

# ***BOREALIS***

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## Borealis Exploration Limited 2004 Annual Report

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## **To Members of Borealis and Friends of the Borealis Family:**

Borealis imagines, invents, develops, and licenses new industrial technologies. These include technologies for more efficient and lower-cost generation of electrical power, more powerful and effective electric motors, and silent, non-polluting cooling and refrigeration systems. These technologies will fundamentally change basic industries and introduce the Borealis Industrial Revolution. We anticipate that some of these technologies will enable entirely new industries and open new fields for scientific exploration and commercial development for many decades to come.

We have completed development of the Chorus® Meshcon™ Motor. We demonstrated in June 2003 a 1.5-horsepower motor and in June 2004 completed development of a plug-and-play 20hp Chorus Meshcon motor system. We are now in a position to be a substantial virtual producer of this motor system that substantially transforms the engineering envelope for electric motors. Test results, posted recently on the Chorus Motors Website, show that a Chorus Meshcon system can produce at least five times the startup torque of a comparable conventional motor.

This new capability means that motors (Chorus, of course) can now be used in many applications where previously no motor could offer the combination of high torque, small size and light weight required. The market for Chorus systems will thus be broader than the current market for electric motors as Chorus replaces not only conventional motors, but also hydraulic and pneumatic systems and even internal-combustion engines for many purposes. Indeed, we have spent much of the past year designing Chorus systems for highly-demanding (and in some cases novel) applications for major corporations. While it takes significant time for us to design and the customers to evaluate these new systems, we expect that some of these designs will lead to large and multi-year supply contracts.



Development is nearing completion on our other primary technologies, Cool Chips™ and Power Chips™. We now have sufficient production capacity to meet a significant part of the high-value military demand for product. We expect that these technologies soon will be finished and we will start to make product deliveries to our customers—and to report revenues.

Before reviewing where we now stand with each of these technologies, a brief explanation of our overall objectives and strategy.

### **Research and Development Strategy**

Our objective is to earn exceptional profits from the fruits of our scientific research. Our method is to undertake high-risk scientific research and technology development projects in a risk-averse and frugal way. Often, these involve fundamental scientific research efforts whose apparent risk is so great that no

one else—not even governments—will dare to undertake them. But by using a well-known but little-used analytical methodology for evaluating projects perceived to be risky, we concluded that our projects promised future returns vastly greater than their risks.

Borealis management constantly evaluates proposed research projects and possible new technologies, products, and science for their economic worth. We compare these proposals on the basis of their present discounted expected value—that is, the total of their potential expected returns over many years, discounted back to give us the project’s present value. We seek to invest our time, scientific efforts, and our financial resources only in those projects that are most likely to produce the highest present discounted expected values. The FAQ page on our Website has an explanation of how this analysis works.

Much of the scientific research being conducted today, in all fields, is government-funded or government-sponsored, and if it can be patented the government has a free-use clause for all its high-value uses. We have received no corporate or government funding for our research; all Borealis research is privately funded by our shareholders and conducted by our own scientists in our own facilities. Our projects are selected and funded not on the basis of what any government thinks has value to the government, but on the basis of what the research is worth today, in terms of its present discounted expected value, to Borealis. The consequence is that Borealis’ shareholders own the resulting technologies.

Most research and development efforts conducted in companies today are applied R&D, using known science and technology to develop new products or improve existing products. Incremental improvements produce incremental returns. By contrast, Borealis has been seeking an entirely new understanding of basic sciences such as electric motors, quantum electron thermotunneling, and the behavior of elementary atomic particles. Working from the underlying (and well-established) physics and engineering, our researchers have managed to take an entirely new look at old, presumably well-understood processes. Armed with this new perspective, we seek to develop new technologies and products based on our discoveries and inventions.

Because these technologies and products are based on our own scientific discoveries and are all protected by broad patents, as well as by extensive proprietary know-how, they create opportunities to earn extraordinary returns—while also providing great benefits to the world.

For example, for nearly a century it has been universally believed among motor scientists that motors using more than three electrical phases have no real value, and for decades this belief had not been seriously challenged. But in seeking to invent a better motor, we revisited the basic physics of electric motors. We discovered that, by correctly designing a motor that uses more than three phases, we can harness the otherwise-damaging electromagnetic harmonics that degrade the performance of conventional motors. By co-opting the harmonic waves into a harmonic “chorus” that increases, rather than counteracts, the fundamental torque of the motor, we have been able to design a more powerful, more effective motor. The AC induction Chorus Motor with Meshcon produces more than a 400% improvement in startup torque, greater torque throughout the speed curve, and increased efficiency. The Chorus Meshcon motor will allow for proprietary profits. Our website, [www.chorusmotors.gi](http://www.chorusmotors.gi) has a great deal of additional information.

Similarly, we were attracted to the idea of an ideal thermal-electrical converter, which could be used to generate power from waste heat, or to cool efficiently. Since 1883, when the thermoelectric effect was first

noticed by Edison, scientists have been trying to make it work efficiently. Research efforts since 1956 have focused on a search for the perfect thermoelectric material – something that moves heat only in one direction. Apparently billions have been spent in research efforts trying to discover this perfect material. But our researchers did not spend years in the thermoelectric field, so they did not know that the hunt starts and ends with materials. Instead, our researchers started with the opposite notion – that the perfect material is in fact no material at all; that a vacuum would allow electricity to flow, but would block heat from flowing in the wrong direction. By restating the problem as one of physics and not materials science, our researchers were able to find a solution that is elegant, simple, and potentially inexpensive enough to dominate such mass markets as refrigeration and air conditioning.

This progression from basic scientific inquiry to a finished product is lengthy and often frustrating. We have been at this for over a decade. To go from a basic scientific theory or discovery, to imagining, building, and then marketing products, has been a long and difficult path, and we have discarded a sizable number of technologies that did not measure up. With Chorus Motors, Cool Chips, and Power Chips, we now have a good grasp of the science underlying each technology, we are working on building production prototype products, carefully protected by both issued and pending patents, and we hope soon to be earning substantial profits, initially in direct manufacturing and sales.

Our strategy is to manufacture and market products enabled by these technologies ourselves—by starting with the very high-value military and aerospace markets. It is obvious that the applications and markets are so diverse that no single company could hope to understand or address all the potential markets; that is why we are concentrating on the high-value military and aerospace markets. We have tried to license each technology exclusively to existing manufacturers in each field and to end-users in defined markets. These negotiations have gone nowhere to date as everybody is used to high-end technology being free, provided by the government. We still seek to license our technologies exclusively to leading manufacturers in various markets. However, we expect our basic model for at least the next few years will be to make direct sales to customers in a few high-value, low-volume markets where it is both more practical and more profitable for our subsidiaries to be both manufacturer and vendor. This ability to invent, patent, design, build and sell is of huge value to our Family of Companies. From where we sit our first few transactions will firmly establish ourselves as just not a research house but a really first-class build house.

Our three principal technologies are:

### **Chorus Motor**

The Chorus Star™ and Meshcon Motors have been developed and are being sold by our majority-owned subsidiary, Chorus Motors plc. We have done no licensing to date and thus far have only been able to work on making sales of specific product for specific markets for which sales are pending. This technology is available today for licensing to motor manufacturers in exclusive markets though we do not expect any licensing for several years. The motor market is simply not a licensing market.

Each application requires a slightly different motor but the generic production electronic packaging is now completed. The Chorus Star Motor is a significantly improved electric motor that provides a much wider engineering envelope of considerably more torque and higher efficiencies than existing three-phase electric drives. By harnessing the electromagnetic harmonics that are present in any AC induction motor, we have been able to develop a motor that looks just like a conventional AC induction motor, but performs much

better. And we have taken the basic Chorus Star concept, which has been operating in our labs for several years, to the next step. In certain applications, high torque is required at startup – for example when a car needs to accelerate its speed or when a loaded conveyor belt needs to begin running.

An advanced version of Chorus Star, called “Chorus Meshcon,” enables a drive to produce maximum torque even at slow startup speeds. The result is that a much smaller drive can be used for the same load, greatly reducing both manufacturing and operating costs. Chorus Meshcon provides great benefits at all drive sizes, from less than one horsepower up to megawatt systems, with a variety of competitive advantages that depend on the specific size and application. The Chorus Meshcon motor/drive system can replace a 500-horsepower motor with a 100-hp motor in high-power startup applications using 100-hp electronics.

