

BOREALIS EXPLORATION LIMITED

Gibraltar Registered No. 66632

Financial Statements

for the year ended 31 March 2005

BOREALIS EXPLORATION LIMITED

Gibraltar Registered No. 66632

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BOREALIS EXPLORATION LIMITED

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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 Sep 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	(Resigned 15 September 2004)
Nechama J. Cox	01 Aug 2001	Director
Benjamin J. Cox	31 Mar 2003	Director
Rebecca D. Cox	31 Mar 2003	(Resigned 18 May 2004)
Giulio Pontecorvo	28 Aug 2003	Director
Robert T. Bauer	17 May 2004	Director
Stuart Harbron	03 Jan 2005	Director

Secretary

Fidecs Management Limited

Registered Office

Montagu Pavilion
8-10 Queensway
Gibraltar

Auditors

Moore Stephens
Suite 5 Watergardens 4
Waterport
Gibraltar

BOREALIS EXPLORATION LIMITED

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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 2005.

BOREALIS FAMILY OF COMPANIES' PROFILE

The Borealis Family of Companies "Family" is comprised of those companies listed in Note 10 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.rochebay.com

A subsidiary company, Roche Bay plc, owns 100% interest in 10,973 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 (Fe₃O₄). These leases require annual lease payments (at current exchange rates) of \$ 9,024 per year for those leases expiring in 2019, and \$ 9,118 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 continues 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

Faraway plc, owns 100% of 10,350 acres of Government of Canada long term renewable leases near Freuchen Bay, Melville Peninsula, Nunavut, Canada. These leases cover a series of geophysical/geochemical anomalies that our consultants tell us sit astride an intracratonic rift. These leases run for 21 years from 27 December 2001, and are expected to be renewed on the renewal dates, and will require annual payments of \$ 8,556 at current exchange rates.

BOREALIS EXPLORATION LIMITED

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DIRECTORS' REPORT (Continued)

BUSINESS REVIEW (Continued)

Principal Technologies

Avto Metals™: www.avtometals.gi

Avto Metals plc was incorporated on 6 October 2004. Avto Metals technology is designed to provide the necessary means to custom design electron-volt work functions (eV). Avto Metals plc is continuing to research new applications and technologies in related scientific fields.

Chorus® Meshcon™ & WheelTug™: www.chorusmotors.gi

The Chorus Meshcon technology is a novel electric motor/drive combination that uses electromagnetic harmonics to greatly increase the motor's torque. A Chorus system 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.

WheelTug plc was incorporated on 9 February 2005, as a subsidiary of Chorus Motors plc, and is the assignee of the WheelTug™ programme announced with Boeing Phantom Works on 8 November 2004. The WheelTug™ Technology may well be the first of our technologies brought to market.

Cool Chips™: 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. Cool Chips plc continues to drive towards production, and is negotiating for the acquisition of fabricating facilities.

Cool Chips Military Sales plc was incorporated on 8 February 2005, as a subsidiary of Cool Chips plc, as it is expected that our first sales of Cool Chips technology will be delivery of products to US military contractors.

Power Chips™: www.powerchips.gi

Power Chips are 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 many existing technologies for generating electricity. Power Chips devices are being developed in parallel with Cool Chips.

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 consultants and the support of the patenting and accounting work. During fiscal year 2005, Borealis Technical filed 38 new applications for patents and had 8 patents issued. It is anticipated that the research and development activities will remain at the current level or increase in fiscal year 2006.

BOREALIS EXPLORATION LIMITED

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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 2005, the Family of Companies had retained losses of \$ 30,723,687 (2004 - \$27,816,958) and a working capital deficit of \$ 1,586,858 (Surplus in 2004 - \$ 211,268). The net assets, as at 31 March 2005, amounted to \$ 173,866 (2004 - \$2,770,515).

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

As explained in Note 1(f), all costs relating to the 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.

