

# **BOREALIS EXPLORATION LIMITED**

**Gibraltar Registered No. 66632**

## **Consolidated Financial Statements**

**for the year ended 31 March 2011**

# BOREALIS EXPLORATION LIMITED

Gibraltar Registered No. 66632

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## About Borealis

Borealis Exploration Limited, [www.borealis.gi](http://www.borealis.gi), is a technology development company. Borealis imagines, invents, develops, and licenses new industrial technologies. These include new materials, [www.avtometals.gi](http://www.avtometals.gi) including the Avto Quantum Transistor, technologies for more efficient and lower-cost generation of electrical power, [www.powerchips.gi](http://www.powerchips.gi); more powerful and effective electric motors, [www.chorusmotors.gi](http://www.chorusmotors.gi); for use in everything from aircraft, [www.wheeltug.gi](http://www.wheeltug.gi), (an on-ground drive system for B-737NG's) to automobiles [www.choruscars.com](http://www.choruscars.com); and silent, more-efficient cooling and refrigeration systems, [www.coolchips.gi](http://www.coolchips.gi). These technologies are fundamentally changing basic industries and are introducing 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 to changing for ever existing industrial practices.

Borealis is the majority shareholder in Roche Bay plc, which has interests in the Roche Bay Magnetite Project and owns 100% of Fraser Bay Limited, both of which have extensive Magnetite Resources and other mineral holdings through Areas of Mutual Interest and also a majority owner of Faraway plc, which owns 100% of the Freuchen Bay Polymetallic Project, located astride an intracratonic rift, also on Melville Peninsula, Nunavut.

## 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 its technical advisors, or that are 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**

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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
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
Peter Vanderwicken	03 Aug 1999	Director
Nechama J. Cox	01 Aug 2001	Director
Giulio Pontecorvo	28 Aug 2003	Director

### **Secretary**

STM Fidecs Management Limited  
Montagu Pavilion  
8-10 Queensway  
Gibraltar

### **Registered Office**

Suite 2F/2, Eurolife Building  
P.O. Box 575  
1 Corral Road  
Gibraltar

### **Auditors**

Moore Stephens Limited  
Suite 5 Watergardens 4  
Waterport  
Gibraltar

# **BOREALIS EXPLORATION LIMITED**

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## **DIRECTORS' REPORT**

The directors submit their report and the audited financial statements for the Company and the Borealis Family of Companies for the year ended 31 March 2011.

## **BOREALIS FAMILY OF COMPANIES' PROFILE**

The Borealis Family of Companies "Family" is comprised of those companies listed in Note 9 of the financial statements.

Borealis was primarily a mining company prior to 1992. The Borealis Family of Companies retains significant interests in its mining properties through Roche Bay plc and its holdings and Faraway plc. The Roche Bay Magnetite Project is now under development, and on 24 May 2011, Roche Bay signed a joint venture agreement with West Melville Iron Company Ltd., a Discovery Group company, to explore the Fraser Bay 1-3 deposits. The Freuchen Bay property of Faraway plc needs funding for development, and several programs are now currently now underway on these properties while our ownership interest remains at 100%.

Since the mid 1990s, the Family of Companies has shifted its principal focus to the business of conducting innovative industrial research and developing new industrial technologies, for which it now has well over a hundred patents either issued, approved for issue or pending. Our research and development costs for developing our industrial technologies have all been written off in the year incurred, and most R&D costs are funded by the issue of shares in subsidiary undertakings.

From 1995 to 2007, most of the Borealis Family of Companies' direct expenses related to expenses incurred whilst carrying out its industrial research and development activities. From 2007 to date on a consolidated basis, the development of the Roche Bay Magnetite Project has dominated our consolidated statements. However, we expect most or all future development costs of the Roche Bay Magnetite Project to be funded by third parties. As of this year, fiscal 2011, the relative importance of the Roche Bay Project in our consolidated financial statements has declined as our ownership interest has been reflected by a combination of cash, future cash payments, and/or royalties on production. We expect that WheelTug plc will most likely start to generate revenues from Fiscal 2012 and hopefully serious profits in years thereafter.

On 19 October 1998, Borealis 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. Most of our companies, in any event, by this time were domiciled out of Gibraltar. These Research and Development subsidiary companies as with Borealis are expected to remain domiciled in Gibraltar.

In the coming years we will most likely redomicile our Mineral Interests to Canada. The Canadians are keen on mineral development and we are encouraged by the Provincial and Federal interest in creating long term and stable employment opportunities in the region.

# BOREALIS EXPLORATION LIMITED

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## DIRECTORS' REPORT (Continued)

Business Review

### Mining Properties

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

A subsidiary company, Roche Bay plc, incorporated in 1997, owns major interests in two separate deposits of iron ore located in the Baffin Mining District of Nunavut, Canada, which together contain one of the world's largest undeveloped resources of magnetite (Fe<sub>3</sub>O<sub>4</sub>). These leases require annual lease payments (at current exchange rates) of \$10,916 per year for those leases expiring in 2019, and \$11,030 per year for those leases expiring in 2021. All leases are expected to be renewed by the renewal dates.

In 2007, the Company signed a joint venture agreement with Advanced Explorations Inc. (AXI) to further exploration and development of its four leases nearest to Roche Bay (the Eastern leases) and construction of an iron mine at that location, called the Roche Bay Magnetite Project.

In 2009, this agreement was amended and superseded by a buyout agreement. This agreement granted AXI several options to increase its ownership interest in the project subject to various conditions, cash payments and a royalty interest. Under this buyout agreement, the full buyout option enabled AXI to acquire 100% of Roche Bay's interest, excepting a perpetual precious metals royalty, for a single cash payment of C\$25 million until 15 March 2010 and increasing thereafter; or to buy out half of Roche Bay's royalty interest for C\$35 million by 2020. The agreement commits AXI to annual cash payments which may provide sufficient funds to manage the company on a low cost base until the project starts production or until the buyout option is exercised -- whichever comes first.