Soon after the end of this fiscal year, we completed a 17-phase, 20-horsepower demonstration Chorus Meshcon motor, for example, that produces more than 200 foot-pounds of torque at low startup speeds and a steady torque of about 40 foot-pounds at normal high-speed operation. By comparison, the same motor frame in a standard three-phase configuration produces little torque at slow speeds and is rated at about 30 foot-pounds overall. In applications where swift starts or high overloads are important—for example, driving automobiles, trucks, trains, or traction loads—Chorus Meshcon performs much better, and enables a smaller, lighter motor to drive the same loads.

In the opinion of our technical staff, the Chorus Motor Technology will change motor and drive technology forever. Borealis is changing a commodity business into a proprietary business where our patented technology is expected to lead to proprietary 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 such applications. Because of cost and performance advantages, the Chorus Motor will help make hybrid-electric cars economically competitive.

The worldwide market for electric motors exceeds \$200 billion a year, but because there has been little change or innovation in motors for decades, this has become a commodity-like, low-margin business. Indeed, some large corporations in both the United States and Europe have been seeking to sell their motor-manufacturing operations, believing there is little prospect of earning reasonable returns in this business. Our Chorus technology will make electric motors and drives a sharply-differentiated business and enable us to earn proprietary, high-margin profits.

We anticipate that Chorus Motors plc will become a large and highly profitable business as acceptance of its superior technology increases over time. We have not completed any sales to date though many are under negotiation. These are orders that start small but with delivery of product and the performance of the product verified these discussions can be expected to lead to large and profitable sales for many years to come. These results are dependent upon many factors outside our control, but our consultants see very large sales numbers as reasonable and attainable goals if our scientific breakthroughs with electric motor systems are as fundamental as we currently believe. Much more information about Chorus can be found on its Website at [www.chorusmotors.gi](http://www.chorusmotors.gi).

## Power Chips and Cool Chips

Borealis has also developed two technologies based on our research into quantum thermotunneling—the movement of excited electrons across a tiny gap between two electrodes. Both technologies have been made possible only in recent years by advances in semiconductor manufacturing capability and by new understanding of nanotechnology. Both will be among the first practical benefits from the emerging nanotechnology revolution.

The first is Power Chips, which produce electricity directly from heat, with high efficiency. Power 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.

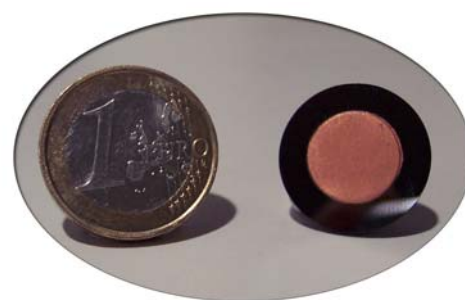
Major potential applications include power generation in electric or hybrid-electric vehicles, reclaiming and converting waste heat in conventional power plants, and stand-alone power generation systems for individual buildings, thus avoiding all the problems of infrastructure cost and potential brownouts associated with area grid-based power systems. For these and many other applications we expect Power Chips to be superior not only to all established technologies, but also to emerging technologies such as fuel cells. The worldwide market for electric power exceeds \$1 trillion a year, and we expect that Power Chips will over the next few decades replace most existing means for generating electricity and capture most of this market, while also creating new markets by making electricity almost universally available at a lower cost.

Alternatively, the chips can be operated as Cool Chips to pump heat to provide cooling, refrigeration, and climate control.

Because of the inherent advantages in cooling across a nanometer-scale gap between two electrodes, Cool Chips are projected to attain efficiencies higher than those previously available in cooling systems, and far greater cooling performance than compressors of the same size and weight. The devices are small, silent, lightweight diodes that are scalable in arrays to meet any thermal management need from cooling a single microprocessor to air-conditioning a factory or home. They can produce cooling for any heat load from hundreds of degrees to below freezing temperatures, at projected efficiencies of 55% (conventional compressor systems operate at 40-50% efficiencies).

Cool Chips will have thousands of applications, from refrigerating cargo ships and air-conditioning cars to cooling X-ray machines, desktop/laptop computers, containers for land and sea and telecommunications equipment. We expect that our first sales will be for military use, for cooling a wide range of equipment, devices, and sensors.

Cool Chips offer a unique cooling solution and the first viable replacement option for the century-old compressor technology that is now dominant in nearly all forms of thermal management, including air conditioning, refrigeration, chilling, freezing, and cooling. Their potential market is huge; the global cooling industry has sales of more than \$200 billion a year. Cool Chips offer a number of benefits over traditional systems that will give them a significant competitive advantage in capturing this large and



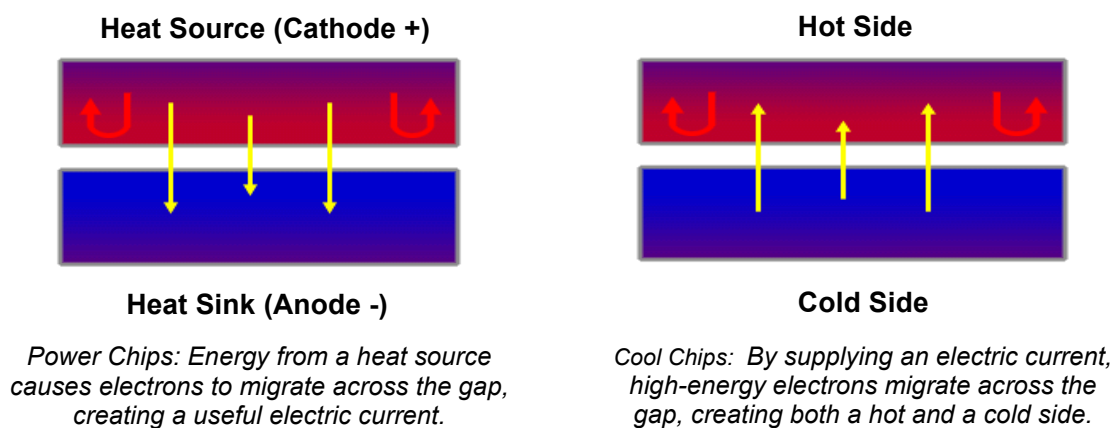
***Prototype Chip shown with a 1-Euro coin for size comparison***

mature market. In addition to their size, weight, and efficiency advantages, Cool Chips have no moving parts, operate silently, require little or no maintenance, and use no environmentally harmful refrigerants.

How can the same effect of quantum physics produce both electric power and cooling? The heart of a Power Chip or Cool Chip is an electrode capable of emitting electrons very freely. This can be triggered either by applying heat, or by applying an electric current.

If heat is applied, the resulting electron flow forms an electric current.

If electricity is applied, the electrons carry heat with them as they move. By ensuring that the electrons are passing across a tiny vacuum gap, the direction of heat flow is predominantly one-way, and thus one side of the chip becomes cooler while the other side becomes warmer.



In both forms, the chips can operate within all normal ambient temperatures, and, we expect, from cryogenic temperatures up to the temperature of typical engine exhaust gases (900° Celsius). Thus they have a wide range of potential applications both in day-to-day life and in many industrial processes. We now have production capacity of 20 chips an hour and we have two characterization labs testing prototype devices. We are in a cycle of constantly producing and testing until we get the recipe right.

We expect that initial production Power Chips will generate 10 to 100 Watts per square centimeter, depending upon the operating regime, while Cool Chips will produce 3 to 5 Watts (equivalent to 10 to 17 BTUs/hour) per square centimeter of cooling. Both these outputs are far higher, and are projected to be produced at higher efficiencies, than those possible with any existing technology for power generation or cooling. Further development should substantially increase the chips' respective power generation or cooling capacities.

