

**VALDOR TECHNOLOGY INTERNATIONAL INC.**

(formerly Valdor Fiber Optics Inc.)

**CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2008 and 2007

(Stated in US Dollars)



**BDO Dunwoody LLP**  
Chartered Accountants

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## **AUDITORS' REPORT**

To the Shareholders,  
Valdor Technology International Inc.  
(formerly Valdor Fiber Optics Inc.)

We have audited the consolidated balance sheets of Valdor Technology International Inc. (formerly Valdor Fiber Optics Inc.) as at December 31, 2008 and 2007 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, 2008 and 2007 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 30, 2009

**VALDOR TECHNOLOGY INTERNATIONAL INC.**  
(formerly Valdor Fiber Optics Inc.)  
**CONSOLIDATED BALANCE SHEETS**  
December 31, 2008 and 2007  
(Stated in US Dollars)

	<u>ASSETS</u>	2008	2007
Current			
Cash and cash equivalents	\$	84,262	\$ 35,694
Accounts receivable		55,362	59,298
Inventory		53,947	69,668
Prepaid expenses – Note 8		14,264	16,991
		207,835	181,651
Equipment – Note 3		2,325	5,127
		\$ 210,160	\$ 186,778

	<u>LIABILITIES</u>	2008	2007
Current			
Accounts payable and accrued liabilities – Note 4	\$	565,775	\$ 544,622
Promissory notes payable – Note 5		467,933	435,051
Due to related parties – Note 6		45,419	294,916
Advance royalty		-	25,000
		1,079,127	1,299,589

	<u>SHAREHOLDERS' DEFICIENCY</u>	2008	2007
Share capital – Note 7		13,402,846	12,411,331
Share subscriptions – Note 7		244	249
Contributed surplus – Note 7		2,370,378	2,055,201
Deficit		(16,642,435)	(15,579,592)
		(868,967)	(1,112,811)
		\$ 210,160	\$ 186,778

Nature of Operations and Ability to Continue as a Going Concern – Note 1  
Commitments – Notes 7 and 10  
Subsequent Event – Note 16

APPROVED BY THE DIRECTORS:

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

**VALDOR TECHNOLOGY INTERNATIONAL INC.**  
(formerly Valdor Fiber Optics Inc.)  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
for the years ended December 31, 2008 and 2007  
(Stated in US Dollars)

	2008	2007
Sales – Note 8 and 11	\$ 488,518	\$ 735,236
Cost of sales – Schedule II	373,616	688,368
Gross profit	114,902	46,868
Expenses		
Administrative and general – Schedule I	610,140	568,046
Stock-based compensation – Note 7	315,177	246,639
Marketing – Note 8	39,987	69,285
Research and development	98,946	119,084
Interest	59,460	39,375
Amortization of equipment and other assets	2,802	10,535
	1,126,512	1,052,964
Loss from operations	(1,011,610)	(1,006,096)
Other items		
Other income	754	412
Renegotiation of supplier contract – Note 14	(109,844)	-
Gain from write-off of accounts payable	18,374	-
Foreign exchange gain (loss)	39,483	(77,489)
	(51,233)	(77,077)
Net loss and comprehensive loss for the year	(1,062,843)	(1,083,173)
Deficit, beginning of the year	(15,579,592)	(14,496,419)
Deficit, end of the year	\$ (16,642,435)	\$ (15,579,592)
Basic and diluted loss per share	\$ (0.08)	\$ (0.10)
Weighted average number of shares outstanding	13,224,220	10,584,341

SEE ACCOMPANYING NOTES

**VALDOR TECHNOLOGY INTERNATIONAL INC.**  
(formerly Valdor Fiber Optics Inc.)  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
for the years ended December 31, 2008 and 2007  
(Stated in US Dollars)