This agreement also changed how Roche Bay plc carries these Eastern leases on its books. On an accounting basis, Roche Bay went from directly owning a mineral property to a mineral property with either a royalty option or a buyout option along with a large AREA OF Mutual interest. Roche Bay also incorporated a wholly-owned Canadian subsidiary, Roche Bay East Limited, to maintain its interest in the Eastern leases. Roche Bay plc carries these leases on its books for \$16,728,392 as deferred compensation.

On 4 April 2011, the Company agreed a New Buy-Out Option with AXI, under which a one-time payment by AXI of C\$22.5 million on or before 5 August 2011, would give AXI 100% title to the Eastern leases and the Roche Bay Magnetite Project, subject to a reduced royalty of 1.875% on all iron products and 3.9% on all precious metals with a refined price of more than \$100 per kilogram. If the New Buy-Out Option is not exercised by AXI, the original buyout option as concluded in the March 2009 agreement will remain in effect. The Directors believe that the March 2011 agreement with AXI is in the interests of both companies, but we do not know whether or not AXI will exercise its 2011 buyout option.

The Company also owns three mineral leases near Fraser Bay, on the Western side of Melville Peninsula (the Western leases). During the year, the company did some exploratory work on the Western resource leases which yielded some encouraging results. On 24 May 2011, the company entered into an agreement with principals of the Discovery Group, a Canadian mining development group, through West Melville Mining Company Ltd., for the development of lease number 2826 (Fraser Bay 1-3). The Company retains 100% ownership of the Fraser Bay 4 and 5 leases and deposits. There is also a significant area of mutual interest.

# BOREALIS EXPLORATION LIMITED

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## DIRECTORS' REPORT (Continued)

The agreement with West Melville provides for a series of options to West Melville. First, upon issuing to Roche Bay 10% of its outstanding shares and incurring \$2.5 million in defined exploration expenditures, it will earn a 30% interest in the lease; second, by incurring an additional \$8 million in exploration expenditures, completing at least 10,000 metres of drilling on the property, and completing a preliminary economic assessment compliant with Canadian National Instrument 43-101, it will earn an additional 30% interest; and third, by completing a full feasibility study, it will earn a final 10% interest in the property. The agreement also provides for gross overriding royalties to Roche Bay of 0.5% on any mineral product, and 3.9% on any mineral product that is sold for at least \$100 per kilogram refined within the area of mutual interest.. The agreement further provides that under certain conditions if West Melville receives a third-party offer to buy the property for not less than \$100 million, it can require Roche Bay to sell its interest in the property at a pro rata proportion of the sale price.

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

Faraway plc, incorporated 23 April 1996, 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 \$10,653 at current exchange rates.

### ***Principal Technologies***

#### **Avto Metals™: [www.avtometals.gi](http://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. We are working on getting partners or licensees to get Avto Metals to market. If necessary we will do this ourselves.

The single most important application to date is the Avto Quantum Transistor, as described in the 14 June 2011 press releases to be seen at <http://www.marketwire.com/press-release/avto-metals-discloses-features-of-its-avto-quantum-transistor-pinksheets-boref-1526186.htm> and <http://www.avtometals.gi/technology/AvtoTransistorRelease14June2011final.pdf> .

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

The Chorus Meshcon technology is a novel AC electric motor/drive combination that uses electromagnetic harmonics to greatly increase the motor's torque and power density. 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 start up 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 start up overload capacity of the competition. The system has significant aerospace, ship propulsion and automotive uses.

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

In August 2010, we signed a transaction with Dynetic Systems, Minnesota, USA, in terms of which they will build the motors for the WheelTug application. Dynetic Systems is AS9100 certified and is therefore suitably qualified to supply motors which meet certification requirements for aerospace use. They are working closely with the core Chorus team to design the motors for WheelTug. Chorus retains the IP rights to the technology.

In November 2010 we supported the WheelTug tow tests which took place in Prague, Czech Republic. These successful tests enabled us to collect a lot of very useful data which we subsequently spent many months analyzing. The analyses increased our understanding of the WheelTug system, has given us invaluable insight the needs of the system, and has enhanced our ability to design the motors accordingly.

In December 2010, we signed a deal with Gibbs Gears, Hertsfordshire, UK. They have vast experience in gearing and also have aerospace certification. They too are working closely with the Chorus Team to design the gearing required for the WheelTug system.

In January 2011, Resource Group, Switzerland, also joined the team. They are developing the necessary software to integrate our motors with the entire system. The function demands extensive documentation and certification, and Resource Group is well qualified to meet all these needs.

All of the agreements allow Chorus to focus on its core motor technology. This leaves the development of the gearing and the details of production and documentation to specialist companies who are highly qualified and experienced, and have the certification for aerospace work.

We currently have two motor set ups in place in the lab for testing. These motors are on a dynamometer test machine which allows us to run the motor under various conditions and thereby understand the motor better, as well as develop software. The first are the motors which we used in the November 2010 Prague tests. The second set up is of the M0 motors, which demonstrate the toroidal, or "pancake," design which we feel may be a better fit for specific applications. This test set up is expected to be used for testing the motors built by Dynetic Systems for the WheelTug application, and should allow us to do all tests except for the rolling tests with the landing gear. This also allows us to test out the software from Resource Group in laboratory conditions. We continue to expand our capabilities in terms of data evaluation software and work. As we gather more and more data, we are increasing the effort spent in evaluation and analysis of this data.

We are continuing with our patenting efforts, and we have increased our patent applications as relevant inventions are made.

While our development work means that we have not applied for as many patents as in previous years (currently, we are focusing our work on existing efforts), we did respond to third party responses and challenges through the USPTO which resulted in our patented proprietary work being upheld. We will continue to aggressively defend and expand our patented proprietary Chorus Motor Technology.