The demand for these devices is intense, from dozens of industries and for thousands of applications. We are now taking orders for the future delivery of Cool Chips. As a result, we anticipate that Cool Chips plc and Power Chips plc, our majority-owned subsidiaries developing and licensing these technologies, will experience perhaps the fastest demand-growth curves in industrial history. The largest constraint to growth will be manufacturing capacity. We plan to complete the first 18 months of production solely out of our own facilities; additional capacity will then be provided by additional facilities or by manufacturing partner licensees. Much more information is available on both these technologies and companies on their respective Websites at [www.coolchips.gi](http://www.coolchips.gi) and [www.powerchips.gi](http://www.powerchips.gi).

## **The Borealis Industrial Revolution**

Many of the core technologies that provide the foundations for modern industrial economies were invented in the last half of the 19th Century. These include steelmaking, electric motors, electrical power generation, internal-combustion automobile engines, and refrigeration and air conditioning. While all these first-generation technologies have been significantly improved over the past century, none has been fundamentally changed or replaced by a better technology. Yet in the past century there have been enormous advances in basic sciences, in engineering, and in manufacturing capabilities. These scientific and technological advances have been applied to invent new products and create new industries, but none of those advances has significantly changed the core industrial technologies.

Borealis has re-examined the core technologies of basic industries—all of which have worldwide sales of hundreds of billions of dollars annually—and applied the 20th Century's scientific and technical discoveries—notably recent advances in microengineering and nanotechnology—to re-invent these 19th Century technologies. The result is a number of entirely new technologies for basic industries that will advance them into the 21st Century and launch a decades-long wave of renewal, regeneration, and economic growth worldwide—what we call the Borealis Industrial Revolution.

These renewed fundamental technologies will be smaller, simpler, more efficient, and much less expensive. They will permit the benefits of modern technology to be spread much more widely around the world and spark economic growth everywhere. They will also respond to 21st Century concern about the earth's environment by sharply reducing the need to burn fossil fuels and by greatly reducing or even eliminating air pollution caused by many industrial processes and consumer products.

These new Borealis technologies will provide profound benefits for the entire world, and they will produce far-reaching changes in many industries and in regional and national economies.

Power Chips, for example, should revolutionize electrical power generation across virtually all applications. In present large generating stations, adding Power Chips to capture heat that is now wasted will enable power plants to produce at least 20% more power with no increase in fuel consumption or emissions. In automobiles and other vehicles, Power Chips initially are likely to replace the starter-alternator, using waste heat from the radiator and exhaust and greatly increasing the efficiency of the internal combustion engine. Eventually, electrically-driven vehicles will become feasible, with power generated by Power Chips—burning gasoline, natural gas, methane or hydrogen as fuel to produce heat—and driving a super-efficient Chorus Motor. Such an automobile would achieve several times the fuel efficiency of current models and produce a fraction of the emissions.

Power Chips will make it possible to efficiently generate power in a wide range of portable devices, thus increasing their utility. They will make it possible to bring plentiful electric power to regions of the world whose peoples and economies now suffer from inadequate electric power, at a fraction of the cost to do so using current generating technologies. Power Chips will be among the first economically and environmentally transformative fruits of the emerging nanotechnology revolution.

Cool Chips will also produce wide-ranging benefits for many industries and people worldwide. They will sharply reduce the costs of cooling, refrigeration, and air conditioning, thus making these amenities

available to more of the world's people. Just as the southern United States began a decades-long surge of economic growth when air conditioning became widely available, so Cool Chips will enable economic development in all the world's tropical regions, at a much lower cost than current compressor-based air conditioning. Because Cool Chips use no compressors or gases, they produce no emissions, and thus will reduce any threat posed by global warming.

They will also make possible a vast array of new products in many industries, from non-melting picnic coolers to quieter, less expensive air conditioning to Cool Chips built into clothing to provide personal climate control. Because Cool Chips will make possible precise temperature control in small areas, they will enable refrigerators to keep each food at its optimal storage temperature, thus keeping foods fresh longer. In a car, they will allow each passenger to be as warm or as cool as he chooses.

And the Chorus Motor will enable many products, from large industrial machines to tiny servomotors, to be smaller, lighter, more efficient, more powerful, and less expensive. It will open the path to a multitude of new products, and enable manufacturers in many industries to redesign existing products to reduce their size and weight and improve their performance, efficiency, and appearance.

Combined with Power Chips to produce electricity, the Chorus Motor will make possible more efficient and non-polluting automobiles and other vehicles, from trucks to trains to ships. A Chorus Motor used to drive an automobile, for example, will be smaller, lighter weight, virtually silent, and less expensive to build and operate than an internal-combustion engine, while producing as much or greater torque for startup and acceleration.

Together, these technologies have the potential to reinvigorate and transform some of the world's largest and oldest industries, giving their engineers new design options and making their products more useful, less expensive, and more environmentally friendly. This transformation process will, we expect, drive worldwide economic growth for several decades and will, we believe, become the Borealis Industrial Revolution.

## **Borealis Patents and Intellectual Property**

Borealis Technical Limited so far has been granted more than thirty U.S. and international patents for its scientific and technological advances in electric motors, power generation, cooling and refrigeration, steelmaking, and other areas.

Many of these patents, in the opinion of our technical staff, are what the Courts might label "pioneer" patents, reflecting the fact that they are the first patents to be issued in an entirely new field of technology, or represent a technical revolution in a previously-defined field. Pioneer patents are those to which most later patents in a field make reference, or on which later patents build by adding new improvements to the field. Because pioneer patents represent the result of groundbreaking scientific discoveries or development, the courts have found that they merit a wide breadth of protection in construing their claims and specifications.

Because our scientific discoveries and technical advances are the base core of our business, we are very careful about protecting these assets. Patenting and otherwise protecting our technologies is an important

activity at Borealis and consumes a considerable portion of our resources. We have developed an extensive library of intellectual property and we intend to protect it vigorously.

In fiscal 2004 we were issued five new U.S. patents. We also filed applications in the U.S. and internationally for an additional 25 patents, and now have a considerable number of applied-for, in-process, and pending patent applications. Many of our recent applications have covered improvements to or additional claims for the technologies we have already announced, but some were provisional or initial patent applications for new technologies that we have not yet disclosed. Our scientific teams build what they invent and patent and stay at their basic scientific work year in and year out without the grant proposal problems of most scientific researchers.

We are always examining, under our present discounted expected value metric, our scientists' ideas for wholly new or radically improved technologies, and we are always working on the development of some of these ideas. But because many of these ideas are "game changers"—either a fundamental advance in what is generally presumed to be a mature technology or an altogether undeveloped field—we keep our work confidential until after the primary patents on a technology have issued. We have several projects that appear to be just these sort of "game changers" that may or may not end up being of value.

## **Some Borealis Properties and Operations**

Our principal operations include:

**Chorus Motors plc**, [www.chorusmotors.gi](http://www.chorusmotors.gi), is changing motor technology. The patents on this technology are now issuing on a fairly frequent basis, and in the last two years we have received several patents that we believe are among the most important motor patents issued in a century. The basic Chorus technology is completed and we are currently marketing Chorus Star and Meshcon motors to industrial customers.

**Cool Chips plc**, [www.coolchips.gi](http://www.coolchips.gi), is working to complete development of our cooling technology, and prototype builds are underway. We are comfortable with our technical grasp of the technology, and our excellent patent position.

**Power Chips plc**, [www.powerchips.gi](http://www.powerchips.gi), is striving to optimize our power generation technology. Builds are underway for Cool Chips which is basically the same technology run in reverse, and our issued and pending patents are strong and new patents are continuing to be written and issued.

**Photon Power Limited** requires a go/no-go decision and funding on building these solar power devices. The issued patents on this technology are comprehensive. This company has the solar power generation rights to our technologies and it appears reasonable that in most any scenario Photon Power™ will become a reality in the future even if it is off the back of Power Chips. This science is not yet a reality as we just have not had the resources to get this work developed properly.

**Borealis Green Steel™** Technology is apparently a simpler, more efficient, less expensive, and nonpolluting process for manufacturing steel. Some of our consultants feel the Borealis Green Steel Technology could be economically viable for use with our Roche Bay Ore while others feel the technology is worthless. In all the Roche Bay plc business plans Green Steel Technology is not being considered. We

have failed thus far to attract any outside interest for this patented technology, although we remain interested in pursuing reasonable avenues. We plan to use internal funding, when available, to begin the preliminary build work to see if this one-step Green Steel technology has a future. This work, for a definitive go/no go decision should cost less than \$10 million and has a very high expected discounted value. We can possibly get the basic scientific questions answered for less than \$250,000 which would then make the expenditure of the larger sums pretty much 'slam dunk' expenditures at that point. We need some small funding and to have our research staffs to have the time to address this issue, neither of which do we have at this time.

