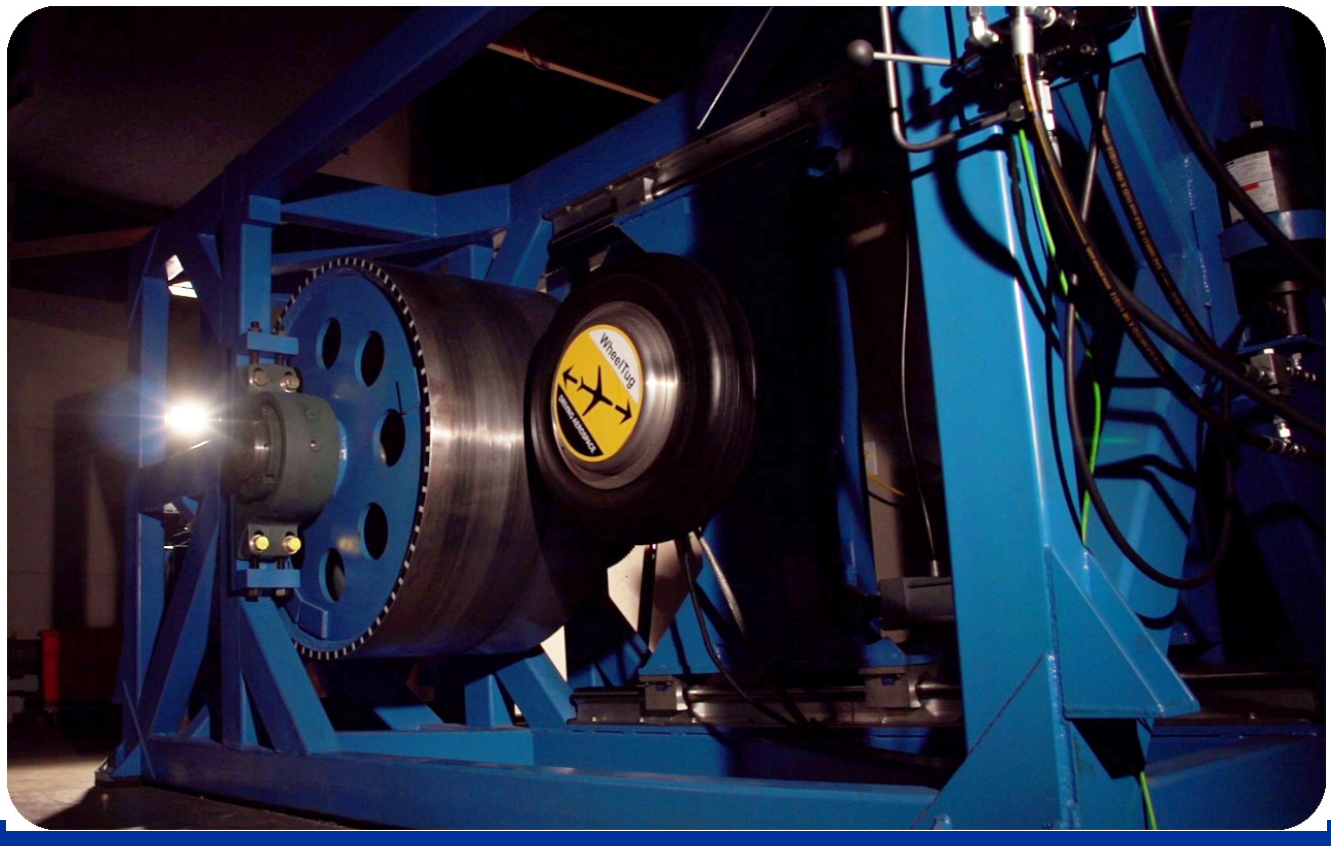
BOREALIS

# Addendum to Borealis Exploration Limited

## 2014 Annual Report



# *About Borealis*

Borealis Exploration Limited is a technology development company. Borealis invents, patents, develops and acquires new technologies that we consider major technological innovations and which, we believe, have high probabilities of generating proprietary products that Borealis can own and exploit for the benefit of both their users and our shareholders. The Borealis technologies include new materials and technologies for more efficient and lower-cost generation of electrical power, more powerful and effective electric motors, and silent, non-polluting cooling and refrigeration systems. The first of these technologies to come to market is the WheelTug® aircraft electric drive system, which will provide major economic and environmental benefits to both airlines and airports. Shown on the cover is the WheelTug "Lolly Dyno" - a dynamometer and test platform used to evaluate the WheelTug's performance under a wide range of conditions. All of our technologies should fundamentally change basic industries and introduce the Borealis Industrial Revolution. We anticipate that some of our patented and proprietary industrial advances will enable entirely new industries and open new fields for scientific exploration and commercial development for many decades to come.

In addition, Borealis owns significant interests in large undeveloped deposits of iron ore at Roche Bay and Fraser Bay, and in polymetallic deposits at Freuchen Bay, all located in on Melville Peninsula, Nunavut, Canada.

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# *On the Cover*

The first of our technologies to come to market is the WheelTug® aircraft electric drive system, which will provide major economic and environmental benefits to both airlines and airports. Shown on the cover is the WheelTug "Lolly Dyno" - a dynamometer and test platform used to evaluate the WheelTug's performance under a wide range of conditions.

