

VALDOR FIBER OPTICS INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

(Stated in US Dollars)

(Unaudited)

THE ACCOMPANYING INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005 HAVE NOT BEEN REVIEWED OR AUDITED BY THE CORPORATION'S AUDITORS.

VALDOR FIBER OPTICS INC.
INTERIM CONSOLIDATED BALANCE SHEETS
June 30, 2006 and December 31, 2005
(Stated in US Dollars)
(Unaudited)

	June 30, <u>2006</u>	December 31, <u>2005</u>
<u>ASSETS</u>		
Current		
Cash	\$ 11,591	\$ 10,879
Accounts receivable	197,529	162,920
Inventories	97,368	151,621
Prepaid expenses – Note 5	<u>17,947</u>	<u>22,302</u>
	324,435	347,722
Equipment	26,132	36,783
Other assets	<u>-</u>	<u>7,926</u>
	<u>\$ 350,567</u>	<u>\$ 392,431</u>
<u>LIABILITIES</u>		
Current		
Accounts payable and accrued liabilities	\$ 882,533	\$ 813,456
Promissory notes payable – Notes 3 and 9	2,576,856	2,430,373
Due to related parties – Note 2	210,748	112,062
Advance royalty	25,000	25,000
Current portion of long-term debt	<u>-</u>	<u>418,108</u>
	<u>3,695,137</u>	<u>3,798,999</u>
<u>SHAREHOLDERS' DEFICIENCY</u>		
Share capital – Notes 4 and 9	11,111,335	10,993,831
Share subscriptions – Note 4	1,333,450	1,333,450
Contributed surplus – Note 4	363,187	355,938
Deficit	<u>(16,152,542)</u>	<u>(16,089,787)</u>
	<u>(3,344,570)</u>	<u>(3,406,568)</u>
	<u>\$ 350,567</u>	<u>\$ 392,431</u>

SEE ACCOMPANYING NOTES

VALDOR FIBER OPTICS INC.
INTERIM CONSOLIDATED STATEMENTS OF LOSS
for the three and six months ended June 30, 2006 and 2005
(Stated in US Dollars)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenue	\$ 234,940	\$ 237,908	\$ 384,341	\$ 490,071
Direct expenses	<u>195,256</u>	<u>169,349</u>	<u>307,311</u>	<u>343,686</u>
Gross profit	<u>39,684</u>	<u>68,559</u>	<u>77,030</u>	<u>146,385</u>
Expenses				
Administration and general – Schedule 1	106,046	180,123	281,619	310,455
Marketing	16,878	3,288	30,016	25,241
Research and development	26,763	44,150	72,380	87,934
Interest	65,312	115,309	134,488	199,965
Amortization of equipment and other assets	<u>6,646</u>	<u>22,353</u>	<u>13,454</u>	<u>43,822</u>
	<u>221,645</u>	<u>365,223</u>	<u>531,957</u>	<u>667,417</u>
Loss from operations	(181,961)	(296,664)	(454,927)	(521,032)
Other items:				
Capital taxes	-	96	-	(13,357)
Other income	-	10	-	25
Gain on disposal of limited partnership	417,735	-	417,735	-
Income from limited partnership	18,779	-	18,779	-
Foreign exchange gain (loss)	<u>(42,080)</u>	<u>29,165</u>	<u>(44,342)</u>	<u>47,002</u>
Net income (loss) for the period	<u>\$ 212,473</u>	<u>\$ (267,393)</u>	<u>\$ (62,755)</u>	<u>\$ (487,362)</u>
Basic and diluted income (loss) per share	<u>\$ 0.00</u>	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>
Weighted average number of shares outstanding	<u>54,526,549</u>	<u>44,294,398</u>	<u>54,195,057</u>	<u>43,223,319</u>

SEE ACCOMPANYING NOTES

VALDOR FIBER OPTICS INC.
INTERIM CONSOLIDATED STATEMENTS OF DEFICIT
for the six months ended June 30, 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>(62,755)</u>	<u>(219,969)</u>
Deficit, end of the period	<u>\$(16,152,542)</u>	<u>\$(15,447,749)</u>

