

BOREALIS

Borealis Exploration Limited

2007 Annual Report



BOREALIS EXPLORATION LIMITED

Gibraltar Registered No. 66632

About Borealis

Borealis Exploration Limited is a technology development company. Borealis imagines, invents, develops, and licenses new industrial technologies. These include new materials and technologies for more efficient and lower-cost generation of electrical power, more powerful and effective electric motors for use in everything from B-737 nose wheels to starter-generators, 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.

In addition, Borealis is the majority shareholder in the Roche Bay Magnetite Project, a massive undeveloped resource of magnetite iron ore located on a natural harbor, and the Freuchen Bay Polymetallic Project, which sits astride an incratronic rift. Both properties are in Nunavut, Canada.

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.

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BOREALIS EXPLORATION LIMITED

Gibraltar Registered No. 66632

Borealis Chairman's Letter to Members

20 June 2007

Fellow Members:

Borealis Exploration Limited is a major shareholder in a Family of Companies that engages in fundamental scientific research with the goal of providing high value patented and proprietary products to many different markets, as well as having significant holdings in mineral exploration and development companies.

Mineral properties are held by Roche Bay plc and Faraway plc. Roche Bay plc has recently engaged in a series of transactions that appear to put Roche Bay's very large magnetite deposits on the pathway to production. Borealis owns the controlling interest in Roche Bay plc which controls the Roche Bay Magnetite Project. In parallel we are increasing our focus on Faraway plc which may hold a substantial polymetallic deposit in an intratonic rift.

Chorus Motors plc is developing patented and proprietary Chorus® motors and drive systems with a greater power density than any other technology in virtually all traction operations. This means smaller drives and motors for hundreds of percent increases in starting torque coupled with high reliability from the use of standard modules and materials. Chorus designs the product, and supplies the software which drives it. The motors and drives themselves, which are currently used for demonstration and testing purposes, are manufactured by world-class suppliers. Semikron manufactures and packages Chorus' power and control electronics. The Chorus motors are likewise manufactured by ISO 9001 certified companies, who have well-earned reputations for making highly-reliable high-performance motors.

Chorus Motors, in turn, is the control shareholder in WheelTug plc, a company dedicated to changing the face of airport ground handling by giving pilots the ability to drive their aircraft using onboard electric motors instead of relying on a ground tug or inefficient turbines. Just before year-end, WheelTug inked a major deal with Delta Air Lines, in which Delta became both the launch WheelTug® customer for the 737NG class of airplanes, as well as the launch customer and the exclusive airline development partner. Further, the agreement gives Delta the right of first refusal to provide installation and maintenance services on WheelTug systems for itself and for other airlines that desire such services. Delta already performs maintenance for more than 100 customers and this could serve as another opportunity to continue to grow its maintenance in-sourcing business. Delta has also acquired warrants to buy 600,000 shares of WheelTug plc at an average price of \$36 per share.

Another important activity is custom designing low electron-volt work function devices to both generate electricity and cool (pump heat) along with a myriad of other applications. Avto Metals plc, Cool Chips plc and Power Chips plc are developing new materials for the custom design of electron-volt work functions as well as technologies for electrical power generation, and silent, non-polluting cooling and thermal management systems. Military hardware is expected to be among the initial applications. Over time, this should broaden to include a wide range of industrial and consumer and other markets.

The Borealis Family of Technology Companies include: Borealis Technical Limited, Avto Metals plc, Chorus Motors plc, Cool Chips plc, Cool Chips Military Sales plc, Photon Power plc, Power Chips plc, and WheelTug plc.

All our technology developments are protected by a large portfolio of patents. We are very proud of our patent team; last year we filed over 58 separate patent applications, to add to the 54 patents already issued. These patents are filed around the world as we drive to ensure that our Intellectual Property is protected worldwide.

Many of the Borealis Family of Companies are quoted on www.pinksheets.com.

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Our goal is to provide excellent returns to our investors.

We have come a long way with our mineral properties as the first property is now being driven to production by a world-class team.

Included below are some of the letters to the Members of some of the companies in our Family of companies.

We are pleased about our past and thrilled with our future. And we thank you, our shareholders, for your continued support and encouragement.

With warmest personal regards,

Borealis Exploration Limited and the Borealis Family of Companies

A handwritten signature in black ink, appearing to read 'Rodney T. Cox'. The signature is stylized with large, sweeping loops and a prominent 'R' at the beginning. The name 'Rodney T. Cox' is written in a smaller, cursive script below the main signature.

Rodney T. Cox
Chairman and Chief Executive Officer

Cool Chips Chairman's Letter to Members

20 June 2007

Fellow Members:

We have enormous demand. But we don't have product. Yet.

We have been working on this technology for a dozen years, and while we know a lot more than we did, and we have done a great deal of work, we are not there.

A key to working Cool Chips is found in the Avto Metal technology, which we publicly announced for the first time two summers ago. Avto Metals allows one to take an emitter like the cathode found in older televisions and computer monitors and make them work at lower temperatures. In conjunction with a nanometer-wide gap separating the electrodes, these temperatures are low enough to cool a computer chip or freeze water.

Highly optimized Avto Metals are necessary for making Cool Chips. The good news is that Avto Metals are, in principle, quite simple. Avto Metals are essentially a corrugated pattern on the surface of a thin layer of a material. The dimensions are rather small, which was the reason it took until 2005 to prove the concept. Development has also been slowed by more practical problems. For example, oxygen tends to react with most things, even just a little bit. Oxygenated layers on top of the corrugated pattern diminish or eliminate the Avto effect. So either we work with materials that do not react with oxygen at all (there are a few, but not many), or materials that react minimally with oxygen, but that can only be tested in a vacuum. Working in vacuum is more complicated and slows things down a lot, but it is all doable with enough time and resources.

Over the past year, we have been working to stretch the Avto Metals theory to its limits, making a large number of different samples with different dimensions and characteristics and materials. We are pleased to report that all the experimental data continues to validate the theory – “better” physical samples give us better emitters, while “poorer” physical samples yield poorer results. We have also expanded our test work to show that the Avto Effect works just as well in other materials. In parallel, we have designed and built a new, compact and versatile enclosure for testing Cool Chips. This now patented method uses a ring-shaped poezo element that double functions as vacuum enclosure and gap control.

The work ahead of us is focused and requires high quality and thorough laboratory research. We need to make and test a sizable number of samples, continuing to check (and if necessary, refine) the theory, and to push it to its limits. It is near the limits of the Avto Metal theory that Cool Chips will become a product and a market reality, and we can start to meet the intense market demand and return value to our shareholders.

We have dedicated management capable of bringing Cool Chips to market. Hans J. Walitzki, who has decades of experience in administration, technology management and mass manufacturing, has become our Chief Development Officer. Dr. Walitzki has worked extensively in thin film and wafer technologies, spending many years with Wacker Chemitronic and later Wacker Siltronic, where he was Director of Technology. He founded his own company, soiTronic, Inc. in 1999 to bring new wafer technologies to the market, and successfully integrated his company into Isonics Corporation, becoming Vice President for Advanced Wafer Technology. Dr. Walitzki is expected to manage the final development and commercialization of Cool Chips.

And now the team is focused on optimizing the Avto Effect, both in gold (which does not react with oxygen), as well as in materials which are more likely to be suitable for mass-produced Cool Chips. This work has a lot of different technical facets and challenges, but it also has a lot of opportunities and possible solutions. Indeed, our biggest challenge right now is sorting out which of the possible approaches represent the best opportunities. It is the kind of thing for which one is always making decisions based on limited information – we can look back later and see how direct a path we took.

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This year has shown considerably patenting activity. In addition to the twenty-two patents issued before this year, four patents issued this year, and an additional seventeen patent applications were filed this year. (As always, we only count unique applications in this number; we don't multiply that by the number of countries in which we seek coverage.) We continue to ensure that we stay innovative and secure what we believe is already a dominant patent position for low temperature thermionic coolers.

In parallel, we continue to raise funds for development. The work represents a constant cash drain, and our efforts certainly have been constrained by limited resources. This problem has not been solved yet, and we continue to talk to potential investors and partners. We welcome any new opportunities.

