

VALDOR FIBER OPTICS INC.
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006
(Stated in US Dollars)



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Chartered Accountants and Advisors

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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, 2007 and 2006 and the consolidated statements of operations and 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "BDO Dunwoody LLP"

Chartered Accountants

Vancouver, Canada
April 24, 2008

VALDOR FIBER OPTICS INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2007 and 2006
(Stated in US Dollars)

	<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
Current			
Cash and cash equivalents		\$ 35,694	\$ 305,720
Accounts receivable		59,298	304,120
Inventories		69,668	152,208
Prepaid expenses – Note 8		<u>16,991</u>	<u>18,695</u>
		181,651	780,743
Equipment – Note 3		<u>5,127</u>	<u>13,957</u>
		<u>\$ 186,778</u>	<u>\$ 794,700</u>

	<u>LIABILITIES</u>	
Current		
Accounts payable and accrued liabilities – Note 4		\$ 544,622 \$ 592,560
Promissory notes payable – Note 5		435,051 364,058
Due to related parties – Note 6		294,916 89,360
Advance royalty		<u>25,000</u> <u>25,000</u>
		<u>1,299,589</u> <u>1,070,978</u>

SHAREHOLDERS' DEFICIENCY

Share capital – Note 7	12,411,331	12,405,715
Share subscriptions – Note 7	1,333,699	1,336,668
Contributed surplus – Note 7	721,751	477,758
Deficit	<u>(15,579,592)</u>	<u>(14,496,419)</u>
	<u>(1,112,811)</u>	<u>(276,278)</u>
	<u>\$ 186,778</u>	<u>\$ 794,700</u>

Nature of Operations and Ability to Continue as a Going Concern – Note 1
Commitments – Notes 7 and 10
Subsequent Event – Note 13

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 OPERATION AND DEFICIT
for the years ended December 31, 2007 and 2006
(Stated in US Dollars)

	<u>2007</u>	<u>2006</u>
Sales – Note 11	\$ 735,236	\$ 999,887
Cost of sales – Schedule II	<u>688,368</u>	<u>741,755</u>
Gross profit	<u>46,868</u>	<u>258,132</u>
Expenses		
Administrative and general – Schedule I	814,685	814,092
Marketing – Note 8	69,285	65,622
Research and development	119,084	137,032
Interest	39,375	198,507
Amortization and write-off of equipment and other assets	<u>10,535</u>	<u>22,939</u>
	<u>1,052,964</u>	<u>1,238,192</u>
Loss from operations	<u>(1,006,096)</u>	<u>(980,060)</u>
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
Other income	412	776
Write-off of accounts payable	-	335,343
Foreign exchange loss	<u>(77,489)</u>	<u>(9,499)</u>
	<u>(77,077)</u>	<u>2,573,428</u>
Net income (loss) and comprehensive income (loss) for the year	(1,083,173)	1,593,368
Deficit, beginning of the year	<u>(14,496,419)</u>	<u>(16,089,787)</u>
Deficit, end of the year	<u>\$(15,579,592)</u>	<u>\$(14,496,419)</u>
Basic earnings (loss) per share	<u>\$ (0.01)</u>	<u>\$ 0.03</u>
Diluted earnings (loss) per share	<u>\$ (0.01)</u>	<u>\$ 0.03</u>
Weighted average number of shares outstanding	<u>68,798,219</u>	<u>59,425,248</u>

SEE ACCOMPANYING NOTES

VALDOR FIBER OPTICS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended December 31, 2007 and 2006
(Stated in US Dollars)

