

AVTO METALS

PUBLIC LIMITED COMPANY

Gibraltar Registered No. 92964

Annual Report

for the year ended 30 September 2017

About Avto Metals plc

Avto Metals plc (“the Company”) is developing and intends to licence applications for Avto Metals™, which were discovered by our scientists. Avto Metals are a new class of materials that can be custom-designed to achieve desired electrical or physical properties. They use a new method of changing the distribution of electrons within a material, thus making possible for the first time precise changes to various electrical properties of that material.

Avto Metals are a result of the discovery of a new quantum interference effect, which we call the Avto Effect. The Avto Effect will enable the transformation of existing materials into materials with precisely-defined properties for almost any electronic application. These new materials will give scientists, engineers, and product designers a previously unavailable range of options in creating new technologies and products. In effect, Avto Metals form entirely new materials with customised electrical properties.

Avto Metals has been funded to date by from within the Borealis Family of Companies.

Avto Metals plc is a majority-owned subsidiary of Borealis Technical Limited, which in turn is a majority-owned subsidiary of Borealis Exploration Limited (PRG: BOREY; OTC: BOREF).

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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AVTO METALS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 92964

DIRECTORS AND OFFICERS

Director

Appointed

Rodney T. Cox PhD	6 October 2004	Director, Chairman of the Board and Chief Executive Officer
Isaiah W. Cox	6 October 2004	Director, President and Chief Operating Officer
Wayne S. Marshall PhD	6 October 2004	Director
Peter Vanderwicken	6 October 2004	Director
Ing. Jan Váňa	16 February 2016	Director

Secretary

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

Registered Office

Suite 1,
43 Main Street,
GX11 1AA
Gibraltar

Auditors

Moore Stephens Limited
Suite 5 Watergardens 4
Waterport
GX11 1AA
Gibraltar

AVTO METALS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 92964

DIRECTORS' REPORT

The directors submit their report and the audited financial statements for the year ended 30 September 2017.

All references to year 2017 refer to the 12 months ended 30 September 2017. Comparatives shown in these financial statements are for the 18-month fiscal year ended 30 September 2016 and may therefore not be entirely comparable.

Corporate Profile

The Company was incorporated on 6 October 2004 in Gibraltar.

Activities

The principal activity of the Company is researching and developing the Avto Metals™ Technology. The Avto Metals Technology enables the reduction and custom design of the electronic properties of materials, especially the electron-volt work function. Avto Metals owns the rights to all applications of this technology except thermal management (cooling) and power generation. The applications of Avto Metals are ubiquitous throughout much of science, and applications will range from military applications to industrial and consumer applications.

Results and Review of Business

The results for the year ended 30 September 2017 are shown on page 9. The directors do not recommend the payment of a dividend (2016: nil) and consequently the loss for the financial year has been added to the accumulated loss.

Since 1997, the parent company Borealis Technical Limited, ("Technical") has been performing basic industrial research on its Avto Metals technology. There are multiple patents issued and pending. All past research expenditure was undertaken by Technical, funded and charged to the Company by Borealis Exploration Limited, the ultimate parent of the Company.

An Intellectual Property Agreement was signed effective 6 October 2004, whereby Technical has granted the Company the exclusive worldwide rights for sublicensing the Avto Metals 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 sub-licence income. Since its formation the Company has been in the development stage. The Company intends to retain its sub-licence rights granted by Technical. At present the Avto Metals technology is still under development, such that the Company has not earned any related sub-licence income.

AVTO METALS PUBLIC LIMITED COMPANY

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DIRECTORS' REPORT (Continued)

We are working towards completing development of a commercial product. Development work in year 2017 focused on building and testing of successive samples to reduce electron-volt work function and enable construction of commercially useful prototypes. To date, all such tests have confirmed that the scientific theory underlying Avto Metals is sound, that the technology does in fact reduce the electron-volt work function of a material, and that commercially-useful devices can be built with currently available technology, at low cost and in large volume. Adequate funding to advance this work, however, remains a major constraint. To the extent additional funds are required, the Company will attempt to raise these funds through future sales of its own shares and through the sale of product or any other financing opportunity that protects the interests of current shareholders. However, there can be no assurance that the Company will be successful in its efforts. The financial statements do not contain any adjustments that might be necessary if the Company is unable to continue as a going concern.

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 lent money raised on its behalf to Technical and to Borealis Exploration Limited, both of which remain in a development stage. Since fiscal 2007 and forward Avto Metals plc has been charged for overheads and for its research and development work. Management of the Company have indicated that there is no intention to demand repayment of the amounts owing from Technical until the Avto Metals technology is being sold in the marketplace. The Company and Technical are working together to negotiate sales and/or further sublicensing of its technology to various parties, which are expected to generate profitable operations in the future.

Dividends

There were no dividends declared during the year (2016: nil).

Directors and their Interests

The directors who served during the period were as stated on page 2.