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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 2005	Number of shares held at 31 March 2004
Rodney T. Cox	20,549	71,600
Wayne S. Marshall	100,540	114,040
Arnold A. Turin	100	100
Donald N. Jones	55,548	55,548
Isaiah W. Cox	158,048	243,165
David M. Goldenberg	100	100
Joseph J. Cox	31,729	31,729
Peter Vanderwicken	35,500	35,500
Iris Oren Cox (Resigned 15 Sept 2004)	2,000	2,000
Nechama J. Cox	16,700	16,700
Benjamin J. Cox	35,490	39,353
Rebecca D. Cox (Resigned 18 May 2004)	2,000	2,000
Giulio Pontecorvo	16,000	16,000
Robert T. Bauer	100	100
Stuart Harbron	1	N/A

SHARE OPTIONS

As of 31 March 2005, 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.

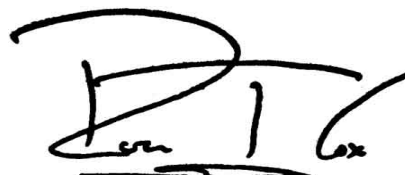
Auditor

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

By order of the Board on 3 June 2005



Isaiah W. Cox
Director



Rodney T. Cox
Director

BOREALIS EXPLORATION LIMITED

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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 20, which have been prepared under the historical cost convention and the accounting policies set out on pages 12 and 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 2005, 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
3 June 2005

Moore Stephens
CHARTERED ACCOUNTANTS

BOREALIS EXPLORATION LIMITED

Gibraltar Registered No. 66632

CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 31 March 2005

	Notes	2005 \$	2004 \$
Revenue	1	595,000	–
Expenditure		(4,914,284)	(5,034,853)
Operating loss	4	(4,319,284)	(5,034,853)
Financing gain/ (costs)		(944,407)	(1,293,284)
Interest		(20,629)	(20,803)
Loss on ordinary activities before taxation		(5,284,320)	(6,348,940)
Exceptional Item	5	(308,000)	–
Loss after exceptional item		(5,592,320)	(6,348,940)
Taxation	9	–	–
Loss on ordinary activities after taxation		(5,592,320)	(6,348,940)
Gain on decrease in stake in subsidiaries		2,995,671	4,863,525
Equity Minority interest		(310,080)	(1,743,812)
Loss for the financial year		<u>\$ (2,906,729)</u>	<u>\$(3,229,227)</u>
Loss per share	11	<u>\$ (0.58)</u>	<u>\$ (0.65)</u>

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 20 form part of these Financial Statements.

BOREALIS EXPLORATION LIMITED

Gibraltar Registered No. 66632

CONSOLIDATED BALANCE SHEET as at 31 March 2005

	Notes	2005 \$	2004 \$
Fixed Assets			
Intangible assets	12	402,485	340,085
Tangible assets	13	41,292	14,167
Investments – mining properties	14	4,857,765	4,840,153
		<u>5,301,542</u>	<u>5,194,405</u>
Current assets			
Cash at bank and in hand		51,923	52,196
Accounts Receivable	15	626,151	2,249,116
		<u>678,074</u>	<u>2,301,312</u>
Creditors: amounts falling due within one year	16	<u>2,264,932</u>	<u>2,090,044</u>
Net current (liabilities) / assets		<u>(1,586,858)</u>	<u>211,268</u>
Total assets less current liabilities		<u>3,714,684</u>	<u>5,405,673</u>
Creditors: amounts falling due after more than one year	17	<u>3,540,818</u>	<u>2,635,158</u>
Net Assets		<u>\$ 173,866</u>	<u>\$ 2,770,515</u>
Capital and Reserves			
Called up Share Capital	18,19	50,000	50,000
Share Premium Account	18,19	24,241,030	24,241,030
Profit and Loss Account	19	(30,723,687)	(27,816,958)
Total shareholders' funds		<u>(6,432,657)</u>	<u>(3,525,928)</u>
Minority interests - equity	10	<u>6,606,523</u>	<u>6,296,443</u>
Total Equity		<u>\$ 173,866</u>	<u>\$ 2,770,515</u>

The financial statements on pages 7 to 20 were approved by the Board of Directors on 3 June 2005 and signed on their behalf by:



Isaiah W. Cox
Director



Rodney T. Cox
Director

The notes on pages 12 to 20 form part of these Financial Statements.

