

PHOTON POWER
PUBLIC LIMITED COMPANY
Financial Statements
for the year ended 31 March 2003

PHOTON POWER PUBLIC LIMITED COMPANY

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PHOTON POWER PUBLIC LIMITED COMPANY

Registered No (Gibraltar) 68278

DIRECTORS AND OFFICERS

Directors

Isaiah W Cox
Rodney T Cox
Wayne S Marshall
Benjamin J Cox (resigned 28th April 2003)
Peter Vanderwicken
Nechama C Cox
Iris O Cox
Joseph J Cox

Secretary

BDO Fidecs Management Limited

Registered Office

Suite 3G, Eurolife Building
1 Corral Road
Gibraltar

Auditors

Moore Stephens
Suite 5 Watergardens 4
Waterport
Gibraltar

PHOTON POWER PUBLIC LIMITED COMPANY

DIRECTORS' REPORT

The directors submit their report and the audited financial statements for the year ended 31 March 2003.

Corporate Profile

The Company was incorporated on 16th March 1999 in Gibraltar.

Activities

The principal activity of the Company is that of researching and developing the "Photon Power" 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 "Photon Power" technology since 1997 for which it has patents issued and pending. All of the research expenditures to date have been undertaken by Technical and funded by Borealis Exploration Limited, the ultimate parent of the Company.

An Intellectual Property Agreement was signed effective 1st January 2000, whereby Technical has granted the Company the exclusive worldwide rights for sublicensing the "Photon Power" 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 "Photon Power" technology is still under development such that the Company has not made any related sublicense sales.

PHOTON POWER PUBLIC LIMITED COMPANY

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 31st March, 2003, the Company has lent money raised on its behalf to Technical and Borealis Exploration Limited, who are also in a development stage and have conditions subject to raising substantial doubt about their ability to continue as a going concern. These conditions also raise substantial doubt 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 "Photon Power" technology is being sold in the marketplace. The Company and Technical are working together to negotiate 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 its own shares. However, there can be no assurance that the Company will be successful in its actions. The financial statements do not contain any adjustments which 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 1.

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

Shares held at 31 March 2003

Isaiah W Cox	100
Rodney T Cox	100
Wayne S Marshall	7,852
Benjamin J Cox	—
Peter Vanderwicken	100
Iris O Cox	—
Nechama C Cox	—
Joseph J Cox	—

Share Options

During the year 2,690 options were exercised. There are now no options outstanding. There are no further plans to issue options in the immediate future.

PHOTON POWER PUBLIC LIMITED COMPANY

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, the Gibraltar Companies (Accounts) Ordinance 1999 and the Gibraltar Companies (Consolidated Accounts) Ordinance 1999. In preparing the financial statements, appropriate accounting policies have been used and applied consistently, reasonable and prudent judgements and estimates have been made, and applicable accounting standards have been followed. The directors are responsible for maintaining adequate accounting records, for safeguarding the assets of the company, and for preventing and detecting fraud and other irregularities.

Auditor

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

By order of the Board



.....
Isaiah W Cox
Director



.....
Rodney T Cox
Director

10 June 2003

PHOTON POWER PUBLIC LIMITED COMPANY

REPORT OF THE AUDITORS

To the members of Photon Power Public Limited Company

We have audited the financial statements on pages 6 to 10 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

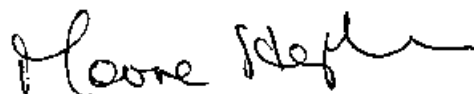
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board in the United Kingdom. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant 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 2 of the financial statements in connection with the application of the going concern basis and the uncertainty with regards to securing continued financial support. 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 31st March 2003 and of the loss for the year then ended in accordance with Gibraltar Accounting Standards and have been properly prepared in accordance with the Gibraltar Ordinance 1930 and the Gibraltar Companies (Accounts) Ordinance 1999.



