

# **CHORUS MOTORS**

**PUBLIC LIMITED COMPANY**

**Gibraltar Registered No. 68312**

## **Financial Statements**

**for the year ended 31 March 2005**

# CHORUS MOTORS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68312

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<b>Contents</b>	<b>Pages</b>
Directors and Officers	1
Directors' Report	2 - 4
Report of the Auditors	5
Profit and Loss Account	6
Balance Sheet	7
Notes to the Financial Statements	8 - 11

# CHORUS MOTORS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68312

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## DIRECTORS AND OFFICERS

### Directors

### Appointed

Rodney T. Cox	21 Dec 1999	Director, Chairman of the Board, and Chief Executive Officer
Isaiah W. Cox	21 Dec 1999	Director, President, and Chief Operating Officer
Wayne S. Marshall	21 Dec 1999	Director
John Klys	21 Dec 1999	Director
Peter Vanderwicken	06 Sept 2000	Director
Iris Oren Cox	24 July 2001	(resigned 15 September 2004)
Nechama J. Cox	01 Aug 2001	Director
Stuart Harbron	23 July 2002	Director, and Chief Patent Officer
Giulio Pontecorvo	28 Aug 2003	Director
Robert T. Bauer	17 May 2004	Director

### Secretary

Fidecs Management Limited

### Registered Office

Montagu Pavilion  
8-10 Queensway  
Gibraltar

### Auditors

Moore Stephens  
Suite 5 Watergardens 4  
Waterport  
Gibraltar

# CHORUS MOTORS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68312

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## DIRECTORS' REPORT

The directors submit their report and the audited financial statements for the year ended 31 March 2005.

### Corporate Profile

The Company was incorporated on 18 March 1999 in Gibraltar. The Company's shares are publicly traded in the United States over-the-counter (OTC) market and quoted as CHOMF on the Pink Sheets at [www.pinksheets.com](http://www.pinksheets.com). The last reported trade was at \$11.00 per share, with the yearly high at \$21.00 per share, and the low at \$4.00 per share.

### Activities

The principal activity of the Company is that of researching, developing building and marketing the Chorus® Meshcon™ Technology.

### Results and Review of Business

The results for the year are shown in the Profit and Loss Account on page 6.

Borealis Technical Limited (Technical), the parent company, has conducted basic industrial research on its Chorus Meshcon motor technology since 1994, through itself and more recently through Chorus Motors plc. Chorus Motors plc has exclusive world rights to manufacture and market the Chorus Meshcon motor technology for which there are many patents issued and pending. All of the research expenditures to date have been undertaken by Technical and funded by Technical, and currently principally funded through the sale of shares in the subsidiary by the ultimate parent of the Company. All share sales proceeds by Chorus Motors plc are lent to Technical. Chorus Motors plc has no debt or any financial obligations of any sort at the present, as all its costs are met by its parent. When Chorus Motors plc begins operations as a stand alone licensing, manufacturing and sales company for the Chorus motor technologies, then Chorus Motors plc will assume the normal financial obligations for its type of business and trade. This is the culmination of many years of work.

The Chorus Meshcon technology is a novel electric motor/drive combination that uses electromagnetic harmonics to greatly increase the motor's torque. A Chorus system is smaller, lighter, and is expected to sell for a premium over a conventional motor with the same output. It is ideal for traction applications such as electric cars and trains.

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

An Intellectual Property Agreement was signed effective 1 January 1999, whereby Technical has granted the Company the exclusive worldwide rights for sublicensing the Chorus motor technology. In consideration for the rights granted to the Company, the Company shall pay Technical an 8% royalty based on net sales of licensed products and services sold by the Company and 50% of all sublicense income. To date, the Chorus motor technology is still under development such that the Company has not made any related sublicense.

# CHORUS MOTORS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68312

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

### **Results and Review of Business (Continued)**

The Company has been in the development stage since its inception. The Company intends to retain its sublicense rights granted by Technical. These financial statements have been prepared in accordance with generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. From inception to 31 March 2005, the Company has lent money raised on its behalf to Technical and Borealis Exploration Limited, who are also in a development stage.

The present circumstances therefore raise certain doubts about the ability of the Company to continue as a going concern. Management of the Company has indicated they have no intention to demand repayment of the amounts owing from Technical until the Chorus motor technology is being sold in the marketplace, and the Company is financially independent. The Company and Technical are actively working together to negotiate product sales or further sublicensing of its technology to various parties, which is expected to generate profitable operations in the future. To the extent additional funds are required, the Company will attempt to raise these funds through future sales of products and licences and perhaps by further issues of shares. There can be no assurance that the Company will be successful in its actions. The financial statements do not contain any adjustments that might be necessary if the Company is unable to continue as a going concern.