# *Addendum to Annual Report*

Borealis has set forth below an addendum (this "Addendum") to its annual report in respect of fiscal 2014 in order to bring the report into compliance with applicable Czech national law and European Union regulations (the "Rules and Regulations"). The originally filed annual report omitted certain disclosure that was required under the Rules and Regulations. This Addendum contains the omitted disclosure. This Addendum should read together with the original annual report.

# *Directors' Report*

The directors of Borealis Exploration Limited present their report for the year ended 31 March 2014 together with the financial statements of the company and the auditors' report to the members.

## 1. RESULTS

The results for the year ended 31 March 2014 are shown on page 20. The profit for the period has been carried forward. No dividends have been proposed for the period.

## 2. PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company was incorporated on 26 August 1968 by Canadian Dominion Charter. On 19 October 1998 the Company changed its domicile to Gibraltar. The Company holds a number of undeveloped mining resources and is involved in the development of various innovative technologies.

## 3. DIRECTORS AND EMPLOYEES

The Directors who served during the year were as follows:

| | |
|---|---|
| Rodney T. Cox, PhD | Appointed 27 December 1978 |
| Wayne S. Marshall, PhD | Appointed 11 September 1985 |
| Isaiah W. Cox A.B. | Appointed 15 February 1994 |
| David M. Goldenberg LLB | Appointed 11 September 1996 |
| Nechama J. Cox PhD | Appointed 1 August 2001 |
| Ing. Jan Váňa | Appointed 1 January 2013 |

**NECHAMA J. COX** became a Director of the Company on 1 August 2001. Dr. Cox is the Chief Operating Officer of Chorus Motors plc. She is currently also a Director of Chorus Motors plc since 1 August 2001; Cool Chips plc, 1 August 2001; Faraway plc, 5 October 2004; Photon Power plc, 1 August 2001; Power Chips plc, 1 August 2001. Dr. Cox is also a member of the Council of several Gibraltar Charitable Foundations, including The Jeremiah Toyam Cox Foundation Limited (TJTCFL), the Cox Hart Foundation Limited, the Nechama Cohen Cox Foundation, and the BH Foundation. There are more than 10 members of the Council of each of these foundations. Dr. Cox is also a member of the Board of Directors of Shiloh Limited International, Inc., a corporation, which is wholly owned by TJTCFL, which also owns other business entities including The Parmenides Group, a partnership wholly owned by TJTCFL. Dr. Cox has no ownership interest in these various entities and has received to date no remuneration or reimbursements for any services performed on behalf of these various charitable entities. None of these individual Charitable Foundations, companies or partnerships directly own over 10% of any of the Borealis Family of Companies shares although they do hold shares as nominees and custodians for other unaffiliated entities that have control in aggregate of in excess of 10% of the outstanding shares in all of the Borealis Family of Companies. Nechama J. Cox beneficially owns directly or indirectly 16,700 shares of Borealis Exploration Limited.

**DAVID M. GOLDENBERG** became a Director of the Company on 18 September 1996, having previously been a director from 15 April 1988 until 1994. Mr. Goldenberg is currently retired as a Barrister and Solicitor. Previously he was with the firm Goldenberg Crisfield Zimmerman Barristers & Solicitors, which grew out of David M. Goldenberg, Professional Corporation. He was previously a Partner in the law firm of Beaumont Church until 1998. He is also a member of council of the David M. Goldenberg Foundation. . David M. Goldenberg beneficially owns directly or indirectly 100 shares of Borealis Exploration Limited.

**WAYNE S. MARSHALL** became a Director of the Company on 11 September 1985. He is Professor Emeritus of Business Administration at Long Island University. Dr. Marshall is Chairman of the Executive and Compensation Committees, and a member of the Audit Committee of the Company and for all of the following Companies: Borealis Exploration Limited since 11 September 1985; Avto Metals plc, 06 October 2004; Chorus Motors plc, 21 December 1999; Cool Chips plc, 21 December 1999; Faraway plc, 28 April 2003; Photon Power plc, 23 March 2000; Power Chips plc, 23 March 2000; WheelTug plc, 09 February 2005 and 12 additional

affiliated companies, wholly or partially owned, direct or indirect, since prior to 2005, except for Roche Bay plc where he holds no position. In addition, he is a member of the council of The Jeremiah Toyam Cox Foundation Limited (JTCFL) and the VSBM Foundation Limited and is on the board of Shiloh Limited International Inc., a company wholly owned by JTCFL. Wayne S. Marshall beneficially owns directly or indirectly 49,118 shares of Borealis Exploration Limited.