BOREALIS EXPLORATION LIMITED

Gibraltar Registered No. 66632

COMPANY BALANCE SHEET as at 31 March 2005

	Notes	2005 \$	2004 \$
Fixed Assets			
Intangible Assets	12	402,485	340,085
Tangible Assets	13	41,292	14,167
		<u>443,777</u>	<u>354,252</u>
Investments in subsidiary undertakings	10	83,990	83,940
		<u>527,767</u>	<u>438,192</u>
Current Assets			
Cash at bank and in hand		51,923	52,196
Debtors	15	784,762	2,301,116
		<u>836,685</u>	<u>2,353,312</u>
Creditors: amounts falling due within one year	16	<u>22,283,378</u>	<u>19,279,610</u>
Net current liabilities		<u>(21,446,693)</u>	<u>(16,926,298)</u>
Total assets less current liabilities		<u>(20,918,926)</u>	<u>(16,488,106)</u>
Creditors: amounts falling due after more than one year	17	<u>3,540,818</u>	<u>2,635,158</u>
Total net liabilities		<u>\$ (24,459,744)</u>	<u>\$ (19,123,264)</u>
Deficiency in assets			
Called up Share Capital	18,19	50,000	50,000
Share Premium Account	18,19	24,241,030	24,241,030
Profit and Loss Account	19	(48,750,774)	(43,414,294)
Total deficit in shareholders funds		<u>\$ (24,459,744)</u>	<u>\$ (19,123,264)</u>

The financial statements on pages 7 to 20 were approved by the Board of Directors on 3 June 2005 and signed on their behalf by:



Isaiah W. Cox
Director



Rodney T. Cox
Director

The notes on pages 12 to 20 form part of these Financial Statements.

BOREALIS EXPLORATION LIMITED

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CONSOLIDATED CASH FLOW STATEMENT for the year ended 31 March 2005

	2005	2004
	\$	\$
Net cash outflow from operating activities	(2,488,899)	(4,597,403)
Exceptional payment	(308,000)	–
Returns on investments and servicing of finance		
Interest paid	(20,629)	(20,803)
Net cash outflow from returns on investments and servicing of finance	(2,817,528)	(4,618,206)
Capital expenditure and financial investment		
Patent additions	(82,129)	(25,182)
Purchase of tangible fixed assets	(39,928)	(4,867)
Lease costs of mining properties	(17,612)	(16,586)
Net cash (outflow) from capital expenditure and financial investment	(139,669)	(46,635)
Acquisitions and disposals		
Cash received for issuance of shares by subsidiaries	962,762	1,401,773
Compensation for services provided by deposits	2,032,909	3,461,752
Net cash inflow from acquisitions and disposals	2,995,671	4,863,525
Net cash inflow before financing	38,474	198,684
Financing		
Funds repaid for purchase of shares advanced by Directors	(38,747)	(138,747)
Net cash (outflow) from financing	(38,747)	(138,747)
(Decrease) / Increase in cash	\$ (273)	\$ 59,937

The notes on pages 12 to 20 form part of these Financial Statements.

BOREALIS EXPLORATION LIMITED

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CONSOLIDATED CASH FLOW STATEMENT (Continued) for the year ended 31 March 2005

RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2005	2004
	\$	\$
Operating loss	(4,319,284)	(5,034,853)
Depreciation of tangible fixed assets	12,803	5,400
Amortisation of patents	19,729	15,600
Decrease / (Increase) in trade receivables	1,622,965	(512,285)
Increase in trade creditors	174,888	928,735
Net cash outflow from operating activities	<u><u>\$ (2,488,899)</u></u>	<u><u>\$ (4,597,403)</u></u>

MOVEMENT IN CASH AND ANALYSIS OF CASH BALANCES

	2005	2004
	\$	\$
Changes in net cash		
At 1 April 2004	52,196	(7,741)
(Decrease)/ Increase in cash in the year	(273)	59,937
At 31 March 2005	<u><u>\$ 51,923</u></u>	<u><u>\$ 52,196</u></u>
Analysis of cash balances		
	2005	2004
	\$	\$
Cash at bank	51,923	52,196
Bank overdrafts	—	—
Net cash at 31 March	<u><u>\$ 51,923</u></u>	<u><u>\$ 52,196</u></u>

The notes on pages 12 to 20 form part of these Financial Statements.

