

VALDOR TECHNOLOGY INTERNATIONAL INC.
ANNUAL CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011
(Stated in US Dollars)

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Independent Auditor's Report

To the shareholders of
Valdor Technology International Inc.

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of Valdor Technology International Inc., which comprise the consolidated statements of financial position as at December 31, 2012 and 2011 and the consolidated statements of operations and comprehensive loss, the consolidated statements of changes in shareholders' deficiency and the consolidated statements of cash flows for the years ended December 31, 2012 and 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Emphasis of Matter

Without qualifying my opinion, I draw attention to Note 1 of the consolidated financial statements which indicates that the Company has incurred losses since inception and has not yet developed self-sustaining operations. These conditions, along with other matters as set for the in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Opinion

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Valdor Technology International Inc. as at December 31, 2012 and 2011 and its financial performance and cash flows for the years ended December 31, 2012 and 2011 in accordance with International Financial Reporting Standards.

April 30, 2013
Vancouver, Canada

"I Vellmer Inc."
Chartered Accountant

VALDOR TECHNOLOGY INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2012 and 2011
(Stated in US Dollars)

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Current		
Cash	\$ 27,139	\$ 9,568
Accounts receivable	19,423	32,645
Inventories	48,551	81,564
Prepaid expenses – Note 8	<u>7,902</u>	<u>24,464</u>
Total Assets	<u>\$ 103,015</u>	<u>\$ 148,241</u>
<u>LIABILITIES</u>		
Current		
Accounts payable and accrued liabilities	\$ 338,570	\$ 456,187
Loans payable – Notes 5 and 8	45,732	246,317
Due to related parties – Note 6	<u>455,362</u>	<u>248,873</u>
Total Liabilities	<u>839,664</u>	<u>951,377</u>
<u>SHAREHOLDERS' DEFICIENCY</u>		
Share capital – Note 7	17,872,166	16,491,101
Share subscriptions received	-	915
Contributed surplus	3,158,054	3,103,284
Accumulated other comprehensive income (loss)	(32,226)	(9,704)
Deficit	<u>(21,187,486)</u>	<u>(19,863,201)</u>
Attributable to parent	(189,492)	(277,605)
Attributable to non-controlling interest	<u>(547,157)</u>	<u>(525,531)</u>
Total Shareholders' Deficiency	<u>(736,649)</u>	<u>(803,136)</u>
Total Liabilities and Shareholders' Deficiency	<u>\$ 103,015</u>	<u>\$ 148,241</u>

Nature of Operations – Note 1
Commitment – Note 7
Contingency – Note 13
Subsequent Events – Note 14

APPROVED BY THE DIRECTORS:

<i>"Elston Johnston"</i> Elston Johnston	Director	<i>"Brian Findlay"</i> Brian Findlay	Director
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SEE ACCOMPANYING NOTES

VALDOR TECHNOLOGY INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
for the years ended December 31, 2012 and 2011
(Stated in US Dollars)

	<u>2012</u>	<u>2011</u>
Revenue – Note 10	\$ 130,593	\$ 169,285
Direct expenses – Note 8	<u>78,120</u>	<u>89,136</u>
Gross profit	<u>52,473</u>	<u>80,149</u>
Expenses		
Administration and general – Schedule 1	1,158,220	1,011,009
Marketing	114,146	129,943
Research and development – Note 8	94,987	291,337
Interest	4,443	64,587
Stock-based compensation – Note 7 and 8	<u>59,852</u>	<u>203,040</u>
	<u>1,431,648</u>	<u>1,699,916</u>
Loss before other items	(1,379,175)	(1,619,767)
Write-off of promissory note payable	-	586,811
Write-off of prepaid expenditures – Note 8	(64,736)	-
Write-off of accounts payable	<u>98,000</u>	<u>-</u>
Net loss for the year	(1,345,911)	(1,032,956)
Other Comprehensive (Loss) Income		
Exchange differences on translating into functional currency	<u>(22,522)</u>	<u>19,627</u>
Total comprehensive loss for the year	<u>\$(1,368,433)</u>	<u>\$(1,013,329)</u>
Net loss attributable to non-controlling interest	(21,627)	(40,100)
Net loss attributable to parent	<u>(1,324,284)</u>	<u>(992,856)</u>
Net loss for the year	<u>\$(1,345,911)</u>	<u>\$(1,032,956)</u>
Total comprehensive loss attributable to non-controlling interest	(21,627)	(40,100)
Total comprehensive loss attributable to parent	<u>(1,346,806)</u>	<u>(973,229)</u>
Total comprehensive loss for the year	<u>\$(1,368,433)</u>	<u>\$(1,013,329)</u>
Basic and diluted loss per share	<u>\$ (0.03)</u>	<u>\$ (0.02)</u>
Weighted average number of shares outstanding	<u>45,573,460</u>	<u>42,392,453</u>