	2008	2007
Operating Activities		
Net loss and comprehensive loss for the year	\$ (1,062,843)	\$ (1,083,173)
Charges to income not affecting cash:		
Amortization and write-off of equipment and other assets	2,802	10,535
Unrealized foreign exchange gain (loss)	(39,483)	77,489
Renegotiation of supplier contract	109,844	-
Gain from write-off of accounts payable	(18,374)	-
Non-cash compensation charge	315,177	246,639
	(692,877)	(748,510)
Changes in non-cash working capital balances related to operations:		
Accounts receivable	5,027	244,399
Inventory	15,721	82,438
Prepaid expenses	3,143	1,704
Accounts payable and accrued liabilities	(2,530)	(67,708)
Advance Royalties	(25,000)	-
	(696,516)	(487,677)
Cash used in operating activities		
Investing Activity		
Acquisition of assets	-	(1,705)
	-	(1,705)
Cash used in investing activities		
Financing Activities		
Increase (decrease) in promissory notes payable	125,353	14,096
Increase (decrease) in due to related parties	(261,215)	176,609
Share subscriptions	-	(3,257)
Proceeds from issuance of common shares – net	986,914	2,970
	851,052	190,418
Cash provided by financing activities		
Effect on unrealized foreign exchange gain or loss on cash	(105,968)	28,938
Increase (decrease) in cash during the year	48,568	(270,026)
Cash, beginning of the year	35,694	305,720
Cash, end of the year	\$ 84,262	\$ 35,694
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	\$ 13,796	\$ 236
Income taxes	\$ -	\$ -

SEE ACCOMPANYING NOTES

**VALDOR TECHNOLOGY INTERNATIONAL INC.**  
(formerly Valdor Fiber Optics Inc.)  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2008 and 2007  
(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, 2008, 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, 2008, the Company had not yet achieved profitable operations, has accumulated losses of \$16,642,435 since inception, has a working capital deficiency of \$871,292 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 will require additional financing in order to meet its ongoing levels of corporate overhead and discharge its liabilities as they come due. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future, particularly in light of current global economic conditions. Accordingly, these financial statements do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern. If the going concern assumption was not appropriate then the adjustments required to report the Company's assets and liabilities on a liquidation basis could be material to these financial statements.

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:

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

a) Principles of Consolidation

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

Company	State of Incorporation	Percentage Held	
		2008	2007
Fiberlight Optics, Inc.	Delaware	94%	94%
Valdor Fiber Optics, Inc.	Delaware	94%	94%

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

The Company has adopted CICA Handbook Section 3031, Inventories. This section 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.

Inventory is valued at the lower of cost or net realizable value.

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 Canadian dollar as it is the currency in which the majority of the funding is obtained to continue operations and uses US dollar as its reporting currency.

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

e) Foreign Currency Translation – (cont'd)

Monetary assets and liabilities of a subsidiary that are denominated in a currency other than the functional currency are translated at the exchange rate in effect at the period end. Revenue and expense items are translated at the average rates of exchange prevailing during the year. Gains or losses from translation are recorded in the Statement of Operations.

Once converted into the functional currency, assets and liabilities that are denominated in a foreign currency are translated at the exchange rate in effect at the period end into reporting currency. Income statement accounts are translated at the average rates of exchange prevailing during the year. Gains or losses from translation are recorded in other comprehensive income.

f) Basic and Diluted Loss per Share

Basic loss per share is calculated by dividing the net loss 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, 2008, potentially dilutive common shares (relating to options and warrants outstanding at year-end) totalling 12,975,000 (2007: 990,385) were not included in the computation of loss per share because their effect was anti-dilutive.

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.

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

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 advance royalty 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 or service 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.

j) Financial instruments

In 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. 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.

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

j) Financial instruments – (cont'd)

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 initially and subsequently on 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.

In 2008, the Company adopted the CICA guidelines of Section 3862, Financial Instruments – disclosures, and Section 3863, Financial Instruments – Presentation. These standards replace CICA 3861, Financial Instruments – Disclosure and Presentation.

These standards increase the disclosures currently required, which will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The quantitative disclosures must provide information about the extent to which the Company is exposed to such risk, based on information provided internally to the entity's key management personnel. Note 12 provides the required disclosure under this new accounting standard.

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 elected that transaction costs related to financial instruments classified as other than held for trading are expensed as incurred.

l) Capital Disclosure

The Company adopted section 1535 which 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 Company’s policy on management of its capital is described in Note 13.

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

n) Future Accounting Changes

Goodwill and Intangible Assets

The AcSB issued CICA Handbook Section 3064 which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill remain unchanged from the standards included in the previous Section 3062. The section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently evaluating the impact of the adoption of this new Section on its financial statements.

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.