As always, we are very appreciative to our shareholders, who by and large, have stuck with us through thick and thin. We have no shame in claiming the finest shareholders in the world. Our owners are what every company should have – people who believe in what this Company can achieve, and who are ready, willing and able to roll up their sleeves, help out where possible, and keep the heat on management. We welcome any and all constructive criticism, and we graciously thank you for your support to date. The next year should prove very interesting as we accelerate our drive to marketable product.

With all good wishes,

Cool Chips plc

A handwritten signature in black ink, appearing to read 'Rodney T. Cox', with a large, stylized flourish above it.

Rodney T. Cox
Chairman and Chief Executive Officer

Power Chips Chairman's Letter to Members

20 June 2007

Fellow Members:

We are in an energy crunch. The prices of oil and gas have soared to almost five times their ten-year low, having a direct impact on the price of fuel for cars and airplanes, heating oil for homes, and electrical power for just about everything else.

What can be done about it? True, there are the conventional solutions such as opening up oil exploration or harmonizing regulations or reducing gasoline tax. These are indeed solutions which will help increase supply of fossil fuels, but as people are becoming increasingly aware, it would make an enormous difference if there was a way to reduce demand on the other side. This is tricky, since few people are willing to stop going to work or feeding their families. Cars and airplanes and heating oil and electrical power are considered necessities in the West, and rapidly becoming just as important in places like China and India. Demand is not going down; it is going up.

We need more power, without somehow using more of the fuel we do have – whether it is coal, oil, gas, nuclear or even solar energy. And the opportunities are indeed there. While internal combustion engines are a very mature and highly evolved technology, cars tap less than 20% of the thermal energy of fuel to turn the wheels. Over 80% of the energy in your fuel tank will be dumped out the tailpipe or radiator. The majority of fuel consumed in making electrical power or steel or aluminum is also vented to the environment, wasted. Why? Because for such heat, which is often as hot as 1000°C (that's a cosy 1700°F) there is no current technology which can economically convert that wasted heat to electrical power.

Power Chips™ are the solution to this problem.

The Power Chips technology is being designed to be optimal for operation at “waste heat” temperatures of 500 – 600 °C and below. A paper published in the Global Powertrain Congress showed that if Power Chips reach their projected efficiency, they will be able to almost *double* the efficiency of a car or truck. There are more than 50 million automobiles built every year worldwide; almost doubling their fuel efficiency is going to make a big difference.

Power Chips are small and relatively simple devices with a large number of potential applications. In automotive and aerospace applications *alone*, there is a market of many *billions* of devices per year. And that is not counting all the other applications, like steel mills and aluminium smelters and power plants. We get inquiries every day from companies and individuals who would love to add Power Chips to their furnaces or their oven or even ear implants. Once you start to consider all the sources of waste heat there are, you realize how vast the potential for Power Chips really is.

There is just one, small, problem. We cannot yet even start to meet market demand, as we don't have working Power Chips yet.

Power Chips are small diodes in which electrons move from one side to the other. The key to doing this at low temperatures is the Avto Metals technology, which we publicly announced for the first time two summers ago. Avto Metals are the way to take an emitter like the cathodes found in older televisions and computer monitors, and make them work at lower temperatures, temperatures suitable for exhaust pipes or smokestacks.

Avto Metals are, in principle, quite simple. Avto Metals are essentially a corrugated pattern on top of a thin layer of a material. The dimensions are rather small, which was the reason it took until last year to prove the concept. For use in Power Chips, however, Avto Metals need to be optimized for peak performance and long-term endurance at elevated temperatures. Some of these materials don't allow exposure to air during transportation. Oxygenated layers on top of the corrugated pattern can diminish or eliminate the effect. So either we work with materials that do not react with oxygen at all (there are a few, but not many), or materials which react minimally with oxygen – but these can only be tested in a

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vacuum. Working in vacuum is more complicated and slows things down a lot, but it is all doable with enough time and resources.

Over the past year, we have been working to explore the limits of the underlying theory, and to better use the theory to design our next generation of samples. We are pleased to report that all the experimental data continues to validate the theory – “better” physical samples give us better emitters, while “poorer” physical samples yield poorer results. We have also expanded our test work to show that the Avto Effect is seen in more than one material.

The work ahead of us is focused and requires high quality and thorough laboratory research. We need to make and test a sizable number of samples, continuing to check (and if necessary, refine) the theory, and to push it to its limits. We don't require dramatic improvements in electron emission at the design operating temperature to start making Power Chips; we need only slightly better results than we have already achieved, albeit in a different material.

We have dedicated management capable of bringing Power Chips to market. Hans Walitzki, who has decades of experience in administration, technology management and mass manufacturing, has become our Chief Development Officer. Dr. Walitzki has worked extensively in thin film and wafer technologies, spending many years with Wacker Chemitronic and later Wacker Siltronic, where he was Director of Technology. He founded his own company, soiTronic, Inc. in 1999 to bring new wafer technologies to the market, and successfully integrated his company into Isonics Corporation, becoming Vice President for Advanced Wafer Technology. Dr. Walitzki is expected to manage the final development stages and commercialization of Power Chips.

Currently, the team is focused on optimizing the Avto Effect, both in gold (which does not react with oxygen), as well as in materials which are more likely to be suitable for mass-produced Power Chips. This work has a lot of different technical facets and challenges, but it also has a lot of opportunities and possible solutions. Indeed, our biggest challenge right now is sorting out which of the possible approaches represent the best opportunities.

This year has shown considerably patenting activity. Three patents were issued this year, and sixteen more patents were applied for. We continue to ensure that we stay innovative and secure what we believe is already a dominant patent position for low temperature thermionic power converters.

In parallel, we continue to raise funds for development. The work represents a constant cash drain, and our efforts certainly have been constrained by limited resources. This problem has not been solved yet, and we continue to talk to potential investors and partners. We welcome any new opportunities which arise!

With best wishes,

Power Chips plc



Rodney T. Cox
Chairman and Chief Executive Officer



Isaiah W. Cox
President and Chief Operating Officer

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Avto Metals Chairman's Letter to Members

20 June 2007

Fellow Members:

Patent filings this year have proceeded apace. In addition to the five patents issued in previous years, two more patents were issued this year, and five more applications have been filed. As we are the only entity working in this area of nanotechnology, the patents are correspondingly broad and strong. We believe that our patent position is superb.

We have dedicated management capable of bringing Avto Metals to the next level. Hans J. Walitzki, who has decades of experience in administration, technology management and mass manufacturing, has become our Chief Development Officer. Dr. Walitzki has worked extensively in thin film and wafer technologies, spending many years with Wacker Chemitronic and later Wacker Siltronic, where he was Director of Technology. He founded his own company, soiTronic, Inc. in 1999 to bring new wafer technologies to the market, and successfully integrated his company into Isonics Corporation, becoming Vice President for Advanced Wafer Technology. Dr. Walitzki is expected to manage the final development stages and commercialization of Avto Metals.

On the marketing side, we have spent considerable time over the past year talking with potential customers for Avto Metal cathodes, and we have a much better understanding of the marketplace and where, if all goes well, we expect our first sales.

In the laboratory, progress has been sporadic over the past year, primarily because we have had very limited funding to advance our technical efforts. Work has continued, however, and the results have been encouraging. Our experimental results have consistently supported the theory, which makes theoretical physicists very happy. Current and ongoing work is focusing on increasing the magnitude of the effect to widen its range of commercial application. Theories are a very good place to start, but the results will tell us the limits of the theoretical foundation of Avto Metals. In other words, we do not yet know whether Avto Metals will be a blockbuster or just a scientific curiosity. Within the coming year, this question should be settled once and for all.

We thank you for your continued support!

Avto Metals plc



Rodney T. Cox
Chairman and Chief Executive Officer



Isaiah W. Cox
President and Chief Operating Officer

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Cool Chips Military Sales Chairman's Letter

20 June 2007

Fellow Members;

Cool Chips Military Sales plc (CCMS) exists as an organization dedicated to serving the single most lucrative and urgent market for Cool Chips™ – the military. CCMS has the exclusive world wide license from Cool Chips plc for sales in military markets. Our direct parent company is Cool Chips plc (OTC: COLCF) and Cool Chips is indirectly owned by Borealis Exploration Limited.