	<u>2007</u>	<u>2006</u>
Operating Activities		
Net income (loss) and comprehensive income (loss) for the year	\$ (1,083,173)	\$ 1,593,368
Charges to income not affecting cash:		
Amortization and write-off of equipment and other assets	10,535	22,939
Gain on wind-up of limited partnership	-	(410,182)
Share of limited partnership income	-	(9,312)
Foreign exchange loss	29,398	6,352
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>246,639</u>	<u>215,248</u>
	(796,601)	(744,244)
Changes in non-cash working capital balances related to operations:		
Accounts receivable	244,822	(141,200)
Inventories	82,540	(587)
Prepaid expenses	1,704	3,607
Accounts payable and accrued liabilities	<u>(47,938)</u>	<u>77,976</u>
Cash used in operating activities	<u>(515,473)</u>	<u>(804,448)</u>
Investing Activities		
Limited partnership withdrawals	-	9,312
Acquisition of equipment	(1,705)	(2,804)
Proceeds on wind-up of limited partnership	-	418,108
Proceeds on disposal of equipment	<u>-</u>	<u>10,626</u>
Cash provided by (used in) investing activities	<u>(1,705)</u>	<u>435,242</u>
Financing Activities		
Increase (decrease) in promissory notes payable	41,627	(253,288)
Long term debt repayment	-	(418,108)
Increase in due to related parties	205,556	13,769
Share subscriptions	(3,001)	3,218
Proceeds from issuance of common shares – net	<u>2,970</u>	<u>1,318,456</u>
Cash provided by financing activities	<u>247,152</u>	<u>664,047</u>
Increase (decrease) in cash during the year	(270,026)	294,841
Cash, beginning of the year	<u>305,720</u>	<u>10,879</u>
Cash, end of the year	<u>\$ 35,694</u>	<u>\$ 305,720</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. Schedule I
CONSOLIDATED SCHEDULE OF ADMINISTRATIVE AND GENERAL EXPENSES
for the years ended December 31, 2007 and 2006
(Stated in US Dollars)

	<u>2007</u>	<u>2006</u>
Bad debts	\$ 4,600	\$ 30,786
Consulting fees – Notes 7 and 8	189,579	136,287
Entertainment and travel	22,366	27,983
Legal and accounting fees	95,459	68,505
Insurance, licenses and permits	2,884	4,680
Management fees – Notes 7 and 8	80,058	64,782
Office and miscellaneous – Notes 7 and 8	35,073	47,802
Rent – Note 8	47,953	64,800
Repairs and maintenance	11,072	11,903
Salaries, wages and benefits – Notes 7 and 8	301,254	307,707
Stock exchange filing fees	8,087	11,170
Telephone and utilities	11,666	31,116
Transfer agent fees	<u>4,634</u>	<u>6,571</u>
	<u>\$ 814,685</u>	<u>\$ 814,092</u>

VALDOR FIBER OPTICS INC. Schedule II
CONSOLIDATED SCHEDULE OF COST OF SALES
for the years ended December 31, 2007 and 2006
(Stated in US Dollars)

	<u>2007</u>	<u>2006</u>
Manufacturing	\$ 397,603	\$ 598,309
Wages and benefits	142,513	127,154
Freight	<u>44,052</u>	<u>16,292</u>
	584,168	741,755
Write-off of inventory	<u>104,200</u>	<u>-</u>
	<u>\$ 688,368</u>	<u>\$ 741,755</u>

SEE ACCOMPANYING NOTES

VALDOR FIBER OPTICS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006
(Stated in US Dollars)

Note 1 Nature of Operations and Ability to Continue as a Going Concern

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, 2007, the Company's principal business was 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, 2007, the Company had not yet achieved profitable operations, has accumulated losses of \$15,579,592 since inception, has a working capital deficiency of \$1,117,938 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>2007</u>	<u>2006</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) Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less.

c) Inventory

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

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 is calculated by dividing the net income available to common shareholders by the weighted average number of shares outstanding during the year. Diluted earnings per share reflect the potential dilution of securities that could share in earnings of an entity. In a loss year, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive. Basic and diluted loss per share are the same for the years presented.

For the year ended December 31, 2007, potentially dilutive common shares (relating to options and warrants outstanding at year-end) totalling 6,437,500 were not included in the computation of loss per share because their effect was 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) 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. 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.

i) Stock-based Compensation

The Company has a stock-based compensation plan as disclosed in Note 7, whereby stock options are granted in accordance with the policies of regulatory authorities. The fair value of all share purchase options is 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.