SEE ACCOMPANYING NOTES

VALDOR FIBER OPTICS INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
for the three and six months ended June 30, 2006 and 2005
(Stated in US Dollars)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Operating Activities				
Net income (loss) for the period	\$ 212,473	\$ (267,393)	\$ (62,755)	\$ (487,362)
Charges to income not affecting cash:				
Amortization of equipment and other assets	6,645	37,594	13,454	43,822
Gain on disposal of limited partnership	(417,735)	-	(417,735)	-
Income from limited partnership	(18,779)	-	(18,779)	-
Foreign exchange	19,813	(6,924)	22,598	(42,126)
Stock-based compensation	<u>(7,653)</u>	<u>26,063</u>	<u>7,249</u>	<u>25,237</u>
	(205,236)	(210,660)	(455,968)	(460,429)
Changes in non-cash working capital balances related to operations:				
Accounts receivable	(68,689)	46,786	(34,609)	(13,977)
Inventories	47,628	14,923	54,253	36,806
Prepaid expenses	9,002	15,735	4,355	8,089
Accounts payable and accrued liabilities	<u>40,675</u>	<u>20,450</u>	<u>69,077</u>	<u>46,460</u>
	<u>(176,620)</u>	<u>(61,193)</u>	<u>(362,892)</u>	<u>(383,051)</u>
Financing Activities				
Due to related parties	93,645	14,755	98,686	(52,937)
Increase in promissory note payable	63,020	-	123,885	186,941
Proceeds from issuance of common shares	-	-	117,504	300,194
Share subscription	-	-	-	(22,227)
Long-term debt	<u>(418,108)</u>	<u>-</u>	<u>(418,108)</u>	<u>-</u>
	<u>(261,443)</u>	<u>14,755</u>	<u>(78,033)</u>	<u>411,971</u>
Investing Activities				
Other assets	26,705	-	26,705	-
Acquisition of capital assets	(2,803)	(4,326)	(2,803)	-
Proceeds from disposal of investment	<u>417,735</u>	<u>-</u>	<u>417,735</u>	<u>-</u>
	<u>441,637</u>	<u>(4,326)</u>	<u>441,637</u>	<u>-</u>
Increase (decrease) in cash during the period	3,574	(50,764)	712	28,920
Cash, beginning of the period	<u>8,017</u>	<u>140,052</u>	<u>10,879</u>	<u>13,016</u>
Cash, end of the period	<u>\$ 11,591</u>	<u>\$ 89,288</u>	<u>\$ 11,591</u>	<u>\$ 41,936</u>

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SEE ACCOMPANYING NOTES

VALDOR FIBER OPTICS INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
for the three and six months ended June 30, 2006 and 2005
(Stated in US Dollars)
(Unaudited)

Continued

	Three months ended June 30,		Six months ended June 30,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Supplementary disclosure of cash flow information				
Cash paid for:				
Interest	\$ _____ -	\$ _____ -	\$ _____ -	\$ _____ -
Income taxes	\$ _____ -	\$ _____ -	\$ _____ -	\$ _____ -

SEE ACCOMPANYING NOTES

VALDOR FIBER OPTICS INC.

Schedule 1

**INTERIM CONSOLIDATED SCHEDULES OF
ADMINISTRATION AND GENERAL EXPENSES**
for the three and six months ended June 30, 2006 and 2005
(Stated in US Dollars)
(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Bad debts	\$ -	\$ -	\$ -	\$ 1,088
Computer maintenance	492	567	995	1,025
Consulting fees	9,810	14,829	25,329	15,779
Entertainment and travel	3,602	1,857	7,044	11,247
Insurance	1,372	1,082	2,826	2,164
Legal and accounting fees	13,764	16,306	36,120	30,977
Licenses and permits	-	155	-	1,545
Management fees – Note 5	8,017	7,234	15,814	14,572
Office and miscellaneous – Note 5	11,867	14,940	24,070	24,980
Rent – Note 5	16,118	17,248	32,623	34,531
Repairs and maintenance	1,837	1,408	4,049	3,281
Salaries, wages and benefits – Note 5	33,455	61,888	100,153	116,468
Stock-based compensation (recovery)	(7,653)	25,237	7,249	25,237
Stock exchange filing fees	4,280	5,911	6,559	6,645
Telephone and utilities	7,094	7,984	15,005	16,488
Transfer agent fees	1,991	3,477	3,783	4,428
	<u>\$ 106,046</u>	<u>\$ 180,123</u>	<u>\$ 281,619</u>	<u>\$ 310,455</u>

SEE ACCOMPANYING NOTES

VALDOR FIBER OPTICS INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
June 30, 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 follows 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 \$210,748 (December 31, 2005: \$112,062) are comprised of accounts payable and accrued liabilities owing to current and former directors and officers of the Company and a company with a common director.

Note 3 Promissory Notes Payable – Note 9

	<u>June 30,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
a) Promissory notes, bearing interest at 10% per annum, unsecured and due on demand, includes accrued interest payable of \$891,687 (December 31, 2005: \$783,670)	\$ 2,241,687	\$ 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 \$140,600 (December 31, 2005: \$115,744)	335,169	296,703
	<u>\$ 2,576,856</u>	<u>\$ 2,430,373</u>

Note 4 Share Capital – Note 9

a) Authorized:

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

Note 4 Share Capital – Note 9 – (cont'd)

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 June 30, 2006 and 2005 and changes during the periods then ended on those dates is presented below:

	<u>2006</u>		<u>2005</u>	
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding at beginning of the period	5,156,266	\$0.09	6,770,000	\$0.09
Cancelled	<u>(1,622,500)</u>	<u>\$0.09</u>	<u>-</u>	<u>-</u>
Outstanding at end of the period	<u>3,533,766</u>	<u>\$0.09</u>	<u>6,770,000</u>	<u>\$0.09</u>
Options exercisable at end of the period	<u>3,225,016</u>		<u>5,802,500</u>	