Military hardware of all kinds has very specific and demanding cooling requirements. Often these requirements are not met, grounding or otherwise rendering inoperable key hardware. One such case is the cooling of sensors for use in satellites. Satellite sensors are used to monitor the surface of the earth, among other things, looking for infrared radiation which signals the launch of a missile. These sensors must be cooled to a low temperature, and – importantly for what is essentially a very focused camera – the cooling system must not introduce vibration. A satellite whose “eyes” shake gives the same results as a camera in very shaky hands. Cool Chips are the ideal solution -- solid-state, projected to give a high efficiency, and workable in the vacuum of space.

There are literally hundreds of other applications, from cooling electronics and avionics to cooling radar systems to the individual foot soldier. Each of these is potentially extremely valuable to your company.

Cool Chips Military Sales is the company designed to take the hardware and customize it to meet the specific and unique needs of the military. Since the customer is very different from any other, your company was set up in the specific desire to grow a dedicated team and set of processes able to best meet the market needs. CCMS holds the exclusive worldwide license to sell Cool Chips into this market.

We are waiting for product to start flowing from Cool Chips plc, and we realize that it is going to take at least a year before we have product at the point of being ready to sell into the military market. But once we get to that point, we expect to start generating excellent returns for our shareholders.

Cool Chips Military Sales plc



Rodney T. Cox
Chairman and CEO



Isaiah W. Cox
President and COO

Chorus Motors Chairman's Letter to Members

20 June 2007

Fellow Members:

This year has seen further progress in our development of motor and drive products which can be installed in real world applications, and a consolidation of our focus toward high-end solutions.

Development

This year we have focused our development in three areas: patenting, software and WheelTug. We continue to innovate, to advance our technical advantage and to solidify it through filing and prosecuting patents. This year we had four patents issue, and we filed eight patent applications as well as four provisional applications. We are also patenting the Wheel Tug technology, and in that area we also filed eight applications, as well as six provisional applications. There are now forty-four separate patents pending or issued for Chorus or WheelTug. Our patenting efforts remain a strong part of our operational efforts.

Our software programming continues apace. We are developing our software so that it should be straightforward to integrate into different systems, and in order to meet the requirements of different applications. For each application, a custom software solution is required, and we are working to ensure that we make this optimization as turnkey as possible.

Chorus Motors is providing the technical development work for WheelTug plc, which entered an agreement in March 2007 with Delta Air Lines. We have been ramping up to the development work, and re-directing our efforts to focus on the nosewheel of the 737, which will be our launch platform. The certification of the product to meet FAA and equivalent requirements is an important consideration, and we are working hand-in-hand with WheelTug's certification team to ensure that this proceeds as smoothly as possible.

We continue to work with Magnetek Inc., a market leader for drives and controls for the underground mining market. We are currently investigating the different product choices to determine which will be the best showcase for Chorus's benefits.

Focus

We have shifted our focus in order to be more customer driven in our technological direction. Chorus® is not developing systems for the entire range of motor applications, nor are we making off-the-shelf systems. Most of these applications are essentially commoditized, and therefore extremely cost-sensitive. While Chorus has certain cost advantages in many markets, we have determined that high value applications are the best place to go to maximize profits and shareholder value.

There are many applications where, similar to WheelTug, the capacities of our motors can "make or break" a system. The weight and size benefits encourage potential customers to approach us. Rather than building for inventory, we are bidding and quoting on high value systems. Chorus systems are high performance systems which are needed for specific applications. So we are offering custom systems, rather than stocking shelves with our systems.

As such, we now work with companies in specific fields who require the best drive solution for their demanding application – essentially they need small motors that can do large jobs. Several companies have approached us with Requests for Proposals, and we have been designing custom solutions to meet these requests.

Our staff works on the custom design and the specific software programming for the specific needs of each application, and we have limited bandwidth. Because of this we are focusing on applications with

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large enough margins to be lucrative. For example, this past year we have spent considerable time on starters and starter-generators for turbines, and we are bidding on jobs for this application.

WheelTug plc is a major asset for your company. Chorus holds 6,709,023 shares of WheelTug, and WheelTug shares are being placed at \$20 and upward now as a result of the Delta Air Lines agreement. Delta holds warrants for WheelTug shares at \$27, \$36 and \$45 per share. As WheelTug development continues, we expect it will continue to add underlying value to Chorus Motors.

Overall, 2007 has been a year of patenting and technical development, and working closely with select end users to design world-beating Chorus® drives that meet their specific needs.

Chorus Motors plc

A handwritten signature in black ink, appearing to read 'Rodney T. Cox', with a large, stylized initial 'R' at the top.

Rodney T. Cox
Chairman and Chief Executive Officer

A handwritten signature in black ink, appearing to read 'Isaiah W. Cox', with a large, stylized initial 'I' at the top.

Isaiah W. Cox
President

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WheelTug Management's Letter to Members

20 June 2007

Fellow Members:

Things are getting very exciting for your company. In the last year, we have added a world class customer and development partner in Delta Air Lines, and we have started to build the product development and certification team to bring WheelTug to market.

WheelTug's two Chorus® motors, installed in the nose wheels of planes like the Boeing 737, will give airliners on the ground full mobility without the use of the main turbines or tugs. The resulting improvements in efficiency, flexibility, fuel savings, and reduced maintenance aim to unlock savings of over US\$ 750,000 per airplane per year. And the environmental benefits, in huge reductions in ground emissions, noise and pollution, are transformational. In sum, WheelTug® has the potential to revolutionize airport ground operations – and be of immense value to your company, our customers, and the environment.

We have been building the business this year – by adding Delta as the launch customer and development partner, and by adding world class personnel such as Gilbert Thompson, who is guiding us through the certification process. Now, in parallel with raising funds to complete development within 30 months, we are identifying and assembling a team of highly experienced and skilled consultants capable of bringing together all the aspects of WheelTug® and making it a market reality.

At this point last year, we said that “your company had a unique and well-protected technology, a powerful vision, a solidly established business case and a clear path forward.” Now we have started along that path. We have selected the 737NG as our launch aircraft. And now we have a major customer in Delta, with the desire to assist development of WheelTug, and – once units are ready – the capability to install and maintain WheelTugs for airlines worldwide.

To learn more, visit our website: (www.wheeltug.gi).

WheelTug plc



Isaiah Cox
Chief Executive Officer



Rodney T. Cox
Chairman

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Faraway plc Management's Letter to Members

20 June 2007

Fellow Members:

Faraway's principal asset is 10,350 acres, slightly more than 16 square miles, located near Freuchen Bay, on Melville Peninsula, Nunavut, Canada. Faraway and its parent company have worked on this property since the 1960s and have held this property since the 1980s. A lot of work has been done on the property, enough to really make us most pleased that we now hold this property under long term renewable Government of Canada leases. The property and its value seems obvious to us. We will see if the property can hold up to its billing.

This is what we know, thanks to the work of renowned geophysicists like Anthony Barringer, and Johnny Walker who helped put together the pieces of this puzzle:

The overall geology of Freuchen Bay suggests that it is a property quite similar to the Thompson Nickel-Copper belt of Manitoba, as well as Broken Hill in Australia and Black Mountain in South Africa. Those mines have produced billions of dollars worth of metals for their owners. So far, so good.

But counter to expectations, once tests were conducted, it was found that Freuchen Bay does not have very much by way of base metals on the surface. In other words, while it looks like a fantastic property, the surface rock suggests there is not very much out of the ordinary.

Until you get thirsty, that is.

Because while the surface rock does not show very much nickel or zinc or copper, the local lakes have heavy doses of the stuff. Zinc is chronically toxic at 120ppm. Freuchen Bay's lakes have more than 2,000 ppm. Not to mention the copper or nickel or lead also in the lake waters and the lake sediments.