Note 3 Equipment and Amortization

	2008		
	Cost	Accumulated Amortization	Net
Furniture and equipment	\$ 36,129	\$ 35,169	\$ 960
Machinery and equipment	247,023	245,658	1,365
	<u>\$ 283,152</u>	<u>\$ 280,827</u>	<u>\$ 2,325</u>

Note 3 Equipment and Amortization – (cont'd)

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

Note 4 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are comprised of the following:

	2008	2007
Canada	\$ 185,657	\$ 199,461
United States of America	380,118	345,161
	<u>\$ 565,775</u>	<u>\$ 544,622</u>

Note 5 Promissory Notes Payable

	2008	2007
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 \$256,260 (2007: \$217,276)	\$ 467,933	\$ 435,051

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 non-interest bearing, unsecured and are due on demand.

Note 7 Share Capital

a) Authorized:

Unlimited common shares without par value  
 Unlimited preferred shares

Note 7 Share Capital – (cont'd)

b) Issued Common Shares:

Pursuant to a resolution dated June 20, 2008, the Company consolidated its share capital on a 6.5 old for 1 new basis. The number of shares outstanding has been retroactively restated to take into account the share consolidation. The Company also increased its authorized common shares to unlimited and changed its name to Valdor Technology International Inc.

	2008		2007	
	Number	Amount	Number	Amount
Balance, beginning of the year	10,585,220	\$12,411,331	10,579,835	\$ 12,405,715
For cash				
– pursuant to the exercise of share purchase options				
– at CND\$0.07 to CDN \$0.10	-	-	5,385	2,970
– Fair value of options exercised				2,646
– pursuant to private placements				
– at CND \$0.10	10,585,000	997,742	-	-
Share issue costs – finder's fee	-	(6,227)	-	-
Balance, end of the year	21,170,220	\$13,402,846	10,585,220	\$12,411,331

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 20% of the issued and outstanding 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 in accordance with the stock option plan.

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, 2008 and 2007 and changes during the years then ended on those dates is presented below:

	2008		2007	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of the period	990,385	CDN \$0.59	1,091,616	CDN \$0.59
Forfeited/cancelled	(990,385)	CDN \$0.59	(95,846)	CDN \$0.59
Granted	2,390,000	CDN \$0.11	-	-
Exercised	-	-	(5,385)	CDN \$0.59
Outstanding at end of the period	2,390,000	CDN \$0.11	990,385	CDN \$0.59
Options exercisable at end of the period	<u>597,500</u>		<u>774,038</u>	

At December 31 2008, the Company has 2,390,000 share purchase options outstanding entitling the holders thereof the right to purchase one common share for each option held as follows:

Number	Exercise Price	Expiry Date
350,000	CDN\$0.15	April 30, 2010
<u>2,040,000</u>	<u>CDN\$0.10</u>	<u>August 1, 2013</u>
<u>2,390,000</u>		

As of December 31, 2008, the 2,390,000 share purchase options outstanding have a weighted average remaining contractual life of 4.11 years.

Stock-based compensation charges are expensed for stock options granted and vested 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 7 Share Capital – (cont'd)

c) Commitments - (cont'd)

Stock-Based Compensation Plan – (cont'd)

During the year ended December 31, 2008, the Company granted 2,040,000 incentive stock options exercisable at CDN\$0.10 per share to certain directors, officers, employees and consultants for a period of five years pursuant to the terms and conditions of the company's stock option plan. The options vest 25% at date of grant and 25% every six months thereafter.

During the year ended December 31, 2008, the Company also granted 350,000 incentive stock options exercisable at CDN\$0.15 per share to a consultant for a period of 1.5 years pursuant to the terms and conditions of the company's stock option plan. The options vest 25% at date of grant and 25% every six months thereafter.

At December 31, 2008, the Company recorded a stock-based compensation expense of \$315,177 (2007: \$246,639) on stock options vested during the period. The fair value of share purchase options granted was estimated on the grant date using the Black Scholes option pricing model. The assumptions used in calculating fair value were as follows: 2.11% - 3.03% risk free rate, 0% dividend yield, 126% – 214% expected volatility and 1.5-5 years weighted average expected stock option life.

