

PHOTON POWER

PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68278

Financial Statements

for the year ended 31 March 2005

PHOTON POWER PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68278

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PHOTON POWER PUBLIC LIMITED COMPANY

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DIRECTORS AND OFFICERS

Directors

Appointed

Rodney T. Cox	23 Mar 2000	Director, Chairman of the Board, and Chief Executive Officer
Isaiah W. Cox	23 Mar 2000	Director, President, and Chief Operating Officer
Wayne S. Marshall	23 Mar 2000	Director
Peter Vanderwicken	06 Sept 2000	Director
Iris Oren Cox	24 July 2001	(resigned 15 September 2004)
Nechama J. Cox	01 Aug 2001	Director

Secretary

Fidecs Management Limited

Registered Office

Montagu Pavilion
8-10 Queensway
Gibraltar

Auditors

Moore Stephens
Suite 5 Watergardens 4
Waterport
Gibraltar

PHOTON POWER PUBLIC LIMITED COMPANY

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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 16 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 5.

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 1 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.

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 "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 that might be necessary if the Company is unable to continue as a going concern.

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DIRECTORS' REPORT (Continued)

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 2005	Shares held at 31 March 2004
Rodney T. Cox	100	100
Isaiah W. Cox	100	100
Wayne S. Marshall	7,852	7,852
Peter Vanderwicken	100	100
Iris Oren Cox (resigned 15 September 2004)	–	–
Nechama J. Cox	–	–

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

PHOTON POWER PUBLIC LIMITED COMPANY

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REPORT OF THE AUDITORS

To the members of Photon Power Public Limited Company

We have audited the financial statements on pages 5 to 9, which have been prepared under the historical cost convention and the accounting policies set out on page 7.

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.



Gibraltar
3 June 2005

Moore Stephens
CHARTERED ACCOUNTANTS

PHOTON POWER PUBLIC LIMITED COMPANY

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PROFIT AND LOSS ACCOUNT for the year ended 31 March 2005

	Notes	2005 \$	2004 \$
Expenditure			
Administrative fees	5	6,000	12,000
Retained loss for the year		<u>(6,000)</u>	<u>(12,000)</u>
Retained losses brought forward		(60,000)	(48,000)
Retained losses carried forward		<u>\$ (66,000)</u>	<u>\$ (60,000)</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 7 to 9 form part of these Financial Statements.

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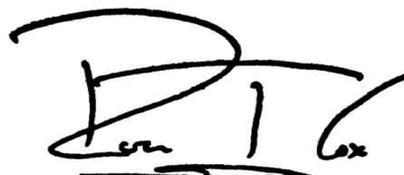
BALANCE SHEET as at 31 March 2005

	Notes	2005 \$	2004 \$
Current Assets			
Debtors	2	51,973	57,973
Total Net Assets		<u>\$ 51,973</u>	<u>\$ 57,973</u>
Capital and Reserves			
Called up Share Capital	3,4	52,118	52,118
Share Premium Account	3,4	65,855	65,855
Profit and Loss Account	4	(66,000)	(60,000)
Total Shareholders' Funds		<u>\$ 51,973</u>	<u>\$ 57,973</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 7 to 9 form part of these Financial Statements.

PHOTON POWER PUBLIC LIMITED COMPANY

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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. 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 3.

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 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.

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

2. DEBTORS

	2005 \$	2004 \$
Loan to parent company	\$ 51,973	\$ 57,973

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

	2005 \$	2004 \$
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 31March 2003	5,211,742	52,118	65,855	117,973
Shares issued during the year	—	—	—	—
At 31March 2004	5,211,742	52,118	65,855	\$ 117,973
Shares issued during the year	—	—	—	—
At 31 March 2005	5,211,742	\$ 52,118	\$ 65,855	\$ 117,973

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

4. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

	Share Capital \$	Share Premium Account \$	Profit & Loss Account \$	Total \$
At 31 March 2003	52,118	65,855	(48,000)	69,973
Share issued during the year	—	—	—	—
Loss for the year	—	—	(12,000)	(12,000)
At 31 March 2004	52,118	65,855	\$ (60,000)	\$57,973
Shares issued during the year	—	—	—	—
Loss for the year	—	—	(6,000)	(6,000)
At 31 March 2005	<u>\$ 52,118</u>	<u>\$ 65,855</u>	<u>\$ (66,000)</u>	<u>\$ 51,973</u>

5. 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 \$6,000 (2004 - \$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 Montagu Pavilion, 8-10 Queensway, Gibraltar.