Since there is no other plausible explanation for how such massive concentrations of base metals found their way into the lakes, our geologists concluded that the base metals leached out of the sulphide ground rocks and into the lake water and lake sediment. This leaching process is not overnight, but time is one thing the earth has had quite a bit of. And because the water in the desert arctic is not absorbed into the ground because of permafrost, the lakes and the lake sediments continue to hold the metals.

Between the ground water concentrations and the overall geology which reminded them of world class mines such as Broken Hill and Black Mountain, John Walker and Anthony Barringer concluded that "we believe the area has a very high potential for ... a buried large base metal deposit."

Please go to www.faraway.gi and look at the library of reports. Here are a few to get started:

Cameron Survey Report:

http://www.faraway.gi/library/F.Bay_InvestigationOfBaseMetals_Cameron_1979.pdf

Barringer Survey Report

http://www.faraway.gi/library/F.Bay_Barringer_Assess_Report_1989.pdf

Barringer (Summary) Letter

http://www.faraway.gi/library/F.Bay_Barringer.LtrTo.Kennecott_1990.pdf

Faraway Document Library

<http://www.faraway.gi/library/>

METALLOGENY OF PHANEROZOIC INTRACRATONIC RIFT BASINS by

EMSBO, Poul, U.S. Geol Survey

http://gsa.confex.com/gsa/2002AM/finalprogram/abstract_41213.htm

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The only way to prove this beyond a shadow of a doubt, however, is to drill the property and see what the non-leached fresh rock looks like. And for that, your company needs to raise some serious funds to

mount a program which both determines the ideal targets and drills them for core which is then analyzed.

Commodities have soared in recent years, as you can see. Values are going up, and staying there, showing the underlying strength and longevity of this bull market. New investment in base metals are becoming the order of the day for mining companies and even for their customers.

We believe that Freuchen Bay has always been a prospect worth holding on to. With soaring base metal prices, it is more likely than ever that others will come to the same conclusion, and we can probably see some serious action on the ground.

As was the case last year, it is your company's goal to raise sufficient funds this year to allow for a program which should establish what is actually under the ground. If we are successful at raising the funds, we expect to find out within

18 months or so whether our 10,350 acres are just a fascinating naturally polluted area in Nunavut, or whether Freuchen Bay has the makings of a world-class base metal deposit.

We thank you for your continued support!

Faraway plc



Rodney T. Cox
Chairman and Chief Executive Officer



Isaiah W. Cox
President and Chief Operating Office



BOREALIS EXPLORATION LIMITED

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Roche Bay Management's Letter to Members

20 June 2007

Dear Fellow Members,

The past eighteen months have been a transformational period for Roche Bay. We have moved from owning a dormant, unexploited asset to becoming a mining exploration company and then to a holding company with increasingly valuable assets. Exploration work on one of our iron ore properties is now underway, we have a capable joint venture partner doing the work, we have an ore off-take option with a core customer, and we have defined the work needed to get a mine into production, thus generating revenues and income.

For more than 40 years, Roche Bay and its predecessor company have owned permits and leases to two large iron ore deposits in Nunavut, on the Melville Peninsula in northeastern Canada. These iron ore formations are known as the Eastern and Western deposits. We have for many years intended to develop first the smaller Eastern deposits, which are only 5-10 kilometers from the sea, and thus easily accessible. We began the year believing that in the Eastern deposits we held a mid-sized resource close to tidewater.

We ended the year having learned that we had massively underestimated the size of the Eastern deposits. As a result of the work we did last year, we now own a property that has a geological report compliant with Canadian National Instrument 43-101 and an aeromagnetic signature on only one of the ore bodies (the "C" ore body) of over 300 hectares. To put that into perspective, it is like having one square mile, or over three square kilometers, of iron formation. How much mineable resource that contains we do not yet know, but it is certainly substantially more than we had previously believed.

While it is too early to tell how much actual resource the ore body contains, it does suggest that the Roche Bay ore assets represent something of significant worth, whose size and proximity to a natural deepwater port make them a very compelling proposition to develop, although the Arctic climate brings its own specific challenges. If these deposits were located in Wales, for example, they would have been developed 100 years ago and would probably still be delivering ore to Western Europe. As our properties are in the Arctic, development will be neither simple nor inexpensive. The development of a mine will be challenging but very rewarding for our shareholders. In fiscal 2007 we made large leaps forward toward meeting the challenges and capturing the rewards.

The AEI Joint Venture

The biggest issue we faced during the year was our corporate structure, which made it difficult to raise the capital required. We resolved this problem by creating a joint venture with a Canadian company, Advanced Explorations Inc. (AEI). AEI is capable of both attracting the capital needed and managing the exploration and development work. This joint venture, in which Roche Bay will eventually have a 49.9% interest, covers only our Eastern deposits; Roche Bay retains 100% ownership of the Western deposits.

The agreement provides that AEI will raise the needed capital, up to C\$1.8 billion, conduct the exploration and development, and build and operate the mine on behalf of the joint venture. Thus AEI will become the project's operator, responsible for its financing, management and operation, while Roche Bay will become effectively a holding company.

As part of the joint venture agreement, most members of our excellent exploration team have now joined Advanced Explorations, where they will continue to serve the project and work toward bringing the property into production. This joint venture delivers considerable additional exploration and technical expertise to the Roche Bay project, most notably in the form of AEI's CEO John Gingerich, whose abilities and strengths are well known in the mining industry. The combined team, along with newly-raised funding that should carry the project through exploration and into the development cycle, puts us on a sound footing to deliver a successful drilling programme.

BOREALIS EXPLORATION LIMITED

Gibraltar Registered No. 66632

In real terms, the joint venture agreement enhances the viability of the Roche Bay project and should deliver a successful mine. In return, however, we have ceded operating control over the Eastern property and cannot decide the size or type of mine beyond a minimum tonnage of 6 mt/yr. By the time actual mine construction begins, Roche Bay's interest will be reduced to 49.9%.

Becoming a Holding Company

This means that for practical purposes Roche Bay will become a mineral assets holding company that reviews, advises on and audits AEI's operational progress in meeting our agreed milestones. Looking forward, while Roche Bay plc may look at other businesses, it remains most likely that we are going to be an iron ore holding company concerned solely with the development and exploitation of two Roche Bay projects.

The first project is development of the Eastern deposits, those we have put into the joint venture with AEI. We now believe that these deposits are sufficiently large to enable a large mine to operate for decades to come. This is the project to which we expect investors will assign value and use as the basis for estimates of our foreseeable future cash flows.

The Western deposits historically were estimated to be several times the size of the East. Given these relative sizes, the Western deposits are unlikely to be developed for at least the next 20 years. However, we expect over the next few years to undertake some minor exploration to more fully assess the real value and potential of these Western deposits going forward.



Part of the 2007 exploration camp at Roche Bay. About 35 people are now working there.

BOREALIS EXPLORATION LIMITED

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First Dividend

As part of the agreement, Roche Bay has received rights to a 33% interest in AEI in the form of rights to purchase 12 million AEI shares. Roche Bay, in turn, has enabled its shareholders to participate directly in AEI by declaring a dividend of one-half share purchase right in AEI shares for each Roche Bay share owned. This dividend—the first in Roche Bay’s history—was authorized this month for shareholders of record 4 June 2007, and will be distributed in October pending us having sufficient reserves available for the distribution. The balance of the AEI share rights will be retained by Roche Bay and we intend over time to sell some or all of the AEI share rights we have retained to provide liquidity for Roche Bay, while holding as a core asset our carried 49.9% interest in the Eastern deposits project.

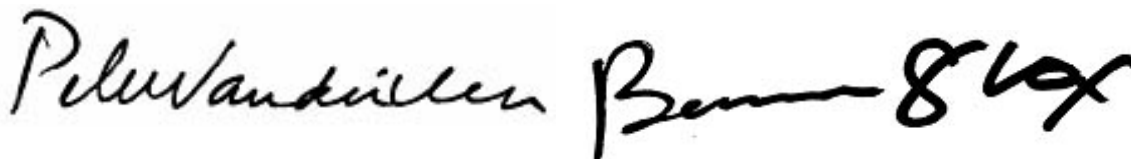
Future Plans

During the current fiscal year, we plan to complete a corporate continuance to another jurisdiction in order to rationalize our corporate structure, and we will request Member approval for such a move within a few months. We anticipate that the primary funding of Roche Bay’s activities for the next five to seven years will be achieved through converting some of our Advanced Explorations share rights into cash.