BOREALIS EXPLORATION LIMITED

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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2005

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. Revenue

Revenue comprises contract payments received for delivery of WheelTug™ prototype products for end user testing by The Boeing Company and a contract payment received for delivery of prototype Cool Chips™.

c. Basis of Consolidation

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

d. Fixed Assets

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

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

e. Fixed Assets Investments

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

f. 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 expected to continue. At present no amortisation is being charged until exploitation begins.

BOREALIS EXPLORATION LIMITED

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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2005 (Continued)

- g. Research and Development**
Research and Development costs are written off in the year they are incurred.
- h. Reporting currency**
The Family of Companies' financial statements are presented in US dollars, which is the functional currency for operations.
- i. Foreign currency translation**
Transactions in currencies other than US Dollar are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in such currencies are translated at the rate of exchange ruling at the balance sheet date.
- j. Going Concern**
These financial statements have been prepared under the going concern concept 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.
- k. Taxation including deferred tax.**
No provision is made for corporation tax, nor for deferred tax, as the Company and the majority of its 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's shareholdings in its subsidiary companies, both direct and indirect, are carried at nominal value, and not at market value. Six of those companies are publicly traded in the United States over-the-counter (OTC) market and quoted on the Pink Sheets at www.pinksheets.com. 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 Family's mining exploration operations are conducted on properties in Canada. The only assets utilised in this business segment are the mining and other equipment. All other assets relate to the 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

	2005	2004
Operating loss is stated after charging	\$	\$
Depreciation	12,803	5,400
Amortisation	19,729	15,600

BOREALIS EXPLORATION LIMITED

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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2005 (Continued)

5. EXCEPTIONAL ITEM

In 1994, Shiloh Limited International, Inc. ('Shiloh'), a related party, granted an unrelated third party a 12.5% interest in Shiloh's entitlement to payments it would receive in connection with the development of the Borealis Electric Motor. Shiloh's entitlement was subsequently formalised under the terms of the Agreement dated 10 May 1999, details of which are disclosed in Note 20. Consideration for the granting of this interest was US\$50,000, which Shiloh passed to the Borealis Family of Companies. During the current year, the Borealis Family has agreed with the third party to settle all present and future rights to this interest in return for an allotment of 22,000 shares in Chorus Motors plc, valued at US\$308,000, which represents the US\$14 per share market value of these shares at the date of the allotment.

6. DIRECTORS' EMOLUMENTS

The total amount of emoluments paid to directors during the year was \$ 1,210,700 (2004 - \$1,541,172).

In addition, rent totalling approximately \$ 95,400 (2004 - \$115,572) has been charged to the Family of Companies by certain directors, for the provision of office space.

7. EMPLOYEE INFORMATION

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

8. LOSSES OF HOLDING COMPANY

Of the loss for the financial year a deficit of \$ (5,336,480) (2004 - \$ (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.

9. TAXATION

The Company and the majority of 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 until 2010, the date at which the status of all Gibraltar exempt companies will be subject to new legislation.

10. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

The Company has the following principal ownership interests and invested amounts in its subsidiaries, all of which (other than Faraway Holdings (Barbados) Limited and Roche Bay Holdings (Barbados) Limited, which are registered in Barbados, and Borealis Exploration Incorporated, which is registered in USA) are registered in Gibraltar:

BOREALIS EXPLORATION LIMITED

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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2005 (Continued)

10. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS (Continued)

Directly held by the Company	Ownership Interest		Investments	
	2005	2004	2005	2004
	%	%	\$	\$
Borealis Technical Limited	98%	98%	158	158
Borealis Exploration Incorporated	100%	100%	100	100
Credits Holdings Limited	99%	99%	160	160
Faraway Holdings Limited	100%	100%	83,362	2
Faraway Public Limited Company	0%	99.7%	50	83,360
Roche Bay Holdings Limited	99%	99%	160	160
Total investments			\$ 83,990	\$ 83,940