SEE ACCOMPANYING NOTES

VALDOR TECHNOLOGY INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended December 31, 2012 and 2011
(Stated in US Dollars)

	<u>2012</u>	<u>2011</u>
Operating Activities		
Net loss from operations for the year	\$ (1,345,911)	\$ (1,032,956)
Charges to income not affecting cash:		
Write-off of promissory note payable	-	(586,812)
Write-off of prepaid expenditures	64,736	-
Write-off of accounts payable	(98,000)	-
Unrealized foreign exchange	(8,289)	9,794
Non-cash compensation charge	<u>59,852</u>	<u>203,040</u>
	(1,327,612)	(1,406,934)
Changes in non-cash working capital balances related to operations:		
Accounts receivable	12,852	(2,727)
Inventories	33,013	(24,965)
Prepaid expenses	16,527	(9,070)
Accounts payable and accrued liabilities	<u>(89,705)</u>	<u>139,339</u>
	<u>(1,354,925)</u>	<u>(1,304,357)</u>
Financing Activities		
Increase in due to related parties	202,234	129,446
Increase (decrease) in promissory note payable	-	35,258
Increase (decrease) in loans payable	(205,012)	253,268
Proceeds from issuance of common shares	1,375,983	530,605
Share subscriptions	<u>(915)</u>	<u>1,040</u>
	<u>1,372,290</u>	<u>949,617</u>
Effect of unrealized foreign exchange gain or loss on cash	<u>206</u>	<u>5,392</u>
Increase (decrease) in cash during the year	17,571	(349,348)
Cash, beginning of the year	<u>9,568</u>	<u>358,916</u>
Cash, end of the year	<u>\$ 27,139</u>	<u>\$ 9,568</u>

SEE ACCOMPANYING NOTES

VALDOR TECHNOLOGY INTERNATIONAL INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIENCY
for the years ended December 31, 2012 and 2011
(Stated in US Dollars)

	Common Stock		Common	Contributed	Accumulated		Non-	
	Issued	Amount	Stock	Surplus	Other	Deficit	Controlling	Total
	Shares		Subscriptions		Comprehensive		Interest	
					Income (loss)			
Balance, December 31, 2010	39,915,220	\$ 15,936,338	\$ (125)	\$ 2,924,403	\$ (29,331)	\$ (18,870,345)	\$ (485,431)	\$ (524,491)
Shares issued for cash:								
On exercise of share purchase warrants								
– at CND\$0.125	3,950,000	509,430	-	-	-	-	-	509,430
On exercise of share purchase options								
– at CND\$0.10	12,500	1,312	-	-	-	-	-	1,312
– at CND\$0.15	50,000	7,874	-	-	-	-	-	7,874
– at CND\$0.17	69,000	11,988	-	-	-	-	-	11,988
Fair value of options exercised	-	24,159	-	(24,159)	-	-	-	-
Fair market value of stock based compensation	-	-	-	203,040	-	-	-	203,040
Share subscriptions received	-	-	1,040	-	-	-	-	1,040
Exchange differences on translating foreign operation	-	-	-	-	19,627	-	-	19,627
Net loss for the year	-	-	-	-	-	(992,856)	(40,100)	(1,032,956)
Balance, December 31, 2011	43,996,720	16,491,101	915	3,103,284	(9,704)	(19,863,201)	(525,531)	(803,136)
Shares issued for cash:								
Pursuant to a private placement								
– at CND\$0.10	13,836,000	1,387,474	(915)	-	-	-	-	1,386,559
On exercise of share purchase options								
– at CND\$0.17	81,000	13,579	-	-	-	-	-	13,579
Shares issued as finders fees	391,000	39,209	-	-	-	-	-	39,209
Share issue cost	-	(64,279)	-	-	-	-	-	(64,279)
Fair value of options exercised	-	5,082	-	(5,082)	-	-	-	-
Fair market value of stock based compensation	-	-	-	59,852	-	-	-	59,852
Exchange differences on translating foreign operation	-	-	-	-	(22,522)	-	-	(22,522)
Net loss for the year	-	-	-	-	-	(1,324,284)	(21,627)	(1,345,911)
Balance, December 31, 2012	<u>58,304,720</u>	<u>\$ 17,872,166</u>	<u>\$ -</u>	<u>\$ 3,158,054</u>	<u>\$ (32,226)</u>	<u>\$ (21,187,485)</u>	<u>\$ (547,158)</u>	<u>\$ (736,649)</u>