**THE PRESENT POSITION AND OFFICE WITH THE COMPANY IF APPLICABLE, AND THE PRESENT PRINCIPAL OCCUPATION OR EMPLOYMENT OF THE INCUMBENT DIRECTORS AND OFFICERS ARE AS FOLLOWS. UNLESS OTHERWISE STATED, SUCH OCCUPATION OR EMPLOYMENT HAS CONTINUED FOR MORE THAN THE LAST FIVE YEARS.**

**RODNEY T. COX** became a Director on 27 December 1978. Dr. Cox is Chairman of the Board, Chief Executive Officer and Chief Financial Officer of the Company. In all of the following Companies, he is also a Director, Chairman of the Board, Chief Executive Officer and Chief Financial Officer and a member of the Executive, Audit and Compensation Committees: Avto Metals plc since 6 October 2004; Chorus Motors plc, 21 December 1999; Cool Chips plc, 21 December 1999; Faraway plc, 28 April 2003; Photon Power plc, 23 March 2000; Power Chips plc, 23 March 2000 and also 12 additional affiliated companies, wholly or partially owned, direct or indirect, since prior to 2005, except for WheelTug plc where he is Chairman of the Board and Chief Financial Officer since 09 February 2005 and Roche Bay plc where he holds no position. Dr. Cox is also a member of the Council of several Gibraltar Charitable Foundations, including The Jeremiah Toyam Cox Foundation Limited (TJTCFL) and the Cox Hart Foundation Limited. There are more than 10 members of the Council of each of these foundations. Dr. Cox is also a member of the Board of Directors of Shiloh Limited International, Inc., a corporation, which is wholly owned by TJTCFL, which also owns other business entities including The Parmenides Group, a partnership wholly owned by TJTCFL. Dr. Cox has no ownership interest in these various entities and has received to date no remuneration or reimbursements for any services performed on behalf of these various charitable entities. None of these individual Charitable Foundations, companies or partnerships directly own over 10% of any of the Borealis Family of Companies shares although they do hold shares as nominees and custodians for other unaffiliated entities that have control in aggregate of in excess of 10% of the outstanding shares in all of the Borealis Family of Companies. Rodney T. Cox beneficially owns directly or indirectly 2,734 shares of Borealis Exploration Limited.

**ISAIAH W. COX** became a Director of the Company on 15 February 1994. Mr. Cox is President, Chief Operating Officer, a member of the Executive Committee and Compensation Committee of the Company. In all the following Companies, he is a Director, a member of the Executive Committee and the Compensation Committee of the Company, President and Chief Operating Officer, except Chorus Motors plc where he is President, and WheelTug plc where he is President and Chief Executive Officer: Avto Metals plc since 6 October 2004; Chorus Motors plc, 21 December 1999; Cool Chips plc, 21 December 1999; Faraway plc, 28 April 2003; Photon Power plc, 23 March 2000; Power Chips plc, 23 March 2000; WheelTug plc, 09 February 2005 and also 12 additional affiliated companies, wholly or partially owned, direct or indirect, since prior to 2005, except for Roche Bay plc where he holds no position. Mr. Cox is also a member of the Council of several Gibraltar Charitable Foundations, including The Jeremiah Toyam Cox Foundation Limited (TJTCFL), the Cox Hart Foundation Limited, the Nechama Cohen Cox Foundation, and the BH Foundation. There are more than 10 members of the Council of each of these foundations. Mr. Cox is also a member of the Board of Directors of Shiloh Limited International, Inc., a corporation, which is wholly owned by TJTCFL, which also owns other business entities including The Parmenides Group, a partnership wholly owned by TJTCFL. Mr. Cox has no ownership interest in these various entities and has received to date no remuneration or reimbursements for any services performed on behalf of these various charitable entities. None of these individual Charitable Foundations, companies or partnerships directly own over 10% of any of the Borealis Family of Companies shares although they do hold shares as nominees and custodians for other unaffiliated entities that have control in aggregate of in excess of 10% of the outstanding shares in all of the Borealis Family of Companies. Isaiah W. Cox beneficially owns directly or indirectly 158,048 shares of Borealis Exploration Limited.

**JAN VÁŇA** became a Director of the Company on 26 June 2013. He also become a Director of Avto Metals plc, Chorus Motors plc, Cool Chips plc and Power Chips plc on 26 June 2013; and is a Director and Consultant of WheelTug plc since 14 July 2011. Mr. Váňa has been involved in many aspects of aviation; former Czech Air Force Pilot, vice-minister of Defence, member of the Board of Directors of Czech Airlines and commercial director of ABS Jets (largest business jet operator and MRO in the CEE), and outstanding experience from aviation projects management at CEE/European civilian/military market, Mr. Váňa managed the infrastructure of suppliers, facilities and equipment in Prague for the November 2010 and June 2013 tests.. Mr. Váňa beneficially owns directly or indirectly 1 share of Borealis Exploration Limited.

In respect of its directors, the Company hereby confirms the following:

- There are no potential conflicts of interests between any duties to the Company and the private interests and or other duties of any director.
- There have been no bankruptcies, receiverships or liquidations with which any director was associated for the previous five years.
- There has been no official public incrimination and/or sanctions of any director by statutory or regulatory authorities (including designated professional bodies) and no director has ever been disqualified by a court from acting as a member of the administrative, management or supervisory body of the Company (or any other company) or from acting in the management or conduct of the affairs of the Company (or any other company) for the previous five years.