We would like to take this opportunity to thank all those who helped Roche Bay get to this point and who are now moving to Advanced Explorations. The foundation for our recent progress was laid through years of discovery, exploration and maintenance that came before the current efforts. Many creative, dedicated and visionary people made possible the progress our current team has achieved. Building on their efforts is the hard-working and talented team of Danie Botes, Dirk Swartz, Hendrik Bosman, and Candace Ramcharan, all of whom have now become part of the AEI team. In particular we want to highlight the contribution of two members of the team: Danie Botes, without whom none of the last year’s initial exploration work would have been possible; and Candace Ramcharan, who has been with the Roche Bay project now for over five years, was part of a very small team during our early development years, and became an expert on everything from permitting to shipping.

With the advances made this year, Roche Bay is now in a far stronger position than ever before. We are now in a position actually to begin to realize the value of the Eastern deposits and have part ownership of a producing mine. We would like to thank all our stakeholders for their support, and wish you all a happy and successful year ahead.

Yours sincerely,

The image shows two handwritten signatures in black ink. The signature on the left is 'Peter Vanderwicken' and the signature on the right is 'Benjamin J. Cox'. The signatures are written in a cursive, flowing style.

Peter Vanderwicken
Chairman

Benjamin J. Cox
President and Chief Executive Officer

BOREALIS EXPLORATION LIMITED

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Photon Power Chairman's Letter to Members

20 June 2007

Fellow Members:

It has been another year of watching and waiting for your company. As you know, Photon Power holds the rights to any non-thermal solar power technologies developed by Borealis Technical Limited (Borealis) or any of its subsidiaries. More concretely, this means that as soon as a member of the Borealis Family of Companies has completed the development pieces which are crucial for the success of Photon Power, then this business has a chance to start to make and sell product.

Electric power is at a premium now, with no obvious respite in sight. Though the reasons for this are numerous and complex, the core reality is that there is a rich reward for any technology which can make electricity from a renewable resource such as the sun, and do it economically. Photon Power holds the rights to a number of Borealis' patents to do just that; convert photonic energy from the sun into electrical energy.

The ultimate success of Photon Power's technology seems to depend upon the degree of technological success reached in the Avto Metals development effort. If and when Avto Metals can make very low work function materials, then they can be applied to low-cost and efficient solar panels by Photon Power, and sold in respective marketplaces. We stress that with this success, Photon Power should be able to compete with any traditional power generating technology, and not to rely on government subsidies or affiliated "green" pricing which currently is used to artificially help photovoltaics gain a foothold in the market. With optimized Avto Metals, Photon Power should be able to go toe-to-toe with any fossil fuel power generation source, and make a healthy profit.

It should be noted that there are many ways to convert solar energy into electrical energy, including through a thermal medium such as hot water collectors. Photon Power's rights to Borealis' technology is for direct solar conversion only, and does not include the rights to conversion of thermal energy into electricity. Those rights belong to our sister company, Power Chips plc. It is expected that Power Chips will be developed before Photon Power modules are made, but if Avto Metals are able to achieve very high reductions in work functions then Photon Power should ultimately be more competitive in the energy marketplace.

Your company is eagerly anticipating the optimization of Avto Metals, with high hopes that our photoelectric patents and ideas are able to come to market and unlock the key to Photon Power's success.

Photon Power plc



Rodney T. Cox
Chairman and Chief Executive Officer



Isaiah W. Cox
President and Chief Operating Office

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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 (not standing for re-election)
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 (resigned 5 October 2006)
Peter Vanderwicken	03 Aug 1999	Director
Nechama J. Cox	01 Aug 2001	Director
Giulio Pontecorvo	28 Aug 2003	Director
Stuart Harbron	03 Jan 2005	Director, and Chief Patent Officer
Nechama S. Katan	04 Jan 2006	Director (resigned 3 May 2007)
Melvyn Simon	04 Jan 2006	Director (resigned 31 August 2006)

Secretary

STM Fidecs Management (Gibraltar) Limited
(formerly known as Fidecs Management Limited)

Registered Office

Suite 3G, Eurolife Building
1 Corral Road
Gibraltar

Auditors

Moore Stephens
Suite 5 Watergardens 4
Waterport
Gibraltar

BOREALIS EXPLORATION LIMITED

Gibraltar Registered No. 66632

Financial Statements

for the year ended 31 March 2007

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 2007.

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. The Borealis Family of Companies retains its mining properties through Roche Bay plc and Faraway plc. The Roche Bay Magnetite Project of Roche Bay plc is now under development and the Freuchen Bay property of Faraway plc is generating industry interest. The Family of Companies has also added to its operations the business of conducting innovative industrial research for which it now has well over a hundred patents either issued, approved for issue or pending. From 1995 to 2007, most of the Borealis Family of Companies' expenses relate to expenses incurred whilst carrying out its research and development activities. This will most likely change in future years as, on a consolidated basis, the development of the Roche Bay Magnetite Project is likely to dominate our consolidated statements until the technology-based companies start to sell significant product. Please note that our Research and Development costs have all been written off in the year incurred, and most R&D costs are funded by the issue of shares in subsidiary undertakings. We expect most of the Development Costs of Roche Bay plc to be covered by third parties.

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 \$ 9,455 per year for those leases expiring in 2019, and \$ 9,553 per year for those leases expiring in 2021. All leases are expected to be renewed by the 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.

Roche Bay has made significant strides in the past year, including a major transaction with Advanced Explorations Inc., which has put the Eastern portion of the mineral leases on track for development and production at long last. A major drilling program is underway this summer, as part of the groundwork toward an operating mine.

BOREALIS EXPLORATION LIMITED

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DIRECTORS' REPORT (Continued)

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 the Freuchen Bay property, which is 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 by the renewal dates, and will require annual payments of \$ 9,005 at current exchange rates. We are looking to fund a drilling program looking for significant polymetallic deposits within our lease holdings.

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. The ability to make low-work function materials has been long sought within scientific and technological circles. There are many potential applications for the resulting “cold cathode”, and many are in lucrative markets.

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

The Chorus Meshcon technology is a novel AC 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. We can routinely improve torque by up to ten times the overload capacity of a conventional 3-phase machine, and there are new advances that suggest we will be able to achieve over twenty times the overload capacity of the competition. The system has huge aerospace, ship propulsion and automotive uses.

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 is expected to be a major profit centre in our business, as shown by the recent announcement of an agreement with Delta Air Lines in which Delta became WheelTug's exclusive North American development partner for the 737NG, as well as securing launch customer rights and certain rights to installing and maintaining WheelTug systems on 737Ngs. Delta also obtained warrants to purchase up to 600,000 shares of WheelTug plc at an average price of \$36/share. We have a detailed and informative Business Plan that is available under NDA to interested parties.

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, relying both on the physical build techniques which have been enabled by semiconductor manufacturing and packaging advances, as well as the Avto Metal solution for reducing the work function of a material.

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.

BOREALIS EXPLORATION LIMITED

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DIRECTORS' REPORT (Continued)

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, and rapid success is reliant on the success of the Avto Metal work function reduction technology.

Borealis Technical Limited, a 98% owned subsidiary of the Company, manages the above operations, along with other research which examines a wide range of scientific areas which 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 2007, Borealis Technical filed 58 new applications for patents and had 9 patents issue. It is anticipated that the research and development activities will remain at the current level or increase in fiscal year 2008.

Financial Review

Results for the Borealis Family of Companies for the year are shown in the consolidated profit and loss account on page 30.

As of 31 March 2007 the Family of Companies had accumulated losses of \$32,666,911 (2006-\$33,317,123) and a working capital deficit of \$ 1,800,127 (Deficit in 2006 - \$1,600,760). The net equity, as at 31 March 2007 amounted to \$657,665 (equity deficit 2006 - \$1,085,132).