The following table reconciles the Company's contributed surplus:

	December 31,	
	2008	2007
Balance, beginning of the period	\$ 2,055,201	\$ 1,811,208
Options vested	315,177	246,639
Options exercised	-	(2,646)
Balance, end of the period	<u>\$ 2,370,378</u>	<u>\$ 2,055,201</u>

The Company reclassified share subscriptions of \$1,333,450 to contributed surplus for the years ended December 31, 2008 and 2007. These shares were to be issued to a former director of the Company with respect to a business acquisition which did not close.

Share Subscriptions

As at December 31, 2008, share subscriptions consist of \$244 (December 31, 2007: \$249) in respect to the exercise of 2,500 (December 31, 2007: 2,500) share purchase options.

Note 7 Share Capital – (cont'd)

c) Commitments - (cont'd)

Share Purchase Warrants

	2008		2007	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Balance, beginning of the year	-	-	1,769,231	CDN \$0.85
Issued	10,585,000	CDN \$0.10	-	-
Expired	-	-	(1,769,231)	CDN \$0.85
Balance, end of the year	10,585,000	CDN \$0.10	-	-

As at December 31, 2008, the Company has 10,585,000 (2007: Nil) share purchase warrants outstanding and exercisable expiring on October 1, 2010.

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:

	2008	2007
Revenue	\$ 7,262	\$ -
Cost of sales	19,997	-
Consulting	-	111,708
Marketing	-	1,523
Management fees	33,772	33,513
Office and miscellaneous – secretarial services	11,820	6,144
Rent	8,443	5,586
Salaries, wages and benefits	123,771	88,112
	<u>\$ 205,065</u>	<u>\$ 246,586</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, 2008, is \$1,637 (2007: \$495) of prepaid rent and salaries to an officer of the Company and a company with a common director.

Note 8 Related Party Transactions – (cont'd)

Included in accounts payables as at December 31, 2008, is \$45,476 (2007: \$336,996) of payables due to a director and his wife, and a companies with common directors.

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:

	2008	2007
Income (losses) before income taxes	\$ (1,062,843)	\$ (1,083,174)
Statutory rates	31.00%	34.12%
Expected income tax (recovery)	\$ (335,000)	\$ (370,000)
Foreign income taxes at other than Canadian statutory rate	(17,000)	-
Change in statutory rates	17,000	217,000
Stock based compensation	98,000	84,000
Change in foreign exchange rate	101,000	(92,000)
Change in valuation allowance	136,000	161,000
	\$ -	\$ -

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:

	2008	2007
Future income tax assets		
Non-capital and net operating losses	\$ 4,146,000	\$ 3,903,000
Capital losses	483,000	585,000
Mineral properties	4,000	4,000
Share issue costs	8,000	13,000
	4,641,000	4,505,000
Less: valuation allowance	(4,641,000)	(4,505,000)
	\$ -	\$ -

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

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.

At December 31, 2008, the Company has accumulated non-capital losses of approximately USD\$699,000 in Canada and its subsidiaries have approximately USD\$11,325,000 in USA, which are available to carry forward and offset future year's taxable income. The non-capital losses expire as follows:

	<u>Canada</u>	<u>USA</u>	<u>Total</u>
2017	\$ 306,000	\$ -	\$ 306,000
2018	393,000	480,000	873,000
2019	-	1,516,000	1,516,000
2020	-	2,034,000	2,034,000
2021	-	2,365,000	2,365,000
2022	-	1,037,000	1,037,000
2023	-	871,000	871,000
2024	-	779,000	779,000
2025	-	716,000	716,000
2026	-	528,000	528,000
2027	-	597,000	597,000
2028	-	402,000	402,000
	<u>\$ 699,000</u>	<u>\$ 11,325,000</u>	<u>\$ 12,024,000</u>

At December 31, 2008, the Company has accumulated capital losses of approximately \$3,712,000 in Canada that may be carried forward indefinitely to reduce future years' capital gains.

Note 10 Commitments

By agreement dated November 1, 2008 the Company engaged a consultant at \$7,500 per month for investor relations services. The contract expires January 31, 2010.

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:

	Years ended December 31,	
	2008	2007
United States of America	\$ 359,644	\$ 477,057
Europe	63,202	258,020
Asia	63,418	-
Other	2,254	159
	<u>\$ 488,518</u>	<u>\$ 735,236</u>

During the year ended December 31, 2008, the Company was economically dependent on four (2007: three) customers each accounted for more than 10% of sales and in aggregate accounted for 66% (2007: 69%) of sales.