**Roche Bay plc**, [www.rochebay.gi](http://www.rochebay.gi), which owns the Roche Bay Magnetite Deposits on Melville Peninsula in Nunavut, Canada, that contain a possible resource of 4.3 billion tonnes of open pit magnetite (Fe<sub>3</sub>O<sub>4</sub>) iron ore, has undergone a sea change. We now know that the ore can be economically shipped for at least 270 days a year and that huge markets are opening up for this most spectacular resource. With China becoming a serious world player and demanding very large quantities of iron ore to feed its voracious appetite for natural resources, it appears that Roche Bay plc will sooner rather than later get this property into production on terms that are acceptable. It is our opinion that the iron ore trade will not willingly see us receiving value for this enormous resource, sales of which will be in the hundreds of billions of dollars at current prices, if there is any other supplier that can be tapped. If world demand for iron ore continues to grow as third parties project, in probably three years or less we could have a suitable transaction that will be the delight of our shareholders.

**Faraway plc**, [www.faraway.gi](http://www.faraway.gi), owns the Freuchen Bay Polymetallic Project, also located on Melville Peninsula in Nunavut Canada, which, according to our geological staff, is a classic intracratonic rift, polymetallic structure. We hold these properties under long-term leases until 2025 at which point the leases can be renewed. We expect to be making strategic decisions about the development of these properties in the current fiscal year and we expect that Faraway is our next company to be brought to where there is a public quote on its shares.

**Other Ventures:** The Borealis Family of Companies is engaged in other wide-ranging activities that may or may not warrant future mention or additional development. An entirely new technology we call Avto Metals is on this list along with other substantive ventures. When these projects are sufficiently developed and ready to be brought public, we will provide significant additional information on them at that time. We expect these ventures will all have the same business structure as our other public companies.

## **Our Organizational Structure**

Borealis Exploration Limited, the parent of the Borealis Family of Companies, is a holding company and owns indirectly a majority of all our operating subsidiaries. Borealis owns 98% of Borealis Technical Limited, which conducts all our research and itself owns a majority interest in each of the operating companies. Borealis Technical owns all our patents and has licensed all rights to them to the respective operating subsidiaries. Borealis Technical receives 50% of all sublicense revenue and 8% of all other revenue from its operating subsidiaries. For now Borealis Technical pays all the expenses of all the subsidiaries and all proceeds from share sales of the subsidiary companies are loaned by the subsidiary to the parent company and are due back 100% to the subsidiary. This means that the subsidiaries have no liabilities, as the parent company has assumed them all and as such the balance sheets of the operating plc subsidiary companies are very strong.

In addition, we see the additional following benefits for our corporate structure.

The plc's have provided a vehicle for raising capital during our development phase. Second, each of our technologies appeals to different markets, and having each managed separately makes possible greater focus. And third, many investors may prefer investing in a company concentrating on a specific technology. As additional technologies are disclosed, we will establish new companies to operate these in the same manner. Borealis and all of our operating plc companies are incorporated in Gibraltar.

Borealis Exploration Limited has 5,000,000 shares authorized and outstanding. Each operating subsidiary has 10,000,000 shares authorized, of which Borealis Technical owns at least 5,200,000 shares. We do not intend to propose that shareholders authorize any additional shares in Borealis or any subsidiary. Given the strict limits on share issuance contained in our Memorandums and Articles of Association (which may be found in the Corporate Information sections of our Websites), our shares will not be increased from the present authorized levels without enormous difficulty. We have issued no additional Borealis Exploration Limited shares since before our move to Gibraltar in 1998. This shows the commitment of management to make Borealis Exploration Limited shares valuable and shows the determined restraint of management to not issuing new shares. Virtually all public companies issue new shares all the time. Your company is one of the few exceptions to this rule.

The following table shows the shares owned by Borealis in each major subsidiary, the total shares outstanding in each company, and the proportion of the total owned by Borealis, at fiscal year-end.

<b>Ownership of Borealis Publicly-Traded Subsidiaries</b>			
<i>Company</i>	<i>Borealis shares</i>	<i>Total shares outstanding</i>	<i>% Borealis</i>
Chorus Motors plc	5,222,672	6,396,467	82%
Cool Chips plc	5,204,081	8,159,541	64%
Power Chips plc	5,215,722	8,021,256	65%
Roche Bay plc	5,616,235	5,853,497	96%

Initially, it appears that most of our income will derive from the manufacture and sale of high-value products from Gibraltar. We expect this to continue for at least several years. This will mean that we will do our best to become manufacturers of high-value products in Gibraltar in order to make sure that we are always current with our science and technologies and manufacturing processes.

While our headquarters and legal domicile are in Gibraltar, Borealis operates as 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 businesses, 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 four continents and twenty

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 Internet. Borealis runs a continual Board of Directors meeting 24 x 365, with an annual traffic of over 10,000 messages to each board member and members of management now receive well over 100,000 e-mails per year. Borealis has intense direct participatory management, and many consultants to the Company sit in on the board meetings and provide input although they are not voting members.

Our Website, [www.borealis.gi](http://www.borealis.gi), makes information about our technology available, and informs shareholders, other companies, and the general public about Borealis. The Website is always being updated, and our major disclosed technologies are described on the site in detail. As patent offices issue more patents to Borealis, a more complete picture of our extensive research efforts will become publicly available on the Website. Additionally, Borealis sends out a weekly update (as well as daily share trades with prices) to shareholders and to all the major news organizations and other interested parties, detailing our ongoing work and progress (please e-mail [pr@borealis.gi](mailto:pr@borealis.gi) 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.

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.

## **Financial Report**

As we have done for several years, we are accepting electronic proxies for the 2004 Annual Meeting, to be held 8 September in Gibraltar. Proxies can be voted either in hard copy, from a link on our web site, or by e-mail to [proxy@borealis.gi](mailto:proxy@borealis.gi). It should be noted that, while the annual meeting for 2004 will physically take place in Gibraltar, it will also occur virtually, barring unforeseen technical problems, as for the last several years, over the Internet.

## **Management Discussion of Audited Financial Results for Fiscal 2004**

Our financial statements have been prepared in accordance with Gibraltar Accounting Standards and the Gibraltar Companies Accounts Ordinance 1930, the Gibraltar (Companies Accounts) Ordinance 1999 and the Gibraltar (Consolidated Accounts) Ordinance 1999. We will refer to this as Gibraltar GAAP.

We are a Gibraltar company. Most of the companies in the Borealis Family of Companies are domiciled in Gibraltar. We must file financial returns in Gibraltar GAAP. We are under no obligation anywhere else to file financial statements though they are available on our web page at <http://www.borealis.com/investor/reports.shtml>. All our statements in the future, given our domicile, will be in Gibraltar GAAP, which is based upon and similar to United Kingdom GAAP, and they now comply with the new International Accounting Standards (IAS). Our accounts are maintained and we report financial results in United States dollars.

As a development-stage company, Borealis has not yet recorded any revenue as all revenue is netted against our operating deficit. We have been funding our work principally through sales of shares in the subsidiary companies. Borealis remains short of cash as it has for its entire 36 years as an incorporated company and 35 years as a public company. The expenses involved in maintaining our far-reaching and geographically diverse activities are substantial for a company our size. We have never had sufficient funds to undertake the ambitious projects that we have taken on for decades. Our work continues and our level of activity continues to increase.

The loss for the 2004 financial year was \$3,229,227 compared to \$146,677 for the financial year 2003. Our expenditures increased to \$5,034,853 compared to \$4,541,699 in fiscal 2003.

Our loss per share went from 3 cents to 65 cents per share in financial year 2003. Our biggest loss item, \$1,293,284, was due to the increase in the share price of Borealis Exploration Limited shares as your Company is obligated to acquire a significant amount of its own shares. Our second-biggest loss item was from the reduction in the gain on decrease in stake in subsidiaries from \$6,161,488 in 2003 to \$4,863,525 in 2004, so our effective operating loss was \$637,980.