During the 2000 fiscal year, the Company further entered into an agreement with a certain contractor of Technical. Pursuant to this agreement the Company is granting the contractor certain sublicensing rights for the Chorus motor technologies in the Canadian market. In consideration for the rights granted to this contractor, the Company will be entitled to a 4% royalty based on net sales of licenced products and services sold by the contractor and 50% of all sublicense income in the Canadian market.

### **Dividends**

There were no dividends declared during the year.

# CHORUS MOTORS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68312

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## DIRECTORS' REPORT (Continued)

### Directors and their Interests

The directors who served during the year were as stated on page 1.

The interests of the directors in the shares of the Company in the year were as follows.

	Shares held at 31 March 2005	Shares held at 31 March 2004
Rodney T. Cox	48,165	32,031
Isaiah W. Cox	32,810	32,960
Wayne S. Marshall	29,171	30,071
John Klys	10,000	10,000
Peter Vanderwicken	10,979	8,586
Iris Oren Cox (resigned 15 September 2004)	12,305	2,305
Nechama J. Cox	5,775	5,775
Stuart Harbron	780	2,160
Giulio Pontecorvo	4,169	100
Robert T. Bauer	500	500

### Share Options

As of 31 March 2005, there were no share options outstanding.

### Directors' Responsibilities

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

### Auditor

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

By order of the Board on 3 June 2005



Isaiah W. Cox  
Director



Rodney T. Cox  
Director

# CHORUS MOTORS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68312

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## REPORT OF THE AUDITORS

### To the members of Chorus Motors Public Limited Company

We have audited the financial statements on pages 6 to 11, which have been prepared under the historical cost convention and the accounting policies set out on page 8.

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

### Respective responsibilities of directors and auditors

As described in the report of the Directors, the Company's Directors and management are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board in the United Kingdom. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

In forming our opinion, we have considered the disclosures made in Note 1 of the financial statements in connection with the application of the going concern basis and the uncertainty with regards to securing continued financial support. In view of the significance of these matters we consider they should be drawn to your attention but our opinion is not qualified in these respects.

### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 March 2005, and of the loss for the year then ended in accordance with Gibraltar Accounting Standards and have been properly prepared in accordance with Gibraltar Companies Ordinance 1930 and the Gibraltar Companies (Accounts) Ordinance 1999.



**Moore Stephens**  
CHARTERED ACCOUNTANTS

Gibraltar  
3 June 2005

# CHORUS MOTORS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68312

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

	Note	2005 \$	2004 \$
<b>Revenue</b>	1	550,000	–
<b>Expenditure</b>			
Administrative fees	7	(614,800)	(64,800)
<b>Retained loss for the year</b>		(64,800)	(64,800)
<b>Retained losses brought forward</b>		(324,000)	(259,200)
<b>Retained losses carried forward</b>		\$ (388,800)	\$ (324,000)

The Company has had no discontinued activities during the year, accordingly, the above result for the Company relates solely to continuing activities.

No statement of recognised gains and losses has been produced as the only recognised gains and losses occurring in the year are those disclosed in the Profit and Loss Account.

The notes on pages 8 to 11 form part of these Financial Statements.

# CHORUS MOTORS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68312

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## BALANCE SHEET as at 31 March 2005

	Notes	2005 \$	2004 \$
Investments	2	69,333	–
<b>Current Assets</b>			
Debtors	3	10,486,439	9,504,030
<b>Creditors – amounts falling due within one year</b>	4	69,333	–
<b>Net Current Assets</b>		10,417,106	9,504,030
<b>Total Net Assets</b>		<u>\$ 10,486,439</u>	<u>\$ 9,504,030</u>
<b>Capital and Reserves</b>			
Called up Share Capital	5,6	64,947	63,965
Share Premium Account	5,6	10,810,292	9,764,065
Profit and Loss account	6	(388,800)	(324,000)
<b>Total Shareholders' Funds</b>		<u>\$ 10,486,439</u>	<u>\$ 9,504,030</u>

Signed on behalf of the Board of Directors on 3 June 2005



Isaiah W. Cox  
Director



Rodney T. Cox  
Director

The notes on pages 8 to 11 form part of these Financial Statements.

# CHORUS MOTORS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68312

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

### 1. PRINCIPAL ACCOUNTING POLICIES

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

**a. Basis of accounting**

The financial statements are prepared in accordance with the historical cost convention.

