VALDOR TECHNOLOGY INTERNATIONAL INC.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

(Stated in US Dollars)

I. Vellmer Inc.
Chartered Accountant*

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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, 2011 and 2010 and January 1, 2010 and the consolidated statements of operations and comprehensive loss, the consolidated statements of changes in equity and the consolidated statements of cash flows for the for the years ended December 31, 2011 and 2010, 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, 2011 and 2010 and January 1, 2010, and its financial performance and cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

May 2, 2012
Vancouver, Canada

"I. Vellmer Inc."
Chartered Accountant

VALDOR TECHNOLOGY INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2011 and 2010 and January 1, 2010
(Stated in US Dollars)

	December 31, 2011	(Note 5) December 31, 2010	(Note 5) January 1, 2010
ASSETS			
Current			
Cash	$ 9,568	$ 358,916	$ 103,843
Accounts receivable	32,645	29,742	48,544
Inventories	81,564	56,599	44,514
Prepaid expenses – Note 10	24,464	15,417	10,697
	148,241	460,674	207,598
Equipment	-	-	457
Total Assets	$ 148,241	$ 460,674	$ 208,055
LIABILITIES			
Current			
Accounts payable and accrued liabilities	$ 456,186	$ 322,361	$ 609,064
Promissory note payable – Note 6	-	540,070	531,996
Loans payable – Notes 7 and 10	246,317	-	-
Due to related parties – Note 8	248,873	122,734	17,673
Total Liabilities	951,377	985,165	1,158,733
SHAREHOLDERS' DEFICIENCY			
Share capital – Note 9	16,491,101	15,936,338	14,850,523
Share subscriptions (receivable) received – Note 9	915	(125)	(371,573)
Contributed surplus	3,103,284	2,924,403	2,772,596
Accumulated other comprehensive income (loss)	(9,704)	(29,331)	(60,218)
Deficit	(19,863,201)	(18,870,345)	(17,694,252)
Attributable to parent	(277,605)	(39,060)	(502,924)
Attributable to non-controlling interest	(525,531)	(485,431)	(447,754)
Total Shareholders' Deficiency	(803,136)	(524,491)	(950,678)
Total Liabilities and Shareholders' Deficiency	$ 148,241	$ 460,674	$ 208,055

Nature of Operations – Note 1
Commitment – Note 9
Contingency – Note 15
Subsequent Events – Note 16

APPROVED BY THE DIRECTORS:

"Michel Rondeau"	Director	*"Brian Findlay"*	Director
Michel Rondeau		Brian Findlay	

SEE ACCOMPANYING NOTES

VALDOR TECHNOLOGY INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
for the years ended December 31, 2011 and 2010
(Stated in US Dollars)

	2011	(Note 5) 2010
Revenue – Note 12	$ 169,285	$ 239,600
Direct expenses – Note 10	175,760	177,105
Gross profit (loss)	(6,475)	62,495
Expenses		
Administration and general – Schedule 1	924,385	794,329
Marketing	129,943	66,276
Research and development – Note 10	291,337	321,405
Interest	64,587	55,439
Depreciation of equipment	-	457
Stock-based compensation – Note 9 and 10	203,040	156,332
	1,613,292	1,394,238
Loss before other items	(1,619,767)	(1,331,743)
Write-off of promissory note payable – Note 6	586,811	-
Write-off of accounts payable	-	117,973
Net loss for the year	(1,032,956)	(1,213,770)
Other Comprehensive (Loss) Income		
Exchange differences on translating into functional currency	19,627	30,887
Total comprehensive loss for the year	$ (1,013,329)	$ (1,182,883)
Net loss attributable to non-controlling interest	(40,100)	(37,677)
Net loss attributable to parent	(992,856)	(1,176,093)
Net loss for the year	$ (1,032,956)	$ (1,213,770)
Total comprehensive loss attributable to non-controlling interest	(40,100)	(37,677)
Total comprehensive loss attributable to parent	(973,229)	(1,145,206)
Total comprehensive loss for the year	$ (1,013,329)	$ (1,182,883)
Basic and diluted loss per share	$ (0.02)	$ (0.04)
Weighted average number of shares outstanding	42,392,453	33,032,625

