

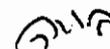
Photon Power

PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68278

Financial Statements

for the year ended 31 March 2012

**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). A market has not developed for the Company's shares that have a symbol of PHPWF.

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.

Contents

Directors and Officers	2
Directors' Report	3
Auditors' Report	6
Financial Statements and Notes	8

PHOTON POWER PUBLIC LIMITED COMPANY

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

STM Fidecs Management Limited
Montagu Pavilion
8-10 Queensway
P.O. Box 575
Gibraltar

Registered Office

Suite 2F/2, Eurolife Building
1 Corral Road
P.O. Box 575
Gibraltar

Auditors

Moore Stephens Limited
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 2012.

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 8.

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 seen interest in Photon Power given the high price of hydrocarbons. 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, electron volt. 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, though the company is paying a management fee to its parent of US\$280,000 per year which last year covered all the expenditures on behalf of Photon Power plc.

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 2011, the Company has lent money raised on its behalf to Technical and Borealis Exploration Limited. The general bad business climate worldwide raises certain doubts about the ability of the Company to continue as a going concern. Management of the Company has been told that its parent company, Borealis Technical, has no intention to demand repayment of the amounts owing from Photon Power to Borealis 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.

PHOTON POWER PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68278

DIRECTORS' REPORT (Continued)

To the extent that 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 or any other financing structure that does not harm the interests of current shareholders. However, there can be no assurance that the Company or its parent will be successful in these 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 2.

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

	Shares held at 31 March 2012	Shares held at 31 March 2011
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 was \$10.00 per share. The options were for a five-year term, and are subject to terms and conditions on the part of the option holder. At 31 March 2012, there were no options outstanding.

Directors' Responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year which meet the requirements of the Gibraltar Companies (Accounts) Act 1999 and Gibraltar Companies Act 1930. In addition the Directors have elected to prepare the financial statements in accordance with Gibraltar Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and the profit or loss of the company for that period.

PHOTON POWER PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68278

DIRECTORS' REPORT (Continued)

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable Gibraltar Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Gibraltar Companies (Accounts) Act 1999 and Gibraltar Companies Act 1930. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor

A resolution to reappoint Moore Stephens Limited was passed at the Annual General Meeting.

By order of the Board on 26 June 2012

Photon Power PLC

Wayne S. Marshall

Wayne S. Marshall
Director

Photon Power PLC
Rodney T. Cox
Director

**Independent auditors' report to the shareholders of
Photon Power Public Limited Company**

We have audited the financial statements of Photon Power plc for the year ended 31 March 2012 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 182 of the Gibraltar Companies Act. 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.

Directors' responsibilities for the financial statements

The directors are responsible for the preparation and true and fair representation of these financial statements in accordance with applicable law and Gibraltar Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In forming our opinion, we considered the disclosures in Note 1 of the Financial Statements in connection with the application of the going concern basis and the uncertainty with regard to securing continued financial support.

PHOTON POWER PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68278

AUDITORS' REPORT (Continued)

Opinion

In our opinion the financial statements give a true and fair view, in accordance with Gibraltar Generally Accepted Accounting Standards, of the state of the company's affairs as at 31 March 2012 and of its loss for the year then ended.

Report on other legal and regulatory matters

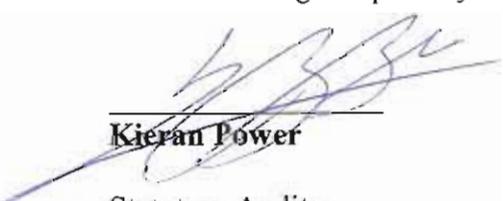
In addition to reporting on the financial statements, Gibraltar legal and regulatory requirements also require us to:

- a) Report to you our opinion as to whether the financial statements have been properly prepared in accordance with the Gibraltar Companies Act 1930, the Gibraltar Companies (Accounts) Act 1999 and other applicable legislation.
- b) State in our report whether in our opinion the information given in the directors' report is consistent with the financial statements.
- c) Report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

Opinion

In our opinion the financial statements have been properly prepared in accordance with the Gibraltar Companies Act 1930, the Gibraltar Companies (Accounts) Act 1999 and other applicable legislation; and the information given in the directors' report is consistent with the financial statements.

We have nothing to report to you in respect of our responsibility set out in (c) above.