We continue conversations with potential partners, car manufacturers. The paper on Neodymium scarcity and demand, which may be found at [http://www.choruscars.com/Chorus\\_NEO\\_WhitePaper.pdf](http://www.choruscars.com/Chorus_NEO_WhitePaper.pdf), continues to make it clear that our technology is a much safer way to develop an electric/hybrid automobile.

The revision of our web site was completed this year. This update was needed, and we feel puts a more contemporary face forward for the company.

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## DIRECTORS' REPORT (Continued)

WheelTug®: [www.wheeltug.gi](http://www.wheeltug.gi)

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.

Development of the WheelTug system has been underway for more than five years, funded primarily by Chorus Motors plc, its Control Shareholder. WheelTug plc has already demonstrated its viability using a 95% loaded Boeing 767-200 aircraft in tests conducted with Boeing and Air Canada in 2005. (A video of that demonstration can be viewed on line at <http://www.youtube.com/watch?v=0Cbfi2wsgns>).

Management of the company is led by Chief Executive Officer Isaiah W. Cox, who has assembled and led the company from inception, through demonstration with Boeing, to partnership agreements with major airlines and risk-sharing partners. A graduate of Princeton University, Mr. Cox holds over a dozen U.S. patents.

WheelTug's business model relies heavily on its partnerships, in order to assist with all facets of development, certification, production and supply of components. Before this year, WheelTug had partnerships in place with:

- Co-Operative Industries, for the system wiring
- Luxell, for the cockpit interface
- Newport Aeronautical, for certification services
- Delta Air Lines for Airplane access

WheelTug has accelerated its development work and partnerships. Since last year, the following changes have occurred:

### Terminations:

- Luxell agreement was terminated
- Delta Airlines agreement was terminated

### New Partnerships

- Travel Service agreement was formed, replacing Delta for aircraft access
- Gables Engineering was added, replacing Luxell for Cockpit Interface
- ICE Corporation for the system controller
- Endeavor Analysis for Landing Gear and Mechanical Integration
- Gibbs Gears, for gears
- Dynetic Systems, for electric motor using the Chorus® technology
- Prague Airport, for airport support
- Resource Group, for system software
- Alcoa, for forged aluminium wheels

All of these partnerships are with companies that have very considerable experience in aerospace, and for whom their commitment on the WheelTug program is well within their financial and technical resources.

Major work completed in the past year includes addressing all identified technical "showstoppers", from motor packaging, to traction in snowy conditions.

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## DIRECTORS' REPORT (Continued)

In addition, system development is now underway. Some of the components will go through a number of Stage of Involvement (SOI) reviews as part of development and certification. The first of these is called the Software Planning Review (SOI-1). Resource Group passed SOI-1 for the WheelTug software in late May.

Development of the wheel hardware is tied to the M1 wheel package, which is an on-aircraft, packaged system for demonstration and test. M1 should be testing in the lab and on-aircraft within the next 7-8 months. Development and certification of the wheel package and landing gear modifications are expected to take the longest part of the overall system development time.

WheelTug has produced two draft specification documents for airlines, and marketing to airlines is ratcheting up. Between now and the M1 demonstration, WheelTug expects to conclude at least one Letter of Intent with a prospective airline customer. After M1 has been demonstrated, WheelTug expects to close definitive lease agreements with airline and aircraft leasing customers.

Within the next year, WheelTug plc expects to announce development programs for other aircraft, such as the Airbus A-320 family, the Boeing 757, any of several regional jets and military models starting with the C-130.

WheelTug's Senior Certification Advisor is Gilbert Thompson, a veteran of over 30 years with the FAA, who acted as head of the Los Angeles Aircraft Certification Office, where his responsibilities involved work on more than 10 major aircraft, including the Boeing 717-200, the C-17 Globemaster, the L-1011, the MD-11, the KC-10A and MD-80s and -90s. Certification is being managed by Newport Aeronautical, a certification company known within the industry for their competence and successful certification programs.

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

Cool Chips are solid-state devices based on quantum tunnelling that pump heat to produce cooling, refrigeration, or air conditioning. They are small, lightweight, non-polluting and non-corrosive, and are projected to be more efficient than any existing thermal management technology. Cool Chips plc, which was incorporated 23 April 1996, 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 because our first sales of Cool Chips technology are expected to be delivery of products for high value applications.

### **Power Chips™:** [www.powerchips.gi](http://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.

Power Chips plc was incorporated 11 February 1997. There is considerable industry interest in this technology.

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## DIRECTORS' REPORT (Continued)

**Borealis Technical Limited**, incorporated 1993, is a 98% owned subsidiary of the Company, manages the above operations, along with other research that 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.

### Financial Review

Results for the Borealis Family of Companies for the year are shown in the consolidated profit and loss account on page 14.

As of 31 March 2011 the Family of Companies had accumulated losses of \$32,974,506 (2010- \$34,975,501) and a working capital deficit of \$ 4,797,485 (Deficit in 2010 - \$6,699,917). The net equity, as at 31 March 2011, amounted to \$ 16,168,577 (2010 - \$13,244,556).

There can be no assurance that efforts by the Company or its Subsidiaries 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, as modified by the revaluation to market value of marketable securities, and in accordance with the going concern concept, which assumes that the Borealis Family of Companies will be able to realise its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation.

### Dividends

There were no dividends declared during the year.

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## DIRECTORS' REPORT (Continued)

### Directors and their Interests

The directors who served during the year were as stated on page 2.  
The interests of the directors in the shares of the Company were as follows:

	Number of shares held at 31 March 2011	Number of shares held at 31 March 2010
Rodney T. Cox	2,549	2,549
Wayne S. Marshall	98,904	98,904
Donald N. Jones	55,548	55,548
Isaiah W. Cox	158,048	158,048
David M. Goldenberg	100	100
Peter Vanderwicken	34,200	34,200
Nechama J. Cox	16,700	16,700
Giulio Pontecorvo	16,000	16,000

### Share Options

As of 31 March 2011 there were no share options outstanding.