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

j) Change in Accounting Policy

On January 1, 2007, the Company adopted CICA Handbook Sections 1530, “Comprehensive Income”, Section 3251, “Equity”, Section 3855, “Financial Instruments – Recognition and Measurement”, Section 3861, “Financial Instruments – Disclosure and Presentation” and Section 3865, “Hedges”. Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles.

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives and identifies the information that should be disclosed about them. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and, therefore, the comparative figures have not been restated. Section 3865 describes when and how hedge accounting can be applied as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from derivative financial instruments in the same period as for those related to the hedged item.

Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

Under adoption of these new standards, the Company classified its accounts receivable as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, promissory notes payable and due to related parties are classified as other financial liabilities, which are measured at amortized cost.

The adoption of these Handbook Sections had no impact on opening deficit.

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

k) Accounting Policy Choice for Transaction Costs

On June 1, 2007, the Emerging Issues Committee of the CICA issued Abstract No. 166, Accounting Policy Choice for Transaction Costs (“EIC-166). This EIC addresses the accounting policy choice of expensing or adding transaction costs related to the acquisition of financial assets and financial liabilities that are classified as other than held-for-trading. Specifically, it requires that the same accounting policy choice be applied to all similar financial instruments classified as other than held-for-trading, but permits a different policy choice for financial instruments that are not similar. The Company has adopted EIC-166 effective January 1, 2007 and requires retroactive application to all transaction costs accounted for in accordance with CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement. The Company has evaluated the impact of EIC-166 and determined that no adjustments are currently required.

l) Future Accounting Changes

Capital Disclosures and financial Instruments – Disclosures and Presentation

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial instruments – Presentation. These standards are effective for interim and annual financial statements for the Company’s reporting period beginning on December 1, 2007.

Section 1535 specifies the disclosure of (i) an entity’s objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

The new Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

CICA Handbook Section 3031 “Inventories” prescribes the accounting treatment for inventories and provides guidance on the determination of inventory costs and their subsequent recognition as an expense, including any write-down to net realizable value.

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

l) Future Accounting Changes – (cont'd)

International Financial Reporting Standards (“IFRS”) In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP and IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

The Company is currently assessing the impact of these new accounting standards on its financial statements.

m) Accounting Changes

In July 2006, the Accounting Standards Board (“AcSB”) issued a replacement of The Canadian Institute of Chartered Accountants’ Handbook (“CICA Handbook”) Section 1506, Accounting Changes. The new standard allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact that the adoption of Section 1506 will have on the Company’s results of operations and financial condition will depend on the nature of future accounting changes.

Note 3 Equipment and Amortization

	2007		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Furniture and equipment	\$ 36,129	\$ 33,616	\$ 2,513
Machinery and equipment	<u>247,023</u>	<u>244,409</u>	<u>2,614</u>
	<u>\$ 283,152</u>	<u>\$ 278,025</u>	<u>\$ 5,127</u>

Valdor Fiber Optics Inc.
Notes to the Consolidated Financial Statements
December 31, 2007 and 2006
(Stated in US Dollars) – Page 7

Note 3 Equipment and Amortization – (cont'd)

	<u>2006</u>		
	<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>

Note 4 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are comprised of the following:

	<u>2007</u>	<u>2006</u>
Parent Company	\$ 157,382	\$ 122,111
Subsidiary – Valdor Fiber Optics, Inc.	<u>345,161</u>	<u>433,978</u>
	<u>\$ 502,543</u>	<u>\$ 556,089</u>

Note 5 Promissory Notes Payable

	<u>2007</u>	<u>2006</u>
Promissory note payable in Euros (€152,449) to a former director of the Company, bearing interest at 10% per annum, unsecured and due on demand, includes accrued interest payable of \$217,276 (2006: \$162,902)	<u>\$ 435,051</u>	<u>\$ 364,058</u>

Note 6 Due to Related Parties

Due to related parties represent amounts due to directors and officers of the company and companies with common directors, are unsecured and have no specific terms for repayment.