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 Roche Bay leases is substantial, as evidenced by the Advanced Explorations Inc. transaction, and in excess of their cost. We feel that the Freuchen Bay leases of Faraway plc also have a value in excess of cost, although there is no similar transaction backing up this assertion at present. 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

Gibraltar Registered No. 66632

DIRECTORS' REPORT (Continued)

DIRECTORS AND THEIR INTERESTS

The directors who served during the year were as stated on page 20.

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

	Number of shares held at 31 March 2007	Number of shares held at 31 March 2006
Rodney T. Cox	20,549	20,549
Wayne S. Marshall	98,904	60,540
Arnold A. Turin (not standing for re-election)	100	100
Donald N. Jones	55,548	55,548
Isaiah W. Cox	158,048	158,048
David M. Goldenberg	100	100
Joseph J. Cox (resigned 5 October 2006)	31,729	31,729
Peter Vanderwicken	34,200	35,500
Nechama J. Cox	16,700	16,700
Giulio Pontecorvo	16,000	16,000
Stuart Harbron	1	1
Nechama S. Katan (resigned 3 May 2007)	51,123	51,123
Melvyn Simon (resigned 31 August 2006)	2,000	2,000

SHARE OPTIONS

As of 31 March 2007 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 20 June 2007



Isaiah W. Cox
Director



Rodney T. Cox
Director

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BOREALIS EXPLORATION LIMITED

We have audited the group and parent company financial statements of Borealis Exploration Limited for the year ended 31 March 2007 set out on pages 28 to 46. These financial statements have been prepared under the historical cost convention and the accounting policies set out on pages 33 and 34.

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 in accordance with applicable law and Gibraltar Accounting Standards (Gibraltar Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with Gibraltar Law. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors remuneration and other transactions is not disclosed.

We read the Directors' Report and other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements within it or material inconsistencies with the financial statements.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland). 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 group'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.

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INDEPENDENT AUDITORS' REPORT (Continued)

In connection with the other information contained in the Annual Report we also draw attention to the content of the Forward Looking Statement on page 2.

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 the Group of Companies as at 31 March 2007, and of the profit 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
20 June 2007

Moore Stephens
CHARTERED ACCOUNTANTS

BOREALIS EXPLORATION LIMITED

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CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 31 March 2007

	Notes	2007 \$	2006 \$
Revenue			
Sales		--	104,270
Recovery from Lawsuit		99,955	--
Expenditure			
		(5,426,553)	(5,566,295)
Operating loss			
	4	(5,326,598)	(5,462,025)
Financing gain / (costs)		82,805	(1,653,709)
Interest received		40,060	--
Interest paid		(48,086)	(43,221)
Loss on ordinary activities before taxation			
		(5,251,819)	(7,158,955)
Taxation		--	--
Loss on ordinary activities after taxation			
		(5,251,819)	(7,158,955)
Profit on sale of shares in subsidiary companies		2,182,213	2,324,288
Gain on decrease in stake in subsidiaries	9	4,812,403	3,575,669
Equity Minority interest	9	(1,092,585)	(1,334,438)
Profit / (Loss) for the financial year			
		\$ 650,212	\$ (2,593,436)
Profit / (Loss) per share			
	10	\$ 0.13	\$ (0.52)

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 33 to 46 form part of these Financial Statements.

BOREALIS EXPLORATION LIMITED

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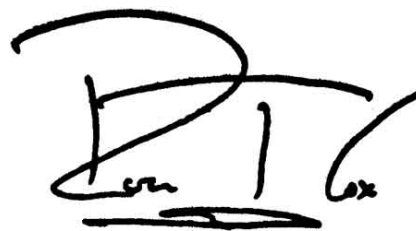
CONSOLIDATED BALANCE SHEET as at 31 March 2007

	Notes	2007 \$	2006 \$
Fixed Assets			
Intangible assets	11	498,234	452,026
Tangible assets	12	157,301	51,985
Investments mining resources	13	6,462,019	4,909,705
residential properties	13	61,435	--
		<u>7,178,989</u>	<u>5,413,716</u>
Current assets			
Cash at bank and in hand		166,454	61,873
Accounts Receivable	14	401,237	1,233,104
		<u>567,691</u>	<u>1,294,977</u>
Creditors: amounts falling due within one year	15	<u>2,367,818</u>	<u>2,895,737</u>
Net current (liabilities) / assets		<u>(1,800,127)</u>	<u>(1,600,760)</u>
Total assets less current liabilities		<u>5,378,862</u>	<u>3,812,956</u>
Creditors: amounts falling due after more than one year	16	<u>4,721,197</u>	<u>4,898,088</u>
Net Assets (Liabilities)		<u>\$ 657,665</u>	<u>\$ (1,085,132)</u>
Capital and Reserves			
Called up Share Capital	17,18	50,000	50,000
Share Premium Account	17,18	24,241,030	24,241,030
Profit and Loss Account	18	(32,666,911)	(33,317,123)
Total shareholders' funds		<u>(8,375,881)</u>	<u>(9,026,093)</u>
Minority interests - equity	9	<u>9,033,546</u>	<u>7,940,961</u>
Total Equity		<u>\$ 657,665</u>	<u>\$ (1,085,132)</u>

The financial statements on pages 28 to 46 were approved by the Board of Directors on 20 June 2007 and signed on their behalf by:



Isaiah W. Cox
Director



Rodney T. Cox
Director

The notes on pages 33 to 46 form part of these Financial Statements.

BOREALIS EXPLORATION LIMITED

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COMPANY BALANCE SHEET as at 31 March 2007

	Notes	2007 \$	2006 \$
Fixed Assets			
Intangible Assets	11	498,234	452,026
Tangible Assets	12	41,482	51,985
		<u>539,716</u>	<u>504,011</u>
Investments in subsidiary undertakings	9	83,990	83,990
		<u>623,706</u>	<u>588,001</u>
Current Assets			
Cash at bank and in hand		1,818	61,873
Debtors	14	429,026	1,860,288
		<u>430,844</u>	<u>1,922,161</u>
Creditors: amounts falling due within one year	15	<u>29,128,550</u>	<u>27,965,430</u>
Net current liabilities		<u>(28,697,706)</u>	<u>(26,043,269)</u>
Total assets less current liabilities		<u>(28,074,000)</u>	<u>(25,455,268)</u>
Creditors: amounts falling due after more than one year	16	<u>4,721,197</u>	<u>4,898,088</u>
Total net liabilities		<u>\$ (32,795,197)</u>	<u>\$ (30,353,356)</u>
Deficiency in assets			
Called up Share Capital	17,18	50,000	50,000
Share Premium Account	17,18	24,241,030	24,241,030
Profit and Loss Account	7	(57,086,227)	(54,644,386)
Total deficit in shareholders funds		<u>\$ (32,795,197)</u>	<u>\$ (30,353,356)</u>

The financial statements on pages 28 to 46 were approved by the Board of Directors on 20 June 2007 and signed on their behalf by:



Isaiah W. Cox
Director



Rodney T. Cox
Director

The notes on pages 33 to 46 form part of these Financial Statements.

BOREALIS EXPLORATION LIMITED

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CONSOLIDATED CASH FLOW STATEMENT for the year ended 31 March 2007

	2007 \$	2006 \$
Net cash outflow from operating activities	(4,962,979)	(5,402,940)
Returns on investments and servicing of finance		
Interest paid	(48,086)	(43,221)
Interest received	40,060	--
	<hr/>	<hr/>
Net cash outflow from returns on investments and servicing of finance	(4,971,005)	(5,446,161)
Capital expenditure and financial investment		
Patent additions	(76,763)	(72,407)
Purchase of tangible fixed assets	(61,435)	(23,060)
Purchase of Movable Property	(134,432)	--
Development costs of mining properties	(1,517,244)	--
Lease costs of mining properties	(35,070)	(51,940)
	<hr/>	<hr/>
Net cash (outflow) from capital expenditure and financial investment	(1,824,944)	(147,407)
Acquisitions and disposals		
Cash received for issuance of shares by subsidiaries	3,303,190	738,198
Compensation for services provided by deposits	1,509,213	2,837,471
	<hr/>	<hr/>
Net cash inflow from acquisitions and disposals	4,812,403	3,575,669
	<hr/>	<hr/>
Net cash (outflow) / inflow before financing	(1,983,546)	(2,017,899)
	<hr/>	<hr/>
Financing		
Realised profit from sale of subsidiary shares	2,182,213	2,324,288
Funds repaid for purchase of shares advanced by Directors	(94,086)	(296,439)
	<hr/>	<hr/>
Net cash inflow / (outflow) from financing	2,088,127	2,027,849
	<hr/>	<hr/>
Increase / (Decrease) in cash	\$ 104,581	\$ 9,950
	<hr/> <hr/>	<hr/> <hr/>

The notes on pages 33 to 46 form part of these Financial Statements.