### Directors' Responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year which meet the requirements of the Gibraltar Companies (Accounts) Act 1999 and Gibraltar Companies Act 1930. In addition the Directors have elected to prepare the financial statements in accordance with Gibraltar Accounting Standards.

The financial statements unless are required by law to give a true and fair view of the state of affairs of the company and the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable Gibraltar Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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## DIRECTORS' REPORT (Continued)

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

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 Limited was passed at the Annual General Meeting.

By order of the Board on 28 June 2011



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Isaiah W. Cox  
Director



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Rodney T. Cox  
Director

## **Independent auditors' report to the shareholders of Borealis Exploration Limited**

We have audited the Group and Company financial statements of Borealis Exploration Limited for the year ended 31 March 2011 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 182 of the Gibraltar Companies Act. 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.

### **Directors' responsibilities for the financial statements**

The directors are responsible for the preparation and true and fair representation of these financial statements in accordance with applicable law and Gibraltar Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's responsibilities**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In forming our opinion, we considered the disclosures in Note 1 of the Financial Statements in connection with the application of the going concern basis and the uncertainty with regard to securing continued financial support.

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## AUDITORS' REPORT (Continued)

### Opinion

In our opinion the financial statements give a true and fair view, in accordance with Gibraltar Generally Accepted Accounting Standards, of the state of the Group and Company's affairs as at 31 March 2011 and of its profit for the year then ended.

### Report on other legal and regulatory matters

In addition to reporting on the financial statements, Gibraltar legal and regulatory requirements also require us to:

- (a) Report to you our opinion as to whether the financial statements have been properly prepared in accordance with the Gibraltar Companies Act 1930, the Gibraltar Companies (Accounts) Act 1999 and other applicable legislation.
- (b) State in our report whether in our opinion the information given in the directors' report is consistent with the financial statements.
- (c) Report to you if, in our opinion, the company has not kept proper accounting records, 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.

### Opinion

In our opinion the financial statements have been properly prepared in accordance with the Gibraltar Companies Act 1930, the Gibraltar Companies (Accounts) Act 1999 and other applicable legislation; and the information given in the directors' report is consistent with the financial statements.

We have nothing to report to you in respect of our responsibility set out in (c) above.



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**Bernard Hazell**

Statutory Auditor  
For and on behalf of  
**MOORE STEPHENS LIMITED**

Suite 5  
Watergardens 4  
Waterport  
Gibraltar

28 June 2011

# BOREALIS EXPLORATION LIMITED

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## CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 31 March 2011

	Notes	2011 \$	2010 \$
<b>Expenditure</b>		<u>(4,799,982)</u>	<u>(3,071,220)</u>
<b>Operating loss</b>	4	(4,799,982)	(3,071,220)
Profit on disposal of marketable investments		265,094	4,457
Unrealised gain on revaluation of marketable securities		1,341,137	191,521
Financing loss		(33,746)	(226,780)
Interest received		82	25
Interest paid		<u>(12,142)</u>	<u>(19,445)</u>
<b>Loss on ordinary activities before taxation</b>		(3,239,557)	(3,121,442)
Taxation - Canadian capital tax		<u>(12,841)</u>	<u>-</u>
<b>Loss on ordinary activities after taxation</b>		(3,252,398)	(3,121,442)
Profit on sale of shares in subsidiary companies		5,771,777	1,563,165
Gain on decrease in stake in subsidiaries	9	404,642	712,363
Equity Minority interest	9	(923,026)	(157,423)
		<u>                    </u>	<u>                    </u>
<b>Result for the financial year</b>		<u><u>\$2,000,995</u></u>	<u><u>\$(1,003,337)</u></u>
<b>Profit (Loss) per share</b>	10	<u><u>\$0.40</u></u>	<u><u>\$(0.20)</u></u>

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

There is no difference between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalents. The Group has no other recognised gains or losses other than those stated above.

The notes on pages 19 to 30 form part of these Financial Statements.

# BOREALIS EXPLORATION LIMITED

Gibraltar Registered No. 66632

## CONSOLIDATED BALANCE SHEET

as at 31 March 2011

	Notes	2011 \$	2010 \$
<b>Fixed Assets</b>			
Intangible assets	11	545,845	537,738
Tangible assets	12	19,892	24,006
Mining resources	13	2,685,177	2,593,417
Residential property	13	20,500	20,500
Marketable Securities	14	1,883,591	696,202
Deferred compensation receivable	15	16,728,392	16,986,931
		<u>21,883,397</u>	<u>20,858,794</u>
<b>Current assets</b>			
Debtors	16	374,052	296,030
Cash at bank and in hand		559,566	145,588
		<u>933,618</u>	<u>441,618</u>
<b>Creditors: amounts falling due within one year</b>	17	<u>(5,731,103)</u>	<u>(7,141,535)</u>
<b>Net current liabilities</b>		<u>(4,797,485)</u>	<u>(6,699,917)</u>
<b>Total assets less current liabilities</b>		17,085,912	14,158,877
<b>Creditors:</b>			
<b>amounts falling due after more than one year</b>	18	<u>(917,335)</u>	<u>(914,321)</u>
<b>Net Assets</b>		<u>\$16,168,577</u>	<u>\$13,244,556</u>
<b>Capital and Reserves</b>			
Called up Share Capital	19,20	50,000	50,000
Share Premium Account	19,20	24,241,030	24,241,030
Non Distributable Reserve	21	10,318,968	10,235,196
Profit and Loss Account	20	<u>(32,974,506)</u>	<u>(34,975,501)</u>
<b>Total shareholders' funds</b>		1,635,492	(449,275)
Minority interests - equity	9	<u>14,533,085</u>	<u>13,693,831</u>
<b>Total Equity</b>		<u>\$16,168,577</u>	<u>\$13,244,556</u>

The financial statements on pages 14 to 30 were approved by the Board of Directors on 28 June 2011, and signed on their behalf by:



Isaiah W. Cox  
Director



Rodney T. Cox  
Director

The notes on pages 19 to 30 form part of these Financial Statements.