SEE ACCOMPANYING NOTES

VALDOR TECHNOLOGY INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended December 31, 2011 and 2010
(Stated in US Dollars)

	2011	(Note 5) 2010
Operating Activities		
Net loss from operations	$ (1,032,956)	$ (1,213,770)
Charges to income not affecting cash:		
Depreciation of equipment	-	457
Write-off of promissory note payable	(586,811)	-
Gain from write-off of accounts payable	-	(117,973)
Unrealized foreign exchange	9,794	51,435
Non-cash compensation charge	203,040	156,332
	(1,406,934)	(1,123,519)
Changes in non-cash working capital balances related to operations:		
Accounts receivable	(2,727)	18,421
Inventories	(24,965)	(12,085)
Prepaid expenses	(9,070)	(4,847)
Accounts payable and accrued liabilities	139,339	(174,592)
	(1,304,357)	(1,296,622)
Financing Activities		
Increase in due to related parties	129,446	105,061
Increase (decrease) in promissory note payable	35,258	(12,219)
Increase in loans payable	253,268	-
Proceeds from issuance of common shares	530,605	1,081,290
Share subscriptions	1,040	371,448
	949,618	1,545,580
Effect of unrealized foreign exchange gain or loss on cash	5,392	6,115
Increase (decrease) in cash during the period	(349,347)	255,073
Cash, beginning of the period	358,916	103,843
Cash, end of the period	$ 9,568	$ 358,916
Supplementary disclosure of cash flow information		
Cash paid for:		
Interest	$ -	$ -
Income taxes	$ -	$ -

SEE ACCOMPANYING NOTES

VALDOR TECHNOLOGY INTERNATIONAL INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' DEFICIENCY
for the years ended December 31, 2011 and 2010
(Stated in US Dollars)

	Common Stock Issued Shares	Common Stock Amount	Common Stock Subscriptions	Contributed Surplus	Accumulated Other Comprehensive Income (loss)	Deficit	Non-Controlling Interest	Total
Balance, January 1, 2010	31,160,220	$ 14,850,523	$ (371,573)	$ 2,772,596	$ (60,218)	$ (17,694,252)	$ (447,754)	$ (950,678)
Shares issued for cash:								
On exercise of share purchase options								
– at CND$0.20	25,000	4,805	-	-	-	-	-	4,805
On exercise of share purchase warrants								
– at CND$0.125	8,730,000	1,076,610	(125)	-	-	-	-	1,076,485
Fair value of options exercised	-	4,525	-	(4,525)	-	-	-	-
Fair market value of stock based compensation	-	-	-	156,332	-	-	-	156,332
Share subscriptions received	-	-	371,573	-	-	-	-	371,573
Exchange differences on translating foreign operation	-	-	-	-	30,887	-	-	30,887
Net loss for the year	-	-	-	-	-	(1,176,093)	(37,677)	(1,213,770)
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)

SEE ACCOMPANYING NOTES

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, 2011, the Company's principal business was developing, manufacturing and marketing of fiber optic products.

The address of the Company's corporate office is 480 - 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 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). This is the first time the Company has prepared its financial statements in accordance with IFRS, having previously prepared its financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles ("pre-changeover Canadian GAAP").

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 5, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010. Subject to certain transition elections disclosed in Note 5, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Comparative figures for 2010 in these financial statements have been restated to give effect to these changes.