Indirectly held by the Company	Ownership Interest	
	2005	2004
	%	%
Avto Metals Public Limited Company	98.2%	--
Chorus Motors Public Limited Company	81.1%	81.7%
Cool Chips Public Limited Company	63.1%	63.8%
Faraway Holdings (Barbados) Limited	100%	100%
Faraway Public Limited Company	83.2%	--
Photon Power Public Limited Company	99.8%	99.8%
Power Chips Public Limited Company	65.0%	65.1%
Roche Bay Holdings (Barbados) Limited	99%	99%
Roche Bay Public Limited Company	91.6%	92.1%
Borealis Roche Bay Limited	99%	99%
Wheeltug Public Limited Company	100%	--
Cool Chips Military Sales plc	100%	--

On 17 March 2005, the 5,200,000 shares of Faraway plc that were held directly by Borealis Exploration Limited, were transferred to Faraway Holdings (Barbados) Limited, which is 100% owned by Faraway Holdings Limited, and therefore the investment in Faraway plc has been moved from Directly held to Indirectly held. Subsequently, the Company acquired a further 2,500 shares directly in Faraway plc at a cost of \$50.

Of the above companies, shares of Avto Metals plc, Cool Chips plc, Chorus Motors plc, Faraway plc, Power Chips plc and Roche Bay plc are publicly traded in the United States over-the-counter (OTC) market and quoted on the Pink Sheets at www.pinksheets.com.

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.

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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2005 (Continued)

10. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS (Continued)

In 2005, further funds were raised by the issue of shares at a premium by Avto Metals plc, Chorus Motors plc, Cool Chips plc, Faraway plc, Power Chips plc and Roche Bay plc. A minority interest of \$ 6,606,523 (2004 - \$6,296,443) in the subsidiaries is presented on the balance sheet effective 31 March 2005. The increase is due to a higher percentage of the net assets of the subsidiaries being attributable to outside shareholders as a result of the dilution. The Equity of the Borealis Family of Companies in the share premiums paid by third parties during the year of \$ 2,995,671 (2004 - \$4,863,525) is shown as a gain in the profit and loss account.

11. EARNINGS PER SHARE

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

	Earnings	2005 Weighted Average Number of Shares	Per Share Amount	Earnings	2004 Weighted Average Number of Shares	Per Share Amount
	\$		\$	\$		\$
Basic EPS						
(Losses) /Earnings attributable to ordinary shareholders	(2,906,729)	5,000,000	(0.58)	(3,229,227)	5,000,000	(0.65)

12. INTANGIBLE FIXED ASSETS – PATENT FILING FEE

	Cost	Amortisation	Total
	\$	\$	\$
At 1 April 2004	411,102	71,017	340,085
Additions / Charge in year	82,129	19,729	62,400
At 31 March 2005	\$ 493,231	\$ 90,746	\$ 402,485

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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2005 (Continued)

13. TANGIBLE FIXED ASSETS

	Mining, Drilling and Camp Equipment \$	Office Equipment \$	Total \$
Cost			
At 1 April 2004	655,808	55,345	711,153
Additions	—	39,928	39,928
At 31 March 2005	<u>655,808</u>	<u>95,273</u>	<u>751,081</u>
Depreciation			
At 1 April 2004	653,447	43,539	696,986
Charge for year	2,361	10,442	12,803
At 31 March 2005	<u>655,808</u>	<u>53,981</u>	<u>709,789</u>
Net book value			
At 31 March 2005	<u>\$ —</u>	<u>\$ 41,292</u>	<u>\$ 41,292</u>
At 31 March 2004	<u>\$ 2,361</u>	<u>\$ 11,806</u>	<u>\$ 14,167</u>

14. INVESTMENT – MINING PROPERTIES

	2005 \$	2004 \$
Mining Properties	<u>\$ 4,857,765</u>	<u>\$ 4,840,153</u>

The investment in the mining properties located at Roche Bay and Freuchen Bay are in 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. Significant work is currently underway in an attempt to bring these properties into production.

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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2005 (Continued)

15. DEBTORS

	Family 2005	2004	Company 2005	2004
	\$	\$	\$	\$
Advances to suppliers and consultants	626,151	2,249,116	626,151	2,249,116
Amounts due from Family undertakings	—	—	158,611	52,000
Total accounts receivable	<u>\$ 626,151</u>	<u>\$ 2,249,116</u>	<u>\$ 784,762</u>	<u>\$ 2,301,116</u>

Of the amounts shown as advances to suppliers and consultants, there are included a total amount of \$ 343,707 (2004 - \$1,215,664) which are owed from directors and related parties.

