

VALDOR FIBER OPTICS INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

(Stated in US Dollars)

(Unaudited)

THE ACCOMPANYING FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005 HAVE NOT BEEN REVIEWED OR AUDITED BY THE CORPORATION'S AUDITORS.

VALDOR FIBER OPTICS INC.
INTERIM CONSOLIDATED BALANCE SHEETS
 March 31, 2006 and December 31, 2005
 (Stated in US Dollars)
 (Unaudited)

<u>ASSETS</u>	March 31, <u>2006</u>	December 31, <u>2005</u>
Current		
Cash	\$ 8,017	\$ 10,879
Accounts receivable	128,840	162,920
Inventories	144,996	151,621
Prepaid expenses – Note 5	<u>26,949</u>	<u>22,302</u>
	308,802	347,722
Equipment	29,974	36,783
Other assets	<u>7,926</u>	<u>7,926</u>
	<u>\$ 346,702</u>	<u>\$ 392,431</u>

LIABILITIES

Current		
Accounts payable and accrued liabilities	\$ 841,858	\$ 813,456
Promissory notes payable – Note 3	2,497,816	2,430,373
Due to related parties – Note 2	117,103	112,062
Advance royalty	25,000	25,000
Current portion of long-term debt	<u>416,318</u>	<u>418,108</u>
	<u>3,898,095</u>	<u>3,798,999</u>

SHAREHOLDERS' DEFICIENCY

Share capital – Note 4	11,111,335	10,993,831
Share subscriptions – Note 4	1,333,450	1,333,450
Contributed surplus – Note 4	368,837	355,938
Deficit	<u>(16,365,015)</u>	<u>(16,089,787)</u>
	<u>(3,551,393)</u>	<u>(3,406,568)</u>
	<u>\$ 346,702</u>	<u>\$ 392,431</u>

SEE ACCOMPANYING NOTES

VALDOR FIBER OPTICS INC.
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
for the three months ended March 31, 2006 and 2005
(Stated in US Dollars)
(Unaudited)

	<u>2006</u>	<u>2005</u>
Revenue	\$ 149,401	\$ 252,163
Direct expenses	<u>112,055</u>	<u>174,337</u>
Gross profit	<u>37,346</u>	<u>77,826</u>
Expenses		
Administration and general – Schedule 1	175,573	130,332
Marketing	13,138	21,953
Interest	69,176	98,109
Research and development	45,617	43,784
Amortization of capital assets and other assets	<u>6,809</u>	<u>21,469</u>
	<u>310,313</u>	<u>315,647</u>
Loss from operations	(272,967)	(237,821)
Other items		
Interest income	-	15
Foreign exchange gain (loss)	<u>(2,261)</u>	<u>17,837</u>
Net loss for the period	<u>\$ (275,228)</u>	<u>\$ (219,969)</u>
Basic and diluted loss per share	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
Weighted average number of shares	<u>53,859,882</u>	<u>42,168,906</u>

SEE ACCOMPANYING NOTES

VALDOR FIBER OPTICS INC.
INTERIM CONSOLIDATED STATEMENTS OF DEFICIT
for the three months ended March 31, 2006 and 2005
(Stated in US Dollars)
(Unaudited)

	<u>2006</u>	<u>2005</u>
Deficit, beginning of the period		
As previously reported	\$(16,217,526)	\$(15,227,780)
Prior period adjustment – Note 7	<u>127,739</u>	<u>-</u>
As restated	(16,089,787)	(15,227,780)
Net loss for the period	<u>(275,228)</u>	<u>(219,969)</u>
Deficit, end of the period	<u>\$(16,365,015)</u>	<u>\$(15,447,749)</u>

SEE ACCOMPANYING NOTES

VALDOR FIBER OPTICS INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
for the three months ended March 31, 2006 and 2005
(Stated in US Dollars)
(Unaudited)