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

	Shares held at 30 September 2017	Shares held at 30 September 2016
Rodney T. Cox	1	1
Isaiah W. Cox	11,434	11,456
Wayne S. Marshall	26,421	26,468
Peter Vanderwicken	9,986	1
Jan Váňa	1	1

DIRECTORS' REPORT (Continued)

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 Act 2014. 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.

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, and
- 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 Act 2014. 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

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purpose of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

A resolution to reappoint Moore Stephens Limited was passed at the 2016 Annual General Meeting and the Directors are considering a resolution to reappoint Moore Stephens Limited to audit the Company's 2018 financial statements.

By order of the Board on 30 January 2018:

Isaiah W. Cox
Director

Rodney T. Cox
Director

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF AVTO METALS PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Avto Metals plc (the Company), which comprise the balance sheet as at 30 September 2017, and the profit and loss, statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with Gibraltar Financial Reporting Standards; and
- have been prepared in accordance with the Companies Act 2014.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

Without modifying our opinion, we draw attention to note 1(e) in the notes to 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. The company had net liabilities as at 30 September 2017 of \$1,607,370 of which \$6,123,944 represents amounts due to related parties in which there is also the existence of a material uncertainty relating to conditions that may cast doubt about the company's ability to continue as a going concern

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with applicable law in Gibraltar and Gibraltar Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF AVTO METALS PLC

Report on the Audit of the Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF AVTO METALS PLC

Report on Other Legal and Regulatory Requirements

Opinion on other matter prescribed by the Companies Act 2014

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report has been prepared in accordance with the requirements of the Companies Act 2014.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report.

Matters on which we are required to report by exception

We have nothing to report in respect of the matter where the Companies Act 2014 requires us to report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 257 of the Companies Act 2014 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.

.....
Kieran Power
Statutory auditor
For and on behalf of
Moore Stephens Limited
Gibraltar

Date: 30 January 2018

AVTO METALS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 92964

PROFIT AND LOSS ACCOUNT for the year ended 30 September 2017

	Notes	2017 \$	18 months period 2016 \$
Expenditure			
Administrative fees	7	(186,461)	(216,801)
Development expenses	7	<u>(36,908)</u>	<u>(79,251)</u>
Loss for the year/period		(223,369)	(296,052)
Profit on sale of shares in subsidiary under common control		-	10,800
		<u> </u>	<u> </u>
Loss for the year/period		<u><u>\$ (223,369)</u></u>	<u><u>\$ (285,252)</u></u>

The Company has had no discontinued activities during the period; accordingly, the above result for the Company relates solely to continuing activities.

The notes on pages 12-16 form part of these Financial Statements.

AVTO METALS PUBLIC LIMITED COMPANY

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BALANCE SHEET at 30 September 2017

	Notes	2017 \$	2016 \$
Investment in subsidiary under common control	4	<u>4,510,800</u>	<u>4,510,800</u>
Current Assets			
Cash at bank		<u>5,774</u>	<u>906</u>
		-	-
Current Liability			
Accounts payable	5	<u>(6,123,944)</u>	<u>(5,895,707)</u>
Net Current Liability		<u>(6,118,170)</u>	<u>(5,894,801)</u>
Net Liabilities		<u><u>\$ (1,607,370)</u></u>	<u><u>\$ (1,384,001)</u></u>
Capital and Reserves			
Called up share capital	6	53,771	53,771
Share premium account	6	1,223,049	1,223,049
Profit and loss account		(2,884,190)	(2,660,821)
Total Shareholders' Funds		<u><u>\$ (1,607,370)</u></u>	<u><u>\$ (1,384,001)</u></u>

The financial statements have been prepared in accordance with the provisions of the Financial Reporting Standard 102 (effective 1st January 2015).

These financial statements were approved and authorized for issue by the board on 30 January 2018.

Isaiah W. Cox
Director

Rodney T. Cox
Director

The notes on pages 12-16 form part of these Financial Statements.

AVTO METALS PUBLIC LIMITED COMPANY

Gibraltar Registered No. 92964

STATEMENT OF CHANGES IN EQUITY for the year ended 30 September 2017

	Share Capital	Share Premium Account	Profit & Loss Account	Total
	\$	\$	\$	\$
At 31 March 2015	53,771	1,223,049	(2,375,569)	(1,098,749)
Shares issued during the period	-	-	-	-
Loss for the period	-	-	(282,252)	(282,252)
At 30 September 2016	53,771	1,223,049	(2,660,821)	(1,384,001)
Shares issued during the year	-	-	-	-
Loss for the year	-	-	(223,369)	(223,369)
At 30 September 2017	<u>\$ 53,771</u>	<u>\$ 1,223,049</u>	<u>\$ (2,884,190)</u>	<u>\$ (1,607,370)</u>

The notes on pages 12-16 form part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2017

1. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and on a going concern basis. The financial statements have been prepared in accordance with Gibraltar Financial Reporting Standard 102 ("GFRS 102") and the Gibraltar Companies Act 2014.

a. Basis of accounting

These financial statements have been prepared under the historical cost convention applying the Accounting Policies set out below.