Note 12 Financial Instruments

Financial instruments issued by the Company are treated as equity only to the extent that they do not meet the definition of a financial liability. The Company's common shares are classified as equity instruments.

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.

The Company classifies and measures its financial instruments as follows:

- Cash and cash equivalents are classified as "held-for-trading". They are measured at fair value and changes in fair value are recognized in the statements of operations.
- Accounts receivables are classified as loans and receivables and are initially measured at fair value and subsequently at amortized cost, using the effective interest method less provisions for impairment.

Accounts payable and accrued liabilities, promissory notes payable, due to related parties and advance royalty are classified as other financial liabilities and are measured at fair value at inception. They are measured at amortized cost using the effective interest rate at subsequent periods.

Note 12 Financial Instruments – (cont'd)

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

a) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company reduces its credit risk on cash by placing these instruments with institutions of high credit worthiness. 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.

b) Liquidity Risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they become due. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. The Company may seek additional financing through equity offerings and advances from related parties, but there can be no assurance that such financing will be available on terms acceptable to the Company.

c) Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates.

d) Foreign Currency Risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. The majority of the Company's operations are carried out in the United States of America, however the majority of financing is carried out in Canada. The parent company's operations are in Canada and operate in Canadian dollars. As at December 31, 2008, the Company has Canadian dollars cash of \$27,918 (2007: \$Nil), accounts payable of \$227,354 (2007: \$158,957), due to related parties of \$34,003 (2007: \$308,654) These factors expose the Company to foreign currency exchange rate risk, which could have a material adverse effect on the profitability of the Company. The Company currently does not plan to enter into foreign currency future contracts to mitigate this risk.

Note 13     Management of Capital

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern to pursue the development of fiber optics business and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. In the management of capital, the Company includes the components of shareholders' equity, as well as cash.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash.

The Company is dependent on the capital markets as its main source of operating capital and the Company's capital resources are largely determined by the strength of the junior resource markets and by the status of the Company's projects in relation to these markets, and its ability to compete for investor support.

The Company is not subject to any external capital requirements

Note 14     Renegotiation of Supplier Contract

During the year ended December 31, 2008, the Company completed its renegotiation of the supplier costs with one of its supplier and reinstated the balances payable.

Note 15     Comparative Figures

Certain comparative figures for the year ended December 31, 2007 have been reclassified to conform with the presentation adopted for the current year.

Note 16     Subsequent Events

Subsequent to December 31, 2008, the Company received TSX Venture Exchange approval to privately place 4,300,000 Units at a price of \$0.10 per unit for proceeds of \$430,000. Each Unit consists of one common share of the Company and one share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.125 for a two year period. A finder's fee of \$3,500 is payable.

**VALDOR TECHNOLOGY INTERNATIONAL INC.** Schedule I  
(formerly Valdor Fiber Optics Inc.)  
**CONSOLIDATED SCHEDULE OF ADMINISTRATIVE AND GENERAL EXPENSES**  
for the years ended December 31, 2008 and 2007  
(Stated in US Dollars)

	2008	2007
Bad debts	\$ -	\$ 4,600
Consulting fees – Note 8	165,770	123,020
Entertainment and travel	21,803	22,366
Legal and accounting fees	82,239	95,459
Insurance, licenses and permits	3,427	2,884
Management fees – Note 8	33,772	33,513
Office and miscellaneous – Note 8	27,304	34,445
Rent – Note 8	41,310	47,953
Repairs and maintenance	10,752	11,072
Salaries, wages and benefits – Note 8	178,832	168,347
Stock exchange filing fees	14,748	8,087
Telephone and utilities	18,386	11,666
Transfer agent fees	11,797	4,634
	\$ 610,140	\$ 568,046

**VALDOR TECHNOLOGY INTERNATIONAL INC.** Schedule II  
**CONSOLIDATED SCHEDULE OF COST OF SALES**  
for the years ended December 31, 2008 and 2007  
(Stated in US Dollars)

	2008	2007
Manufacturing	\$ 229,216	\$ 397,603
Wages and benefits	89,779	142,513
Freight	42,895	44,052
	361,890	584,168
Write-off of inventory	11,746	104,200
	\$ 373,636	\$ 688,368