

VALDOR FIBER OPTICS INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

(Stated in US Dollars)

(Unaudited)

THE ACCOMPANYING FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 HAVE NOT BEEN REVIEWED OR AUDITED BY THE CORPORATION'S AUDITORS

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

	September 30, <u>2006</u>	December 31, <u>2005</u>
<u>ASSETS</u>		
Current		
Cash	\$ 511,943	\$ 10,879
Accounts receivable	217,438	162,920
Inventories	89,941	151,621
Prepaid expenses – Note 5	<u>30,642</u>	<u>22,302</u>
	849,964	347,722
Equipment	18,290	36,783
Other assets	<u>-</u>	<u>7,926</u>
	<u>\$ 868,254</u>	<u>\$ 392,431</u>
<u>LIABILITIES</u>		
Current		
Accounts payable and accrued liabilities	\$ 749,846	\$ 813,456
Promissory notes payable – Note 3	341,509	2,430,373
Due to related parties – Note 2	71,715	112,062
Advance royalty	-	25,000
Current portion of long-term debt	<u>-</u>	<u>418,108</u>
	<u>1,163,070</u>	<u>3,798,999</u>
<u>SHAREHOLDERS' DEFICIENCY</u>		
Share capital – Notes 4 and 8	11,345,891	10,993,831
Share subscriptions – Note 4	2,364,563	1,333,450
Contributed surplus – Note 4	377,930	355,938
Deficit	<u>(14,383,200)</u>	<u>(16,089,787)</u>
	<u>(294,816)</u>	<u>(3,406,568)</u>
	<u>\$ 868,254</u>	<u>\$ 392,431</u>

SEE ACCOMPANYING NOTES

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

	Three months ended September 30,		Nine months ended September 30,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenue – Note 6	\$ 241,469	\$ 182,285	\$ 625,810	\$ 672,356
Direct expenses	<u>186,513</u>	<u>91,218</u>	<u>493,824</u>	<u>434,904</u>
Gross profit	<u>54,956</u>	<u>91,067</u>	<u>131,986</u>	<u>237,452</u>
Expenses				
Administration and general – Schedule 1	231,858	196,839	513,477	507,294
Marketing	17,957	4,505	47,973	29,746
Research and development	29,050	43,440	101,430	131,374
Interest (recovery)	64,754	(9,663)	199,242	190,302
Amortization of equipment and other assets	<u>5,151</u>	<u>10,956</u>	<u>18,605</u>	<u>54,778</u>
	<u>348,770</u>	<u>246,077</u>	<u>880,727</u>	<u>913,494</u>
Loss from operations	(293,814)	(155,010)	(748,741)	(676,042)
Other items:				
Capital taxes	-	(124)	-	(13,481)
Other income (expense)	25,249	(25)	25,155	-
Foreign exchange (loss) gain	27,411	(36,206)	(16,837)	10,796
Gain on settlement of promissory notes payable	1,821,847	-	1,821,847	-
Gain on disposal of equipment	7,935	-	7,935	-
Gain on disposal of limited partnership	-	-	417,735	-
Income from limited partnership	-	-	18,779	-
Write-off of accounts payable	<u>180,714</u>	<u>-</u>	<u>180,714</u>	<u>-</u>
Net income (loss) for the period	<u>\$ 1,769,342</u>	<u>\$ (191,365)</u>	<u>\$ 1,706,587</u>	<u>\$ (678,727)</u>
Basic and diluted income (loss) per share	<u>\$ 0.03</u>	<u>\$ (0.00)</u>	<u>\$ 0.03</u>	<u>\$ (0.02)</u>
Weighted average number of shares outstanding	<u>54,686,337</u>	<u>45,233,185</u>	<u>54,360,617</u>	<u>43,900,636</u>

SEE ACCOMPANYING NOTES

VALDOR FIBER OPTICS INC.
INTERIM CONSOLIDATED STATEMENTS OF DEFICIT
for the nine months ended September 30, 2006 and 2005
(Stated in US Dollars)
(Unaudited)

	<u>2006</u>	<u>2005</u>
Deficit, beginning of the period		
A 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 income (loss) for the period	<u>1,706,587</u>	<u>(219,969)</u>
Deficit, end of the period	<u>\$ (14,383,200)</u>	<u>\$ (15,447,749)</u>

