

**VALDOR FIBER OPTICS INC.**

**REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2006 and 2005

(Stated in US Dollars)

**AUDITORS' REPORT**

To the Shareholders,  
Valdor Fiber Optics Inc.

We have audited the consolidated balance sheets of Valdor Fiber Optics Inc. as at December 31, 2006 and 2005 and the consolidated statements of operations, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada  
April 19, 2007

**"AMISANO HANSON"**  
Chartered Accountants

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

	<u>ASSETS</u>		(Restated – Note 17) <u>2005</u>
		<u>2006</u>	
Current			
Cash		\$ 305,720	\$ 10,879
Accounts receivable		304,120	162,920
Inventories		152,208	151,621
Prepaid expenses – Note 10		<u>18,695</u>	<u>22,302</u>
		780,743	347,722
Equipment – Note 4		13,957	36,783
Other assets		<u>-</u>	<u>7,926</u>
		<u>\$ 794,700</u>	<u>\$ 392,431</u>

	<u>LIABILITIES</u>		
Current			
Accounts payable and accrued liabilities – Note 5		\$ 556,089	\$ 813,456
Promissory notes payable – Note 6		364,058	2,430,373
Due to related parties – Note 7		125,831	112,062
Advance royalty		25,000	25,000
Current portion of long-term debt – Note 8		<u>-</u>	<u>418,108</u>
		<u>1,070,978</u>	<u>3,798,999</u>

	<u>SHAREHOLDERS' DEFICIENCY</u>	
Share capital – Notes 3, 9, 12 and 16	12,405,715	10,993,831
Share subscriptions – Note 9	1,336,668	1,333,450
Contributed surplus – Note 9	477,758	355,938
Deficit	<u>(14,496,419)</u>	<u>(16,089,787)</u>
	<u>(276,278)</u>	<u>(3,406,568)</u>
	<u>\$ 794,700</u>	<u>\$ 392,431</u>

Nature and Continuance of Operations – Note 1  
Commitments – Notes 9 and 12  
Subsequent Events – Notes 9 and 16

APPROVED BY THE DIRECTORS:

<u>“Michel Rondeau”</u> Michel Rondeau	Director	<u>“Brian Findlay”</u> Brian Findlay	Director
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SEE ACCOMPANYING NOTES

**VALDOR FIBER OPTICS INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
for the years ended December 31, 2006 and 2005  
(Stated in US Dollars)

	<u>2006</u>	(Restated – Note 17) <u>2005</u>
Sales – Note 13	\$ 999,887	\$ 876,097
Cost of sales	<u>741,755</u>	<u>637,045</u>
Gross profit	<u>258,132</u>	<u>239,052</u>
Expenses		
Administrative and general – Schedule 1	814,092	630,033
Marketing	65,622	34,266
Research and development	137,032	161,851
Interest	198,507	256,443
Amortization of equipment and other assets	<u>22,939</u>	<u>64,950</u>
	<u>1,238,192</u>	<u>1,147,543</u>
Loss from operations	(980,060)	(908,491)
Other items		
Gain on settlement of promissory notes payable	1,819,379	-
Gain on disposal of equipment	7,935	-
Gain on wind-up of limited partnership	410,182	-
Share of limited partnership income	9,312	23,705
Other income	776	-
Write-off of accounts payable	335,343	-
Foreign exchange gain (loss)	<u>(9,499)</u>	<u>22,779</u>
	<u>2,573,428</u>	<u>46,484</u>
Net income (loss) for the year	\$ <u>1,593,368</u>	\$ <u>(862,007)</u>
Basic earnings (loss) per share	\$ <u>0.03</u>	\$ <u>(0.02)</u>
Diluted earnings (loss) per share	\$ <u>0.03</u>	\$ <u>(0.02)</u>
Weighted average number of shares outstanding	<u>59,425,248</u>	<u>45,856,332</u>

SEE ACCOMPANYING NOTES

**VALDOR FIBER OPTICS INC.**  
**CONSOLIDATED STATEMENTS OF DEFICIT**  
for the years ended December 31, 2006 and 2005  
(Stated in US Dollars)