*Contributed Surplus represents reserves for equity settled share-based payments.

SEE ACCOMPANYING NOTES

VALDOR TECHNOLOGY INTERNATIONAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011
(Stated in US Dollars)

Note 1 Nature of Operations

The Company was incorporated under the British Columbia Company Act on March 19, 1984 and is publicly traded on the TSX Venture Exchange. During the year ended December 31, 2012, the Company's principal business was developing, manufacturing and marketing of fiber optic products.

The address of the Company's corporate office is 450 - 789 West Pender Street, Vancouver, BC V6C 1H2 and the principal place of business is 3116 Diablo, Hayward, California 94545.

Note 2 Basis of Preparation

a) Statement of Compliance

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and which were in effect as of December 31, 2012.

The consolidated financial statements were authorized for issue by the Board of Directors on April 30, 2013.

b) Going Concern of Operations

The Company has incurred a net loss of \$1,345,911 during the year ended December 31, 2012 and, as of that date the Company's accumulated deficit was \$21,187,486. The financial statements are prepared on a going concern basis, 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 consolidated 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.

Note 2 Basis of Preparation – (cont'd)

c) Basis of Measurement

The preparation of financial statements in compliance with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, profit and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods. See Note 4 for use of estimates and judgements made by management in the application of IFRS.

The consolidated financial statements have been prepared on a historical cost basis.

The consolidated financial statements have been presented in US dollars.

Note 3 Summary of Significant Accounting Policies

The significant accounting policies set out below have been applied consistently in all material respects to all years presented in these financial statements, unless otherwise indicated.

a) Basis of Consolidation

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

Company	State of Incorporation	Percentage Held	
		2012	2011
Fiberlight Optics, Inc.	Delaware	94%	94%
Valdor Fiber Optics, Inc.	Delaware	94%	94%

Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. All significant inter-company transactions and balances have been eliminated.

b) Cash Equivalents

The Company considers all highly liquid instruments which are readily convertible into cash with maturities of three months or less when purchased to be cash equivalents. As at December 31, 2012 and 2011, the Company did not hold any cash equivalents.

Note 3 Summary of Significant Accounting Policies – (cont'd)

c) Inventory

The Company's inventory consists of fiber optic parts inventory. Inventory is valued at the lower of cost or net realizable value. Cost is determined using the first-in-first-out method and includes the cost of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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. The functional currency of the subsidiary is US dollars as it is the currency in which the majority of its sales and expenses are incurred.

Monetary assets and liabilities of a company 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 recognized in profit or loss in the period in which they occur.

The financial results and position of foreign operations whose functional currency is different from the Company's presentation currency is translated as follows:

- assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
- income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve on the statement of operations and comprehensive loss/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.

Note 3 Summary of Significant Accounting Policies – (cont'd)

g) Income Taxes

Income tax comprises current and deferred tax. Income tax is recognized in the statement of operations except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case the income tax is also recognized directly in equity or other comprehensive loss/income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax is recognized in respect of all qualifying temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, except for taxable temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is settled.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting year the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Deferred income tax assets and liabilities are presented as non-current.

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.

Note 3 Summary of Significant Accounting Policies – (cont'd)

i) Share Capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares are classified as equity instruments. The Company's warrants are classified as equity when a fixed amount of warrants are issuable for a fixed amount of cash.

The Company follows the residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component. The fair value of the common shares issued in the private placement was determined to be the more easily measurable component and were valued at their fair value on the announcement date and the balance, if any, is allocated to the attached warrants.