This level of loss has been completely sustainable for years and we would assume this level of loss can be sustained for many years.

Your Company has very large holdings of free-trading shares in the public subsidiary companies which we own and hold which are only shown as the consolidated value, which is a nominal value. The market value of these shares is well in excess of \$100,000,000 as of today.

The minority equity interest decreased to \$1,743,812 from \$2,433,869 in fiscal 2003.

Our fixed assets grew slightly in fiscal 2004 to \$5,194,405 from \$5,168,752 while our net current liabilities rose to \$2,090,044 from \$1,169,050 in fiscal 2003. This number has to be reduced and brought to a nominal number as soon as we can.

Our net assets decreased in fiscal 2004 to \$2,770,515 from \$4,255,879 in fiscal 2003.

Total shareholder funds for fiscal 2004 were a negative \$3,525,928 from a negative \$296,752 in fiscal 2003.

The non-consolidated balance sheet shows a net deficit in shareholder funds in financial year 2004 of \$19,123,264 compared to \$13,180,576. The non-consolidated balance sheet shows a negative profit and loss account of \$43,414,294 compared to a negative \$37,471,555 for last year.

Considering that we write everything to zero that we can and that as a development stage company none of our revenue to date has ever shown up except as a reduction to the net loss in the profit and loss account, these financial statements show a remarkably healthy vibrant research business that is able to fund itself on good terms for all the stakeholders.

Our cumulative loss figure is about 30% of the actual market value of our free-trading shares in our various subsidiary companies not giving any value to our other substantive on-going interests in other non-listed enterprises.

Again, please note that we carry our large negotiable share portfolio at book value or cost and not at market value or at the values at which we are selling shares to fund the operations. In fiscal 2004 three more of our companies began to be quoted on the public over-the-counter share market in the U.S. on [www.pinksheets.com](http://www.pinksheets.com). We would hope in fiscal 2005 to get at least one additional quotation and possibly two more companies quoted.

With any substantive transactions we can expect in fiscal 2005 to work through our deficit account and to report actual net revenue and actual operating income. You can be assured that your management will be greatly relieved when and if this occurs.

All of Borealis' extensive intellectual property assets are also carried on the books at a nominal value. We are capitalizing only patent office filing fees which amounted at year-end to an amortized value of \$340,085 compared to \$330,503 for fiscal 2003. These capitalized fees will increase as the patent base grows.

The subsidiary companies currently show no debt and no liabilities, though they do show a small cumulative loss from the management fees charged by their direct parent. Their assets are their very broad-based technology licenses from Borealis Technical Limited and the enormous earning potential that flows from these licenses. Please note again that the subsidiary technical companies pay 50% of their license revenue to Borealis Technical Limited and an 8% royalty on all other revenue for the license to the technologies.

All of our subsidiary companies, we expect, will eventually have a decent market develop for their shares. We have now five traded companies in the Family of Companies. It should be noted that, as each of the subsidiary companies is in a radically different business, your management felt the only rational operating model was to run the businesses as separate entities.

As discussed earlier our biggest loss item and single biggest liability is listed as Creditors amounts falling due after more than one year of \$2,635,158 compared to last year's figure of \$1,480,654. This amount is the market value of shares that were borrowed principally from members of the Executive Committee some years ago and then sold to fund our operations and options that were exercised in years past and the shares never issued. We have limited the number of outstanding shares in Borealis and in all the public subsidiary companies.

This share total limitation means that these shares that were sold years ago will have to be repurchased on the market, or in some other way obtained, unless we see fit to go through the almost impossible hurdle of issuing more shares. We are covering this obligation by buying Borealis shares and in part by having our subsidiary companies issue their shares that are exchanged for Borealis Exploration Limited shares. This changes at least part of the obligation from an obligation that has no effective ceiling to one that has a fixed dollar value. Also, when we have sufficient funds we plan to purchase these needed shares privately and on the market. We do not plan to issue new shares, though this item will continue to loom large in our books and can with a strong market in BOREF generate significant losses per share.

Most of our extensive mineral processing equipment from our former Fat Lake mining camp in Nunavut remains in Rankin Inlet this year. The equipment is for sale in Rankin Inlet. To the right buyer this equipment has a replacement value in Rankin Inlet of several millions of dollars. The equipment is carried essentially at zero on our books.

Borealis has always followed conservative accounting policies. Our liabilities are fully reported while our share portfolio and most all of our extensive intellectual property assets under Gibraltar GAAP are valued at nominal amounts on our financial statements.

## **Borealis Legal Matters**

The Company is a plaintiff in some cases and a defendant in several other legal actions relating to its former mining businesses in Canada. None of these actions involves its current businesses and none is material.

## **Projections for Fiscal 2005**

Fiscal 2005 could yield significant operating earnings. Projections are notoriously dangerous, but we would be surprised if we did not have very substantial earnings for fiscal 2005. We said the same for 2004 and were decisively proven wrong.

Chorus Motors now has a 20-hp production prototype in hand and we expect that sales should soon follow. We have completed significant testing and the testing confirmed the significant nature of the advances for our technology, though with no sales to date. We anticipate that Chorus Motors plc will have both positive cash flow and net earnings in fiscal 2005.

We expect that our scientists soon will achieve functional laboratory prototypes of Cool Chips and Power Chips. Laboratory production of these devices will drive packaging work and the prospect of delivering product to the military market. With production devices in hand, both Cool Chips plc and Power Chips plc should have positive cash flow and earnings in fiscal 2005. This is not assured but it sure looks likely from where we sit today.

Our basic scientific research is of immense significance to many industries. 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 the billions of dollars per year in revenue that we are seeking, our scientific advances are substantive, and we feel we are close to making substantive sales of product.

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

These are exciting times as your Company changes many of the basic technologies that have driven the industrial world for the past century. Everywhere 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

## **Investor Information**

Extensive information for investors can be found on our Website at <http://www.borealis.gi>. Our annual and quarterly reports for the past five years are posted there, as well as full information about the Company and our technologies. The site also has links to quotation systems that report our current stock prices.

If you have a question about Borealis, please write to us at [pr@borealis.gi](mailto:pr@borealis.gi).

## **Forward Looking Statement**

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

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

# **BOREALIS EXPLORATION LIMITED**

**Registered No (Gibraltar) 66632**

## **Financial Statements**

**for the year ended 31 March 2004**

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# **BOREALIS EXPLORATION LIMITED**

Registered No (Gibraltar) 66632

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## **DIRECTORS AND OFFICERS**

### **Directors**

### **Appointed**

Rodney T. Cox	27 Dec 1978	Director, Chairman of the Board, and Chief Executive Officer
Wayne S. Marshall	11 Sept 1985	Director
Arnold A. Turin	06 Apr 1988	Director
Donald N. Jones	19 Dec 1991	Director
Isaiah W. Cox	15 Feb 1994	Director, President, and Chief Operating Officer
David M. Goldenberg	18 Sep 1996	Director
Joseph J. Cox	16 Sep 1998	Director
Peter Vanderwicken	03 Aug 1999	Director
Iris Oren Cox	24 July 2001	Director
Nechama J. Cox	01 Aug 2001	Director
Benjamin J. Cox	31 Mar 2003	Director
Giulio Pontecorvo	28 Aug 2003	Director
Robert T. Bauer	17 May 2004	Director
Rebecca D. Cox	31 Mar 2003	(Resigned 18 May 2004)

### **Secretary**

Fidecs Management Limited  
(Formerly known as BDO Fidecs Management Limited)

### **Registered Office**

Montagu Pavillion  
8-10 Queensway  
Gibraltar

### **Auditors**

Moore Stephens  
Suite 5 Watergardens 4  
Waterport  
Gibraltar

# BOREALIS EXPLORATION LIMITED

Registered No (Gibraltar) 66632

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## DIRECTORS' REPORT

The directors submit their report and the audited financial statements for the Company and the Borealis Family of Companies for the year ended 31 March 2004.