Moore Stephens
CHARTERED ACCOUNTANTS

Gibraltar
2 June 2003

PHOTON POWER PUBLIC LIMITED COMPANY

PROFIT AND LOSS ACCOUNT **For the year ended 31 March 2003**

	Note	2003 \$	2002 \$
Expenditure			
Administration fees	5	12,000	12,000
		<u> </u>	<u> </u>
Retained loss for the year		(12,000)	(12,000)
		<u> </u>	<u> </u>
Retained losses brought forward		(36,000)	(24,000)
		<u> </u>	<u> </u>
Retained losses carried forward		<u><u>\$ (48,000)</u></u>	<u><u>\$ (36,000)</u></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 8 to 10 form part of these Financial Statements.

PHOTON POWER PUBLIC LIMITED COMPANY

BALANCE SHEET as at 31 March 2003

	Notes	2003 \$	2002 \$
Current Assets			
Debtors	2	69,973	61,260
		<u> </u>	<u> </u>
Total Net Assets		<u>\$ 69,973</u>	<u>\$ 61,260</u>
Capital and Reserves			
Called up Share Capital	3,4	52,118	52,091
Share Premium Account	3,4	65,855	45,169
Profit and Loss account	4	(48,000)	(36,000)
		<u> </u>	<u> </u>
Total Shareholders' Funds		<u>\$ 69,973</u>	<u>\$ 61,260</u>

The notes on pages 8 to 10 form part of these Financial Statements.

PHOTON POWER PUBLIC LIMITED COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

1 Principal accounting policies

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

a. Basis of accounting

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

b. Reporting currency

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

c. 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.

d. 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.

e. 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.

f. Taxation

The company and its subsidiaries have been granted exempt status under the Gibraltar Companies (Taxation and Concessions) Ordinance. Providing the company continues to satisfy the criteria for such status, including the payment of an annual government charge of £225 it will not be subject to Gibraltar Corporation Tax for a period of twenty-five years from 24 August 1999, the date on which it was granted such status. There is proposed legislation now pending approval that may change the tax status of the company in the foreseeable future, although it appears likely that a low or zero rate of taxation will apply under the proposed new structure

PHOTON POWER PUBLIC LIMITED COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

2. DEBTORS

	2003 \$	2002 \$
Loan to related party	\$ 69,973	\$ 61,260

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

3. CALLED UP SHARE CAPITAL

	2003 \$	2002 \$
Authorised share capital 10,000,000 ordinary shares @ \$0.01 each	\$ 100,000	\$ 100,000

	Number of Shares	Share Capital \$	Share Premium Account \$	Total \$
At 31 March 2000	5,207,800	52,078	38,922	91,000
Shares issued during the year	1,252	13	6,247	6,260
At 31 March 2001	5,209,052	52,091	45,169	97,260
Shares issued during the year	–	–	–	–
At 31 March 2002	5,209,052	\$ 52,091	\$ 45,169	\$ 97,260
Shares issued during the year	2,690	27	20,686	20,713
At 31 March 2003	5,211,742	\$ 52,118	\$ 65,855	\$ 117,973

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

PHOTON POWER PUBLIC LIMITED COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

4. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

	Share Capital \$	Share Premium Account \$	Profit & Loss Account \$	Total \$
At 31 March 1999	52,000	–	–	52,000
Shares issued during the year	78	38,922	–	39,000
Loss for the year	–	–	(12,000)	(12,000)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2000	52,078	38,922	(12,000)	79,000
Shares issued during the year	13	6,247	–	6,260
Loss for the year	–	–	(12,000)	(12,000)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2001	52,091	45,169	(24,000)	73,260
Share issued during the year	–	–	–	–
Loss for the year	–	–	(12,000)	(12,000)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2002	52,091	45,169	(36,000)	61,260
Share issued during the year	27	20,686	–	20,713
Loss for the year	--	--	(12,000)	(12,000)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2003	<u>\$ 52,118</u>	<u>\$ 65,855</u>	<u>\$ (48,000)</u>	<u>\$ 69,973</u>

5. RELATED PARTY TRANSACTIONS

In addition to related party transactions disclosed elsewhere in these financial statements, during the year ended 31 March 2003, the Company was charged \$12,000 (2002 - \$12,000) in fees for administrative services provided by Technical.

6. ULTIMATE PARENT COMPANY

The ultimate parent company is Borealis Exploration Limited, a company incorporated in Gibraltar whose registered office is at Suite 3G, Eurolife Building, 1 Corral Road, Gibraltar.