.

In addition, rent totalling approximately \$102,000 (2001 - \$ 101,500) 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.

7. PROFITS OF HOLDING COMPANY

Of the loss for the financial year a deficit of \$(3,574,755) 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 Incorporated, which is registered in USA) are registered in Gibraltar:

Directly held by the Company	Ownership Interest		Investments	
	2002	2001	2002	2001
Borealis Technical Limited	99%	99%	\$ 160	\$ 160
Credits Holdings Limited	99%	99%	160	160
Roche Bay Holdings Limited	99%	99%	160	160
Borealis Exploration Incorporated	100%	100%	100	100
Faraway Public Limited Company	100%	-	-	-
Total investments			580	580

No consideration was paid for the shares in Faraway Public Limited Company, the nominal value of the shares owned by Borealis Exploration Limited is \$83,200 (2001 \$-)

BOREALIS EXPLORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2002 – continued

Indirectly held by the company	Ownership Interest	
	2002	2001
Chorus Motors Public Limited Company ⁽¹⁾	87.4%	89.2%
Cool Chips Public Limited Company ⁽²⁾	70.8%	72.1%
Photon Power Public Limited Company	99.8%	99.8%
Power Chips Public Limited Company ⁽³⁾	71.0%	72.1%
Roche Bay Public Limited Company	97.4%	98.9%
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

Of the above companies, Cool Chips plc and Chorus Motors Plc are trading on the open market in the United States. Application is expected to be made in 2003 for Power Chips plc also to be traded on the US market.

In spite of this the investment in quoted subsidiary undertakings has been valued at historical cost taking no account of unrealised gains based on market value.

(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 principally 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 though the transactions were anti dilutive in absolute terms. The issue of these shares is either for a cash consideration or payment for goods and services received by agreement with the creditor.

In 2002, further funds were raised by the issue of shares at a premium by Chorus Motors plc, Cool Chips plc, Photon Power plc, Power Chips plc and Roche Bay plc. A minority interest of \$2,135,107 (2001 - \$1,336,955) in the subsidiaries is presented on the balance sheet effective 31st March 2002. The Equity of the Borealis Group in the share premiums paid by third parties during the year of \$3,566,928 (2001 - \$3,416,669) 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.

BOREALIS EXPLORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2002 – continued

	Earnings \$	2002 Weighted average number of shares \$	Per share Amount \$	Earnings (as restated) \$	2001 Weighted average number of shares \$	Per share amount (as restated) \$
Basic EPS						
(Losses) /Earnings attributable to ordinary shareholders	(996,180)	4,982,605	(0.20)	(400,773)	4,982,605	(0.08)

11. INTANGIBLE FIXED ASSETS – PATENT FILING FEE

	Cost \$	Amortisation \$	Total \$
At 1 April 2001	335,669	25,666	310,003
Additions / Charge in year	23,088	14,350	8,738
At 31 March 2002	<u>\$ 358,757</u>	<u>\$ 40,016</u>	<u>\$ 318,741</u>

12. TANGIBLE FIXED ASSETS

	Mining, Drilling and Camp Equipment \$	Office Equipment \$	Total \$
Cost			
At 1 April 2001	655,808	50,478	706,286
Additions	–	–	–
At 31 March 2002	<u>655,808</u>	<u>50,478</u>	<u>706,286</u>
Depreciation			
At 1 April 2001	642,326	36,895	679,221
Charge for year	5,110	1,653	6,763
At 31 March 2002	<u>647,436</u>	<u>38,548</u>	<u>685,984</u>
Net book value			
At 31 March 2002	<u>\$8,372</u>	<u>\$11,930</u>	<u>\$20,302</u>
At 31 March 2001	<u>\$ 13,482</u>	<u>\$ 13,583</u>	<u>\$ 27,065</u>

BOREALIS EXPLORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2002 – continued

13. FIXED ASSETS INVESTMENTS

The sole investment comprised a 30 year advance at 7% per annum to a long time consultant of the company, secured by mortgage on US real estate. This loan has now been settled by the buy back of shares held in group companies.

	2002	2001
	\$	\$
Investments – amount receivable	\$ ---	\$ 138,000
	<u> </u>	<u> </u>

14. INVESTMENT – MINING PROPERTIES

	2002	2001
	\$	\$
Mining Properties	\$ 4,708,435	\$ 4,637,671
	<u> </u>	<u> </u>

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

These mineral resources were considered ‘proven reserves’ by the Ontario Securities Commission for decades. The definitions have now changed for these mineral resources, however with the current state of knowledge there are sufficient known resources today to place these properties into production. The Company is engaged in the imminent exploitation of these resources.

15. DEBTORS

	Group		Company	
	2002	2001	2002	2001
	\$	\$	\$	\$
Amounts due from group undertakings	\$ –	\$ –	\$ 52,000	\$ 52,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

BOREALIS EXPLORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2002 - continued

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

Group	Share Capital \$	Share Premium Account \$	Profit & Loss Account \$	Total \$
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	49,826	24,241,153	(23,444,874)	846,105
Loss for the year	—	—	(996,180)	(996,180)
At 31 March 2002	\$ 49,826	\$ 24,241,153	\$ (24,441,054)	\$ (150,075)

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 Limited International, Inc, received \$125,950 during the year for management services. The CEO is an agent for Shiloh Limited International, Inc. Shiloh is owned by the Jeremiah Toyam Cox Foundation Limited of which the CEO is a member of the Council.

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 counter suits 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.

BOREALIS EXPLORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2002 - continued

This 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 Plc

Cool Chips Plc began trading on 24th April 2002 in the United States over the counter market under the Symbol COLCF.

Chorus Motors Plc

On the 19th July 2002 Chorus Motors Plc is on www.bloomberg.com under the Symbol CHOMF.

License Agreement

A development licence agreement was signed with Solar Sails Foundation Limited on 15 April 2002 in return for delivering production prototypes Cool and Power Chips, Solar Sails Foundation Limited has exclusive rights to Cool Chips for exclusive markets.