### BOREALIS FAMILY OF COMPANIES' PROFILE

The Borealis Family of Companies "Family" is comprised of 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, approved for issue and 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 Borealis Family of Companies' technology research was already being managed in Europe.

## BUSINESS REVIEW

### *Mining Properties*

Roche Bay Magnetite Project: [www.rocchabay.com](http://www.rocchabay.com)

A subsidiary company, Roche Bay plc, owns 10,973 net acres of Government of Canada long term mineral leases located near Roche Bay, Melville Peninsula, Nunavut, Canada which contain one of the world's largest undeveloped resources of magnetite (Fe<sub>3</sub>O<sub>4</sub>). These leases require annual lease payments of \$8,333 per year for those leases expiring in 2019, and \$8,420 per year for those leases expiring in 2021. All leases 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 in these mineral leases. On 6 March 1979, the Company granted royalties to third parties based on 18.75% of the Crown Royalty.

Freuchen Bay Intracratonic Rift Project: [www.faraway.gi](http://www.faraway.gi)

Faraway plc, owns 100% of 10,350 acres of Government of Canada long term renewable leases near Freuchen Bay, Melville Peninsula, Nunavut, Canada. These cover a series of geophysical/geochemical anomalies that our consultants tell us sit astride an intracratonic rift. The leases (which are awaiting final approval from the Canadian Government) run for 21 years, and are expected to be renewed on the renewal dates, and will require annual payments of \$10,922 at current exchange rates.

# BOREALIS EXPLORATION LIMITED

Registered No (Gibraltar) 66632

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## DIRECTORS' REPORT (Continued)

### BUSINESS REVIEW (Continued)

#### Principal Technologies

**Chorus® Meshcon™:** [www.chorusmotors.gi](http://www.chorusmotors.gi)

The Chorus® Meshcon™ Technology is a radically improved electric motor that uses electromagnetic harmonics to greatly increase the motor's torque. Basically, a 20 hp AC induction Chorus® Meshcon™ motor on starting will perform as well as an 80 hp conventional 3 phase motor. A Chorus® motor and drive is smaller, lighter, and is expected to sell for a premium over a conventional motor with the same output. It is ideal for traction applications such as electric cars and trains. We have a working 20 hp demonstration Chorus® Meshcon™ motor that is fully 'plug and play' undergoing a full range of production testing.

**Cool Chips™:** [www.coolchips.gi](http://www.coolchips.gi)

Cool Chips are solid-state devices based on quantum tunnelling 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](http://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. We are scheduled to begin work on production of Power Chips™ devices as soon as the Cool Chips™ work is completed.

**Borealis Technical Limited**, a 98% owned subsidiary of the Company, manages the above operations along with a privately funded research operation examining a wide range of scientific areas that potentially will challenge the presently accepted boundaries of the industrial world. This is a non-capital-intensive business where most of the expenditures are for staff and the support of the patenting and accounting work. The total research and development expenditures have been approximately the same for several years. It is anticipated that the research and development activities will remain at the current level or increase in the fiscal year 2005.

# **BOREALIS EXPLORATION LIMITED**

**Registered No (Gibraltar) 66632**

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## **DIRECTORS' REPORT (Continued)**

### FINANCIAL REVIEW

Results for the Borealis Family of Companies for the year are shown in the consolidated profit and loss account on page 7.

As of 31 March 2004, the Companies had retained losses of \$ 27,816,958 (2003 - \$24,587,731) and a working capital surplus of \$ 211,268 (2003 - \$567,781). The net assets, as at 31 March 2004, amounted to \$2,770,515 (2003 - \$4,255,879).

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(e), all costs relating to the Borealis Family of Companies' Government of Canada mineral 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 the public shares issued, 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 during the year.

# BOREALIS EXPLORATION LIMITED

Registered No (Gibraltar) 66632

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## DIRECTORS' REPORT (Continued)

### 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 2004	Number of shares held at 31 March 2003
Rodney T. Cox	71,600	161,600
Wayne S. Marshall	114,040	114,040
Arnold A. Turin	100	100
Donald N. Jones	55,548	55,548
Isaiah W. Cox	243,165	243,165
David M. Goldenberg	100	100
Joseph J. Cox	31,729	31,729
Peter Vanderwicken	35,500	32,500
Iris Oren Cox	2,000	2,000
Nechama J. Cox	16,700	16,700
Benjamin J. Cox	39,353	39,353
Giulio Pontecorvo	16,000	not reported
Robert T. Bauer	100	not reported
Rebecca D. Cox	2,000	2,000

### SHARE OPTIONS

As of 31 March 2004, there were no share options outstanding.

### DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss for that year and which comply with the Gibraltar Companies Ordinance 1930, the Gibraltar Companies (Accounts) Ordinance 1999 and the Gibraltar Companies (Consolidated Accounts) Ordinance 1999. In preparing the financial statements, appropriate accounting policies have been used and applied consistently, reasonable and prudent judgements and estimates have been made, and applicable accounting standards have been followed. The directors are responsible for maintaining adequate accounting records, for safeguarding the assets of the Company, and for preventing and detecting fraud and other irregularities.

### Auditor

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

By order of the Board on 12 August 2004



Isaiah W. Cox  
Director



Rodney T. Cox  
Director

# **BOREALIS EXPLORATION LIMITED**

Registered No (Gibraltar) 66632

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## REPORT OF THE AUDITORS

### **To the members of Borealis Exploration Limited**

We have audited the financial statements on pages 7 to 19, which have been prepared under the historical cost convention and the accounting policies set out on page 12 through 13.

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

### Respective responsibilities of directors and auditors

As described in the report of the Directors, the Company's Directors 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 Family of Companies as at 31 March 2004, and of the loss for the year then ended in accordance with Gibraltar Accounting Standards and have been properly prepared in accordance with Gibraltar Companies Ordinance 1930, the Gibraltar Companies (Accounts) Ordinance 1999, and the Gibraltar Companies (Consolidated Accounts) Ordinance 1999.

**Gibraltar**  
12 August 2004

  
Moore Stephens  
CHARTERED ACCOUNTANTS

# BOREALIS EXPLORATION LIMITED

Registered No (Gibraltar) 66632

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## CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 31 March 2004

	Notes	2004 \$	2003 \$
Expenditure		(5,034,853)	(4,514,699)
<b>Operating loss</b>	4	(5,034,853)	(4,514,699)
Financing gain/ (costs)		(1,293,284)	641,760
Interest		(20,803)	(17,701)
<b>Loss on ordinary activities before taxation</b>		(6,348,940)	(3,890,640)
Taxation	8	—	—
<b>Loss on ordinary activities after taxation</b>		(6,348,940)	(3,890,640)
Gain on decrease in stake in subsidiaries		4,863,525	6,161,488
Equity Minority interest		(1,743,812)	(2,417,524)
<b>Loss for the financial year</b>		<u>\$ (3,229,227)</u>	<u>\$ (146,677)</u>
<b>Loss per ordinary share</b>	10	\$ (0.65)	\$ (0.03)

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.

The notes on pages 12 to 19 form part of these Financial Statements.

# BOREALIS EXPLORATION LIMITED

Registered No (Gibraltar) 66632

## CONSOLIDATED BALANCE SHEET

as at 31 March 2004

	Notes	2004 \$	2003 \$
<b>Fixed Assets</b>			
Intangible assets	11	340,085	330,503
Tangible assets	12	14,167	14,682
Investments – mining properties	13	4,840,153	4,823,567
		<u>5,194,405</u>	<u>5,168,752</u>
<b>Current assets</b>			
Cash at bank and in hand		52,196	-
Accounts Receivable	14	2,249,116	1,736,831
		<u>2,301,312</u>	<u>1,736,831</u>
<b>Creditors: amounts falling due within one year</b>	15	<u>2,090,044</u>	<u>1,169,050</u>
<b>Net current assets</b>		<u>211,268</u>	<u>567,781</u>
<b>Total assets less current liabilities</b>		<u>5,405,673</u>	<u>5,736,533</u>
<b>Creditors: amounts falling due after more than one year</b>	16	<u>2,635,158</u>	<u>1,480,654</u>
<b>Net Assets</b>		<u>\$ 2,770,515</u>	<u>\$ 4,255,879</u>
<b>Capital and Reserves</b>			
Called up Share Capital	17,18	50,000	49,826
Share Premium account	17,18	24,241,030	24,241,153
Profit and loss account	18	(27,816,958)	(24,587,731)
<b>Total shareholders' funds</b>		<u>(3,525,928)</u>	<u>(296,752)</u>
Minority interests - equity		<u>6,296,443</u>	<u>4,552,631</u>
		<u>\$ 2,770,515</u>	<u>\$ 4,255,879</u>

The financial statements on pages 7 to 19 were approved by the Board of Directors on 12 August 2004 and signed on their behalf by:



Isaiah W. Cox  
Director



Rodney T. Cox  
Director

The notes on pages 12 to 19 form part of these Financial Statements.

