

PHOTON POWER

Photon Power plc

2006 Annual Report



PHOTON POWER PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68278

About Photon Power plc

Photon Power plc was founded to develop and commercialize non-thermal solar power generation technologies developed by Borealis Technical Limited (Borealis) or any of its subsidiaries.

Photon Power plc is a majority-owned subsidiary of Borealis Exploration Limited (BOREF OTC-US).

Contents

Chairman's Letter to Members	2
Directors and Officers	4
Directors' Report	5
Auditors' Report	9
Financial Statements and Notes	11

PHOTON POWER PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68278

Chairman's Letter to Members

14 June 2006

Fellow Members:

It has been a year of watching and waiting for your company. As you know, Photon Power holds the rights to any non-thermal solar power technologies developed by Borealis Technical Limited (Borealis) or any of its subsidiaries. More concretely, this means that as soon as a member of the Borealis Family of Companies have completed the development pieces which are crucial for the success of Photon Power, then this business has a chance to start to make and sell product.

Electric power is at a premium now, with no obvious respite in sight. Though the reasons for this are numerous and complex, the core reality is that there is a rich reward for any technology which can make electricity from a renewable resource such as the sun, and do it economically. Photon Power holds the rights to a number of Borealis' patents to do just that; convert photonic energy from the sun into electrical energy.

The ultimate success of Photon Power's technology seems to depend upon the degree of technological success reached in the Avto Metals development effort. If and when Avto Metals can make very low work function materials, then they can be applied to low-cost and efficient solar panels by Photon Power, and sold in respective marketplaces. We stress that with this success, Photon Power should be able to compete with any traditional power generating technology, and not to rely on government subsidies or affiliated "green" pricing which currently is used to artificially help photovoltaics gain a foothold in the market. With optimized Avto Metals, Photon Power should be able to go toe-to-toe with any fossil fuel power generation source, and make a healthy profit.

It should be noted that there are many ways to convert solar energy into electrical energy, including through a thermal medium such as hot water collectors. Photon Power's rights to Borealis' technology is for direct solar conversion only, and does not include the rights to conversion of thermal energy into electricity. Those rights belong to our sister company, Power Chips plc. It is expected that Power Chips will be developed before Photon Power modules are made, but if Avto Metals are able to achieve very high reductions in work functions then Photon Power will ultimately be more competitive in the energy marketplace.

Your company is eagerly anticipating the optimization of Avto Metals, with high hopes that its photoelectric patents and ideas are able to come to market and unlock the key to Photon Power's success.

Photon Power plc



Rodney T. Cox
Chairman and Chief Executive Officer



Isaiah W. Cox
President and Chief Operating Office

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Management's Discussion and Analysis of 2006 Results

Photon Power plc lost \$6,000 last year, the same as in 2005. Our cumulative loss carry forward is now \$72,000 compared to \$66,000 in 2005.

Our parent company, Borealis Technical Limited, owes us \$173,636 compared to \$51,973 in the previous year.

All of our bills are paid by Borealis Technical Limited and we have no debt or no accounts payable.

When your company is cash flow positive and able to stand alone, we will not be so reliant on our majority shareholder for absorbing most of the development costs and operating funding.

The potential market for solar power generation is just simply huge. When we get our production right, we expect to be the dominant force in the world solar power market.

Investor Information

Extensive information for investors can be found on our Website at www.photonpower.gi. Our annual and quarterly reports are posted there, as well as full information about the Company and our technologies.

If you have a question about Photon Power, please write to us at pr@photonpower.gi.

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.

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Gibraltar Registered No. 68278

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
Nechama J. Cox	01 Aug 2001	Director

Secretary

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

Gibraltar Registered No. 68278

DIRECTORS' REPORT

The directors submit their report and the audited financial statements for the year ended 31 March 2006.

Corporate Profile

The Company was incorporated on 16 March 1999 in Gibraltar. The Company trading symbol is PHPWF though the company shares have never traded in the market.

Photon Power plc is a member of the Borealis Family of Companies and is an indirect majority-owned subsidiary of Borealis Exploration Limited. Borealis Technical Limited (which is a 98% owned subsidiary of Borealis Exploration Limited) owns and controls 5,202,690 shares, which is 99.59% of the outstanding shares.

Like our parent and many Family companies, Photon Power plc is incorporated 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 11.

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. We have real interest in Photon Power as the price of hydrocarbons continues to increase. We are working on getting satisfactory terms for developing Photon Power which should be competitive using Avto Metals™ Technology for the custom design of eV. No transactions have been completed to date, though discussions are under way. 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 2006, 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 or the sale of rights to use the technology in specific geographic areas.. 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.

PHOTON POWER PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68278

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 4.

