

# **CHORUS MOTORS**

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## **Chorus Motors plc**

### **2007 Annual Report**

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# CHORUS MOTORS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68312

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## About Chorus Motors plc

Chorus Motors plc has invented and developed improved AC induction motor/drive systems which provide high starting torque for a wide variety of high value patented and proprietary applications. These high-value uses include:

The WheelTug® integrated aircraft motor/drive system, licensed from Chorus Motors plc, will enable commercial aircraft to move around airports without using their jet engines. WheelTug plc is handling the integration, marketing, licensing and certification issues related to implementing this technology. WheelTug plc is currently a +95% owned subsidiary of Chorus Motors plc.

The Chorus® Starter Generator Technology for turbines is another high value product with a large market. We are in discussions with turbine makers regarding licensing this technology. As a starter-generator, the Chorus Starter Generator™ provides advantages over systems currently in use. Our system is lighter and very efficient.

The Chorus® Starter Generator Technology for underground mining is a great high value market with many different product applications. We are working with Magnetek in this market.

Other Chorus® markets are being examined, but the decisions on which markets to pursue will all be customer driven.

Chorus Motors plc is a majority-owned, publicly-traded subsidiary of Borealis Exploration Limited.

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## Chorus Motors Chairman's Letter to Members

20 June 2007

### Fellow Members:

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

### *Development*

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

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

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

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

### *Focus*

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

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

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

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Our staff works on the custom design and the specific software programming for the specific needs of each application, and we have limited bandwidth. Because of this we are focusing on applications with large enough margins to be lucrative. For example, this past year we have spent considerable time on starters and starter-generators for turbines, and we are bidding on jobs for this application.

WheelTug plc is a major asset for your company. Chorus holds 6,709,023 shares of WheelTug, and WheelTug shares are now being sold at US\$20/share and higher. Delta holds warrants for WheelTug shares at \$27, \$36 and \$45 per share. As WheelTug development continues, we expect it will continue to add underlying value to Chorus Motors.

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

Chorus Motors plc

A handwritten signature in black ink, appearing to read 'Rodney T. Cox'.

Rodney T. Cox  
Chairman and Chief Executive Officer

A handwritten signature in black ink, appearing to read 'Isaiah W. Cox'.

Isaiah W. Cox  
President

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## The Chorus Technology

The Chorus machine is made up of three components: the motor, the inverter, and the software. It takes all three, designed to work very closely with each other, in order to make an optimized Chorus system.

1: The Chorus motors can be built by different suppliers, often using standard materials. Chorus machines have patented and proprietary custom windings, and are built to our specifications, but for the most part, they are very close to off-the-shelf equipment, and can be made using industry-standard frames. While we have our preferred suppliers, we are able to license the right to build the motors to potential customer's existing suppliers, reducing the risk to the customer, and making the supply chain easier to integrate.

2: The next component is the inverters, which control how the electricity is delivered to the motors. We have a close relationship with Semikron UK, which designs and builds inverters to meet our requirements. They have an excellent design team, and their components are known worldwide for their ruggedness.

3: The last piece of the puzzle is the Chorus patented and proprietary software which drives and controls the Chorus motors.

In each Chorus application, different technologies and geometries are used. Chorus Motors are most beneficial for applications which require high over-load capabilities and/or high intermittent torque. Chorus' systems scale as needed, although our benefits are most clearly seen above 5hp.

## Management's Discussion and Analysis

We reported revenue of US\$1,553,481 for fiscal 2007 up from US\$1,016,448 for fiscal 2006. This revenue is from sales of shares in a subsidiary, not sale of product. We paid an administrative fee of US\$64,800 and development costs of US\$289,659 to Borealis Technical, which currently provides all our administrative services, and this produced a profit for the year of US\$1,199,022. The retained earnings carried forward were US\$1,761,870 compared to US\$562,848 in 2006. This left our parent company owing Chorus, as a demand debt, US\$13,826,378 compared to US\$12,542,531 in fiscal 2006. The Company is also owed \$123,772 by its subsidiary, WheelTug plc.

We ended the year with total net assets of US\$14,017,240, including our investment in shares of WheelTug plc carried at a nominal value.

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## 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 be unaffected in any substantial manner by other factors not currently foreseeable by management or beyond the Company's control.

All forward-looking statements involve risks and uncertainty. The Company undertakes no obligation to publicly release the result of any revisions to these forward-looking statements that might be made to reflect the events or circumstances after the date hereof, or to reflect the occurrence of unanticipated events; including those described in this report, and such statements shall be deemed in the future to be modified in their entirety by the Company's public pronouncements, including those contained in all future reports and other documents filed by the Company with the relevant Securities Commissions.