# BOREALIS EXPLORATION LIMITED

Gibraltar Registered No. 66632

## COMPANY BALANCE SHEET

as at 31 March 2011

	Notes	2011 \$	2010 \$
<b>Fixed Assets</b>			
Intangible Assets	11	545,845	537,738
Tangible Assets	12	19,892	24,006
Marketable Securities	14	-	1
		<u>565,737</u>	<u>561,745</u>
Investments in subsidiary undertakings	9	<u>83,950</u>	<u>83,950</u>
		649,687	645,695
<b>Current Assets</b>			
Debtors	16	1,054,486	695,645
Cash at bank and in hand		<u>118,530</u>	<u>5,379</u>
		1,173,016	701,024
<b>Creditors: amounts falling due within one year</b>	17	<u>(31,724,685)</u>	<u>(31,388,988)</u>
<b>Net current liabilities</b>		<u>(30,551,669)</u>	<u>(30,687,964)</u>
<b>Total assets less current liabilities</b>		(29,901,982)	(30,042,269)
<b>Creditors: amounts falling due after more than one year</b>	18	<u>(917,335)</u>	<u>(914,321)</u>
<b>Total net liabilities</b>		<u><u>\$(30,819,317)</u></u>	<u><u>\$(30,956,590)</u></u>
<b>Deficiency in assets</b>			
Called up Share Capital	19,20	50,000	50,000
Share Premium Account	19,20	24,241,030	24,241,030
Profit and Loss Account	7	<u>(55,110,347)</u>	<u>(55,247,620)</u>
<b>Total deficit in shareholders' funds</b>		<u><u>\$(30,819,317)</u></u>	<u><u>\$(30,956,590)</u></u>

The financial statements on pages 14 to 30 were approved by the Board of Directors on 28 June 2011, and signed on their behalf by:



Isaiah W. Cox  
Director



Rodney T. Cox  
Director

The notes on pages 19 to 30 form part of these Financial Statements.

# BOREALIS EXPLORATION LIMITED

Gibraltar Registered No. 66632

## CONSOLIDATED CASH FLOW STATEMENT for the year ended 31 March 2011

	2011	2010
	\$	\$
<b>Net cash outflow from operating activities</b>	<u>(5,991,336)</u>	<u>(1,644,850)</u>
<b>Returns on investments and servicing of finance</b>		
Interest received	82	25
Interest paid	(12,142)	(19,445)
Net cash outflow from servicing of finance	<u>\$(12,060)</u>	<u>\$(19,420)</u>
<b>Capital expenditure and financial investment</b>		
Marketable securities acquired	-	(508,000)
Patent acquisitions	(40,668)	(16,382)
Tangible fixed assets acquisitions	(1,886)	-
Proceeds on disposal of Marketable Securities	418,842	44,828
Lease costs of mining resources	(22,696)	(19,817)
Development costs of mining resources	(69,064)	-
Net cash inflows (outflow) from capital expenditure and financial investment	<u>\$284,528</u>	<u>\$(499,371)</u>
<b>Acquisitions and disposals</b>		
Shares repurchased	(30,732)	-
Shares issued in subsidiaries for services	404,642	712,363
Net cash inflow from disposals	<u>\$373,910</u>	<u>\$712,363</u>
<b>Financing activities and taxation</b>		
Realised profits from sales of subsidiary shares	5,771,777	1,563,165
Taxation	(12,841)	-
Net cash inflow from financing	<u>\$5,758,936</u>	<u>\$1,563,165</u>
Net (decrease) / increase in cash resources	<u>\$413,978</u>	<u>\$111,887</u>

The notes on pages 19 to 30 form part of these Financial Statements.

# BOREALIS EXPLORATION LIMITED

Gibraltar Registered No. 66632

## CONSOLIDATED CASH FLOW STATEMENT (Continued) for the year ended 31 March 2011

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

	2011	2010
	\$	\$
Operating loss for the year	(4,799,982)	(3,071,220)
Depreciation of fixed assets	6,000	6,000
Amortisation of patents	32,561	30,933
(Increase) Decrease in accounts receivable	(73,838)	579,917
Increase (Decrease) in accounts payable	(1,414,616)	699,367
Decrease in deferred compensation	258,539	110,153
Net cash outflow from operating activities	<u>\$(5,991,336)</u>	<u>\$(1,644,850)</u>

### MOVEMENT IN CASH AND ANALYSIS OF CASH BALANCES

	2011	2010
	\$	\$
<b>Changes in net cash</b>		
At 1 April 2009	145,588	33,701
Increase in cash in the year	413,978	111,887
At 31 March 2010	<u>\$559,566</u>	<u>\$145,588</u>
<b>Analysis of cash balances</b>	<b>\$</b>	<b>\$</b>
Cash at bank	<u>\$559,566</u>	<u>\$145,588</u>

The notes on pages 19 to 30 form part of these Financial Statements.

# BOREALIS EXPLORATION LIMITED

Gibraltar Registered No. 66632

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## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2011

### 1. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Gibraltar Accounting Standards and the Gibraltar Companies Act 1930, the Gibraltar (Companies Accounts) Act 1999 and the Gibraltar (Consolidated Accounts) Act 1999 (together, 'Gibraltar GAAP')

**a. Basis of Accounting**

These financial statements have been prepared under the Accounting Policies set out below.

**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. Revenue**

At present all Group companies are engaged in development of various products and projects which have not yet reached the point of generation revenue. Once revenue commences, it will be accounted for on the basis of the accounting period in which the work was carried out or invoiced.