The consolidated financial statements were authorized for issue by the Board of Directors on May 2, 2012.

b) Going Concern of Operations

The Company has incurred a net loss of $1,032,956 during the year ended December 31, 2011 and, as of that date the Company's accumulated deficit was $19,863,201. 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 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 and in preparing the opening IFRS Statement of Financial Position at January 1, 2010 for the purposes of the transition to IFRS, 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 2011	Percentage Held 2010
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, 2011, 2010 and January 1, 2010, 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.

d) Equipment

Recognition and Measurement

On initial recognition, equipment is recorded at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses.

When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

Subsequent Costs

The cost of replacing part of an item of equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of equipment is recognized in profit or loss as incurred.

Major Maintenance and Repairs

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

Gains and Losses

Gains and losses on disposal of an item of equipment is determined by comparing the proceeds from disposal with the carrying amount, and is recognized net within other income in profit or loss.

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

e) Depreciation

Depreciation is recognized in profit or loss and is provided on a straight-line basis over the estimated useful life of the asset as follows:

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

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

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, and flow-through 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

International Financial Reporting Standard 9, Financial Instruments ("IFRS 9"), was issued in November 2009. It addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: Amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

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

l) Future Accounting Pronouncements – (cont'd)

The following new standards, amendments and interpretations that have not been early adopted in these interim financial statements will not have an effect on the Company's future results and financial position:

IFRS 1: Severe Hyperinflation (Effective for periods beginning on or after July 1, 2011)

IFRS 10: Establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities (Effective for annual periods beginning on or after January 1, 2013)

IFRS 11: Establishes principles for financial reporting by parties to a joint arrangement (Effective for annual periods beginning on or after January 1, 2013)

IFRS 12: Applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity(Effective for annual periods beginning on or after January 1, 2013)

IFRS 13: Defines fair value, sets out in a single IFRS framework for measuring value and requires disclosures about fair value measurements (Effective for annual periods beginning on or after January 1, 2013)

IAS 12: Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12 (Effective for periods beginning on or after January 1, 2012)

IAS 27: Contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements (Effective for periods beginning on or after January 1, 2013)

IAS 28: Sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures (Effective for periods beginning on or after January 1, 2013)

Amendments to IFRS 9 Financial Instruments (Effective for periods beginning on or after January 1, 2013)

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 9.

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 Transition to IFRS

As stated in note 2, the Company's financial statements for the year ended December 31, 2011 are the first annual financial statements prepared in accordance with IFRS. IFRS 1, First Time Adoption of International Financial Reporting Standards ("IFRS 1"), requires that comparative financial information be provided. As a result, the first time at which the Company has applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be December 31, 2011. Therefore, the financial statements for the year-ended December 31, 2011, the comparative information presented in these financial statements for the year-ended December 31, 2010 and the opening IFRS statement of financial position at January 1, 2010 are prepared in accordance with IFRS standards effective at the reporting date. However, IFRS 1 also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters. Prior to transition to IFRS, the Company prepared its financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles ("pre-changeover Canadian GAAP").

In preparing the Company's opening IFRS financial statements, the Company has adjusted amounts reported previously in the financial statements prepared in accordance with pre-changeover Canadian GAAP.

An explanation of how the transition from pre-changeover Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following notes and tables:

a) Elected exemptions from full retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"), the Company has applied an optional exemption from full retrospective application of IFRS. The optional exemption applied is described below.

Share-based payment transactions

The Company has elected not to retrospectively apply IFRS 2 to equity instruments that were granted and that vest before the transition date. As a result of applying this exemption, the Company will apply the provision of IFRS 2 to all outstanding equity instruments that are unvested at the date of transition to IFRS.

Cumulative translation differences

The Company has elected not to retrospectively apply IAS 21, The Effects of Changes in Foreign Exchange Rates, to cumulative translation differences that existed prior to its Transition Date and as such has reset translation differences to zero. Gain or loss on subsequent disposal of a foreign operation will only include foreign exchange differences that arose after the transition.

Business Combinations

The Company has elected not to retrospectively apply IFRS 3, Business Combinations, to any business combinations that may have occurred prior to its Transition Date and such business combinations have not been restated.