SEE ACCOMPANYING NOTES

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

	Three months ended September 30,		Nine months ended September 30,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Operating Activities				
Net income (loss) for the period	\$ 1,769,342	\$ (191,365)	\$ 1,706,587	\$ (678,727)
Charges to income not affecting cash:				
Amortization of equipment and other assets	5,151	10,956	18,605	54,778
Gain on disposal of limited partnership	-	-	(417,735)	-
Income from limited partnership	-	-	(18,779)	-
Foreign exchange	4,130	17,582	26,728	(24,544)
Stock-based compensation	101,487	16,359	108,736	41,596
Write-off of accounts payable	(180,714)	-	(180,714)	-
Gain on disposal of equipment	(7,935)	-	(7,935)	-
Gain on settlement of promissory notes payable	<u>(1,821,847)</u>	<u>-</u>	<u>(1,821,847)</u>	<u>-</u>
	(130,386)	(146,468)	(586,354)	(606,897)
Changes in non-cash working capital balances related to operations:				
Accounts receivable	(19,909)	37,038	(54,518)	23,061
Inventories	7,427	8,166	61,680	44,972
Prepaid expenses	(12,695)	(7,196)	(8,340)	893
Accounts payable and accrued liabilities	48,027	29,991	117,104	76,451
Advance royalty	<u>(25,000)</u>	<u>-</u>	<u>(25,000)</u>	<u>-</u>
	<u>(132,536)</u>	<u>(78,469)</u>	<u>(495,428)</u>	<u>(461,520)</u>
Financing Activities				
Due to related parties	(139,033)	31,456	(40,347)	(21,481)
Promissory notes payable	(417,630)	(16,330)	(293,745)	170,611
Proceeds from issuance of common shares	147,812	39,150	265,316	339,344
Share subscriptions	1,031,113	-	1,031,113	(22,227)
Long-term debt	<u>-</u>	<u>-</u>	<u>(418,108)</u>	<u>-</u>
	<u>622,262</u>	<u>54,276</u>	<u>544,229</u>	<u>466,247</u>
Investing Activities				
Other assets	-	-	26,705	-
Acquisition of equipment	-	(6,938)	(2,803)	(6,938)
Proceeds from disposal of capital assets	10,626	-	10,626	-
Proceeds from disposal of investments	<u>-</u>	<u>-</u>	<u>417,735</u>	<u>-</u>
	<u>10,626</u>	<u>(6,938)</u>	<u>452,263</u>	<u>(6,938)</u>
Increase (decrease) in cash during the period	500,352	(31,131)	501,064	(2,211)
Cash, beginning of the period	<u>11,591</u>	<u>41,936</u>	<u>10,879</u>	<u>13,016</u>
Cash, end of the period	<u>\$ 511,943</u>	<u>\$ 10,805</u>	<u>\$ 511,943</u>	<u>\$ 10,805</u>
Supplementary disclosure of cash flow information				
Cash paid for:				
Interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Non-cash Transactions – Note 9

SEE ACCOMPANYING NOTES

VALDOR FIBER OPTICS INC. Schedule 1
INTERIM CONSOLIDATED SCHEDULES OF ADMINISTRATION AND GENERAL EXPENSES
for the three and nine months ended September 30, 2006 and 2005
(Stated in US Dollars)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Bad debts	\$ -	\$ -	\$ -	\$ 1,088
Computer maintenance	485	555	1,480	1,580
Consulting fees	617	-	25,946	15,779
Entertainment and travel	11,067	6,791	18,111	18,038
Insurance	875	1,083	3,701	3,247
Legal and accounting fees	11,262	16,584	47,382	47,561
Licences and permits	-	728	-	2,273
Management fees – Note 5	8,016	7,487	23,830	22,059
Office and miscellaneous – Note 5	13,851	17,931	37,921	42,911
Rent – Note 5	23,710	16,402	56,333	50,933
Repairs and maintenance	2,904	513	6,953	3,794
Salaries, wages and benefits – Note 5	44,390	100,572	144,543	217,040
Stock-based compensation – Note 4	101,487	16,359	108,736	41,596
Stock exchange filing fees	3,567	1,001	10,126	7,646
Telephone and utilities	8,503	8,741	23,508	25,229
Transfer agent fees	<u>1,124</u>	<u>2,092</u>	<u>4,907</u>	<u>6,520</u>
	<u>\$ 231,858</u>	<u>\$ 196,839</u>	<u>\$ 513,477</u>	<u>\$ 507,294</u>

SEE ACCOMPANYING NOTES

VALDOR FIBER OPTICS INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
September 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 \$71,715 (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

	September 30, <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 \$Nil (December 31, 2005: \$783,670). During the nine months ended September 30, 2006, the Company settled the promissory note for CDN\$500,000.	\$ -	\$ 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 \$148,251 (December 31, 2005: \$115,744)	<u>341,509</u>	<u>296,703</u>
	<u>\$ 341,509</u>	<u>\$ 2,430,373</u>