**d. Fixed Assets**

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

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

Mining and geological equipment	30%
Other equipment	20%

Patents are accounted for on the basis of the costs of registering the worldwide rights. All costs of development and legal works of the products have been written off in the year incurred. These patents are depreciated on the straight-line method at a rate of 4% per year. The carrying value of patents is reviewed annually by the Family of Companies. If, as a result of such a review, it is determined that the value has been permanently impaired, any diminution in value is taken to the profit and loss account in accordance with FRS 11. To the extent that such diminution in value is subsequently reversed, this reversal is credited to the profit and loss account.

**e. Fixed Assets Investments**

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

**f. Mining properties**

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

**g. Research and Development**

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

# BOREALIS EXPLORATION LIMITED

Gibraltar Registered No. 66632

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## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2011 (Continued)

**h. Reporting currency**

The Family of Companies' financial statements are presented in US dollars, which is the functional currency for operations.

**i. Foreign currency translation**

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

**j. Going Concern**

These financial statements have been prepared under the going concern concept that assumes that the Family of Companies will continue in operational existence for the foreseeable future having adequate funds to meet its obligations as they fall due. Further information is set out in the Directors' Report on pages 3 to 11 and within Note 2 below.

**k. Taxation including deferred tax.**

From January 2011, the status of all Gibraltar exempt companies is subject to the Gibraltar Tax Act 2010 whereby companies with businesses managed and controlled in Gibraltar, are required to pay 10% Gibraltar Corporation Tax on revenue profits. No provision has however been made for this tax, nor for deferred tax, as no taxable revenue was earned by Company or its subsidiaries.

**l. Marketable Securities**

These are carried at the closing quoted prices of securities and instruments held. Any revaluation, gains or losses are dealt with through the profit and loss account.

**m. Impairment**

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is the higher of its net selling price and its value in use. For intangible assets that are not yet available for use, goodwill or intangible assets with an indefinite useful life, an impairment test is performed at each balance sheet date.

In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised in the income statement whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The cash flow estimates used for the purpose of calculating the present value of expected future mining production from Roche Bay's Eastern deposits is based on a conservative estimate of the iron ore resource, and by applying the various possibilities going forward as listed in the agreement with AXI, on a weighted basis, to the discounted cash flow applicable to each possibility.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years.

# BOREALIS EXPLORATION LIMITED

Gibraltar Registered No. 66632

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## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2011 (Continued)

### 2. GOING CONCERN

The continued operation of the Borealis Family of Companies is dependent on its ability to receive continued financial support from its shareholders and creditors, to obtain sufficient equity financing or generate sufficient profits in the future. The directors are confident that sufficient support will be secured and accordingly the going concern basis of preparation of the financial statements is appropriate. 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](http://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

	2011	2010
<b>Operating loss is stated after charging</b>	<b>\$</b>	<b>\$</b>
Depreciation	6,000	6,000
Amortisation	32,561	30,934
Group Audit Fees	81,000	66,000

### 5. DIRECTORS' EMOLUMENTS

The total amount of emoluments paid to directors during the year was \$1,079,100 (2010 - \$979,100).

In addition, rent totalling approximately \$110,645 (2010 - \$121,200) has been charged to the Family of Companies by certain directors, for the provision of office space.

### 6. EMPLOYEE INFORMATION

The Company employed a number of clerical staff during the current period. All other services to the Company are provided by way of consultancy agreements.

### 7. PROFITS OF HOLDING COMPANY

Included in the profits for the financial year is a profit of \$137,273 (loss 2010 - \$298,736) 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) Act 1999 and not presented a profit and loss account for the Company alone.

# BOREALIS EXPLORATION LIMITED

Gibraltar Registered No. 66632

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2011 (Continued)

### 8. TAXATION

The company was granted exempt status under the Gibraltar Companies (Taxation and Concessions) Act. Under such status, save for the payment of an annual government charge of £450, it was not be subject to Gibraltar Corporation Tax. From January 2011, the status of all Gibraltar exempt companies is subject to the Gibraltar Tax Act 2010 which requires companies with businesses managed and controlled in Gibraltar, to pay 10% Gibraltar Corporation Tax on profits.

### 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 Oregon, USA) are registered in Gibraltar:

Directly held by the Company	Ownership Interest		Investments	
	2011 %	2010 %	2011 \$	2010 \$
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%	83,372	83,372
Roche Bay Holdings Limited	99%	99%	160	160
Total investments			<b>\$83,950</b>	<b>\$83,950</b>

  

Indirectly held by the Company	Ownership Interest	
	2011 %	2010 %
Avto Metals Public Limited Company	96.72%	96.89%
Chorus Motors Public Limited Company	77.74%	78.77%
Cool Chips plc	63.02%	63.02%
Faraway Holdings (Barbados) Limited	100.00%	100.00%
Photon Power Public Limited Company	99.59%	99.59%
Power Chips Public Limited Company	64.84%	64.91%
Roche Bay Holdings (Barbados) Limited	99.00%	99.00%
Roche Bay Public Limited Company	71.13%	71.13%
Borealis Roche Bay Limited	99.00%	99.00%
Wheeltug Public Limited Company	69.65%	73.28%
Cool Chips Military Sales plc	63.02%	63.02%
Faraway Public Limited Company	82.37%	82.45%
Asamera Limited	64.84%	64.91%
Roche Bay East Limited	71.13%	71.13%
Fraser Bay Public Limited Company	71.13%	71.13%

# BOREALIS EXPLORATION LIMITED

Gibraltar Registered No. 66632

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2011 (Continued)

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

WheelTug plc is 89.59% owned by Chorus Motors plc, which is 77.74% owned by Borealis Exploration Limited. Cool Chips Military Sales plc is owned 100% by Cool Chips plc which is 63.02% owned by Borealis Exploration Limited. Roche Bay East Ltd and Fraser Bay plc are both 100% owned by Roche Bay plc, which is 71.13% owned by Borealis Exploration Limited. Asamera Ltd is 100% owned by Power Chips plc which is 64.84% 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](http://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 8 years principally funded itself with the proceeds of the issue of shares in its subsidiaries, which has resulted in the dilution of the Company's holdings in these subsidiaries though the transactions were anti-dilutive in absolute terms. The issue of these shares is either for a cash consideration or payment for goods and services received by agreement with the creditor.