Kieran Power

Statutory Auditor
For and on behalf of
MOORE STEPHENS LIMITED

Suite 5
Watergardens 4
Waterport
Gibraltar

26 June 2012

PHOTON POWER PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68278

PROFIT AND LOSS ACCOUNT for the year ended 31 March 2012

	Notes	2012 \$	2011 \$
Expenditure			
Administrative fees	5	<u>(165,000)</u>	<u>(280,000)</u>
Loss for the year		<u><u>\$(165,000)</u></u>	<u><u>\$(280,000)</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 10 to 12 form part of these Financial Statements.

PHOTON POWER PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68278

BALANCE SHEET as at 31 March 2012

	Notes	2012 \$	2011 \$
Current Liabilities			
Creditors	2	<u>(1,117,337)</u>	<u>(952,337)</u>
Total Net Liabilities		<u><u>\$(1,117,337)</u></u>	<u><u>\$(952,337)</u></u>
Capital and Reserves			
Called up Share Capital	3,4	52,270	52,270
Share Premium Account	3,4	193,393	193,393
Accumulated Loss	4	<u>(1,363,000)</u>	<u>(1,198,000)</u>
Total Shareholders' Funds		<u><u>\$(1,117,337)</u></u>	<u><u>\$(952,337)</u></u>

Signed on behalf of the Board of Directors on 26 June 2012

Photon Power PLC

Wayne S. Marshall

~~Isiah W. Cox~~ *Wayne S. Marshall*
Director

Photon Power plc
[Signature]
Rodney T. Cox
Director

The notes on pages 10 to 12 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 2012

1. PRINCIPAL ACCOUNTING POLICIES

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

a. Basis of accounting

The financial statements are prepared under the historical cost convention and applying the Accounting Policies set out.

b. Revenue

At present the Company is engaged in development of products which have not yet reached the point of generation revenue. Once revenue commences, it will be accounted for on the basis of the accounting period in which the work was carried out or invoiced.

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. 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 3 to 5.

f. Cash Flow Statements

The Company meets the size criteria for a small company set by the Gibraltar (Companies Accounts) Act 1999, and therefore, in accordance with the Gibraltar Financial Reporting Standard: Cash Flow Statements, it has not prepared a cash flow statement.

g. Taxation

The company is subject to the Gibraltar Tax Act 2010 which requires companies with businesses managed and controlled in Gibraltar, to pay 10% Gibraltar Corporation Tax on profits to the extent that these have accrued in or derived from Gibraltar.

PHOTON POWER PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68278

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2012 (Continued)

2. CREDITORS

Loan from parent company	<u>\$1,117,337</u>	<u>\$(952,337)</u>
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Amounts due to the Company's parent company are non-interest bearing, unsecured, and with no fixed terms of repayment

3. CALLED UP SHARE CAPITAL

	2012 \$	2011 \$
Authorised share capital 10,000,000 ordinary shares @ \$0.01 each	<u>\$100,000</u>	<u>\$100,000</u>

	Number of Shares	Share Capital \$	Share Premium Account \$	Total \$
At 31 March 2010	5,224,242	52,270	193,393	245,663
Shares issued during the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 March 2011	5,224,242	52,270	193,393	245,663
Shares issued during the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 March 2012	<u>5,224,242</u>	<u>\$52,270</u>	<u>\$193,393</u>	<u>\$245,663</u>

PHOTON POWER PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68278

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2012 (Continued)

4 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

	Share \$	Account \$	Account \$	Total \$
At 31 March 2010	52,270	193,393	(918,000)	(672,337)
Shares issued during the year	-	-	-	-
Loss for the year	-	-	(280,000)	(280,000)
At 31 March 2011	52,270	193,393	(1,198,000)	(952,337)
Shares issued during the year	-	-	-	-
Loss for the year	-	-	(165,000)	(165,000)
At 31 March 2012	<u>\$52,270</u>	<u>\$193,393</u>	<u>\$(1,363,000)</u>	<u>\$(1,117,337)</u>

5. RELATED PARTY TRANSACTIONS

In addition to related party transactions disclosed elsewhere in these financial statements, during the year ended 31 March 2012, the Company was charged \$165,000 (2011 - \$280,000) 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 2F/2, Eurolife Building, 1 Corral Road, P.O. Box 575, Gibraltar.