The proceeds from the exercise of stock options, share purchase warrants and escrow shares are recorded as share capital in the amount for which the stock options, share purchase warrants or escrow shares enabled the holder to purchase a share in the Company.

Share capital issued for non-monetary consideration is recorded at an amount based on fair market value reduced by an estimate of transaction costs normally incurred when issuing shares for cash, as determined by the board of directors of the Company.

Costs directly identifiable with the raising of share capital financing are charged against share capital. Share issue costs incurred in advance of share subscriptions are recorded as non-current deferred charges. Share issue costs related to uncompleted share subscriptions are charged to operations.

j) Share-based Payments

Equity-settled share based payments for directors, officers and employees are measured at fair value at the date of grant and recorded as compensation expense in the financial statements. The fair value determined at the grant date of the equity-settled share based payments is expensed on a graded vesting basis over the vesting period based on the Company's estimate of shares that will eventually vest on a tranche by tranche basis. Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of operations over the remaining vesting period.

Compensation expense on stock options granted to non-employees is measured at the earlier of the completion of performance and the date the options are vested using the fair value method and is recorded as an expense in the same period as if the Company had paid cash for the goods or services received.

Note 3 Summary of Significant Accounting Policies – (cont'd)

j) Share-based Payments – (cont'd)

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a Black-Scholes valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

All equity-settled share based payments are reflected in contributed surplus, until exercised. Upon exercise shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital along with any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

k) Financial Instruments

Financial assets and liabilities are recognized when the company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the company classifies its financial assets in the following categories depending on the purpose for which the instruments were acquired.

Financial assets are classified into one of four categories: Financial assets at fair value through profit or loss ("FVTPL"), Held-to-maturity investments, available for sale ("AFS") financial assets and loans and receivables.

The Company has classified cash and cash equivalents and accounts receivable as loans and receivables.

At each reporting date, the company assesses whether there is objective evidence that a financial asset is impaired. Financial assets are impaired when one or more events that occurred after the initial recognition of the financial asset have been impacted.

Note 3 Summary of Significant Accounting Policies – (cont'd)

k) Financial Instruments – (cont'd)

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivable is reduced through the use of an allowance. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

Impairment losses on loans and receivables carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at FVTPL, or other financial liabilities, as appropriate.

The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value.

The Company's financial liabilities include accounts payables and accrued liabilities, due to related parties, loans payable and promissory notes. Subsequent to initial recognition, accounts payable and accrued financial liabilities are measured at amortized cost using the effective interest method.

l) Future Accounting Pronouncements

The following new standards and interpretations are not yet effective and have not been applied in preparing these consolidated financial statements. The Company is currently evaluating the potential impacts of these new standards; however, the Company does not expect them to have a significant effect on the financial statements.

- IAS 1, *Presentation of Financial Statements* effective for annual periods beginning on or after July 1, 2012) require that elements of other comprehensive income that may subsequently be recycled through profit or loss be differentiated from those items that will not be recycled.
- IFRS 7, *Financial Instruments Disclosures* (effective January 1, 2013) IAS 32, *Financial Instrument Presentations* (effective January 1, 2014) introduces amendments requiring incremental disclosures and clarify an entity's ability to offset financial assets and financial liabilities.

Note 3 Summary of Significant Accounting Policies – (cont'd)

1) Future Accounting Pronouncements – (cont'd)

- IFRS 9, *Financial Instruments* (effective January 1, 2015) introduces new requirements for the classification and measurement of financial assets, and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options available in IAS 39.
- IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements*, IFRS 12, *Disclosure of Interests in Other Entities* (all effective January 1, 2013) provide revised guidance on the accounting treatment and associated disclosure requirements for joint arrangements and associates, and a revised definition of “control” for identifying entities which are to be consolidated.
- IFRS 13, *Fair Value Measurements* (effective January 1, 2013) provides new guidance on fair value measurement and disclosure requirements.
- IAS 27, *Consolidated and Separate Financial Statements* (effective January 1, 2013) provides new guidance on fair value measurement and disclosure requirements and IAS 28, *Investments in Associates and Joint Ventures* were revised and reissued to align with the new consolidation guidance.

Note 4 Use of Estimates and Judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

a) Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 7.