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

	Shares held at 31 March 2006	Shares held at 31 March 2005
Rodney T. Cox	100	100
Isaiah W. Cox	100	100
Wayne S. Marshall	7,852	7,852
Peter Vanderwicken	100	100
Nechama J. Cox	100	100

Share Options

The Company authorized up to 659,000 share options on 22 July 2005. These options can be granted by the directors prior to the options expiration date on 22 July 2010. The exercise price of these options is \$10.00 per share. The options are for a five-year term, and are subject to terms and conditions on the part of the option holder. For the year ended 31 March 2006, 519,000 options were 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.

PHOTON POWER PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68278

DIRECTORS' REPORT (Continued)

Auditor

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

By order of the Board on 14 June 2006



Isaiah W. Cox
Director



Rodney T. Cox
Director

PHOTON POWER PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68278

**PHOTON POWER
PUBLIC LIMITED COMPANY**

Gibraltar Registered No. 68278

Financial Statements

for the year ended 31 March 2006

PHOTON POWER PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68278

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PHOTON POWER PUBLIC LIMITED COMPANY

We have audited the financial statements of Photon Power plc for the year ended 31 March 2006 set out on pages 11 to 15. These financial statements have been prepared under the historical cost convention and the accounting policies set out on page 13.

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 3.

PHOTON POWER PUBLIC LIMITED COMPANY

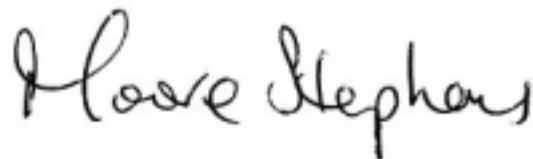
Gibraltar Registered No. 68278

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 2006, 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, the Gibraltar Companies (Accounts) Ordinance 1999, and the Gibraltar Companies (Consolidated Accounts) Ordinance 1999.



Gibraltar
14 June 2006

Moore Stephens
CHARTERED ACCOUNTANTS

PHOTON POWER PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68278

PROFIT AND LOSS ACCOUNT for the year ended 31 March 2006

	Notes	2006	2005
		\$	\$
Expenditure			
Administrative fees	5	6,000	6,000
Retained loss for the year		(6,000)	(6,000)
Retained losses brought forward		(66,000)	(60,000)
Retained losses carried forward	\$	<u>(72,000)</u>	<u>\$ (66,000)</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 13 to 15 form part of these Financial Statements.

PHOTON POWER PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68278

BALANCE SHEET as at 31 March 2006

	Notes	2006 \$	2005 \$
Current Assets			
Debtors	2	173,636	51,973
<hr/>			
Total Net Assets		\$ 173,636	\$ 51,973
		<hr/>	<hr/>
Capital and Reserves			
Called up Share Capital	3,4	52,243	52,118
Share Premium Account	3,4	193,393	65,855
Profit and Loss Account	4	(72,000)	(66,000)
Total Shareholders' Funds		\$ 173,636	\$ 51,973
		<hr/>	<hr/>

Signed on behalf of the Board of Directors on 14 June 2006



Isaiah W. Cox
Director



Rodney T. Cox
Director

The notes on pages 13 to 15 form part of these Financial Statements.

PHOTON POWER PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68278

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2006

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 5 to 7.

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 £450 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.

PHOTON POWER PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68278

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2006 (Continued)

2. DEBTORS

	2006 \$	2005 \$
Loan to parent company	\$ 173,636	\$ 51,973
	<hr/>	<hr/>

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

	2006 \$	2005 \$		
	Number of Shares	Share Capital \$	Share Premium Account \$	Total \$
Authorised share capital 10,000,000 ordinary shares @ \$0.01 each		<hr/>	<hr/>	<hr/>
At 31 March 2004	5,211,742	52,118	65,855	117,973
Shares issued during the year	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2005	5,211,742	52,118	65,855	117,973
Shares issued during the year	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2006	5,224,242	\$ 52,243	\$ 193,393	\$ 245,663
	<hr/>	<hr/>	<hr/>	<hr/>

PHOTON POWER PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68278

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2006 (Continued)

4. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

	Share Capital \$	Share Premium Account \$	Profit & Loss Account \$	Total \$
At 31 March 2004	52,118	65,855	(60,000)	57,973
Share issued during the year	—	—	—	—
Loss for the year	—	—	(6,000)	(6,000)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2005	52,118	65,855	\$ (66,000)	\$51,973
Shares issued during the year	152	127,538	—	127,960
Loss for the year	—	—	(6,000)	(6,000)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2006	\$ 52,270	\$ 193,393	\$ (72,000)	\$ 173,663
	<hr/>	<hr/>	<hr/>	<hr/>

5. RELATED PARTY TRANSACTIONS

In addition to related party transactions disclosed elsewhere in these financial statements, during the year ended 31 March 2006, the Company was charged \$6,000 (2005 - \$6,000) 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.