	<u>2006</u>	(Restated – Note 17) <u>2005</u>
Deficit, beginning of the year		
A previously reported	(16,217,526)	(15,227,780)
Prior period adjustment – Note 17	<u>127,739</u>	<u>-</u>
As restated	(16,089,787)	(15,227,780)
Net income (loss) for the year	<u>1,593,368</u>	<u>(862,007)</u>
Deficit, end of the year	<u>\$(14,496,419)</u>	<u>\$(16,089,787)</u>

SEE ACCOMPANYING NOTES

**VALDOR FIBER OPTICS INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
for the years ended December 31, 2006 and 2005  
(Stated in US Dollars)

	<u>2006</u>	(Restated – Note 17) <u>2005</u>
<b>Operating Activities</b>		
Net income (loss) from operations	\$ 1,593,368	\$ (862,007)
Charges to income not affecting cash:		
Amortization of equipment and other assets	22,939	64,950
Gain on wind-up of limited partnership	(410,182)	-
Share of limited partnership income	(9,312)	(23,705)
Foreign exchange loss	6,352	99,996
Gain on disposal of equipment	(7,935)	-
Gain on settlement of promissory notes payable	(1,819,379)	-
Write-off of accounts payable	(335,343)	-
Non-cash compensation charge	<u>215,248</u>	<u>67,734</u>
	(744,244)	(653,032)
Changes in non-cash working capital balances related to operations:		
Accounts receivable	(141,200)	849
Inventories	(587)	57,224
Prepaid expenses	3,607	9,125
Accounts payable and accrued liabilities	<u>77,976</u>	<u>47,946</u>
Cash used in operating activities	<u>(804,448)</u>	<u>(537,888)</u>
<b>Investing Activities</b>		
Limited partnership withdrawals	9,312	23,705
Acquisition of equipment	(2,804)	-
Proceeds on wind-up of limited partnership	418,108	-
Proceeds on disposal of equipment	<u>10,626</u>	<u>2,059</u>
Cash provided from investing activities	<u>435,242</u>	<u>25,764</u>
<b>Financing Activities</b>		
Increase (decrease) in promissory notes payable	(253,288)	103,373
Long term debt repayment	(418,108)	-
Increase (decrease) in due to related parties	13,769	(63,036)
Share subscriptions	3,218	-
Proceeds from issuance of common shares – net	<u>1,318,456</u>	<u>469,650</u>
Cash provided from financing activities	<u>664,047</u>	<u>509,987</u>
Increase (decrease) in cash during the year	294,841	(2,137)
Cash, beginning of the year	<u>10,879</u>	<u>13,016</u>
Cash, end of the year	<u>\$ 305,720</u>	<u>\$ 10,879</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for:		
Interest	<u>\$ -</u>	<u>\$ -</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>

Non-cash Transactions – Note 14

SEE ACCOMPANYING NOTES

**VALDOR FIBER OPTICS INC.** Schedule 1  
**CONSOLIDATED SCHEDULE OF ADMINISTRATIVE AND GENERAL EXPENSES**  
for the years ended December 31, 2006 and 2005  
(Stated in US Dollars)

	<u>2006</u>	<u>2005</u>
Bad debts	\$ 30,786	\$ 2,044
Capital tax	-	13,630
Consulting fees	136,287	119,126
Entertainment and travel	27,983	27,974
Legal and accounting fees	68,505	48,060
Insurance, licenses and permits	4,680	7,779
Management fees – Note 10	64,782	29,739
Office and miscellaneous – Note 10	47,802	49,589
Rent – Note 10	64,800	67,399
Repairs and maintenance	11,903	7,078
Salaries, wages and benefits – Note 10	307,707	209,065
Stock exchange filing fees	11,170	7,952
Telephone and utilities	31,116	33,641
Transfer agent fees	<u>6,571</u>	<u>6,957</u>
	<u>\$ 814,092</u>	<u>\$ 630,033</u>

SEE ACCOMPANYING NOTES

**VALDOR FIBER OPTICS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
as at December 31, 2006 and 2005  
(Stated in US Dollars)

Note 1 Nature and Continuance of Operations

The Company was incorporated under the British Columbia Company Act and is publicly traded on the TSX Venture Exchange. During the year ended December 31, 2006, the Company's principal business is developing, manufacturing and marketing of fiber optic products. This business is located in Hayward, California.