In 2011, further funds were raised by issue of shares at a premium by Avto Metals Bay plc, Chorus Motors plc, and Faraway plc. A minority interest of \$14,533,085 (2010 - \$13,693,831) in the subsidiaries is presented on the balance sheet effective 31 March 2011. The increase of \$839,254 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 minority interest is divided into two elements, being that on the Non Distributable Reserve, which has decreased by \$83,772 (see note 21), and that on the Profit and Loss result, which has increased by \$923,026 (2010 - \$ 157,423) as a result of increasing net assets in some subsidiaries this year. The equity of the Borealis Family of Companies in the share premiums paid by third parties during the year of \$404,642 (2010-\$712,363) is shown as a gain in the profit and loss account.

### 10. LOSS PER SHARE

Losses per share is calculated by dividing the losses attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

	<b>Earnings</b>	<b>Weighted Average Number of Shares</b>	<b>Per Share Amount</b>	<b>Loss</b>	<b>Weighted Average Number of Shares</b>	<b>Per Share Amount</b>
<b>Basic EPS</b>	<b>\$</b>		<b>\$</b>	<b>\$</b>		<b>\$</b>
Loss Attributable To Ordinary Shareholders	2,000,995	5,000,000	0.40	(1,003,337)	5,000,000	(0.20)

# BOREALIS EXPLORATION LIMITED

Gibraltar Registered No. 66632

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2011 (Continued)

### 11. GROUP AND COMPANY - INTANGIBLE FIXED ASSETS – PATENT FILING FEE

	<b>Cost</b>	<b>Amortisation</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
At 1 April 2010	773,344	235,606	537,738
Additions / Charge in year	40,668	32,561	8,107
<b>At 31 March 2011</b>	<b>\$814,012</b>	<b>\$268,167</b>	<b>\$545,845</b>

### 12. GROUP AND COMPANY - TANGIBLE FIXED ASSETS

	<b>Mining, Drilling and Camp Equipment</b>	<b>Moveable Fixed Assets</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Cost</b>			
At 1 April 2010	655,808	129,156	784,964
Additions	-	1,886	1,886
	<u>655,808</u>	<u>131,042</u>	<u>786,850</u>
<b>Depreciation</b>			
At 1 April 2010	655,808	105,150	760,958
Charge for year	-	6,000	6,000
<b>At 31 March 2011</b>	<u>655,808</u>	<u>111,150</u>	<u>766,958</u>
<b>Net book value</b>			
<b>At 31 March 2011</b>	<u>\$-</u>	<u>\$19,892</u>	<u>\$19,892</u>
<b>At 31 March 2010</b>	<u>\$-</u>	<u>\$24,006</u>	<u>\$24,006</u>

# BOREALIS EXPLORATION LIMITED

Gibraltar Registered No. 66632

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2011 (Continued)

### 13. GROUP'S INVESTMENT – MINING PROPERTIES

	2011	2010
	\$	\$
<b>Roche Bay plc Government of Canada</b>		
21 year renewable mining leases		
Balance 1 April 2010	2,422,290	2,412,097
Development costs	69,064	-
Lease payments	10,686	10,193
	<u>2,502,040</u>	<u>2,422,290</u>
Increase in carrying value	-	-
	<u>2,502,040</u>	<u>2,422,290</u>
Disposals at cost	-	-
	<u>2,502,040</u>	<u>2,422,290</u>
<b>Faraway plc Government of Canada</b>		
21 year renewable mining leases	171,127	161,503
Lease payments	12,010	9,624
	<u>183,137</u>	<u>171,127</u>
<b>Total Government of Canada</b>		
21 year renewable mining leases	<u>\$ 2,685,177</u>	<u>\$ 2,593,417</u>

Mining resources consist of Roche Bay's ownership of Fraser Bay 1-5. The Roche Bay Magnetite Project is no longer being held on our books as mining resources. The valuation of \$2,502,040 is based on historical value at the transfer from Borealis to Roche Bay plc. This value is annually adjusted by development costs and lease payments.

During the year, the company did some investigative work on the Western resource leases which yielded encouraging results. On 6 May 2011, the company entered into an agreement with principals of the Discovery Group, a Canadian mining development group, through West Melville Mining Company Ltd. for the development of lease number 2826. In terms of this agreement West Melville can earn up to a 70% interest in this lease subject to fulfilling certain drilling and development milestones.

# BOREALIS EXPLORATION LIMITED

Gibraltar Registered No. 66632

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## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2011 (Continued)

### 13. GROUP'S INVESTMENT – RESIDENTIAL PROPERTY

<b>Investment Residential Property</b>	<b>2011</b>	<b>2010</b>
	\$	\$
At Cost - Acquired May 2006	<u>\$20,500</u>	<u>\$20,500</u>
Directors estimate of market value on 31 March 2011	<u>\$95,000</u>	<u>\$80,000</u>

Two bedroomed house built in 1990 is situated 75 sea kilometres from the mining property. It is maintained by Advanced Explorations, Inc. to house their staff. No rent has been charged.

### 14. MARKETABLE SECURITIES

<b>Family</b>	<b>2011</b>	<b>2010</b>
	\$	\$
Shares and warrants in Advanced Explorations Inc		
Common Shares	1,883,591	696,201
Series A 1 Warrants	-	1
	<u>\$1,883,591</u>	<u>\$696,202</u>
<b>Company</b>		
Series A 1 Warrants	-	1
	<u>\$-</u>	<u>\$1</u>

The closing price of AXI at year end was approximately \$0.72 (2010 - \$0.17).