Note 4 Share Capital – Note 8

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	-	(13,056)
Pursuant to exercise of share purchase options - at \$0.09	1,655,499	147,812
Stock-based compensation charge on stock options exercised	<u>-</u>	<u>86,744</u>
Balance, end of the period	<u>56,182,048</u>	<u>\$ 11,345,891</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 September 30, 2006 and 2005 and changes during the periods then ended on those dates is presented below:

Note 4 Share Capital – Note 8 – (cont'd)

c) Commitments – (cont'd)

Stock-Based Compensation Plan – (cont'd)

	2006		2005	
	<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
Exercised	(1,655,499)	\$0.09	-	-
Granted	5,100,000	\$0.09	-	-
Cancelled	(1,622,500)	\$0.09	-	-
Outstanding at end of the period	6,978,267	\$0.09	6,770,000	\$0.09
Options exercisable at end of the period	2,894,517		5,802,500	

At September 30, 2006, the Company has 6,978,267 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>
470,267	\$0.09	November 15, 2006
20,000	\$0.09	July 15, 2007
200,000	\$0.09	October 17, 2007
128,000	\$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
200,000	\$0.17	July 7, 2010
5,100,000	\$0.09	September 25, 2011
6,978,267		

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.

Note 4 Share Capital – Note 8 – (cont'd)

c) Commitments – (cont'd)

Stock-Based Compensation Plan – (cont'd)

During the nine months ended September 30, 2006, the Company recorded a stock-based compensation expense of \$108,736. The weighted fair value of share purchase options granted during the period ended September 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 September 30, 2006 are as follows:

Risk free rate	3.13-3.77%
Dividend yield	0%
Expected volatility	104-119%
Weighted average expected stock option life	5 yrs

The following table reconciles the Company's contributed surplus:

	September 30, <u>2006</u>	December 31, <u>2005</u>
Balance, beginning of the period	\$ 355,938	\$ 403,490
Options vested	108,736	67,742
Options exercised	<u>(86,744)</u>	<u>(115,294)</u>
Balance, end of the period	<u>\$ 377,930</u>	<u>\$ 355,938</u>

Share Purchase Warrants

At September 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 September 30, 2006, the Company had received \$1,031,113 in respect to a private placement of 12,500,000 units at \$0.09 per unit and \$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 September 30,		Nine months ended September 30,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Management fees	\$ 8,016	\$ 7,487	\$ 23,830	\$ 22,059
Office and miscellaneous – secretarial services	2,352	1,373	5,251	4,044
Rent	2,672	2,495	7,943	7,352
Salaries, wages and benefits	<u>22,131</u>	<u>18,277</u>	<u>56,908</u>	<u>48,548</u>
	<u>\$ 35,171</u>	<u>\$ 29,632</u>	<u>\$ 93,932</u>	<u>\$ 82,003</u>

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

Included in prepaid expenses at September 30, 2006 is \$Nil (December 31, 2005: \$827) of rent prepaid to a company with a common director.

During the nine month period ended September 30, 2006, 1,523,499 common shares were issued to a director and officer of the Company and a company with a director in common pursuant to stock options exercised at \$0.09 per share for total proceeds of \$136,033.

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:

	Three months ended September 30,		Nine months ended September 30,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
United States of America	\$ 165,093	\$ 77,008	\$ 396,906	\$ 383,094
Europe	66,369	104,477	212,905	288,462
Other	<u>10,007</u>	<u>800</u>	<u>15,999</u>	<u>800</u>
	<u>\$ 241,469</u>	<u>\$ 182,285</u>	<u>\$ 625,810</u>	<u>\$ 672,356</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 Subsequent Event

Subsequent to September 30, 2006:

Pursuant to a private placement, the Company issued 12,500,000 units at \$0.09 per unit for total proceeds of \$1,120,311. Of the total units issued, 7,500,000 units consist of one common share and one share purchase warrant entitling the holder to purchase one additional common share of the Company at \$0.13 per share for a one year period and 5,000,000 units consist of one common share and one-half of one share purchase warrant, each whole warrant entitling the holder to purchase one additional common share of the Company at \$0.13 per share for a one year period. The Company paid a finders fee of \$53,520 in connection with the private placement. As at September 30, 2006, \$1,031,113 is included in share subscription.

Note 9 Non-cash Transactions

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows.

During the period ended September 30, 2006:

The Company transferred \$86,744 from contributed surplus to share capital on exercise of share purchase options.

During the period ended September 30, 2005:

The Company issued 5,766,054 common shares for \$2,301,684 in order to settle promissory notes payable of \$1,499,800 and accrued interest of \$801,884.

The Company issued 2,370,999 share purchase warrants for total proceeds of \$195,032 of which \$22,227 was included in share subscriptions for the year ended December 31, 2004.