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At December 31, 2006, the Company had not yet achieved profitable operations, and has a working capital deficiency of \$290,235. The Company has accumulated losses of \$14,496,419 since its inception and expects to incur further losses in the development of its business, all of which casts substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due.

Note 2 Summary of Significant Accounting Policies

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Canada and are stated in United States dollars. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates, which have been made using careful judgement. Actual results could differ from these estimates.

The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

a) Principles of Consolidation

These consolidated financial statements include the accounts of the Company and the accounts of the following companies:

<u>Company</u>	<u>State of Incorporation</u>	<u>Percentage Held</u>	
		<u>2006</u>	<u>2005</u>
Fiberlight Optics, Inc.	Delaware	94%	94%
Valdor Fiber Optics, Inc.	Delaware	94%	94%

Note 2 Summary of Significant Accounting Policies – (cont'd)

a) Principles of Consolidation – (cont'd)

All significant inter-company transactions and balances have been eliminated.

b) Inventories

Inventories are valued at the lower of cost or market determined by the first-in first-out method by management.

c) Investments

The Company follows the equity method in accounting for its investment in a limited partnership, whereby the original cost is adjusted to recognize the Company's share of earnings or losses from the date of acquisition. The Company follows the cost method in accounting for investments with ownership interests less than 20%.

d) Equipment and Amortization

Equipment is recorded at cost and is amortized over its estimated useful life using the straight-line method over the following number of years:

Furniture and equipment	5-10 years
Machinery and equipment	5-10 years

e) Foreign Currency Translation

The Company's functional currency is the United States dollar as it is the currency in which the wholly-owned subsidiary operates its business.

Monetary assets and liabilities that are denominated in a foreign currency are translated at the exchange rate in effect at the period end and capital accounts are translated at historical rates. Income statement accounts are translated at the average rates of exchange prevailing during the year. Gains or losses from translation are recorded in the statement of operations.

f) Basic and Diluted Earnings per Share

Basic earnings per share are computed by dividing the net income for the year by the weighted average number of common shares outstanding during the year. The treasury stock method is used for the calculation of diluted earnings per share. Diluted earnings per share reflects the dilution that would occur if outstanding stock options and warrants were exercised or converted into common shares using the treasury stock method. Due to the loss in December 31, 2005, potentially dilutive securities were excluded from the calculation of diluted loss per share, as they were anti-dilutive.

Note 2      Summary of Significant Accounting Policies – (cont'd)

g) Income Taxes

The Company accounts for income taxes by the asset and liability method. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized.

h) Financial Instruments

Under the provisions of the Canadian Institute of Chartered Accountants 3855 “Financial Instruments – Recognition and Measurement” the financial assets and liabilities of the Company are designated as other financial assets and liabilities, accordingly they are initially measured at fair value, which is the amount of consideration that would be agreed upon in an arm’s-length transaction between knowledgeable, willing parties under no compulsion to act.

Subsequent to initial measurement at fair value, any gain or loss experienced on derecognition or impairment of the asset or liability is recorded in the statement of income.

The Company’s financial instruments comprise cash, accounts receivable, accounts payable and accrued liabilities, due to related parties and promissory notes payable. Cash, accounts receivable, accounts payable and accrued liabilities and promissory notes payable are reported at their fair values on the balance sheet. The fair values are the same as the carrying values due to their short-term nature. The fair value of the amount due to related parties has not been determined (Note 7).

Unless otherwise noted, it is management’s opinion that the Company is not exposed to significant interest, exchange or credit risks arising from these financial instruments.

i) Revenue Recognition

The Company recognizes revenue from the sale of fiber optic products upon shipment and when all significant contractual obligations have been satisfied and collection is reasonably assured. License revenue is recognized when the license is granted to the customer and there are no continuing obligations related to the licensed product. Revenue from royalties on sales is recognized as it is earned. Deposits for royalties under minimum requirements of contracts received in the current period are classified as deferred income in the current liability section of the balance sheet. These amounts will be drawn down and the actual royalties reported as income in the period that the sales are made to earn these royalties.