As at the date of this annual report, Borealis has no employment or consulting agreements with any persons. The Borealis family of companies, however, has the following employment and consulting agreements:

**Employment**

| Name of Company | Name of Employee | Role | Term |
|---|---|---|---|
| Technical | Louise Janicki | Administrative assistant | At will |

**Consulting**

| Name of Company | Name of Consultant | Role | Term |
|---|---|---|---|
| Technical | Jonathan S. Edelson | Chief Scientist | 30 years |
| Technical | Joan K. Lawrence | Patent drafting | Expired, but term extended indefinitely by oral agreement |
| Technical | Aaron Sichel | Coordinator | At will |
| Technical | Claire Rustier | Progammer | indefinite |
| WheelTug plc | Mordechai Glicksman | Administrator | At will |
| WheelTug plc | Gilbert Thompson | FAA consultant | At will |
| | David Yancich | Programmer | indefinite |

Borealis confirms that there are no programs applicable to employees, consultants and members of the governing board of directors of the company that offer such persons the right to acquire securities, options or any other rights under preferential conditions.

# *Organizational Structure*

Borealis Exploration Limited, the parent of the Borealis Family of Companies, is a holding company and owns indirectly a majority of all our operating subsidiaries. Borealis owns 98% of Borealis Technical Limited, which conducts all our research and itself owns a majority interest in each of the operating companies. Borealis Technical owns all our patents and has licensed all rights to them to the respective operating subsidiaries. Borealis Technical receives 50% of all sublicense revenue and 8% of all other revenue from its operating subsidiaries.

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

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

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

The rights, obligations and privileges of the share capital of the Company are set forth in Articles 2-51 of (pages 2-6) its Memorandum and Articles of Association (again, which may be found in the Corporate Information section of its website)

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

## Ownership of Borealis Publicly Traded Subsidiaries

| Company | Borealis shares | Total shares outstanding | % Borealis |
|---|---|---|---|
| Avto Metals plc | 5,200,003 | 5,377,115 | 97% |
| Chorus Motors plc | 5,214,075 | 6,689,965 | 78% |
| Cool Chips plc | 5,223,377 | 8,251,947 | 63% |
| Faraway plc | 5,200,004 | 6,312,874 | 82% |
| Power Chips plc | 5,222,583 | 8,035,118 | 65% |
| Roche Bay plc | 5,223,000 | 7,373,953 | 71% |

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

Our headquarters and legal domicile are in Gibraltar. Borealis operates as a virtual company, and the Internet plays a dominant role in our day-to-day work. It is the means by which we manage our businesses, discuss new ideas, and promote ourselves to the outside world. Modern communications technology has allowed us to circumvent the traditional problems associated with working on four continents and twenty time zones. Because of this, we have access to facilities and personnel about which a company of our size would normally only be able to dream.

Borealis has consultants around the world, all of whom work over e-mail. Management and technical discussions take place over the Net. Borealis runs a continual Board of Directors meeting 24 x 365, with an annual traffic of over 10,000 messages to each board member and members of management. Borealis has intense direct participatory management, and many consultants to the Company sit in on the board meetings and provide input although they are not voting members.

Our Website, www.borealis.gi, makes information about our technology available, and informs shareholders, other companies, and the general public about Borealis. The Website is always being updated, and our major disclosed technologies are described on the site in detail. As patent offices issue more patents to Borealis, a more complete picture of our extensive research efforts will become publicly available on the Website. Additionally, Borealis historically has sent out a weekly update but now is being partially supplanted by daily updates to consultants and shareholders. We continue to send out daily share trades with prices to shareholders. Through this we are able to keep people better informed than through traditional channels. Your management uses this technology to maintain a close relationship with our shareholders.

This virtual company structure is great to work with and allows us to have many people directly involved in the decision-making processes at Borealis. This approach may not be conventional, but the results to date have validated the business structure.

## Investor Information

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

## Borealis Share Capital

100% of the issued and outstanding shares of Borealis common stock, which represents 5,000,000 shares of common stock, each with a par value of U.S. $0.01 (the "Shares"), are listed on the Prague Stock Exchange. The Shares are registered with the CDCP, which is the Czech central securities depository, and no physical share certificates will be issued to shareholders. The security identification number (ISIN code) of the Shares is: GI000A1J9JJ0 (0 = Zero).

As stated in the Memorandum and Articles of Association of Borealis, there are no limitations on transferability of the Shares.

As at the date hereof, there are no restrictions of any nature on voting rights and there are no special or different voting rights in respect of any Shares insofar as all Shares have identical voting rights.

To the knowledge of Borealis, as at the date hereof, there are no agreements between any shareholders that restrict transferability of Shares

There are no special rules in respect of the election and recall of the statutory body, amendment to the Articles of Association or similar document of Borealis except that the capital or authorised capital of Borealis can only be increased beyond 5,000,000 shares by a two-thirds (2/3) approval of not less than 75% of the total outstanding shares of Borealis voting at a meeting of the members.

## Borealis Board of Directors

The business and affairs of the Company shall be managed by the directors who may exercise all such powers of

the Company as are noted by the Ordinance or by the Memorandum or the Articles of Association required to be exercised by the members of the Company, subject to any delegation of such powers as may be authorised by the Articles of Association and to such requirements as may be prescribed by a resolution of shareholders of the Company; but no requirement made by a resolution of shareholders shall prevail if it be inconsistent with the Articles of Association nor shall such requirement invalidate any prior act of the directors which would have been valid if such requirement had not been made.