# BOREALIS EXPLORATION LIMITED

Gibraltar Registered No. 66632

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2011(Continued)

### 15. DEFERRED COMPENSATION RECEIVABLE

	2011	2010
	\$	\$
Receivable in royalties	<u>\$16,445,334</u>	<u>\$16,445,334</u>
Receivable in cash and marketable securities	566,116	812,396
Less: receivable within the year	<u>283,058</u>	<u>270,799</u>
	<u>\$283,058</u>	<u>\$541,597</u>
	<u>\$16,728,392</u>	<u>\$16,986,931</u>

Deferred compensation arises from the Buy Out agreement between Roche Bay and AXI, whereby AXI has the right to acquire 100% of the eastern leases. Full effect has been given to this buyout in this report whereby the carrying value of Roche Bay's eastern leases has been removed and replaced by the right to receive deferred compensation from AXI. The cash portion is receivable in two equal annual tranches of \$283,058 on 15 December 2011 and 2012 respectively.

### 16. DEBTORS

	Family		Company	
	2011	2010	2011	2010
	\$	\$	\$	\$
Advances to suppliers and consultants	90,994	25,231	18,958	20,306
Current portion of deferred compensation receivable	283,058	270,799	-	-
Amounts due from Family undertakings	<u>-</u>	<u>-</u>	<u>1,035,528</u>	<u>675,339</u>
Total accounts receivable	<u>\$374,052</u>	<u>\$296,030</u>	<u>\$1,054,486</u>	<u>\$695,645</u>

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

# BOREALIS EXPLORATION LIMITED

Gibraltar Registered No. 66632

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2011(Continued)

### 17. CREDITORS

#### Creditors falling due within one year

	Family		Company	
	2011	2010	2011	2010
	\$	\$	\$	\$
Trade creditors	5,731,103	7,141,535	4,722,628	6,302,724
Amounts due to Family undertakings	-	-	27,002,057	25,086,264
	<u>\$5,731,103</u>	<u>\$7,141,535</u>	<u>\$31,724,685</u>	<u>\$31,388,988</u>

Amounts due to Family undertakings are unsecured, interest free and repayable on demand. Of the amount included under trade creditors, there are outstanding trade balances with directors and related parties of \$1,514,745 (2010 - \$1,491,030)

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

	Family		Company	
	2011	2010	2011	2010
	\$	\$	\$	\$
Other creditors	<u>\$917,335</u>	<u>\$914,321</u>	<u>\$917,335</u>	<u>\$914,321</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) 120,290 shares (2010 – 120,290) 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 120,290 shares on the open market. The amount due to directors is determined at each year-end. In 2011 there were 120,290 shares repurchased but not yet transferred to them. In addition, 225,874 options were exercised in previous years and the shares had not yet been 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 2011 (Continued)

### 19. CALLED UP SHARE CAPITAL

	2011	2010
	\$	\$
Authorised share capital 5,000,000 ordinary shares @ \$0.01 each	<u>\$50,000</u>	<u>\$50,000</u>

Called up share capital 5,000,000 ordinary shares @ \$0.01 each	<u>\$50,000</u>	<u>\$50,000</u>
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	Number of Shares	Share Capital \$	Share Premium Account \$	Total \$
<b>At 31 March 2009</b>	5,000,000	50,000	24,241,030	24,291,030
Shares issued during the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>At 31 March 2010</b>	5,000,000	50,000	24,241,030	24,291,030
Shares issued during the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>At 31 March 2011</b>	<u>5,000,000</u>	<u>\$50,000</u>	<u>\$24,241,030</u>	<u>\$24,291,030</u>

### 20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

	Share Capital \$	Share Premium Account \$	Non Distributable Reserve \$	Consolidated Profit and Loss Account	Total
<b>At 31 March 2010</b>	50,000	24,241,030	10,235,196	(34,975,501)	(449,275)
Shares issued during the year	-	-	-	-	-
Non Distributable Reserve	-	-	83,772	-	83,772
Profit for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,000,995</u>	<u>2,000,995</u>
<b>At 31 March 2011</b>	<u>\$50,000</u>	<u>\$24,241,030</u>	<u>\$10,318,968</u>	<u>\$(32,974,506)</u>	<u>\$1,635,492</u>

# BOREALIS EXPLORATION LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2011(Continued)

### 21. GROUP'S NON DISTRIBUTABLE RESERVE

	2011	2010
	\$	\$
Development costs borne by joint venture partner	14,507,228	14,507,228
Minority interest therein	(4,188,260)	(4,272,032)
	<u>\$10,318,968</u>	<u>\$10,235,196</u>

This represents the increase in carrying value of the company's investment in the Eastern deposits mining resource of Roche Bay plc as a result of exploration and development expenditure incurred by Advanced Explorations Inc. in past years.

### 22. RELATED PARTY TRANSACTIONS

The Parmenides Group received fees of \$432,000 for management services in 2011, including compensation to key members of the executive team, as well as general office services.

The Parmenides Group is owned by Shiloh Limited International, Inc., ('Shiloh'), of which three of its Directors, Rodney T. Cox, Isaiah W. Cox and Wayne S. Marshall, are also directors of the Company. Shiloh is owned by The Jeremiah Toyam Cox Foundation Limited, ('Foundation'), whose Council Members include Rodney T. Cox, Isaiah W. Cox and Nechama J. Cox, who are also directors of the Company. The Council Members have no direct or indirect beneficial interest in the Foundation.

During the year, all AXI Series A Warrants issued in June 2007 expired. Included in these expired warrants were 792,000 warrants belonging to present and past Roche Bay Directors, who had all paid Roche Bay the C\$0.35 in 2007 to convert them into shares. Due to Roche Bay's tight cash constraints, the funds were never paid over to AXI to effect the conversion, and with the expiry of these warrants, Roche Bay drew from its own stock of AXI shares to partially settle these dues. During the year a total of 536,790 AXI shares were transferred or sold in partial settlement, and at year end there was a balance of 255,210 AXI shares due.