Note 2 Summary of Significant Accounting Policies – (cont'd)

j) Stock-based Compensation

The Company has a stock-based compensation plan as disclosed in Note 9, whereby stock options are granted in accordance with the policies of regulatory authorities. The fair value of all share purchase options are expensed over their vesting period with a corresponding increase to contributed surplus. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's share purchase options.

Note 3 Business Acquisition

Pursuant to an agreement dated September 13, 2000, whereby the Company acquired a 51% interest in Fiberlight Optics, Inc. ("Fiberlight"), the 49% interest shareholders of Fiberlight have the right to convert their Class B common shares into common shares of the Company. Pursuant to a share exchange agreement, 5,776,054 Class B common shares were converted into common shares of the Company during the year ended December 31, 2005. As at December 31, 2006 and 2005, the Company has a total ownership interest in Fiberlight of 94%.

Note 4 Equipment and Amortization

	2006		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Furniture and equipment	\$ 71,780	\$ 69,019	\$ 2,761
Machinery and equipment	<u>446,070</u>	<u>434,874</u>	<u>11,196</u>
	<u>\$ 517,850</u>	<u>\$ 503,893</u>	<u>\$ 13,957</u>
	2005		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Furniture and equipment	\$ 68,976	\$ 63,793	\$ 5,183
Machinery and equipment	<u>564,637</u>	<u>533,037</u>	<u>31,600</u>
	<u>\$ 633,613</u>	<u>\$ 596,830</u>	<u>\$ 36,783</u>

Note 5 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are comprised of the following:

	<u>2006</u>	<u>2005</u>
Parent Company	\$ 122,111	\$ 190,257
Subsidiary – Valdor Fiber Optics, Inc.	<u>433,978</u>	<u>623,199</u>
	<u>\$ 556,089</u>	<u>\$ 813,456</u>

Note 6 Promissory Notes Payable

	<u>2006</u>	<u>2005</u>
		(Restated – Note 17)
a) Promissory notes, bearing interest at 10% per annum, unsecured and due on demand, includes accrued interest payable of \$Nil (2005: \$783,670). During the year ended December 31, 2006, the Company settled the promissory notes 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 \$162,902 (2005: \$115,744)	<u>364,058</u>	<u>296,703</u>
	<u>\$ 364,058</u>	<u>\$ 2,430,373</u>

Note 7 Due to Related Parties

Due to related parties of are amounts due to directors and officers of the company and a company with a common director. The fair values of the amount due to related parties have not been disclosed due to the fact that the cash flow stream is not determinable.

Note 8 Long-term Debt

	<u>2006</u>	<u>2005</u>
Promissory note payable, in Canadian dollars (CDN\$486,260) requiring annual interest only payments at 6.63% on or before September 30 of each year. During the year ended December 31, 2006, the Company settled the promissory note payable in conjunction with the wind-up of its investment in a limited partnership.	\$ -	\$ 418,108
Less: current portion	<u>-</u>	<u>(418,108)</u>
	<u>\$ -</u>	<u>\$ -</u>

Note 9 Share Capital – Notes 3, 12 and 16

a) Authorized:

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

b) Issued Common Shares:

	2006		2005	
	Number	Amount	Number	Amount
Balance, beginning of the year	53,026,549	\$ 10,993,831	41,560,762	\$ 8,084,984
For cash				
– pursuant to the exercise of share purchase options				
– at \$0.07 to \$0.09	1,742,999	155,551	2,228,734	191,683
– pursuant to private placements – at \$0.05 to \$0.10	14,000,000	1,234,935	1,100,000	105,163
– pursuant to the exercise of share purchase warrants				
– at \$0.08	-	-	2,370,999	195,031
Pursuant to a debt settlement agreement – at \$0.40	-	-	5,766,054	2,301,684
– Share issue cost	-	(72,030)	-	-
Transfer of stock based compensation on stock options exercised		93,428	-	115,286
Balance, end of the year	<u>68,769,548</u>	<u>\$ 12,405,715</u>	<u>53,026,549</u>	<u>\$ 10,993,831</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.