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## 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
Wayne S. Marshall	21 Dec 1999	Director
John Klys	21 Dec 1999	Director
Peter Vanderwicken	06 Sept 2000	Director
Nechama J. Cox	01 Aug 2001	Director and Chief Operating Officer
Stuart Harbron	23 July 2002	Director and Chief Patent Officer
Giulio Pontecorvo	28 Aug 2003	Director

### Secretary

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

### Registered Office

Suite 3G, Eurolife Building  
1 Corral Road  
Gibraltar

### Auditors

Moore Stephens  
Suite 5 Watergardens 4  
Waterport  
Gibraltar

# **CHORUS MOTORS**

**PUBLIC LIMITED COMPANY**

Gibraltar Registered No. 68312

## **Financial Statements**

**for the year ended 31 March 2007**

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## DIRECTORS' REPORT

The directors submit their report and the audited financial statements for the year ended 31 March 2007.

### 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). 31 March 2007 CHOMF closed at \$8.00 per share, with the yearly high at \$9.00 per share, and the low at \$2.00 per share.

### Activities

The principal activity of the Company is that of researching, developing, building, and marketing the Chorus® Meshcon™ Technology. Chorus Motors plc owns 6,709,065 shares of WheelTug plc. See [www.wheeltug.gi](http://www.wheeltug.gi).

### Results and Review of Business

The results for the year are shown in the Profit and Loss Account on page 13.

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 until fiscal 2007 were undertaken and funded by Borealis Technical. Since that date, Chorus Motors plc has become a stand alone company and it is currently principally funded through the sale of shares in the subsidiary.

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 one of the first of the Chorus technologies brought to market.

Chorus Motors plc owns 6,709,065 shares of WheelTug plc. During 2007, Chorus Motors sold 132,080 shares of WheelTug for \$ 1,554,800. A current business plan for WheelTug plc is available under NDA.

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. . The Company intends to retain its sublicense rights granted by Technical.

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The Company has been in the development stage until fiscal 2007. 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 2006, the Company lent money raised on its behalf and through the sale of WheelTug plc shares and the sale of product to Technical which is owned by Borealis Exploration Limited, who are also in a development stage. Since that date, Chorus Motors plc is paying its own expenses, though excess funds are being lent to Technical.

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. The Company and Technical are actively working together to negotiate product sales or further sublicensing of its technology to various parties, which are 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, licences, sales of portfolio shares 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.

## Dividends

There were no dividends declared during the year.

## Directors and their Interests

The directors who served during the year were as stated on page 6.

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

	Shares held at 31 March 2007	Shares held at 31 March 2006
Rodney T. Cox	48,165	48,165
Isaiah W. Cox	37,810	37,810
Wayne S. Marshall	29,171	29,171
John Klys	10,000	10,000
Peter Vanderwicken	15,879	10,979
Nechama J. Cox	13,775	13,775
Stuart Harbron	5,610	790
Giulio Pontecorvo	4,169	4,169

## Share Options

As of 31 March 2007, there were no share options outstanding.

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## DIRECTORS' REPORT (Continued)

### 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

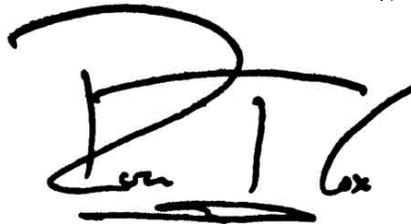
A resolution to reappoint Moore Stephens will be proposed at the Annual General Meeting.

By order of the Board on 20 June 2007



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Isaiah W. Cox  
Director



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Rodney T. Cox  
Director

# CHORUS MOTORS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68312

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## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CHORUS MOTORS PUBLIC LIMITED COMPANY

We have audited the financial statements of Chorus Motors plc for the year ended 31 March 2007 set out on pages 13 to 18. These financial statements have been prepared under the historical cost convention and the accounting policies set out on page 15.

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 are responsible for the preparation of financial statements in accordance with applicable law and Gibraltar Accounting Standards (Gibraltar Generally Accepted Accounting Practice).

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

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

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

### **Basis of opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland). An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the 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 connection with the other information contained in the Annual Report we also draw attention to the content of the Forward-Looking Statement on page 5.

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## AUDITORS' REPORT (Continued)

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 2007, and of the profit for the year then ended in accordance with Gibraltar Accounting Standards and have been properly prepared in accordance with Gibraltar Companies Ordinance 1930, the Gibraltar Companies (Accounts) Ordinance 1999, and the Gibraltar Companies (Consolidated Accounts) Ordinance 1999.