## Borealis Separate Financial Statements

Unconsolidated audited financial statements for Borealis may be found on pages 15 -18 and are marked as "Company" statements (as opposed to "consolidated", which are used for the Borealis family of companies).

## Dividend Policy

Borealis did not pay any cash dividends in fiscal 2012, 2013 or 2014. Borealis does not anticipate paying cash dividends in fiscal 2015 or the foreseeable future. Borealis currently intends to retain any future earnings to fund the development and growth of its business. Holders of common stock are entitled to receive dividends ratably when, as, and if declared by the board of directors out of funds legally available therefor.

## Governmental, Legal and Arbitration Proceedings

The Company is aware of no governmental, legal arbitration proceedings, including, but not limited to, actual, threatened or pending, in respect of the Borealis Family of Companies except for a threatened action by its former company secretary, STM Fidecs Management Limited ("STM") alleging non-payment of fees for company secretary work in an amount equal to £241,845. Borealis disputes STM's claim, which, in the view of Borealis, has no merit. Borealis and STM have agreed to meet in the first quarter of 2015 in an attempt to resolve this matter amicably.

## Administrative, Management and Supervisory Bodies and Senior Management

Borealis has an audit committee, remuneration committees, and an Executive Committee though none are required under applicable Gibraltar law. All these Committees are comprised of Wayne S. Marshall, Isaiah W. Cox and Rodney T. Cox. These Committee Members communicate multiple times every working day by phone and e-mail on Company Business. Members of the Executive Committee communicate with all the Directors and a wide range of shareholders who have signed very stringent Non Disclosure Agreements no less than several times each week on the extensive Borealis Activities. The Board of Directors and shareholders who have signed non disclosure agreements hold weekly open Board meetings where company business is discussed in detail. These meetings are open to all shareholders who are willing to sign the required Non Disclosure Agreements. All our Directors and many of our shareholders take an active interest in and are great supporters and participants in our various activities. Borealis complies with the corporate governance regime in force in Gibraltar (which is wholly codified in Gibraltar's Companies Act 1930, which in turn is loosely modeled on UK company law) as set forth below in pertinent part:

1. For the purpose of incorporation, the Gibraltar Companies Act 1930 (the "Act") requires that Gibraltar companies produce a Memorandum of Association, setting out the objects of the company, in addition to stating the share capital, allotment of shares, as well as Articles of Association, which set out the rules and regulations of the company. Together these make up the constitution of the company.

2. The Act also provides for a set of model articles. These may, but are not required to, be adopted by a company expressly, in whole or in part.

3. A company's Articles must deal, inter alia, with the buying and selling of shares, pre-emption rights, the increase or reduction of share capital and how decisions by the board of directors or by the shareholders can and will be passed by resolution, but always within the framework provided by the Act.

4. The Act deals with procedures in relation to mergers and divisions, and the distribution of assets and profits.

5. The Act requires the keeping and registration of company registers such as register of directors, register of members (shareholders). It also requires changes to directors and members to be notified to the registrar of companies, usually within 14 days of such a change.

6. The Act also deals with directors' duties and obligations, in particular by requiring directors to declare any interest they may have in contracts being negotiated on behalf of the company. There are also provisions in relation to qualifications required by directors and secretaries.

7. The Act requires the filing of annual returns, the keeping and auditing of accounts and sets out requirements for annual general meetings and extraordinary general meetings.

Each director and officer in the Borealis family of companies has an address at P.O. Box 575, Suite 2F/2, Eurolife Building, 1 Corral Road, Gibraltar.

## Material Agreements (other than in the ordinary course of business)

Borealis has the following material agreements in force (each of which is oral):

Avto Metals plc pays 1/8 of Borealis's annual expenses
Chorus Motors plc pays ¼ of Borealis's annual expenses
Cool Chips plc pays ¼ of Borealis's annual expenses
Faraway plc pays 1/8 of Borealis's annual expenses
Power Chips plc pays 1/8 of Borealis's annual expenses

Photon Power plc pays 1/8 of Borealis's annual expenses

Borealis pays each director U.S. $1,800 in cash per month of service.

Borealis confirms:

(i) that there are no material agreements to which it is a party that become effective, change or expire upon a change of control of Borealis as a result of a takeover bid, and the effects thereof; and

(ii) that there are no material agreements between it and the members of any of its statutory bodies or employees that the Borealis is obligated to perform in the event of the termination of their office or employment in connection with a takeover bid.

## Internal Control

Borealis has a committee of directors consisting of Rodney T. Cox, Wayne Marshall, Jan Vana and Isaiah Cox that review and approve all material payments and receipt of funds so that access to Borealis's finances, bank accounts and outgoing and incoming transfers of funds is at all times subject to the review and oversight of such director committee. Apart from this, Borealis has no internal control system in place.

## Annual Meetings

The procedure at each Borealis annual meeting is as follows:

1. **SOLICITATION OF PROXIES:**

Borealis prepares and delivers to each shareholder a notice of annual meeting and an information circular in connection with the solicitation of proxies for use at its Annual Meeting of Members to be held in July of each year in Gibraltar and via the Internet at www.borealis.gi, with the record date of the meeting being two months prior to the date of the annual meeting.