Note 4 Use of Estimates and Judgments – (cont'd)

b) Income taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

c) Functional currency

The analysis of the functional currency for each entity of the Company. In concluding that the Canadian dollar is the functional currency of the parent and the US dollar is the functional currency of the subsidiary, management considered the currency that mainly influences the costs of providing goods and services in each jurisdiction in which the Company operates.

Note 5 Loans Payable

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

Note 6 Due to and from Related Parties

Due to and from related parties, representing amounts due to and from 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
50,000,000 preferred shares without par value

Note 7 Share Capital – (cont'd)

b) 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 option 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.

A summary of the status of the stock option plan as of December 31, 2012 and 2011 and changes during the years then ended on those dates is presented below:

	2012		2011	
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding at the beginning of the year	6,183,500	CDN\$0.15	4,800,000	CDN\$0.15
Granted	2,210,000	CDN\$0.10	1,515,000	CDN\$0.17
Exercised	(81,000)	CDN\$0.17	(131,500)	CDN\$0.16
Expired/Forfeited	(1,870,000)	CDN\$0.13	-	-
	<u>6,442,500</u>	<u>CDN\$0.14</u>	<u>6,183,500</u>	<u>CDN\$0.15</u>
Options outstanding at end of the year				
	<u>3,517,500</u>		<u>4,924,750</u>	
Options exercisable at end of the year				

Note 7 Share Capital – (cont'd)

b) Commitments – (cont'd)

Stock-Based Compensation Plan – (cont'd)

At December 31, 2012, the Company has 6,442,500 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
875,000	CDN \$0.10	August 1, 2013
127,500	CDN \$0.15	April 30, 2014
250,000	CDN \$0.20	August 10, 2014
575,000	CDN \$0.20	August 28, 2014
100,000	CDN \$0.20	October 28, 2014
100,000	CDN \$0.25	December 16, 2014
1,090,000	CDN \$0.16	December 8, 2015
400,000	CDN \$0.18	March 16, 2016
715,000	CDN \$0.15	October 6, 2016
1,700,000	CDN \$0.10	November 23, 2017
510,000	CDN \$0.10	December 19, 2017
<u>6,442,500</u>		

At December 31, 2011, the Company has 6,133,500 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
1,945,000	CDN \$0.10	August 1, 2013
127,500	CDN \$0.15	April 30, 2014
250,000	CDN \$0.20	August 10, 2014
575,000	CDN \$0.20	August 28, 2014
100,000	CDN \$0.20	October 28, 2014
100,000	CDN \$0.25	December 16, 2014
450,000	CDN \$0.17	May 14, 2012
31,000	CDN \$0.17	May 14, 2015
1,090,000	CDN \$0.16	December 8, 2015
800,000	CDN \$0.18	March 16, 2016
715,000	CDN \$0.15	October 6, 2016
<u>6,183,500</u>		

As of December 31, 2012, the 6,442,500 share purchase options outstanding have a weighted average remaining contractual life of 3.17 (2011: 2.85) years.

b) Commitments – (cont'd)

Stock-Based Compensation Plan – (cont'd)

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.

During the year ended December 31, 2012, the Company recorded stock-based compensation expense of \$59,852 (2011: \$203,040) on revaluation of stock options as of the reporting period and for stock options vested during the period. The fair value of share purchase options granted was estimated on the grant date for options granted to employees and each vesting date for options granted to consultants using the Black Scholes option pricing model. The assumptions used in calculating fair value were as follows: 1.13% - 1.44% (2011 – 1.10% - 2.71%) risk free rate, 0% (2011 – 0%) dividend yield, 86% - 141% (2011 - 62% – 155%) expected volatility and 3.5 – 5 years (2011 – 0.5 - 5 years) weighted average expected stock option life.

Share Purchase Warrants

On November 22, 2012, the Company issued 13,836,000 common shares pursuant to the private placement of 13,836,000 units at CDN\$0.10 per unit for gross proceeds of \$1,387,474. Each unit was comprised of one common share and one share purchase warrant. Each share purchase warrant entitles the holder thereof the right to purchase one common share at \$0.20 per share for a period of three years. The Company paid finder's fees of CDN\$25,000 and issued 391,000 finders' units with same terms as that of the private placement noted above. Using the residual value method, the Company valued the share component of the private placement units at CDN \$0.10 and the share purchase warrant component at CDN \$nil.