# BOREALIS EXPLORATION LIMITED

Registered No (Gibraltar) 66632

## COMPANY BALANCE SHEET

as at 31 March 2004

	Notes	2004 \$	2003 \$
<b>Fixed Assets</b>			
Intangible assets	11	340,085	330,503
Tangible assets	12	14,167	14,682
		<u>354,252</u>	<u>345,185</u>
Investments in subsidiary undertakings	9	83,940	83,940
		<u>438,192</u>	<u>429,125</u>
<b>Current assets</b>			
Cash at bank and in hand		52,196	–
Debtors	14	52,000	52,000
Accounts Receivable	14	2,249,116	1,736,831
		<u>2,353,312</u>	<u>1,788,831</u>
<b>Creditors: amounts falling due within one year</b>	15	19,279,610	13,917,878
<b>Net current liabilities</b>		<u>(16,926,298)</u>	<u>(12,129,047)</u>
<b>Total assets less current liabilities</b>		<u>(16,488,106)</u>	<u>(11,699,922)</u>
<b>Creditors: amounts falling due after more than one year</b>	16	2,635,158	1,480,654
<b>Total net liabilities</b>		<u>\$ (19,123,264)</u>	<u>\$ (13,180,576)</u>
<b>Deficiency in assets</b>			
Called up Share Capital	17,18	50,000	49,826
Share Premium account	17,18	24,241,030	24,241,153
Profit and loss account		(43,414,294)	(37,471,555)
<b>Total deficit in shareholders funds</b>		<u>\$ (19,123,264)</u>	<u>\$ (13,180,576)</u>

The financial statements on pages 7 to 19 were approved by the Board of Directors on 12 August 2004 and signed on their behalf by:



Isaiah W. Cox  
Director



Rodney T. Cox  
Director

The notes on pages 12 to 19 form part of these Financial Statements.

# BOREALIS EXPLORATION LIMITED

Registered No (Gibraltar) 66632

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## CONSOLIDATED CASH FLOW STATEMENT for the year ended 31 March 2004

	2004 \$	2003 \$
<b>Net cash outflow from operating activities</b>	(4,597,403)	(5,951,809)
<b>Returns on investments and servicing of finance</b>		
Interest paid	(20,803)	(17,702)
	<hr/>	<hr/>
<b>Net cash outflow from returns on investments and servicing of finance</b>	(4,618,206)	(5,969,511)
<b>Capital expenditure and financial investment</b>		
Patent additions	(25,182)	(27,163)
Purchase of tangible fixed assets	(4,867)	–
Purchase of fixed asset investment	–	–
Lease costs of mining properties	(16,586)	(115,132)
	<hr/>	<hr/>
<b>Net cash (outflow)/inflow from capital expenditure and financial investment</b>	(46,635)	(142,295)
<b>Acquisitions and disposals</b>		
Cash received for issuance of shares by subsidiaries	1,401,773	1,092,671
Compensation for services provided by deposits	3,461,752	5,068,818
	<hr/>	<hr/>
<b>Net cash inflow from disposals</b>	4,863,525	6,161,489
	<hr/>	<hr/>
<b>Net cash inflow before financing</b>	198,684	49,686
	<hr/>	<hr/>
<b>Financing</b>		
Funds repaid for purchase of shares advanced by directors	(138,747)	(77,586)
	<hr/>	<hr/>
<b>Net cash (outflow) from financing</b>	(138,747)	(77,586)
	<hr/>	<hr/>
<b>Increase/(Decrease) in cash</b>	\$ 59,937	\$ (27,903)
	<hr/> <hr/>	<hr/> <hr/>

The notes on pages 12 to 19 form part of these Financial Statements.

# BOREALIS EXPLORATION LIMITED

Registered No (Gibraltar) 66632

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## CONSOLIDATED CASH FLOW STATEMENT (Continued) for the year ended 31 March 2004

### RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	<b>2004</b>	<b>2003</b>
	<b>\$</b>	<b>\$</b>
Operating loss	(5,034,853)	(4,514,699)
Depreciation of tangible fixed assets	5,400	5,620
Amortisation of patents	15,600	15,400
(Increase) Decrease in trade receivables	(512,285)	(1,736,831)
Increase (Decrease) in trade creditors	928,735	278,701
<b>Net cash outflow from operating activities</b>	<u><u>\$ (4,597,403)</u></u>	<u><u>\$ (5,951,809)</u></u>

### MOVEMENT IN CASH AND ANALYSIS OF CASH BALANCES

	<b>2004</b>	<b>2003</b>
	<b>\$</b>	<b>\$</b>
<b>Changes in net cash</b>		
At 1 April 2003	(7,741)	20,162
Increase / (Decrease) in cash in the year	59,937	(27,903)
<b>At 31 March 2004</b>	<u><u>\$ 52,196</u></u>	<u><u>\$ (7,741)</u></u>

	<b>2004</b>	<b>2003</b>
	<b>\$</b>	<b>\$</b>
<b>Analysis of cash balances</b>		
Cash at bank	52,196	–
Bank overdrafts	–	(7,741)
<b>Net cash at 31 March</b>	<u><u>\$ 52,196</u></u>	<u><u>\$ (7,741)</u></u>

The notes on pages 12 to 19 form part of these Financial Statements.

# BOREALIS EXPLORATION LIMITED

Registered No (Gibraltar) 66632

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## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2004

### 1. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared 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. 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-“Family” 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 Family of Companies. 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. Mining properties**

These are stated at cost, less any provision for diminution in value that may, in the opinion of the directors, have taken place. Under Gibraltar GAAP these costs include developing and maintaining the property. The policy on amortisation is that this will be charged on a straight-line basis over the period over which commercial mining operations are expect to continue. At present no amortisation is being charged until exploitation begins.

**f. Research and Development**

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

# BOREALIS EXPLORATION LIMITED

Registered No (Gibraltar) 66632

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## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2004 (Continued)

- g. Reporting currency**  
The Family of Companies' 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 that assumes that the Family of Companies' 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 companies shares that are carried at nominal value. Four of those companies are now quoted on the public market. However, there can be no assurance that the Company or its Subsidiaries' efforts to generate further financing, profitable operations, asset sales, or product sales 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 Families' 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 Family'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

	2004	2003
<b>Operating profit is stated after charging</b>	<b>\$</b>	<b>\$</b>
Depreciation	5,400	5,620
Amortisation	15,600	15,400

# BOREALIS EXPLORATION LIMITED

Registered No (Gibraltar) 66632

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## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2004 (Continued)

### 5. DIRECTORS EMOLUMENTS

The total amount of emoluments paid to directors during the year was \$1,541,172 (2003 - \$1,465,200).

In addition, rent totalling approximately \$115,572 (2003 - \$103,000) has been charged to the Family of Companies by certain directors, for the 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 \$(5,942,740) 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. There is proposed legislation now pending approval that may change the tax status of the Company in the foreseeable future, although it appears likely that a low or zero rate of taxation will apply under the proposed new structure.

### 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	
	2004	2003	2004	2003
	\$	\$	\$	\$
Borealis Technical Limited	98%	99%	158	158
Borealis Exploration Incorporated	100%	100%	100	100
Credits Holdings Limited	99%	99%	160	160
Faraway Public Limited Company	99.7%	100%	83,360	83,360
Faraway Holdings Limited	100%	100%	2	2
Roche Bay Holdings Limited	99%	99%	160	160
Total investments			<b>83,940</b>	<b>83,940</b>

There was an error in the conversion of the subscription value of the Faraway Public Limited Company shares issued in the 2003 accounts. The comparative figures for last year have consequently been adjusted to reflect to true dollar equivalent of these shares.