**2. QUORUMS AND VOTING:**

The authorised share capital of the Company is $50,000, consisting solely of one class of common shares divided into 5,000,000 shares with par value of $0.01 per share, of which 5,000,000 shares are outstanding. Each holder of record of a common share as of the Record Date for the meeting is entitled to attend the meeting and to cast one vote for each share. Proxies are accepted by hand delivery, mail, e-mail, fax, and the Company's Internet website at www.borealis.gi. Any resolution to be voted upon at the meeting must be approved by a majority of the votes cast, unless the Company's Articles of Association stipulate a number or proportion of the votes cast in excess of a majority. The meeting will proceed as long as there is a quorum at the meeting place including the voted proxies.

**3. REVOCATION OF PROXIES:**

Each shareholder has the power to revoke a proxy at any time as long as it has not been exercised. In addition to revocation in any other manner permitted by law, a member giving a proxy pursuant to this solicitation who wishes to revoke the proxy instrument may do so in writing. A revocation must be executed by the member, or by his attorney authorised in writing, or, if the member is a Corporation, under its Corporate seal or by an officer or attorney thereof duly authorised, and received by mailed, or deposited, at any office of the Company, via e-mail to proxy@borealis.gi, or by fax to +44.207.504.3593 at any time up to and including 1700 GMT of the last business day preceding the day of the meeting, or any adjournment thereof at which the proxy is to be used, or with the Chairman of such meeting on the day of the meeting, or adjournment thereof.

**4. DIRECTORS, AUDITORS AND OTHER MATTERS**

At each annual meeting, the shareholders vote on directors whose terms have expired and are re-running for nomination to the board, the auditors and any other matters that have been properly brought before the shareholders for a vote.

## 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.

# Corporate Information - Gibraltar Registered Number 66632

### Corporate Headquarters

Suite 1
43 Main Street
Gibraltar

### Auditors

Moore Stephens
Suite 5 Watergardens 4
Waterport
Gibraltar

### Company Secretary

Mark Radom
Suite 2
Nachal Maor 1
Ramat Bet Shemesh
Israel 99623

### Stock Trading Information

Borealis Exploration Limited common shares are traded on the Prague Stock Exchange under the symbol **BOREY.** The shares' ISIN Number is GI000A1J9JJ0.
Borealis shares are also quoted in the United States over-the-counter market on the Pink Sheets, at www.pinksheets.com under the symbol **BOREF**. CUSIP # X6919W 10 0.

### Registrar and Transfer Agent

OTR, Inc.
Securities Transfer Agent & Registrar
1000 SW Broadway, Suite 920
Portland, Oregon 97205-3061, USA
Tel: +1.503.225.0375
Fax: +1.503.273.9168

## 5. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company for that period. In preparing those financial statements, the directors are required to:

a) select suitable accounting policies and then apply them consistently
b) make judgments and estimates that are reasonable and prudent
c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

## 6. AUDITORS

Moore Stephens Limited have expressed their willingness to continue in office. A resolution for their reappointment will be proposed at the next annual general meeting.

### 7. MISCELLANEOUS

**Set forth below is disclosure required under International Financial Reporting Standards that supplements the Consolidated and Company Financial Statements of Borealis for the year ended 31 March 2014.**

No person with a direct or indirect interest in our capital or voting rights notifiable under national law is known to us.

**Mineral resources**

Management conservatively estimates what the net proceeds of the mineral resources would be in the event of a forced sale, to ensure that their carrying costs are realistic.

**Intangible assets**

To determine the life of an intangible asset, the following factors (among many) were taken into account: including:

(a) The expected usage of the asset by the entity WheelTug plc should be able to lease WheelTugs for as long as there is a commercial airline market. WheelTugs should have a very long life with many parts of the system having over 100,000 Hours Mean Time Before Failure. This is principally the electric motor and the inverter electronics. Some items will have a lower life, like the gearing, but we are expecting plus 20,000 hours MTBF. WheelTugs will be in huge demand as they will determine the success or failure of many airlines as the competitive advantages provided are so serious that Airlines without WheelTug will be challenged to successfully compete with airlines that have WheelTug. WheelTugs can be successfully refurbished which gives them a very long life indeed.

(b) And whether the asset could be managed efficiently by another management team different; There are lots of ways this business can by run. Our model allows for patented proprietary profits instead of cost plus, which would also be profitable, but not nearly so profitable,

(c) The typical life cycle of the product, as well as public information on estimates of useful life for similar types of assets that are used in a similar way;
We expect the life cycle of the product to be in excess of 50 years, but we will be continually upgrading the product. There are no aerospace products that are sold under the terms we are getting agreements from airlines. DC-3 from the 1930's, the ones that have not crashed and burned are still flying. Airplanes have a very long life and we extend life of the average airliner at least an extra ten years by keeping it competitive that much longer.

Impact of technical obsolescence, technological, commercial or otherwise;
We will spend whatever is necessary to keep our dominant position in this market. We are very far ahead of any and all competitors and intend to keep that position.