Note 7 Share Capital

a) Authorized:

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

Note 7 Share Capital – (cont'd)

b) Issued Common Shares:

	2007		2006	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Balance, beginning of the year	68,769,547	\$12,405,715	53,026,548	\$ 10,993,831
For cash				
– pursuant to the exercise of share purchase options				
– at \$0.07 to \$0.10	35,000	2,970	1,742,999	155,551
– pursuant to private placements				
– at \$0.05 to \$0.10	-	-	14,000,000	1,234,935
Share issue costs	-	-	-	(72,030)
Transfer of stock based compensation on stock options exercised	-	2,646	-	93,428
Balance, end of the year	<u>68,804,547</u>	<u>\$12,411,331</u>	<u>68,769,547</u>	<u>\$ 12,405,715</u>

c) Commitments

Stock-Based Compensation Plan

The Company has established a formal stock option plan in accordance with the policies of the TSX-V under which it is authorized to grant options up to a maximum of 7,371,434 common shares to officers, directors, employees and consultants. The exercise price of each option is not less than the market price of the Company's stock on the trading day immediately before the date of grant, subject to a minimum of CDN\$0.10 per common share. No options will be exercisable until it has vested. Options vest at 25% on a quarterly basis unless specified by the board. The options are for a maximum term of five years.

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 7 Share Capital – (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, 2007 and 2006 and changes during the years then ended on those dates is presented below:

	<u>2007</u>		<u>2006</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	7,095,500	\$ 0.0	5,156,266	\$0.09
Exercised	(35,000)	\$ 0.0	(1,742,999)	\$0.09
Forfeited	(623,000)	-	(2,092,767)	\$0.09
Granted	-	-	<u>5,775,000</u>	\$0.10
Options outstanding at end of the year	<u>6,437,500</u>	<u>\$ 0.</u>	<u>7,095,500</u>	\$0.09
Options exercisable at end of the year	<u>5,031,250</u>		<u>5,865,641</u>	

At December 31, 2007, the Company has 6,437,500 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>	<u>Contractual Life remaining</u>
25,000	\$0.10	April 28, 2008	0.33
720,000	\$0.10	June 28, 2009	1.49
65,000	\$0.10	April 19, 2010	2.30
527,500	\$0.10	July 7, 2011	3.52
<u>5,100,000</u>	\$0.10	September 25, 2011	3.74
<u>6,437,500</u>			

Note 7 Share Capital – (cont'd)

c) Commitments – (cont'd)

Stock-Based Compensation Plan – (cont'd)

During the year ended December 31, 2007, the Company recorded stock-based compensation expense totalling \$246,639 (2006: \$215,248) related to share purchase options vested during the year of which \$66,559 (2006: \$87,655) has been allocated to consulting fees, \$46,545 (2006: \$33,053) has been allocated to management fees, \$628 (2006: \$492) has been allocated to office and miscellaneous and \$132,907 (2006: \$94,048) has been allocated to salaries, wages and benefits.

The weighted fair value of share purchase options granted during the year ended December 31, 2006, of \$0.04 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>2007</u>	<u>2006</u>
Risk free rate	-	3.13-3.43%
Dividend yield	-	0%
Expected volatility	-	104%
Weighted average expected stock option life	-	5 yrs

The following table reconciles the Company's contributed surplus:

	<u>2007</u>	<u>2006</u>
Balance, beginning of the year	\$ 477,758	\$ 355,938
Options vested	246,639	215,248
Options exercised	<u>(2,646)</u>	<u>(93,428)</u>
Balance, end of the year	<u>\$ 721,751</u>	<u>\$ 477,758</u>

Share Subscriptions

As at December 31, 2007 share subscriptions consist of the following:

- Share subscriptions totalling \$1,333,450 (2006: \$1,333,450) relating to the acquisition of GC Technologies, Ltd. for 3,800,000 common shares.
- Share subscriptions totalling \$249 (2006: \$3,218) in respect to the exercise of 2,500 (2006: 37,500) share purchase options. During the year ended December 31, 2007, 35,000 shares were issued and \$2,970 was utilized.