Note 9 Share Capital – Notes 3, 12 and 16 – (cont'd)

c) Commitments – (cont'd)

Stock-Based Compensation Plan – (cont'd)

A summary of the status of the stock option plan as of December 31, 2006 and 2005 and changes during the years 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 year	5,156,266	\$0.09	6,770,000	\$0.09
Repriced share purchase options	-	-	(160,000)	\$0.42
	-	-	160,000	\$0.09
Exercised	(1,742,999)	\$0.09	(2,228,734)	\$0.09
Cancelled/Expired	(2,092,767)	\$0.09	-	-
Granted	<u>5,775,000</u>	\$0.09	<u>615,000</u>	\$0.10
Options outstanding at end of the year	<u>7,095,500</u>	\$0.09	<u>5,156,266</u>	\$0.09
Options exercisable at end of the year	<u>5,865,641</u>		<u>4,165,641</u>	

At December 31, 2006, the Company has 7,095,500 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>
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
65,000	\$0.09	April 19, 2010
200,000	\$0.17	July 7, 2010
637,500	\$0.09	July 7, 2011
<u>5,100,000</u>	\$0.09	September 25, 2011
<u>7,095,500</u>		

Note 9 Share Capital – Notes 3, 12 and 16 – (cont'd)

c) Commitments – (cont'd)

Stock-Based Compensation Plan – (cont'd)

The weighted fair value of share purchase options granted during the year ended December 31, 2006, of \$0.04 (2005: \$0.08) per option is estimated on the grant date using the Black-Scholes option pricing model. The assumptions used in calculating fair value for the years ended December 31 are as follows:

	<u>2006</u>	<u>2005</u>
Risk free rate	3.13-3.43%	3.75-3.77%
Dividend yield	0%	0%
Expected volatility	104%	119%
Weighted average expected stock option life	5 yrs	5 yrs

The following table reconciles the Company's contributed surplus:

	<u>2006</u>	<u>2005</u>
Balance, beginning of the year	\$ 355,938	\$ 403,490
Options vested	215,248	67,734
Options exercised	<u>(93,428)</u>	<u>(115,286)</u>
Balance, end of the year	<u>\$ 477,758</u>	<u>\$ 355,938</u>

Share Subscriptions

As at December 31, 2006, the Company recorded share subscriptions totalling \$1,333,450 relating to the acquisition of GC Technologies, Ltd. for 3,800,000 common shares and had received \$3,218 in respect to the exercise of 35,000 share purchase options.

Share Purchase Warrants

At December 31, 2006, there were 11,500,000 outstanding share purchase warrants entitling the holders thereof the right to purchase one common share for each warrant held as follows:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
1,500,000	\$0.13	February 9, 2007
<u>10,000,000</u>	\$0.13	October 10, 2007
<u>11,500,000</u>		

On February 9, 2007, 1,500,000 share purchase warrants expired unexercised.

Note 10 Related Party Transactions

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

	<u>2006</u>	<u>2005</u>
Management fees	\$ 31,730	\$ 29,771
Office and miscellaneous – secretarial services	6,699	5,458
Rent	10,577	9,924
Salaries, wages and benefits	<u>83,939</u>	<u>69,907</u>
	<u>\$ 132,945</u>	<u>\$ 115,060</u>

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

Included in prepaid expenses at December 31, 2006, is \$858 (2005: \$832) of rent prepaid to a company with a common director.

Note 11 Corporation Income Tax Losses

Future tax assets and liabilities are recognized for temporary differences between the carrying amount of the balance sheet items and their corresponding tax values as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

Significant components of the Company's future tax assets and liabilities, after applying enacted corporate income tax rates, are as follows:

	<u>2006</u>	<u>2005</u>
Future income tax assets		
Non-capital losses	\$ 3,463,000	\$ 3,395,000
Capital losses	695,000	1,122,000
Timing differences	<u>19,000</u>	<u>-</u>
	4,177,000	4,517,000
Less: valuation allowance	<u>(4,177,000)</u>	<u>(4,517,000)</u>
	<u>\$ -</u>	<u>\$ -</u>

The Company recorded a valuation allowance against its future income tax assets based on the extent to which it is more likely than not that sufficient taxable income will not be realized during the carry forward periods to utilize all the future tax assets.

