

Photon Power

PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68278

Financial Statements

for the year ended 31 March 2014

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
Auditor's Report	6
Profit and Loss Account	8
Balance Sheet	9
Notes to the Financial Statements	10 - 12

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

Mark Radom,
Suite 2
Nachal Maor 1
Ramat Bet Shemesh
Israel 99623

Registered Office

Suite 1
43 Main Street
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 2014.

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 shared in the overhead expenditure of its parent and was charged US\$177,694 (2013 US\$164,804) 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 Gibraltar Accounting Standards 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. (2013 – Nil)

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 2014	Shares held at 31 March 2013
Rodney T. Cox	100	100
Isaiah W. Cox	100	100
Wayne S. Marshall	7,852	7,852
Peter Vanderwicken	100	100

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:

Signed

Wayne S. Marshall
Director

Signed

Rodney T. Cox
Director

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

Report on the financial statements

We have audited the financial statements of Photon Power plc for the year ended 31st March 2014 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, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 182 of the Companies Act and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Directors' responsibilities for the financial statements

The directors are responsible for the preparation and true and fair presentation of these financial statements in accordance with applicable law in Gibraltar and Gibraltar Accounting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation 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.

Auditors' 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 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 auditors' judgement, 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.

PHOTON POWER PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68278

Independent auditors' report to the members of Photon Power Limited Company - continued

Opinion

In our opinion, the financial statements:

- give a true and fair view, in accordance with Gibraltar Generally Accepted Accounting Practice of the state of the company's affairs as at 31st March 2014 and of the company's loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act and the Companies (Accounts) Act 1999.

Emphasis of matter

Without modifying our opinion, we draw attention to note 1 in the financial statements which highlights the existence of a material uncertainty relating to conditions that may cast doubt about the company's ability to continue as a going concern.

Opinion on other matter prescribed by the Companies Act

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act requires us to report to you if, in our opinion:

- the company has not kept proper accounting records; or
- if information specified by law regarding directors' remuneration and other transactions is not disclosed; or
- we have not received all the information and explanations we require for our audit.

Kieran Power
Statutory Auditor
For and on behalf of
Moore Stephens Limited

Suite 5
Watergardens 4
Gibraltar

Date:

PHOTON POWER PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68278

PROFIT AND LOSS ACCOUNT for the year ended 31 March 2014

	Notes	2014 \$	2013 \$
Expenditure			
Administrative fees	5	<u>(177,694)</u>	<u>(164,804)</u>
Loss for the year		<u><u>\$(177,694)</u></u>	<u><u>\$(164,804)</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 2014

	Notes	2014 \$	2013 \$
Current Liabilities			
Creditors	2	<u>(1,484,837)</u>	<u>(1,307,143)</u>
Total Net Liabilities		<u><u>\$(1,484,837)</u></u>	<u><u>\$(1,307,143)</u></u>
Capital and Reserves			
Called up Share Capital	3,4	52,242	52,242
Share Premium Account	3,4	168,419	168,419
Accumulated Loss	4	<u>(1,705,498)</u>	<u>(1,527,804)</u>
Total Shareholders' Funds		<u><u>\$(1,484,837)</u></u>	<u><u>\$(1,307,143)</u></u>

Signed on behalf of the Board of Directors on:

Wayne S. Marshall
Director

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 2014

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 generating revenue. Once trading commences, revenue will be recognised.

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

In order to meet future expenditures and cover administrative costs, the Company may need to raise additional financing. Although the Company has been successful in raising funds to date, there can be no assurance that adequate funding will be available in the future, or available under terms favourable to the Company. These financial statements have been prepared on a going concern basis that assumes the Company will be able to realise its assets and discharge its liabilities in the normal course of business. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. 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 2014 (Continued)

2. CREDITORS

	2014 \$	2013 \$
Loan from parent company	<u>\$(1,484,837)</u>	<u>\$(1,307,143)</u>

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

	2014 \$	2013 \$
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 2012	5,224,242	52,242	168,419	220,661
Shares issued during the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 March 2013	5,224,242	52,242	168,419	220,661
Shares issued during the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 March 2014	<u>5,224,242</u>	<u>\$52,242</u>	<u>\$168,419</u>	<u>\$220,661</u>

PHOTON POWER PUBLIC LIMITED COMPANY

Gibraltar Registered No. 68278

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2013 (Continued)

4 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

	Share \$	Share Premium Account \$	Profit & Loss Account \$	Total \$
At 31 March 2012	52,242	168,419	(1,363,000)	(1,142,339)
Shares issued during the year	-	-	-	-
Loss for the year	-	-	(164,804)	(164,804)
At 31 March 2013	52,242	168,419	(1,527,804)	(1,307,143)
Shares issued during the year	-	-	-	-
Loss for the year	-	-	(177,694)	(177,694)
At 31 March 2014	<u>\$52,242</u>	<u>\$168,419</u>	<u>\$(1,705,498)</u>	<u>\$(1,484,837)</u>

5. RELATED PARTY TRANSACTIONS

In addition to related party transactions disclosed elsewhere in these financial statements, during the year ended 31 March 2014, the Company was charged \$177,694 (2013 - \$164,804) in fees for administrative services provided by Borealis Technical Limited.

6. CONTROLLING PARTY

The ultimate controlling party is Borealis Exploration Limited, a company incorporated in Gibraltar whose registered office is Suite 1, 43 Main Street, Gibraltar.

The immediate controlling party is Borealis Technical, a majority owned company by Borealis Exploration Limited.