BOREALIS EXPLORATION LIMITED

Gibraltar Registered No. 66632

CONSOLIDATED CASH FLOW STATEMENT (Continued) for the year ended 31 March 2007

RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2007	2006
	\$	\$
Operating loss	(5,326,598)	(5,462,025)
Depreciation of tangible fixed	29,116	12,367
Amortisation of patents	30,555	22,866
(Increase) / Decrease in trade receivables	831,867	(606,953)
Increase / (Decrease) in trade creditors	(527,919)	630,805
Net cash outflow from operating activities	<u><u>\$ (4,962,979)</u></u>	<u><u>\$ (5,402,940)</u></u>

MOVEMENT IN CASH AND ANALYSIS OF CASH BALANCES

Changes in net cash	2007	2006
	\$	\$
At 1 April	61,873	51,923
Increase / (Decrease) in cash in the year	104,581	9,950
At 31 March 2007	<u><u>\$ 166,454</u></u>	<u><u>\$ 61,873</u></u>

Analysis of cash balances	2007	2006
	\$	\$
Cash at bank	<u><u>\$ 166,454</u></u>	<u><u>61,873</u></u>

The notes on pages 33 to 46 form part of these Financial Statements.

BOREALIS EXPLORATION LIMITED

Gibraltar Registered No. 66632

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2007

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 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 2007(Continued)

- f. Research and Development**
Research and Development costs are written off in the year they are incurred.
- 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 22 to 25 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 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

	2007	2006
Operating loss is stated after charging	\$	\$
Depreciation	29,116	12,367
Amortisation	30,555	22,866

BOREALIS EXPLORATION LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2007 (Continued)

5. DIRECTORS' EMOLUMENTS

The total amount of emoluments paid to directors during the year was \$ 2,346,372 (2006 - \$1,474,977).

In addition, rent totalling approximately \$ 121,200 (2006- \$120,000) 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. LOSSES OF HOLDING COMPANY

Included in the profit for the financial year is a deficit of \$ 2,441,841, (2006 - \$ 5,893,612) which 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 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 £450 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.

9. 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

Gibraltar Registered No. 66632

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2007(Continued)

9. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS (Continued)

Directly held by the Company	Ownership Interest		Investments	
	2007	2006	2007	2006
	%	%	\$	\$
Borealis Technical Limited	99%	99%	158	158
Borealis Exploration Incorporated	100%	100%	100	100
Credits Holdings Limited	99%	99%	160	160
Faraway Holdings Limited	100%	100%	83,412	83,412
Roche Bay Holdings Limited	99%	99%	160	160
Total investments			\$ 83,990	\$ 83,990

Indirectly held by the Company	Ownership Interest	
	2007	2006
	%	%
Avto Metals Public Limited Company	96.93%	97.10%
Chorus Motors Public Limited Company	78.80%	79.10%
Cool Chips Public Limited Company	63.03%	63.10%
Faraway Holdings (Barbados) Limited	100.00%	100.00%
Photon Power Public Limited Company	99.59%	99.60%
Power Chips Public Limited Company	65.00%	65.10%
Roche Bay Holdings (Barbados) Limited	99.00%	99.00%
Roche Bay Public Limited Company	78.10%	88.40%
Borealis Roche Bay Limited	99.00%	99.00%
Wheeltug Public Limited Company	96.77%	98.70%
Cool Chips Military Sales plc	100.00%	100.00%
Faraway Public Limited Company	82.80%	82.80%

WheelTug plc is 96.77% owned by Chorus Motors plc, which is 78.80% owned by Borealis Exploration Limited. Cool Chips Military Sales plc is owned 100% by Cool Chips plc which is 63.03% owned by Borealis Exploration Limited.

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 6 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.

BOREALIS EXPLORATION LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2007 (Continued)

9. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS (Continued)

In 2007, further funds were raised by the issue of shares at a premium by Avto Metals plc, Chorus Motors plc, Cool Chips plc, and Roche Bay plc. A minority interest of \$9,033,546 (2006 - \$7,940,961) in the subsidiaries is presented on the balance sheet effective 31 March 2007. The increase of \$1,092,585 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 \$4,812,403 (2006 - \$3,575,669) is shown as a gain in the profit and loss account.

10. EARNINGS PER SHARE

Earnings/(losses) per share is calculated by dividing the earnings/(losses) attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

	Earnings	2007 Weighted Average Number of Shares	Per Share Amount	Earnings	2006 Weighted Average Number of Shares	Per Share Amount
	\$		\$	\$		\$
Basic EPS						
Earnings (Losses) attributable to ordinary shareholders	650,212	5,000,000	0.13	(2,593,436)	5,000,000	(0.52)

11. INTANGIBLE FIXED ASSETS – PATENT FILING FEE

	Cost	Amortisation	Total
	\$	\$	\$
At 1 April 2006	565,387	113,361	452,026
Additions / Charge in year	76,763	30,555	46,208
At 31 March 2007	\$ 642,150	\$ 143,916	\$ 498,234

BOREALIS EXPLORATION LIMITED

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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2007(Continued)

12. TANGIBLE FIXED ASSETS

Family	Mining, Drilling and Camp Equipment	Moveable Fixed Assets	Total
	\$	\$	\$
Cost			
At 1 April 2006	655,808	118,333	774,141
Additions	--	134,432	134,432
At 31 March 2007	<u>655,808</u>	<u>252,765</u>	<u>908,573</u>
Depreciation			
At 1 April 2006	655,808	66,348	722,156
Charge for year	--	29,116	29,116
At 31 March 2007	<u>655,808</u>	<u>95,464</u>	<u>751,272</u>
Net book value			
At 31 March 2007	<u>\$ --</u>	<u>\$ 157,301</u>	<u>\$ 157,301</u>
At 31 March 2006	<u>\$ --</u>	<u>\$ 51,985</u>	<u>\$ 51,985</u>
Company	Mining, Drilling and Camp Equipment	Moveable Fixed Assets	Total
	\$	\$	\$
Cost			
At 1 April 2006	655,808	118,333	774,141
Additions	--	--	--
At 31 March 2007	<u>655,808</u>	<u>118,333</u>	<u>774,141</u>
Depreciation			
At 1 April 2006	655,808	66,348	722,156
Charge for year	--	10,503	10,503
At 31 March 2007	<u>655,808</u>	<u>76,851</u>	<u>732,659</u>
Net book value			
At 31 March 2007	<u>\$ --</u>	<u>\$ 41,482</u>	<u>\$ 41,482</u>
At 31 March 2006	<u>\$ --</u>	<u>\$ 51,985</u>	<u>\$ 51,985</u>

BOREALIS EXPLORATION LIMITED

Gibraltar Registered No. 66632

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2007(Continued)

13. INVESTMENT – MINING PROPERTIES

	2007 \$	2006 \$
Roche Bay plc Government of Canada 21 year renewable mining leases	4,801,604	4,775,676
Development costs	1,517,244	--
	<u>6,318,848</u>	<u>4,775,676</u>
Faraway Government of Canada 21 year renewable mining leases	143,171	134,029
	<u>143,171</u>	<u>134,029</u>
Total Government of Canada 21 year renewable mining leases	<u>\$ 6,462,019</u>	<u>\$ 4,909,705</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 the Roche Bay Magnetite Mining leases and the Faraway Mining leases have substantial value.