Note 7 Share Capital – (cont'd)

c) Commitments – (cont'd)

Share Purchase Warrants

	<u>2007</u>		<u>2006</u>	
	<u>Number</u>	<u>Weighted Average Exercise Price</u>	<u>Number</u>	<u>Weighted Average Exercise Price</u>
Balance, beginning of year	11,500,000	\$ 0.13	-	\$ -
Issued	-	-	11,500,000	0.13
Expired	<u>(11,500,000)</u>	<u>0.13</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>-</u>	<u>\$ -</u>	<u>11,500,000</u>	<u>\$ 0.13</u>

Note 8 Related Party Transactions

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

	<u>2007</u>	<u>2006</u>
Consulting	\$ 111,708	\$ -
Marketing	1,523	-
Management fees	33,513	31,730
Office and miscellaneous – secretarial services	6,144	6,699
Rent	5,586	10,577
Salaries, wages and benefits	<u>88,112</u>	<u>83,939</u>
	<u>\$ 246,586</u>	<u>\$ 132,945</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, 2007, is \$495 (2006: \$858) of rent prepaid to a company with a common director.

Note 9 Corporation Income Tax Losses

The total income tax recovery varies from the amounts that would be computed by applying the statutory income tax rate to loss before income taxes as follows:

	<u>2007</u>	<u>2006</u>
Income (losses) before income taxes	\$ (1,083,174)	\$ 1,593,368
Statutory rates	<u>34.12%</u>	<u>34.12%</u>
Expected income tax (recovery)	\$ (370,000)	\$ 544,000
Change in statutory rates	217,000	-
Stock based compensation	84,000	73,000
Change in foreign exchange rate	(91,000)	-
Change in valuation allowance	<u>160,000</u>	<u>(617,000)</u>
	<u>\$ -</u>	<u>\$ -</u>

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, after applying enacted corporate income tax rates, are as follows:

	<u>2007</u>	<u>2006</u>
Future income tax assets		
Non-capital and net operating losses	\$ 3,759,000	\$ 3,510,000
Capital losses	585,000	668,000
Mineral properties	4,000	5,000
Share issue costs	<u>13,000</u>	<u>19,000</u>
	4,361,000	4,202,000
Less: valuation allowance	<u>(4,361,000)</u>	<u>(4,202,000)</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 be realized during the carry forward periods to utilize all the future tax assets.

Note 9 Corporation Income Tax Losses – (cont'd)

At December 31, 2007, the Company and its subsidiaries have accumulated non-capital losses of approximately \$10,820,000 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	255,000
2027	<u>792,000</u>
	<u>\$10,820,000</u>

At December 31, 2007, the Company has accumulated capital losses of approximately \$4,500,000 that may be carried forward indefinitely to reduce future years capital gains.

Note 10 Commitments

The Company's subsidiary has a lease commitment for its office premises which require future minimum lease payments of \$2,888 per month plus a proportionate share of the common area expenses. The lease expires August 31, 2009.

Note 11 Segmented Information and Economic Dependence

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

	Year ended December 31,	
	<u>2007</u>	<u>2006</u>
United States of America	\$ 477,057	\$ 646,898
Europe	258,020	335,371
Other	<u>159</u>	<u>17,618</u>
	<u>\$ 735,236</u>	<u>\$ 999,887</u>

During the year ended December 31, 2007, the company was economically dependent on three (2006: five) customers each accounted for more than 10% of sales and in aggregate accounted for 69% (2006: 90%) of sales.

Note 12 Financial Instruments

Credit Risk

The Company provides credit to its clients in the normal course of operations. It carries out, on a continuing basis, credit checks on its clients and maintains provisions for contingent losses.

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, 2007, the Company has in Canadian dollars cash of \$Nil (2006: \$32,915), accounts payable of \$158,957 (2006: \$118,996), due to related parties of \$308,654 (2006: \$65,764) 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 13 Subsequent Event

Subsequent to December 31, 2007 the Company received financing of \$74,975 bearing interest at 1% per month, unsecured and payable on demand.

Note 14 Comparative Figures

Certain comparative figures for the year ended December 31, 2006 have been reclassified to conform with the presentation adopted for the current year.