# BOREALIS EXPLORATION LIMITED

Registered No (Gibraltar) 66632

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2004 (Continued)

### 9. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS (Continued)

Indirectly held by the Company	Ownership Interest	
	2004	2003
Chorus Motors Public Limited Company	81.7%	86.0%
Cool Chips Public Limited Company	63.8%	65.0%
Photon Power Public Limited Company	99.8%	99.8%
Power Chips Public Limited Company	65.1%	67.3%
Roche Bay Public Limited Company	92.1%	92.6%
Roche Bay Holdings (Barbados) Limited	99%	99%
Borealis Roche Bay Limited	99%	99%

Of the above companies, shares of Cool Chips plc, Chorus Motors plc, Power Chips plc and Roche Bay plc are trading on the open market in the United States.

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

The Family of Companies has in the past 5 years principally funded itself 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 2004, further funds were raised by the issue of shares at a premium by Chorus Motors plc, Cool Chips plc, Power Chips plc and Roche Bay plc. A minority interest of \$ 6,296,442 (2003 - \$4,552,631) in the subsidiaries is presented on the balance sheet effective 31 March 2004. The Equity of the Borealis Family of Companies in the share premiums paid by third parties during the year of \$ 4,863,525 (2003 - \$6,161,488) 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.

	2004	Per	2003	Per		
	Weighted	Share	Weighted	Share		
	Average	Amount	Average	Amount		
	Number of	\$	Number	\$		
	Shares		of Shares			
Earnings			Earnings			
\$			\$			
<b>Basic EPS</b>						
(Losses) /Earnings						
attributable to ordinary						
shareholders	(3,229,227)	5,000,000	(0.65)	(146,677)	4,982,605	(0.03)

# BOREALIS EXPLORATION LIMITED

Registered No (Gibraltar) 66632

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2004 (Continued)

### 11. INTANGIBLE FIXED ASSETS – PATENT FILING FEE

	<b>Cost</b>	<b>Amortisation</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
At 1 April 2003	385,920	55,416	330,503
Additions / Charge in year	25,182	15,600	9,582
<b>At 31 March 2004</b>	<b>\$ 411,102</b>	<b>\$ 71,016</b>	<b>\$ 340,085</b>

### 12. TANGIBLE FIXED ASSETS

	<b>Mining, Drilling and Camp Equipment</b>	<b>Office Equipment</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Cost</b>			
At 1 April 2003	655,808	50,478	706,286
Additions	–	4,867	4,867
<b>At 31 March 2004</b>	<b>655,808</b>	<b>55,345</b>	<b>711,153</b>
<b>Depreciation</b>			
At 1 April 2003	650,447	41,139	691,586
Charge for year	3,000	2,400	5,400
<b>At 31 March 2004</b>	<b>653,447</b>	<b>43,539</b>	<b>696,986</b>
<b>Net book value</b>			
<b>At 31 March 2004</b>	<b>\$ 2,361</b>	<b>\$ 11,806</b>	<b>\$ 14,167</b>
At 31 March 2003	\$ 5,192	\$ 7,490	\$ 14,682

### 13. INVESTMENT – MINING PROPERTIES

	<b>2004</b>	<b>2003</b>
	<b>\$</b>	<b>\$</b>
Mining Properties	\$ 4,840,153	\$ 4,823,567

# BOREALIS EXPLORATION LIMITED

Registered No (Gibraltar) 66632

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2004 (Continued)

### 13. INVESTMENT – MINING PROPERTIES (Continued)

The investment in the mining properties located at Roche Bay and Freuchen Bay are in the renewable long term Government of Canada Leases. 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 on the Roche Bay properties.

The Roche Bay 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 it is the opinion of our consultants that there are sufficient known resources today to place the Roche Bay Magnetite Project properties into production. The Company is engaged in planning for the exploitation of these resources.

### 14. DEBTORS

	<b>Family 2004 \$</b>	<b>2003 \$</b>	<b>Company 2004 \$</b>	<b>2003 \$</b>
Advances to suppliers and consultants	2,249,116	1,736,831	2,249,116	1,736,831
Amounts due from Family undertakings	—	—	52,000	52,000
	<u>\$ 2,249,116</u>	<u>\$ 1,736,831</u>	<u>\$ 2,301,116</u>	<u>\$ 1,788,831</u>
Total accounts receivable	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

Of the amounts shown as advances to suppliers and consultants, there are included a total amount of \$1,215,664 (2003 - \$829,845) which are owed from directors and related parties.

### 15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<b>Family 2004 \$</b>	<b>2003 \$</b>	<b>Company 2004 \$</b>	<b>2003 \$</b>
Bank loans and overdrafts	—	7,741	—	7,741
Trade creditors	2,090,044	1,161,309	2,090,044	1,161,309
Amounts due to Family undertakings	—	—	17,189,566	12,748,828
	<u>\$ 2,090,044</u>	<u>\$ 1,169,050</u>	<u>\$ 19,279,610</u>	<u>\$ 13,917,878</u>

Amounts due to Family undertakings are unsecured, interest free and repayable on demand. Of the amount included under trade creditors, there are outstanding trade balances with directors and related parties of \$730,913 (2003 - \$ 105,617)

# BOREALIS EXPLORATION LIMITED

Registered No (Gibraltar) 66632

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## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2004 (Continued)

### 16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	<b>Family 2004 \$</b>	<b>2003 \$</b>	<b>Company 2004 \$</b>	<b>2003 \$</b>
Other creditors	\$ 2,635,158	\$ 1,480,654	\$ 2,635,158	\$ 1,480,654

Other Creditors represent loans made to the Company by certain directors with regards to helping to finance the operations of the Company in 1999 and previous years. In order to be in a position to make these loans the directors sold on the market (net of returns) 178,600 shares (2003 – 223,744). The Family 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 re-purchase 178,600 shares on the open market. The amount due to directors is determined at each year-end. In 2004, 45,144 shares were repurchased. In addition 239,679 options were exercised in previous years and the shares were not delivered to the purchasers as the exercise exceeded the number of shares that the Company is authorized to issue. The total amount is considered due to other creditors and carried at a value that approximates to market value.

### 17. CALLED UP SHARE CAPITAL

		<b>2004 \$</b>	<b>2003 \$</b>
Authorised share capital 5,000,000 ordinary shares @ \$0.01 each		\$ 50,000	\$ 50,000

	<b>Number of Shares</b>	<b>Share Capital \$</b>	<b>Share Premium \$</b>	<b>Total \$</b>
Issued share capital At 31 March 2003	4,982,605	\$ 49,826	\$ 24,241,153	\$ 24,290,979
Shares issued Adjustment	17,395	174	(123)	174 (123)
At 31 March 2004	5,000,000	\$ 50,000	\$ 24,241,030	\$ 29,291,030

# BOREALIS EXPLORATION LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2004 (Continued)

### 18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

Family	Share Capital \$	Share Premium Account \$	Consolidated Profit & Loss Account \$	Total \$
At 31 March 2003	49,826	24,241,153	(24,587,731)	(296,752)
Adjustment to share capital	174	(123)		51
Loss for the year	—	—	(3,229,227)	(3,229,227)
At 31 March 2004	<u>\$ 50,000</u>	<u>\$ 24,241,030</u>	<u>\$ (27,816,958)</u>	<u>\$ (3,525,928)</u>

### 19. RELATED PARTY TRANSACTIONS

A related party, called Shiloh Limited International Inc, received \$138,703 (2003 - \$286,000) during the year for management services. The CEO is an agent for Shiloh Limited International, Inc. Shiloh Limited International, Inc. is owned by the Jeremiah Toyam Cox Foundation Limited of which the CEO is a member of the Council. A further related party, The Parmenides Group, receives fees of \$432,000 per year for management services. The CEO is an executive member of the Board of this corporation. There are no other related party transactions except those described elsewhere in these financial statements. (see note 5)

### 20. 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 Family has filed counter suits against these parties. At the present time, the result of these claims and any potential cost to the Family 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. 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.