At June 30, 2006, the Company has 3,533,766 share purchase options outstanding entitling the holders thereof the right to purchase one common share for each option held as follows:

Note 4 Share Capital – Note 9 – (cont'd)

c) Commitments - (cont'd)

Stock-Based Compensation Plan – (cont'd)

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
2,053,766	\$0.09	November 15, 2006
20,000	\$0.09	July 15, 2007
200,000	\$0.09	October 17, 2007
200,000	\$0.09	November 18, 2007
25,000	\$0.09	April 28, 2008
720,000	\$0.09	June 28, 2009
115,000	\$0.09	April 19, 2010
<u>200,000</u>	<u>\$0.17</u>	<u>July 7, 2010</u>
<u>3,533,766</u>		

Stock-based compensation charges are expensed for stock options granted with a corresponding increase to contributed surplus. Upon exercise of stock options, consideration paid on the exercise of stock options and purchase of stock is credited to share capital.

During the six months ended June 30, 2006, the Company recorded a stock-based compensation expense of \$7,249. The weighted fair value of share purchase options granted during the period ended June 30, 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 June 30, 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

The following table reconciles the Company's contributed surplus:

	June 30, <u>2006</u>	December 31, <u>2005</u>
Balance, beginning of the period	\$ 355,938	\$ 403,490
Options vested	7,249	67,742
Options exercised	<u>-</u>	<u>(115,294)</u>
Balance, end of the period	<u>\$ 363,187</u>	<u>\$ 355,938</u>

Note 4 Share Capital – Note 9 – (cont'd)

c) Commitments - (cont'd)

Share Purchase Warrants

At June 30, 2006, the Company has 1,500,000 share purchase warrants outstanding entitling the holder thereof to purchase one common share for each warrant held at \$0.13 per share expiring February 9, 2007.

Share Subscriptions

At June 30, 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.

Note 5 Related Party Transactions

	Three months ended June 30,		Six months ended June 30,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Management fees	\$ 8,016	\$ 7,234	\$ 15,814	\$ 14,572
Office and miscellaneous – secretarial services	1,470	1,326	2,899	2,671
Rent	2,672	2,411	5,271	4,857
Salaries, wages and benefits	<u>15,808</u>	<u>15,502</u>	<u>34,777</u>	<u>30,271</u>
	<u>\$ 27,966</u>	<u>\$ 26,473</u>	<u>\$ 58,761</u>	<u>\$ 52,371</u>

These charges were measured by the exchange amount that is the amount agreed upon by the transacting parties and are on terms and conditions similar to non-related entities.

Included in prepaid expenses at June 30, 2006, is \$Nil (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:

Note 6 Segmented Information – (cont'd)

	Three months ended		Six months ended	
	June 30,		June 30,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
United States of America	\$ 135,256	\$ 143,805	\$ 231,813	\$ 306,086
Europe	99,684	94,103	146,536	183,985
Mexico	—	—	5,992	—
	<u>\$ 234,940</u>	<u>\$ 237,908</u>	<u>\$ 384,341</u>	<u>\$ 490,071</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.

Note 8 Contingent Liability – Note 9

On October 13, 2004, the Company entered into a Stipulation of Settlement and Order by Consent with a creditor of the Company's former subsidiary, Hotel Syracuse Inc. The creditor has agreed for a period of approximately twenty-eight months ending on December 31, 2006 (the "Abatement Period") to not take any further action against the Company. As consideration the Company has agreed to cause to be paid to the creditor the sum of \$1,400,000 either during or at the conclusion of the Abatement Period. The Company will deliver an affidavit(s) of confession of judgment or consent judgment and renewals in favour of the creditor in the amount of \$1,500,000. The affidavit(s) will be released back to the Company upon payment of the \$1,400,000, which is to be paid by December 31, 2006. The creditor will make available 2,000,000 common shares of the Company to help fund the \$1,400,000 settlement amount, which was part of 4,000,000 common shares previously issued to the creditor.

On July 24, 2006, the creditor agreed to amend the Stipulation of Settlement and Order by Consent to discontinue the action against the Company and return the two original affidavits subject to the creditor receiving confirmation of the contemporaneous investment of CDN\$500,000 to the Company. Satisfactory evidence of the availability of an additional CDN\$500,000 is to be received by the Company within one year.

Note 9 Subsequent Events – Note 8

Subsequent to June 30, 2006:

- i) Pursuant to an arrangement, one of the Company's creditor has agreed to settle promissory notes payable totalling \$2,241,687 as at June 30, 2006 for CDN\$500,000.
- ii) Pursuant to a private placement, the Company proposes to issued 12,500,000 units at CDN\$0.10 per unit for total proceeds of CDN\$1,250,000 of which 7,500,000 units will consist of one common share and one non-transferable share purchase warrant and 5,000,000 units will consist of one common share and one-half of one non-transferable share purchase warrant. Each whole warrant will entitle the holder to purchase one additional common share of the Company at CDN\$0.15 per share for a one year period. The Company may pay a finders fee in connection with the private placement. This private placement is subject to TSX approval.