Gibraltar  
20 June 2007

**Moore Stephens**  
CHARTERED ACCOUNTANTS

# CHORUS MOTORS PUBLIC LIMITED COMPANY

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

	Note	2007 \$	2006 \$
<b>Revenue</b>	1	1,553,481	1,016,448
<b>Expenditure</b>			
Development Expense		(289,659)	--
Administrative fees		(64,800)	(64,800)
	7	<u>1,199,022</u>	<u>951,648</u>
<b>Retained profit (loss) for the year</b>		1,199,022	951,648
<b>Retained profit (losses) brought forward</b>		562,848	(388,800)
<b>Retained earnings carried forward</b>		<u>\$ 1,761,870</u>	<u>\$ 562,848</u>

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 15 to 18 form part of these Financial Statements.

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## BALANCE SHEET as at 31 March 2007

	Notes	2007 \$	2006 \$
Investments	2	67,090	68,411
<b>Current Assets</b>			
Debtors	3	13,950,150	12,542,531
<b>Creditors – amounts falling due within one year</b>	4	–	(69,333)
<b>Net Current Assets</b>		<u>13,950,150</u>	<u>12,473,198</u>
<b>Total Net Assets</b>		<u>\$ 14,017,240</u>	<u>\$ 12,541,609</u>
<b>Capital and Reserves</b>			
Called up Share Capital	5,6	66,014	65,728
Share Premium Account	5,6	12,189,356	11,913,033
Profit and Loss account	6	1,761,870	562,848
<b>Total Shareholders' Funds</b>		<u>\$ 14,017,240</u>	<u>\$ 12,541,609</u>

Signed on behalf of the Board of Directors on 20 June 2007



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Isaiah W. Cox  
Director



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Rodney T. Cox  
Director

The notes on pages 15 to 18 form part of these Financial Statements.

# CHORUS MOTORS PUBLIC LIMITED COMPANY

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## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2007

### 1. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Gibraltar Accounting Standards and the Gibraltar Companies Ordinance 1930 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 in the current year represents profit from the sales of Wheeltug plc shares.

**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 8 to 10.

**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.

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

### 2. INTERESTS IN GROUP UNDERTAKING

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

	Ownership Interest		Investments	
	2007	2006	2007	2006
	\$	\$	\$	\$
WheelTug plc	96.77%	98.67%	\$ 67,090	\$ 68,411

### 3. DEBTORS

	2007	2006
	\$	\$
Loan to parent company	13,826,378	12,542,531
Amount due by subsidiary company	123,772	--
	<u>\$ 13,950,150</u>	<u>\$ 12,542,531</u>

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

	2007	2006
	\$	\$
Amounts due to subsidiary undertakings:		
WheelTug plc	\$ --	\$ 69,333

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

### 5. CALLED UP SHARE CAPITAL

			<b>2007</b>	<b>2006</b>
			\$	\$
Authorised share capital 10,000,000 ordinary shares @ \$0.01 each			\$ 100,000	\$ 100,000
			=====	=====
	<b>Number of Shares</b>	<b>Share Capital \$</b>	<b>Share Premium Account \$</b>	<b>Total \$</b>
<b>At 31 March 2005</b>	6,494,769	64,947	10,810,292	10,875,239
Shares issued during the year	79,054	781	1,102,741	1,103,522
	-----	-----	-----	-----
<b>At 31 March 2006</b>	6,573,823	65,728	11,913,033	11,978,761
Shares issued during the year	27,660	286	276,323	276,610
	-----	-----	-----	-----
<b>At 31 March 2007</b>	6,601,483	\$ 66,014	\$ 12,189,356	\$ 12,255,371
	=====	=====	=====	=====

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 2005</b>	64,947	10,810,292	(388,800)	10,486,439
Shares issued during the year	781	1,102,741	-	1,103,522
Profit for the year	-	-	951,648	951,648
	-----	-----	-----	-----
<b>At 31 March 2006</b>	65,728	11,913,033	562,848	12,541,609
Shares issued during the year	286	276,323	-	276,609
Profit for the year	-	-	1,199,022	1,199,022
	-----	-----	-----	-----
<b>At 31 March 2007</b>	\$ 66,014	\$ 12,189,356	\$ 1,761,870	\$ 14,017,240
	=====	=====	=====	=====

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

### 7. RELATED PARTY TRANSACTIONS

In addition to related party transactions disclosed elsewhere in these financial statements, during the year ended 31 March 2007, the Company was charged \$ 64,800 (2006 - \$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 Suite 3G, Eurolife Building, 1 Corral Road, Gibraltar