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Family 2005	2004	Company 2005	2004
	\$	\$	\$	\$
Trade creditors	2,264,932	2,090,044	2,264,932	2,090,044
Amounts due to Family undertakings	—	—	20,018,446	17,189,566
	<u>\$ 2,264,932</u>	<u>\$ 2,090,044</u>	<u>\$ 22,283,378</u>	<u>\$ 19,279,610</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 \$ 1,050,622 (2004 - \$730,913)

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

	Family 2005	2004	Company 2005	2004
	\$	\$	\$	\$
Other creditors	<u>\$ 3,540,818</u>	<u>\$ 2,635,158</u>	<u>\$ 3,540,818</u>	<u>\$ 2,635,158</u>

Other Creditors represent loans made to the Company by certain directors with regards to helping to finance the operations of the Company in previous years. In order to be in a position to make these loans the directors sold on the market (net of returns to date) 172,044 shares (2004 – 178,600) of Borealis Exploration Limited. 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 172,044 shares on the open market. The amount due to directors is determined at each year-end. In 2005, there were 6,556 shares 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 the market value of the shares and options.

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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2005 (Continued)

18. CALLED UP SHARE CAPITAL

			2005 \$	2004 \$
Authorised share capital 5,000,000 ordinary shares @ \$0.01 each			\$ 50,000	\$ 50,000
			<u> </u>	<u> </u>
	Number of Shares	Share Capital \$	Share Premium Account \$	Total \$
Issued share capital				
At 31 March 2003	4,982,605	\$ 49,826	\$ 24,241,153	\$ 24,290,979
Shares issued during the year	17,395	174	(123)	51
At 31 March 2004	<u>5,000,000</u>	<u>\$ 50,000</u>	<u>\$ 24,241,030</u>	<u>\$ 24,291,030</u>
Shares issued during the year	–	–	–	–
At 31 March 2005	<u>5,000,000</u>	<u>\$ 50,000</u>	<u>\$ 24,241,030</u>	<u>\$ 24,291,030</u>

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

	Share Capital \$	Share Premium Account \$	Consolidated Profit & Loss Account \$	Total \$
At 31 March 2004	50,000	24,241,030	(27,816,958)	(3,525,928)
Shares issued during the year	–	–	–	–
Loss for the year	–	–	(2,906,729)	(2,906,729)
At 31 March 2005	<u>\$ 50,000</u>	<u>\$ 24,241,030</u>	<u>\$ (30,723,687)</u>	<u>\$ (6,432,657)</u>

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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2005 (Continued)

20. RELATED PARTY TRANSACTIONS

The Borealis Family of Companies is party to an agreement with Shiloh Limited International, Inc. ('Shiloh') dated 10 May 1999, the terms of which provide for Shiloh to receive 4 percent of gross revenues earned by Borealis, including funds raised by way of shares issue, in return for Borealis assigning responsibility for the payment of fees and other obligations in connection with the earning of such Revenues. During the year ended 31 March 2005, \$ 71,567 (2004 - \$138,703) was paid by Borealis to Shiloh in accordance with the terms of this agreement. The agreement is binding upon the parties for a period of 18 years and may be automatically renewed. The CEO is an agent for Shiloh, and Shiloh is owned by the Jeremiah Toyam Cox Foundation Limited of which the CEO is a member of the Council.

The Parmenides Group receives fees of \$432,000 per year for management services. The Parmenides Group is owned by the Jeremiah Toyam Cox Foundation Limited of which the CEO is a member of the Council. There are no other related party transactions except those described elsewhere in these financial statements (see Note 5, 16 and 17).

21. CONTINGENT LIABILITIES

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 royalty. The royalty is to be paid from 25% of the net proceeds, as and when they are received, from the lease, sale or other disposition, or production on or from its mineral properties. To date, \$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 of, or commences production on, the mineral properties. Consequently under Gibraltar GAAP, this liability has been reported as a contingent liability.