The work necessary to place The Roche Bay Magnetite Project of Roche Bay into production is currently underway as a result of the agreements with Advanced Exploration Inc. more fully described in Note 22. During the year, development costs totalling \$1,517,244, together with the annual costs of maintaining the leases, have been capitalised.

Management is confident that the Faraway plc mining leases will prove to be valuable but there is no guarantee that the work planned will develop a economic resource.

BOREALIS EXPLORATION LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2007(Continued)

13. INVESTMENT – MINING PROPERTIES (Continued)

INVESTMENTS – RESIDENTIAL PROPERTIES

Houses at Hall Beach	2007	2006
	\$	\$
At Cost - acquired May 2006	34,173	--
Improvements	27,262	--
	<hr/>	<hr/>
Total investment at 31 March 2007	\$ 61,435	\$ --
Directors' estimate of combined market value	<u>\$260,000</u>	<u>\$ --</u>

The houses are situated 75 sea kilometres from the mining property of the subsidiary company Roche Bay plc. These properties were purchased for use by company staff as accommodations. The properties are comprised of one three-bedroom house built in 1974, and one two-bedroom house built in 1990.

BOREALIS EXPLORATION LIMITED

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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2007(Continued)

14. DEBTORS

	Family 2007 \$	2006 \$	Company 2007 \$	2006 \$
Advances to suppliers and consultants	346,137	1,233,104	321,926	1,233,104
Other amounts receivable	55,100	--	55,100	--
Amounts due from Family undertakings	--	--	52,000	627,184
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total accounts receivable	\$401,237	\$ 1,233,104	\$ 429,026	\$ 1,860,288
	<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 \$ 277,780 (2006 - \$971,365) which are owed from directors and related parties.

The other amounts receivable represent funds paid into court in connection with an action being taken by the Chairman, who is of the opinion that they will be ultimately recovered when the action is finally settled.

BOREALIS EXPLORATION LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2007(Continued)

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Family		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Trade creditors	2,367,818	2,247,907	1,444,611	2,247,907
Accruals	--	647,830	--	76,368
Amounts due to Family undertakings	--	--	27,683,939	25,641,155
	<u>2,367,818</u>	<u>2,895,737</u>	<u>29,128,550</u>	<u>27,965,430</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 \$ 104,044 (2006 - \$949,650)

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

	Family		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Other creditors	\$ 4,721,197	\$ 4,898,088	\$ 4,721,197	\$ 4,898,088
	<u>4,721,197</u>	<u>4,898,088</u>	<u>4,721,197</u>	<u>4,898,088</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) 123,490 (2006 – 136,811) 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 123,490 shares on the open market. The amount due to directors is determined at each year-end. In 2007 there were 13,607 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.

BOREALIS EXPLORATION LIMITED

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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2007(Continued)

17. CALLED UP SHARE CAPITAL

			2007 \$	2006 \$
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 2005	5,000,000	\$ 50,000	\$ 24,241,030	\$ 24,291,030
Shares issued during the year	—	—	—	—
At 31 March 2006	5,000,000	\$ 50,000	\$ 24,241,030	\$ 24,291,030
Shares issued during the year	—	—	—	—
At 31 March 2007	5,000,000	\$ 50,000	\$ 24,241,030	\$ 24,291,030
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

	Share Capital \$	Share Premium Account \$	Consolidated Profit & Loss Account \$	Total \$
At 31 March 2006	50,000	24,241,030	(33,317,123)	(9,026,093)
Shares issued during the year	—	—	—	—
Profit (Loss) for the year	—	—	650,212	650,212
At 31 March 2007	\$ 50,000	\$24,241,030	\$(32,666,911)	\$(8,375,881)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

BOREALIS EXPLORATION LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2007 (Continued)

19. 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 2007 \$ 5,800 (2006- \$73,529) 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 received fees of \$432,000 per year for management services in 2007. The Parmenides Group is owned by the Jeremiah Toyam Cox Foundation Limited of which the CEO is a member of the Council. During Fiscal Year 2007, The Parmenides Group was transferred 187,559 shares of Roche Bay plc which were owned by Borealis Technical Limited on 24 November 2006, at a price of \$5 per share, as Borealis' trustee. This transfer was affected because it was perceived as advantageous at the time. Any resale of these shares will have all net proceeds in excess of \$5 per share paid to Borealis. At year-end 97,024 shares were still held on Borealis Technical Limited's behalf. There is no expected economic or financial difference to Borealis Technical Limited between selling the shares directly or through The Parmenides Group.

20. 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.

21. COMMITMENTS

Family Related Lease Contracts

Three family members have rented personally owned office space to the company for a three-year period beginning 1 April 2005 and ending 31 March 2008. These offices are in various locations with rental amount totalling \$121,200 per year.

BOREALIS EXPLORATION LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2007(Continued)

22. SUBSEQUENT EVENTS

In addition to related party transactions disclosed elsewhere in the financial statements the following matters are also disclosed:

On 31 May 2007, Roche Bay plc entered a joint venture agreement with a Canadian company, Advanced Explorations Inc. (AEI). The agreement provides that AEI will raise the needed capital of up to CDN\$1.8 billion to bring the Roche Bay property to production, conduct the exploration and development, and build and operate the mine on behalf of the joint venture. AEI will become the project's operator, responsible for its financing, management and operation. In return, however, Roche Bay plc has ceded operating control over the Eastern property, though Roche Bay's assent will be required for major decisions. By the time actual mine construction begins, the Company's interest will be reduced to 49.9% in the Eastern deposits; Roche Bay plc retains 100% ownership of the Western deposits.

As a result of the agreements with AEI, Roche Bay Plc will receive a total of 12 million share purchase rights in AEI. The Roche Bay board therefore agreed the allocation to management of bonuses totalling 48,000 shares after the end of the financial year upon the closing of the agreements with AEI. The Roche Bay plc Directors granted another 15,000 shares on 1st June, and consulting agreements with certain former members of Roche Bay plc management provide for an additional 60,000 shares that will be earned out over the next three years with 15,000 shares vesting each June 1st with the strike price at the par value, provided that certain conditions are met. All of these transactions were completed after the close of the fiscal year.

The Directors of Roche Bay plc also approved, upon recommendation of the Roche Bay plc Board's Compensation Committee, the allocation to management, directors, staff, and consultants of 10% of the Advanced Explorations share rights received by the Company. The Board's view was that these individuals had helped to achieve a transformative series of transactions that are highly beneficial to Roche Bay plc and its investors. Moreover, since this additional compensation is in the form of share purchase rights in AEI, it is not dilutive to Roche Bay plc or its shareholders. This compensation was in the form of the Series A1 share purchase rights with a strike price of CDN \$0.35.

This allocation of AEI share purchase rights is per the following table:

Recipient	Percent of Total	Number of Share Rights
Moshe Cohen	5.25%	63,000
Candace Ramcharan	5.25%	63,000
Dirk Swartz	5.25%	63,000
Daniel Botes	8.00%	96,000
Benjamin J. Cox	40.00%	480,000
Joseph J. Cox	6.50%	78,000
John Abernethy	6.50%	78,000
Peter Vanderwicken	6.50%	78,000
Consultants (7 individuals)	16.75%	201,000
Total	100.00%	1,200,000

BOREALIS EXPLORATION LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2007(Continued)

22. SUBSEQUENT EVENTS(Continued)

Roche Bay plc signed an agreement dated 23 December 2005 to compensate Benjamin J. Cox for his work on the project over the last six years. The terms of compensation were set at \$120,000 a year in cash, \$264,300 in the form of 88,100 shares, and 480,000 restricted shares. The restricted share grant vests at the rate of 5,000 shares per quarter, and will entirely vest upon the occurrence of any of several material events. Subsequent to the fiscal year-end, the Board of Roche Bay plc determined that this contract was earned out via the Advanced Explorations agreements and 351,900 shares were issued to a charitable foundation run by Mr. Cox. As of 1st June no further shares are owed under this agreement.