	<u>2006</u>	<u>2005</u>
Operating Activities		
Net loss from operations	\$ (275,228)	\$ (219,969)
Charges to income not affecting cash:		
Amortization of capital assets and other assets	6,809	21,469
Foreign exchange	2,785	(16,474)
Stock-based compensation	<u>14,902</u>	<u>-</u>
	(250,732)	(214,974)
Changes in non-cash working capital balances related to operations:		
Accounts receivable	34,080	(32,981)
Inventories	6,625	7,482
Prepaid expenses and deposits	(4,647)	223
Accounts payable and accrued liabilities	<u>28,402</u>	<u>79,615</u>
	<u>(186,272)</u>	<u>(160,635)</u>
Financing Activities		
Increase in promissory note payable	60,865	77,924
Decrease in due to related parties	5,041	(58,909)
Proceeds from issuance of common shares – Net of share issue cost	117,504	195,031
Share subscription	<u>-</u>	<u>(22,227)</u>
	<u>183,410</u>	<u>191,819</u>
Increase (decrease) in cash during the period	(2,862)	31,184
Cash, beginning of the period	<u>10,879</u>	<u>13,016</u>
Cash, end of the period	<u>\$ 8,017</u>	<u>\$ 44,200</u>
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	<u>\$ -</u>	<u>\$ -</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>

SEE ACCOMPANYING NOTES

VALDOR FIBER OPTICS INC.
INTERIM CONSOLIDATED SCHEDULE OF
ADMINISTRATION AND GENERAL EXPENSES
for the three months ended March 31, 2006 and 2005
(Stated in US Dollars)
(Unaudited)

Schedule 1

	<u>2006</u>	<u>2005</u>
Bad debt	\$ -	\$ 1,088
Computer maintenance	503	458
Consulting fees	15,519	950
Entertainment and travel	3,442	9,390
Legal and accounting fees	22,356	14,671
Licenses and permits	1,454	2,472
Management fees – Note 5	7,797	7,338
Office and miscellaneous – Note 5	12,203	10,040
Rent – Note 5	16,505	17,283
Repairs and maintenance	2,212	1,873
Salaries, wages and benefits – Note 5	66,698	54,580
Stock-based compensation	14,902	-
Stock exchange filing fees	2,279	734
Telephone and utilities	7,911	8,504
Transfer agent fees	<u>1,792</u>	<u>951</u>
	<u>\$ 175,573</u>	<u>\$ 130,332</u>

SEE ACCOMPANYING NOTES

VALDOR FIBER OPTICS INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
 March 31, 2006
 (Stated in US Dollars)
(Unaudited)

Note 1 Interim Reporting

The unaudited interim financial statements have been prepared in accordance with the accounting principles generally accepted in Canada for interim financial information and follow the same accounting policies and methods of their application as the Company's most recent annual financial statements. These interim financial statements do not include all of the disclosure included in the annual financial statements, and accordingly, they should be read in conjunction with the annual financial statements for the year ended December 31, 2005. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements. The results of operations for the interim periods are not necessarily indicative of the results of operations for the entire year.

Note 2 Due to Related Parties

The amounts due to related parties of \$117,103 (December 31, 2005: \$112,062) are comprised of accounts payable and accrued liabilities owing to directors and officers of the Company and a company with a common director.

Note 3 Promissory Notes Payable

	March 31, <u>2006</u>	December 31, <u>2005</u>
a) Promissory notes, bearing interest at 10% per annum, unsecured and due on demand, includes accrued interest payable of \$837,012 (December 31, 2005: \$783,670)	2,187,012	2,133,670
b) Promissory note payable in Euros (E152,449) to a former director of the Company, bearing interest at 10% per annum, unsecured and due on demand, includes accrued interest payable of \$103,323 (December 31, 2005: \$115,744)	<u>310,804</u>	<u>296,703</u>
	<u>\$ 2,497,816</u>	<u>\$ 2,430,373</u>

Valdor Fiber Optics Inc.
Notes to the Interim Consolidated Financial Statements
March 31, 2006
(Stated in US Dollars) – Page 2
(Unaudited – See Notice to Reader)

Note 4 Share Capital

a) Authorized:

100,000,000 common shares without par value
50,000,000 preferred shares, without par value

b) Issued: common shares

	<u>Number</u>	<u>Amount</u>
Balance, beginning of the period	53,026,549	\$ 10,993,831
For cash		
Pursuant to private placement	- at \$0.09 1,500,000	130,560
Share issue costs	<u>-</u>	<u>(13,056)</u>
Balance, end of the period	<u>54,526,549</u>	<u>\$ 11,111,335</u>

c) Commitments:

Stock-Based Compensation Plan

The Company has granted employees and directors common share purchase options. These options are granted with an exercise price equal to the market price of the Company's stock on the date of the grant.