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Note 5 Transition to IFRS – (cont'd)

b) Mandatory exceptions to retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1, the Company has applied a mandatory exception from full retrospective application of IFRS. The mandatory exception applied from full retrospective application of IFRS is described below.

Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of January 1, 2010 and December 31, 2010 are consistent with its Canadian GAAP estimates for the same dates.

c) Reconciliation of equity as reported under Canadian GAAP and IFRS

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, some differences exist in certain matters of recognition, measurement and disclosure. The adoption of IFRS has resulted in reclassifications in the Company's reported financial position as at January 1, 2010 and December 31, 2010. In order to allow the users of the financial statements to better understand these changes, the Company's Canadian GAAP statement of operations and comprehensive income for December 31, 2010 has been reconciled to IFRS, with the resulting differences explained, below. However, as there have been no material adjustments to the cash flows, no reconciliations of the statements of cash flows have been prepared.

The following is a reconciliation of the Company's shareholders' equity reported in accordance with Canadian GAAP to its shareholders' deficiency in accordance with IFRS at the transition date:

	January 1, 2010		
	Canadian GAAP balance	IFRS Adjustment	IFRS balance
Share capital	$ 14,850,523	$ -	$ 14,850,523
Share subscriptions receivable	(371,573)	-	(371,573)
Contributed surplus	2,800,970	(28,374)	2,772,596
Accumulated other comprehensive income (loss)	-	(60,218)	(60,218)
Deficit	(18,230,598)	88,592	(18,142,006)
Attributable to parent	-	(502,924)	(502,924)
Attributable to non-controlling interest	-	(447,754)	(447,754)
Total Shareholders' Equity	$ (950,678)	$ -	$ (950,678)

(Stated in US Dollars) – Page 13

Note 5 Transition to IFRS – (cont'd)

c) Reconciliation of equity as reported under Canadian GAAP and IFRS – (cont'd)

The following is a reconciliation of the Company's shareholders' equity reported in accordance with Canadian GAAP to its shareholders' deficiency in accordance with IFRS at December 31, 2010:

	December 31, 2010		
	Canadian GAAP balance	IFRS Adjustment	IFRS balance
Share capital	$ 15,936,338	$ -	$ 15,936,338
Share subscriptions receivable	(125)	-	(125)
Contributed surplus	3,019,776	(95,373)	2,924,403
Accumulated other comprehensive income (loss)	-	(29,331)	(29,331)
Deficit	(19,480,480)	124,704	(19,355,776)
Attributable to parent	-	(39,060)	(39,060)
Attributable to non-controlling interest	-	(485,431)	(485,431)
	$ (524,491)	$ -	$ (524,491)

d) Reconciliation of net loss and comprehensive loss as reported under Canadian GAAP and IFRS

The following is a reconciliation of the Company's net loss and comprehensive loss reported in accordance with Canadian GAAP to its net loss and comprehensive loss in accordance with IFRS for the year ended December 31, 2010.

As reported under Canadian GAAP	$ (1,249,882)
IFRS adjustment (increase) decrease	
Stock based compensation	66,999
Foreign exchange	(30,887)
Loss from operations under IFRS	(1,213,770)
Other comprehensive loss	
IFRS adjustment	
Exchange differences on translating foreign operation	30,887
Total Comprehensive loss from operations under IFRS	$ (1,182,883)
Net loss and comprehensive loss attributable to non-controlling interest reported under Canadian GAAP	$ -
IFRS adjustment to presentation	
Net loss and comprehensive loss attributable to non-controlling interest	(37,677)
Net loss and comprehensive loss attributable to non-controlling interest as presented under IFRS	$ (37,677)

Note 5 Transition to IFRS – (cont'd)

d) Reconciliation of net loss as reported under Canadian GAAP and IFRS – (cont'd)

Notes to IFRS adjustments

Stock based compensation

Pre-changeover Canadian GAAP allows the Company to calculate the fair value of the stock-based compensation on all awards granted and recognizes the expense from the date of grant over the vesting period using the graded vesting methodology. The Company determines the fair value of stock options granted using the Black-Scholes option pricing model. Forfeitures can be recorded when they occur or based on an expected rate.