The Company fair valued the finders' units at \$39,209 consisting of \$39,209 for the 391,000 shares which are valued at CDN\$0.10 per share and \$nil for the 391,000 share purchase warrants, also using the residual value method.

A summary of the status of share purchase warrants as of December 31, 2012 and 2011 and changes during the years then ended on those dates is presented below:

	2012		2011	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Balance, beginning of the year	-	-	7,740,000	CDN \$0.232
Expired	-	-	(3,790,000)	CDN \$0.344
Exercised	-	-	(3,950,000)	CDN \$0.125
Issued	14,227,000	CDN\$0.20	-	-
Balance, end of the year	14,227,000	CDN\$0.20	-	-

Share Purchase Warrants – (cont'd)

During 2011, 550,000 of the exercised warrants were exercised by Directors of the Company for total proceeds of \$68,750.

At December 31, 2012, the Company has 14,227,000 share purchase warrants outstanding as follows (2011 – nil):

Number	Exercise Price	Expiry Date
<u>14,227,000</u>	CDN \$0.20	November 23, 2015
<u><u>14,227,000</u></u>		

Note 8 Related Party Transactions

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

	<u>2012</u>	<u>2011</u>
Inventory Purchases	\$ -	\$ 76,305
Research and development	-	187,340
Write-off of prepaid expenditures	64,736	-
Administrative expenses		
Office and miscellaneous		
– secretarial services	12,126	5,561
Rent	27,424	24,423
Salaries, wages and benefits	24,737	40,152
Stock-based compensation	9,135	2,420
	<u>73,422</u>	<u>72,556</u>
Key management compensation		
Consulting fees	437,431	109,193
Management fees	90,005	46,508
Salaries, wages and benefits	28,513	72,001
Stock-based compensation	10,906	-
	<u>566,855</u>	<u>227,702</u>
	<u>\$ 640,277</u>	<u>\$ 563,903</u>

These transactions were measured by the amounts agreed upon by the related parties.

Note 8 Related Party Transactions – (cont'd)

Included in prepaid expenses at December 31, 2012 is \$Nil (2011: \$2,091) of prepaid rent paid to a company with a common director.

Included in loans payable at December 31, 2012 is \$40,500 (2011: \$204,035) owing to a director.

1,240,000 of the Company's private placement units issued in the year of 2012 were issued to officers and directors of the Company (2011 – nil).

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:

	2012	2011
Income (losses) before income taxes	\$ (1,345,900)	\$ (1,033,000)
Statutory rates	25.00%	27.00%
Expected income tax (recovery)	\$ (336,000)	\$ (279,000)
Foreign income taxes at other than Canadian statutory rate	(36,000)	(53,000)
Change in statutory rates	-	(672,000)
Permanent differences	16,000	43,000
Change in foreign exchange rate	(26,000)	(13,000)
Change in valuation allowance	382,000	974,000
	<u>\$ -</u>	<u>\$ -</u>

Deferred 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.

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

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

2012	2011
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Valdor Technology International Inc.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2012 and 2011
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Deferred income tax assets		
Non-capital and net operating losses	\$ 5,546,000	\$ 5,090,000
Capital losses	571,000	559,000
Mineral properties	4,000	4,000
Share issue costs	6,000	7,000
Non-deductible accruals	11,000	11,000
Non-deductible interest	631,000	631,000
	<u>6,769,000</u>	<u>6,302,000</u>
Less: valuation allowance	<u>(6,769,000)</u>	<u>(6,302,000)</u>
	<u>\$ -</u>	<u>\$ -</u>

The Company recorded a valuation allowance against its deferred 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 deferred tax assets.

The Company has non-capital losses available to reduce taxable income in Canada and in USA and expire in stages through 2032 as follows:

	<u>Canada (CDN)</u>	<u>USA</u>
2018	\$ -	\$ 480,000
2019	-	1,516,000
2020	-	2,034,000
2021	-	2,366,000
2022	-	1,037,000
2023	-	871,000
2024	-	779,000
2025	-	716,000
2026	258,000	530,000
2027	308,000	595,000
2028	396,000	433,000
2029	589,000	587,000
2030	467,000	628,000
2031	161,000	668,000
2032	904,000	360,000
	<u>\$ 3,083,000</u>	<u>\$ 13,600,000</u>

At December 31, 2012, the Company has accumulated capital losses of approximately CDN \$4,545,000 in Canada that may be carried forward indefinitely to reduce future years' capital gains.