A summary of the status of the stock option plan as of March 31, 2006 and 2005 and changes during the periods then ended on those dates is presented below:

	<u>March 31, 2006</u>		<u>March 31, 2005</u>	
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding at beginning and end of period	<u>5,156,266</u>	<u>\$0.09</u>	<u>6,770,000</u>	<u>\$0.09</u>
Options exercisable at end of the period	<u>4,115,641</u>		<u>5,441,250</u>	

Note 4 Share Capital – (cont'd)

c) Commitments – (cont'd)

Stock-Based Compensation Plan – (cont'd)

At March 31, 2006, the Company has 5,156,266 share purchase options outstanding entitling the holders thereof the right to purchase one common share for each option held as follows:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
2,098,766	\$0.09	November 15, 2006
60,000	\$0.09	November 15, 2006
20,000	\$0.09	July 5, 2007
500,000	\$0.09	October 15, 2007
200,000	\$0.09	October 17, 2007
100,000	\$0.09	November 18, 2007
100,000	\$0.09	November 18, 2007
30,000	\$0.09	April 28, 2008
1,432,500	\$0.09	June 28, 2009
415,000	\$0.09	April 19, 2010
<u>200,000</u>	\$0.17	July 7, 2010
<u>5,156,266</u>		

During the three months ended March 31, 2006, the Company recorded a stock-based compensation expense of \$14,902. The weighted fair value of share purchase options granted during the period ended March 31, 2006, of \$0.09 per option is estimated on the grant date using the Black-Scholes option pricing model. The assumptions used in calculating fair value for the period ended March 31, 2006 are as follows:

Risk free rate	3.75%-3.77%
Dividend yield	0%
Expected volatility	119%
Weighted average expected stock option life	5 yrs

Note 4 Share Capital – (cont'd)

c) Commitments – (cont'd)

Stock-Based Compensation Plan – (cont'd)

The following table reconciles the Company's contributed surplus:

	March 31, <u>2006</u>	December 31, <u>2005</u>
Balance, beginning of the period	\$ 355,938	\$ 403,490
Options vested	12,899	67,742
Options exercised	<u>-</u>	<u>(115,294)</u>
Balance, end of the period	<u>\$ 368,837</u>	<u>\$ 355,938</u>

Share Subscriptions

At March 31, 2006, share subscriptions are comprised of \$1,333,450 relating to the acquisition of a former subsidiary GC Technologies, Ltd. for 3,800,000 common shares.

Share Purchase Warrants

At March 31, 2006, there were 1,500,000 outstanding share purchase warrants entitling the holders thereof the right to purchase one common share for each warrant held at \$0.13 per share expiring February 9, 2007.

Note 5 Related Party Transactions

The Company incurred the following charges with directors and officers of the Company and companies with common directors:

	<u>2006</u>	<u>2005</u>
Management fees	\$ 7,798	\$ 7,338
Office and miscellaneous - secretarial services	1,430	1,345
Rent	2,599	2,446
Salaries, wages and benefits	<u>18,969</u>	<u>14,769</u>
	<u>\$ 30,796</u>	<u>\$ 25,898</u>

Valdor Fiber Optics Inc.
Notes to the Interim Consolidated Financial Statements
March 31, 2006
(Stated in US Dollars) – Page 5
(Unaudited – See Notice to Reader)

Note 5 Related Party Transactions – (cont'd)

These charges were measured by the exchange amount that is the amount agreed upon by the transacting parties.

Included in prepaid expenses at March 31, 2006, is \$856 (December 31, 2005: \$827) of rent prepaid to a company with a common director.

Note 6 Segmented information

The Company's principal business activities are the developing, manufacturing and marketing of fiber optic products. The Company's sales revenues are allocated to geographic segments as follows:

	<u>2006</u>	<u>2005</u>
United States of America	\$ 96,557	\$ 162,281
Europe	46,852	89,882
Mexico	<u>5,992</u>	<u>-</u>
	<u>\$ 149,401</u>	<u>\$ 252,163</u>

Note 7 Prior Period Adjustment

Management has determined that accrued interest payable on a promissory note payable was incorrectly recorded in Canadian dollars. Accordingly, the promissory note payable has been reduced by \$127,739, which represents the foreign exchange difference. As a result, at December 31, 2005, deficit has been restated to \$16,089,787 and promissory notes payable has been restated to \$2,430,373.