(d) The stability of the industry in operating assets and changes in market demand for products or services produced with the asset;
Airlines have always lost money. OEMs, which we are, make serious money in the airline business.

We are supplying a patented product that should have a very long profitable life.

(e) Expected actions by competitors, whether current or potential competitors;
Our competitors have not come to grips with our dominant position. When they do, our patents will go a long way to ameliorate any competitive problems. They will jump into this business once they see the profitability, and we are highly confident that we can defend our position.

(f) The level of maintenance expenditure required to achieve the expected economic benefits. At most, US$30,000/year/per WheelTug. It should not be that high but that is about 8% of our minimum gross revenue per system.
Of assets as well as the ability and willingness of the entity to achieve that level; We are going nowhere and have never seen a better business. We have looked at thousands.

(g) The period of control over the asset and the legal limits or other similar limits on the use of assets, such as the expiration date of the leases associated with it, and
Expiration of leases makes no difference if not renewed we just pick up the device and install on another aircraft.

(h) If the asset's useful life depends on the useful life of other assets held by the entity

Set forth below is a more detailed consolidated statement of loss and comprehensive income than what was included in the Company's annual report.

## BOREALIS EXPLORATION LIMITED

**Registered number: 66632**

**Detailed Consolidated Statement of Loss and Comprehensive Income**

| ***Year ended 31 March 2014*** | 31 March 2014 $ | 31 March 2013 $ |
|---|---|---|
| **Other comprehensive income:** | | |
| Profit on sale of shares in subsidiary companies | 4,903,610 | 8,415,955 |
| Gain on buy-out option | 487,528 | 275,000 |
| Gain/(loss) on change in stake in business | 50,040 | (28,974) |
| **Other comprehensive income for the year after tax** | $ 5,441,178 | $ 8,661,981 |
| **All these items have been credited to profit and loss** | | |
| | | |
| **Expenditure** | | |
| Administratve expenses | (576,020) | (473,455) |
| Amortisation per notes 5 & 12 of Annual Report | (58,152) | (42,094) |
| Depreciation per notes 5 & 12 of Annual Report | (4,546) | (5,183) |
| Directors emoluments per note 6 of the Annual Report | (1,676,100) | (2,041,500) |
| Family audit fees - per note 5 of the Annual Report | (114,611) | (118,310) |
| Legal fees | (210,807) | (251,741) |
| Marketing expenses Chorus/WheelTug project | (582,022) | (682,634) |
| **Expenditure per Consolidated Statement of Loss and Comprehensive Income** | $ (3,222,258) | $ (3,614,917) |
| | | |
| **Finance cost** | | |
| Financing loss | $ (961,421) | $ (1,336,342) |
| the value of the shares due to directors has been restated in accordance with the share price. | | |
| | | |
| **Other comprehensive income:** | | |
| Profit on sale of shares in subsidiary companies | $ 4,903,610 | $ 8,415,955 |
| The company's primary source of funding is via the sale of shares in its subsidiary company WheelTug plc | | |
| | | |
| **Foreign exchange losses/(gains)** | | |
| Arising from cash and cash equivalents | 5,812 | (287) |
| Foreign exchange losses/(gains) on operating activities | 48,429 | (505) |
| Net foreign exchange loss/(gain) | $ 54,241 | $ (792) |

*All the comprehensive income line items will be reclassified to profit or loss.*

## BOREALIS EXPLORATION LIMITED

**Registered number: 66632**

**Detailed Consolidated Statement of Loss and Comprehensive Income (Continued)**

| ***Year ended 31 March 2014*** | 31 March 2014 $ | 31 March 2013 $ |
|---|---|---|
| **Share based payments** | | |
| Share based payments are made to settle amounts due to vendors for services, and not in terms of any policy relating to remuneration of directors, consultants or staff. From time to time, and on an ad hoc basis, the directors do issue shares as a bonus or gratuity to the provider of services. | | |
| **Amortisation of patents - refer note 1g of the consolidated financial statements** | | |
| Effect of change in estimate - additional amortisation charge<br>No calculation has been made of the effect of this change on future periods, as it is impractical and not material. | $ 11,808 | $ - |
| **Amortization period of an material intangible assets** | | |
| Development Expenditure Chorus/Wheeltug project<br>Per note 12 of the consolidated financial statements<br>It is noted that the life of this asset is infinite, and for this reason no amortisation is raised against it. Refer accounting policy note 1g. | $10,502,375 | $ 8,650,390 |