Note 10 Segmented Information and Economic Dependence

The Company's principal business location and operations are in Hayward, California in the United States of America. During the year ended December 31, 2012, the Company was economically dependent on one (2011: three) customers who each accounted for more than 10% of sales and in aggregate accounted for 29% (2011: 52%) of sales.

Valdor Technology International Inc.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2012 and 2011
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The Company's sales revenues are allocated to geographic segments for the years ended December 31, 2012 and 2011 as follows:

Revenues	<u>2012</u>	<u>2011</u>
United States of America	\$ 106,123	\$ 125,649
Europe	10,899	19,538
Asia	11,670	13,355
Other	<u>1,901</u>	<u>10,743</u>
	<u>\$ 130,593</u>	<u>\$ 169,285</u>
Net losses	<u>2012</u>	<u>2011</u>
Canada	\$ 985,458	\$ 364,632
United States of America	<u>360,453</u>	<u>668,324</u>
	<u>\$ 1,345,911</u>	<u>\$ 1,032,956</u>
Total Assets	<u>2012</u>	<u>2011</u>
Canada	\$ 34,896	\$ 25,837
United States of America	<u>68,119</u>	<u>122,404</u>
	<u>\$ 103,105</u>	<u>\$ 148,241</u>

Note 11 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.

Note 11 Financial Instruments – (cont'd)

The Company classifies and measures its financial instruments as follows:

- Cash is classified as "held-for-trading". It is measured at fair value and changes in fair value are recognized in the statements of operations.
- Accounts receivables are classified as loans and receivables. Their fair value approximates their carrying value due to their short term nature.

- Accounts payable and accrued liabilities, loans payable and due to related parties are classified as other financial liabilities and are measured at fair value at inception. Accounts payable and accrued liabilities, loans payable and due to related parties' carrying amounts approximate their fair values due to their short term nature.

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, 2012, the Company has Canadian dollars cash of \$16,575 (2011: \$7,564), accounts payable of \$251,924 (2011: \$242,727), loans payable of \$45,500 (2011: \$250,500), due to related parties of \$454,589 (2011: \$119,185). 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 12 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.

The Company's capital, as defined above, is \$(709,510) (2011 - \$(793,568)) and increased by \$84,058 in the fiscal year 2012 (2011 – decrease of \$627,993).

Note 13 Contingency

The Company is required to file certain foreign reporting information tax returns, and may be exposed to interest and penalties, estimated by management to be \$119,000. Management believes it is unlikely that any interest and penalties would be assessed once the Company files the forms to comply with the filing requirement, and accordingly has not accrued any amounts in the financial statements.

Note 14 Subsequent Events

Subsequent to December 31, 2012:

The Company granted 735,000 share purchase options to consultants at a price of CDN\$0.13 per share expiring on January 7, 2018.

The Company received loan advances of CDN\$310,735 and US\$24,985. The loan advances are non-interest bearing, unsecured and due on demand.

Note 15 Comparative Figures

Certain of the comparative figures have been restated to conform with the presentation adopted in the current year.

VALDOR TECHNOLOGY INTERNATIONAL INC.
CONSOLIDATED SCHEDULE OF ADMINISTRATIVE AND GENERAL EXPENSES
for the years ended December 31, 2012 and 2011
(Stated in US Dollars)

Schedule I

	<u>2012</u>	<u>2011</u>
Consulting fees – Note 8	\$ 584,430	\$ 388,059
Entertainment and travel	44,810	57,527
Investor relations	12,550	45,497
Legal and accounting fees	74,152	59,546
Insurance, licenses and permits	1,267	3,382
Management fees – Note 8	90,005	46,508
Office and miscellaneous – Note 8	55,263	46,790
Rent – Note 8	64,065	61,250
Repairs and maintenance	4,455	8,240
Salaries, wages and benefits – Note 8	171,290	255,424
Stock exchange filing fees	22,828	11,208
Telephone and utilities	22,554	16,651
Transfer agent fees	<u>10,551</u>	<u>10,927</u>
	<u>\$ 1,158,220</u>	<u>\$ 1,011,009</u>