**b. Revenue**

Revenue was received for delivery of WheelTug™ prototype products for end user testing by The Boeing Company. The performance of this contract was passed onto the parent company, who has therefore increased the management charges to allow for these costs.

**c. Reporting currency**

The Company's financial statements are presented in US dollars, which is the functional currency for operations.

**d. Foreign currency translation**

Transactions in foreign currency are recorded at the rate at the date of the transaction. Any monetary assets or liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

**e. Consolidation**

Consolidated accounts are not presented since the accounts of the company and its subsidiaries are consolidated in the accounts of the ultimate parent company.

**f. Going Concern**

These financial statements have been prepared under the going concern concept, which assumes that the Company will continue in operational existence for the foreseeable future having adequate funds to meet their obligations as they fall due. Further information is set out in the Directors' Report on pages 2 to 4.

**g. Cash Flow Statements**

The Company meets the size criteria for a small company set by the Companies Act 1985, and therefore, in accordance with FRS1: Cash Flow Statements, it has not prepared a cash flow statement.

**h. Taxation**

The Company has been granted exempt status under the Gibraltar Companies (Taxation and Concessions) Ordinance. Providing the Company continues to satisfy the criteria for such status, including the payment of an annual government charge of £225 it will not be subject to Gibraltar Corporation Tax until 2010, the date at which the status of all Gibraltar exempt companies will be subject to new legislation.

# CHORUS MOTORS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68312

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

### 2. INTERESTS IN GROUP UNDERTAKING

The Company has the principal ownership interests and invested amounts in its subsidiary:

	Ownership Interest		Investments	
	2005 \$	2004 \$	2005 \$	2004 \$
WheelTug plc	100.00%	N/A	\$ 69,333	\$ –

### 3. DEBTORS

	2005 \$	2004 \$
Loan to parent company	\$ 10,486,439	\$ 9,504,030

Amounts due from the Company's parent company are non-interest bearing, unsecured, and with no fixed terms of repayment

### 4. CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005 \$	2004 \$
Amounts due to subsidiary undertakings:		
WheelTug plc	\$ 69,333	\$ –

# CHORUS MOTORS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68312

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

### 5. CALLED UP SHARE CAPITAL

			<b>2005</b>	<b>2004</b>
			<b>\$</b>	<b>\$</b>
Authorised share capital 10,000,000 ordinary shares @ \$0.01 each			\$ 100,000	\$ 100,000
			<u>          </u>	<u>          </u>
	<b>Number of Shares</b>	<b>Share Capital \$</b>	<b>Share Premium Account \$</b>	<b>Total \$</b>
<b>At 31 March 2003</b>	6,044,289	60,443	7,236,826	7,297,269
Shares issued during the year	352,178	3,522	2,527,239	2,530,761
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>At 31 March 2004</b>	6,396,467	63,965	9,764,065	9,828,030
Shares issued during the year	98,302	982	1,046,227	1,047,209
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>At 31 March 2005</b>	6,494,769	\$ 64,947	\$ 10,810,292	\$ 10,875,239
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

The shares issued were partly to raise additional finance (cash received in Technical) and partly to settle amounts owing to creditors by Technical.

### 6. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

	<b>Share Capital \$</b>	<b>Share Premium Account \$</b>	<b>Profit &amp; Loss Account \$</b>	<b>Total \$</b>
<b>At 31 March 2003</b>	60,443	7,236,826	(259,200)	7,038,069
Shares issued during the year	3,522	2,527,239	–	2,530,761
Loss for the year			(64,800)	(64,800)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>At 31 March 2004</b>	63,965	9,764,065	(324,000)	9,504,030
Shares issued during the year	982	1,046,227	–	1,047,209
Loss for the year	–	–	(64,800)	(64,800)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>At 31 March 2005</b>	\$ 64,947	\$ 10,810,292	\$ (388,800)	\$ 10,486,439
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

# **CHORUS MOTORS PUBLIC LIMITED COMPANY**

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

### **7. RELATED PARTY TRANSACTIONS**

In addition to related party transactions disclosed elsewhere in these financial statements, during the year ended 31 March 2005, the Company was charged \$ 614,800 (2004 - \$64,800) in fees for administrative services provided by the ultimate Parent Company.

### **8. ULTIMATE PARENT COMPANY**

The ultimate parent company is Borealis Exploration Limited, a company incorporated in Gibraltar whose registered office is at Montagu Pavilion, 8-10 Queensway, Gibraltar.