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 recognized.

c. Reporting currency

The Company has a presentational currency of US dollars (USD).

The Company has determined that USD is its functional currency, as this is the currency of the economic environment in which the Company predominantly operates.

d. Foreign currency translation

Transactions in currencies other than USD are recorded at the rate of exchange at the date of the transaction. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on exchange are included in profit or loss.

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 3-5.

f. Cash Flow Statements

The company has taken advantage of the exemption available for subsidiaries under GFRS 102, section 1.8, not to present a cash flow statement as these are presented in the consolidated financial statements of the ultimate parent company, Borealis Exploration Limited.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2017 (Continued)

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

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 they accrue in or derive from Gibraltar.

h. Investments

Investments relates to subsidiary undertakings and are stated at cost, less any provision for impairment, where recoverable amount is considered to be less than cost. The recoverable amount is reviewed at each balance sheet date to determine if there are any indicators of impairment. If such indicators exist then the assets recoverable amount is estimated. Impairment losses are recognised in the profit and loss account.

i. Financial assets and liabilities

General

Financial instruments are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at transaction price unless the arrangement constitutes a financing transaction which includes transaction costs for financial instruments not subsequently measured at fair value. Subsequent to initial recognition, they are measured as set out below. A financing transaction is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Classification

Financial instruments are classified as either 'basic' or 'other' in accordance with Chapter 11 of FRS 102.

Subsequent measurement

At the end of each reporting period, debt instruments classified as basic are measured at amortised cost using the effective interest rate method. All financial instruments not classified as basic are measured at fair value at the end of the reporting period, with the resulting changes recognised in profit or loss. Where their fair value cannot be reliably measured, they are recognised at cost less impairment.

Derecognition

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire, or when the Company has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised only once the liability has been extinguished through discharge, cancellation or expiry.

j. Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and balances with banks, and investments in money market instruments which are readily convertible, being those with original maturities of three months or less.

Cash and cash equivalents are measured at fair value, based on the relevant exchange rates at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2017 (Continued)

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

k. Accounts payable

Accounts payable are classified as creditors falling due within one year if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as creditors falling due after more than one year.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing the financial statements, management is required to make estimates and assumptions which affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates, together with past experience and expectations of future events that are believed to be reasonable under the circumstances. Actual results in the future could differ from such estimates.

Administrative services – these represent recharges from ultimate parent company Borealis Exploration Limited. The parent company incurs all administrative expenses and recharges on a quarterly basis between 9 subsidiaries (2016: 9).

3. FINANCIAL RISK MANAGEMENT

The Company has exposure to the following risks from its use of financial instruments:

Liquidity risk

The board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

Liquidity risk management

The Company manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

The Company uses revenues and costs from other activities that are predictable contractually. This assists with monitoring cash flow requirements and optimising treasury strategies.

The Company has not made any significant guarantees of third party or related party actual or potential obligations.

AVTO METALS PUBLIC LIMITED COMPANY

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NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2017 (Continued)

4. INVESTMENTS

	2017 \$	2016 \$
Investment in subsidiary under common control	<u>\$4,510,800</u>	<u>\$4,510,800</u>

5. ACCOUNTS PAYABLE

	2017 \$	2016 \$
Loan from parent company	(1,587,944)	(1,359,707)
Loan from subsidiary under common control	(4,536,000)	(4,536,000)
	<u>\$(6,123,944)</u>	<u>\$(5,895,707)</u>

Amount due to the Company's parent company is non-interest bearing, unsecured, and with no fixed terms of repayment.

6. CALLED UP SHARE CAPITAL

		2017 \$	2016 \$	
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 2015	5,377,115	53,771	1,223,049	1,276,820
Shares issued during the period	-	-	-	-
At 30 September 2016	5,377,115	53,771	1,223,049	1,276,820
Shares issued during the year	-	-	-	-
At 30 September 2017	<u>5,377,115</u>	<u>\$ 53,771</u>	<u>\$1,223,049</u>	<u>\$1,276,820</u>

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 September 2017 (Continued)

7. RELATED PARTY TRANSACTIONS

In addition to related party transactions disclosed elsewhere in these financial statements, during the year ended 30 September 2017, the Company was charged \$186,329 (18 months ended 30 September 2016: \$216,657) in fees for administrative services and development fees provided by Borealis Technical Limited. Amounts due to Borealis Technical Limited, parent Company, as at 30 September 2017 was \$1,587,944 (2016: \$1,359,707).

8. 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 Limited, of which Borealis Exploration Limited is in turn the majority owner.

9. SUBSEQUENT EVENTS

The directors have nothing to report under this section.