Note 11 Corporation Income Tax Losses – (cont'd)

At December 31, 2006, the Company and its subsidiaries have accumulated non-capital losses of approximately \$10,184,000 which may be carried forward to reduce future years' income for federal and state income tax purposes. These losses, the potential benefit of which have not been recognized in these financial statements, expire as follows:

2018	\$ 1,194,000
2019	1,516,000
2020	2,034,000
2021	2,366,000
2022	965,000
2023	828,000
2024	870,000
2026	<u>411,000</u>
	<u>\$10,184,000</u>

At December 31, 2006, the Company has accumulated capital losses of approximately \$4,075,000 that may be carried forward indefinitely to reduce future years capital gains.

Note 12 Commitments

- a) The Company's subsidiary has a lease commitment for its office premises which require future minimum lease payments of \$2,324 per month plus a proportionate share of the common area expenses. The lease expires August 31, 2007.
- b) On August 4, 2004, the Company entered into an equity agreement with the shareholders of Shanghai OPEL Technologies Inc. ("OPELTech") a company incorporated with the Peoples Republic of China, whereby the Company will have the right to acquire up to 100% of the shares of OPELTech. As consideration the Company will issue 5,000,000 common shares in exchange for a 60% interest in OPELTech. The Company has the right to receive the remaining 40% interest subject to the Company achieving certain performance criteria. On September 26, 2006, the terms of the agreement was extended to November 30, 2007.

The agreement is subject to approval by the board of directors of both companies, receipt by OPELTech of a business license from the Chinese regulatory authorities and the approval from the TSX Venture Exchange.

Note 13 Segmented Information and Economic Dependence

The Company's sales revenues are allocated to geographic segments as follows:

	Year ended December 31,	
	<u>2006</u>	<u>2005</u>
United States of America	\$ 646,898	\$ 504,419
Europe	335,371	369,667
Other	<u>17,618</u>	<u>2,011</u>
	<u>\$ 999,887</u>	<u>\$ 876,097</u>

During the year ended December 31, 2006, the company was economically dependent on five customers for \$903,091 (2005: \$702,554) of its sales.

Note 14 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 year ended December 31, 2005, the following transactions were excluded from the statements of cash flows:

The Company issued 5,766,054 common shares at \$0.40 to settle debts of \$2,301,684 pursuant to a debt settlement agreement.

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.

Note 15 Financial Instruments

Credit Risk

The Company grants credit to its customers in the normal course of business. Credit evaluations are performed on a regular basis and the financial statements take into account an allowance for bad debts. During the year ended December 31, 2006, five customers accounted for 90% of the Company's sales. The loss of any of these customers or the curtailment of purchases by such customers could have a material adverse effect on the Company's financial condition and results of operations.

Currency Risk

The majority of the Company's operations are carried out in the United States of America. The parent company's operations are in Canada and operate in Canadian dollars. As at December 31, 2006, the Company has in Canadian dollars cash of \$32,915 (2005: \$Nil), accounts payable of \$118,996 (2005: \$142,460), due to related parties of \$65,764 (2005: \$117,388) and long-term debt of \$Nil (2005: \$486,260). These factors expose the Company to foreign currency exchange rate risk, which could have a material adverse effect on the profitability of the Company.

Note 16    Subsequent Events – Note 9

Subsequent to December 31, 2006, the Company issued 35,000 common shares pursuant to the exercise of share purchase option at \$0.09.

Note 17    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, net loss for the year ended December 31, 2005 has been restated to \$862,007 and at December 31, 2005, deficit has been restated to \$16,089,787 and promissory notes payable has been restated to \$2,430,373.

Note 18    Comparative Figures

Certain of the comparative figures for the year ended December 31, 2005, has been reclassified to conform to the current year's presentation.