## BOREALIS EXPLORATION LIMITED

Registered number: 66632

**Company Statement of Loss and Comprehensive Income**

***Year ended 31 March 2014***

| | Notes | 31 March 2014 $ | 31 March 2013 $ |
|---|---|---|---|
| **Revenue** | | - | - |
| **Expenditure** | | | |
| **Administration expenses** | | (282,748) | (177,139) |
| **Amortization Expense** | | (58,152) | (42,094) |
| **Consulting fees** | | (212,353) | (273,075) |
| **Corporate fees** | | (52,987) | (81,434) |
| **Depreciation** | | (4,546) | (5,183) |
| **Directors fees** | | (179,200) | (216,000) |
| **Foreign exchange loss (gain)** | | (11,994) | 8,729 |
| **Interest** | | (5,908) | (3,393) |
| **Professional fees** | | (371,039) | (341,493) |
| **Rent and utilities** | | (140,582) | (146,099) |
| **Shareholder expenses** | | (44,500) | (35,352) |
| **Telephone, internet and postage** | | (36,002) | (42,723) |
| **Travel and entertainment** | | (75,536) | (58,176) |
| **Operating loss** | 5 | (1,475,547) | (1,413,432) |
| **Charged out to subsidiaries** | | 1,475,547 | 1,399,390 |
| **Loss for the year** | | - | (14,042) |
| **Financing loss** | | (961,421) | (1,336,342) |
| **Share of loss of investment in subsidiary** | | (52,000) | - |
| **Total and comprehensive loss for the year as reported in note 8 of the Consolidated Financial Statements** | | $ (1,013,421) | $ (1,350,384) |

## BOREALIS EXPLORATION LIMITED

Registered number: 66632

**Company Statement of Financial Position**

***31 March 2014***

| | Notes | 31 March 2014 $ | 31 March 2013 $ |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and machinery | 13 | 16,184 | 20,730 |
| Intangible assets | 12 | 758,291 | 705,775 |
| Investments in subsidiaries | 10 | 83,950 | 83,950 |
| **Total non-current assets** | | 858,425 | 810,455 |
| **Current assets** | | | |
| Trade and other receivables | 16 | 2,084,926 | 1,527,796 |
| Cash and cash equivalents | | 39,023 | 108,326 |
| **Total current assets** | | 2,123,949 | 1,636,122 |
| **Total assets** | | $ 2,982,374 | $ 2,446,577 |
| **Equity and liabilities** | | | |
| **Capital and reserves attributable to owners of the company** | | | |
| Ordinary shares | | 50,000 | 50,000 |
| Share premium | | 24,241,030 | 24,241,030 |
| Retained earnings | | (57,471,068) | (56,457,647) |
| **Total equity** | | (33,180,038) | (32,166,617) |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Other financial liabilities | 18 | 2,720,169 | 1,784,948 |
| **Current liabilities** | | | |
| Trade and other payables | 17 | 33,442,243 | 32,828,246 |
| **Total liabilities** | | 36,162,412 | 34,613,194 |
| **Total equity and liabilities** | | $ 2,982,374 | $ 2,446,577 |

Approved and authorised for issue by the board of directors on: July 2014.

..... .....

Rodney T. Cox — Wayne S. Marshall

*Director* — *Director*

## BOREALIS EXPLORATION LIMITED

Registered number: 66632

**COMPANY STATEMENT OF CHANGES IN EQUITY**

***Year ended 31 March 2014***

| | Called up Share Capital | Share Premium Account | Retained earnings | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Balance at 1 April 2012 | 50,000 | 24,241,030 | (55,107,263) | (30,816,233) |
| Total comprehensive income for the year | - | - | (1,350,384) | (1,350,384) |
| Balance at 1 April 2013 | $50,000 | $24,241,030 | $(56,457,647) | $(32,166,617) |
| Total comprehensive income for the period | - | - | (1,013,421) | (1,350,384) |
| Balance at 31 March 2014 | $50,000 | $24,241,030 | $(57,471,068) | $(33,180,038) |

## BOREALIS EXPLORATION LIMITED

Registered number: 66632

**Company Statement of Cash Flows**

***Year ended 31 March 2014***

| | 31 March 2014 $ | 31 March 2013 $ |
|---|---|---|
| **Cash generated from operations** | | |
| Total loss for the year | (1,013,421) | (1,350,384) |
| Adjustments for | | |
| Depreciation | 4,546 | 5,183 |
| Amortisation | 58,152 | 42,094 |
| Non cash financing loss | 961,421 | 1,336,342 |
| Share of loss of investment in subsidiary | 52,000 | - |
| Interest | 5,908 | 3,393 |
| Changes in working capital | | |
| Trade and other receivables | (609,130) | (167,873) |
| Trade and other payables | 613,997 | 920,267 |
| Cash generated from operations | 73,473 | 789,022 |
| Interest paid | (5,908) | (3,393) |
| Net cash generated from operating activities | 67,565 | 785,629 |
| **Cash flows from investing activities** | | |
| Purchase of intangible assets | (110,668) | (143,941) |
| **Net cash used in investing activities** | (110,668) | (143,941) |
| **Cash flows from financing activities** | | |
| Repayments of borrowings | (26,200) | (768,245) |
| Net cash used in financing activities | (26,200) | (768,245) |
| **Net (decrease) in cash, cash equivalents and bank overdrafts** | (69,303) | (126,557) |
| Cash and cash equivalents at beginning of the year | 108,326 | 234,883 |
| **Cash and cash equivalents at end of year** | $ 39,023 | $ 108,326 |

We confirm that to the best of our knowledge the annual report and the consolidated annual report gives a true and fair view of the financial situation, business activities and economic results of the Borealis Family of Companies for the last accounting period, and prospects for the future development of its financial position, business activities and economic results.

By order of the Board [] February 2015

/--Signed--/

Rodney T. Cox
Director

/--Signed--/

Wayne S. Marshall
Director