IFRS 2 requires each tranche in an award with graded vesting to be considered a separate grant with a different vesting date and fair value and requires that forfeitures be estimated at the time of grant to eliminate distortion of remuneration expense recognized during the vesting period.

The Company uses the graded vesting method, but under pre-changeover Canadian GAAP determined forfeitures when they occured instead of anticipated forfeiture rate at the time of the grant. Based on an estimated forfeiture rate of 30%, contributed surplus and the deficit was reduced at the date of transition of $28,374 and decrease general and administrative expenses by $66,999 for the year ended December 31, 2010.

Exchange differences on presentation currency

IFRS requires that the functional currency of each entity in the Company be determined separately in accordance with the indicators as per IAS 21 "The Effects of Changes in Foreign Exchange Rates" and should be measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

The consolidated financial statements are presented in US dollars which is the same as the functional currency of the subsidiary. The functional currency of the parent company is in Canadian dollars.

Under IFRS, the results and financial position of all the Company entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at period-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- exchange differences arising on translation of foreign operations are transferred directly to the Company's foreign currency translation reserve in the statement of comprehensive income and are recognized in the profit or loss in the period in which the operation is disposed.

Note 5 Transition to IFRS – (cont'd)

d) Reconciliation of net loss as reported under Canadian GAAP and IFRS – (cont'd)

Notes to IFRS adjustments – (cont'd)

Exchange differences on presentation currency – (cont'd)

Under Canadian GAAP integrated foreign operation are translated into Canadian dollars using the temporal method. Monetary items are translated at the exchange rate in effect at the balance sheet date and non-monetary items are translated at the historical exchange rate. Income and expenses items are translated at rates approximating those in effect at the time of the transaction. Translation gains and losses are reflected in the earnings (loss) for the year.

As a result of the change in exchange rate to the prevailing rate at the Transition date (January 1, 2010) deficit decreased by $60,218 with a corresponding decrease in accumulated other comprehensive income of $60,218.

As a result of the change in exchange rate to the prevailing rate at the reporting date (December 31, 2010) deficit decreased by $29,331 with a corresponding decrease in accumulated other comprehensive income of $29,331.

Non-controlling interest

Under pre-changeover Canadian GAAP, non-controlling interest is not required to be presented on the statement of financial position when the non-controlling interest is in a deficit balance and the profit or loss of attributable to each component is not required to be presented on the statement of operations to the extent the allocation of losses creates or increases a deficit balance for non-controlling interest.

Under IFRS, profit or loss and each component of other comprehensive income or loss attributable to the non-controlling interest is required to be presented separately in the statement of operations and comprehensive income/loss and losses are allocated to the non-controlling interest even if the losses exceed the equity attributable to the non-controlling interest. Non-controlling interest, even when in a net deficit balance, is required to be presented separately in the consolidated statement of financial position, within equity, separate from the equity of the owners of the parent.

As a result of this difference, at January 1, 2010, an amount of $447,754 has been presented as the net deficit attributable to the non-controlling interest on the statement of financial position at the Transition date. At December 31, 2010, an amount of $485,431 has been presented as the net deficit attributable to the non-controlling interest on the statement of financial position. During the year ended December 31, 2010, net loss and net loss and comprehensive loss of $37,677 has been attributed to non-controlling interest and is displayed separately in the statement of operations and comprehensive income under IFRS.

(Stated in US Dollars) – Page 16

Note 6 Promissory Notes Payable

	2011	2010
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 $nil (€299,655) (2010: $339,053 (€257,135)). During the year the company wrote-off the promissory note payable and accrued interest for a total amount of $586,811.	$ -	$ 540,070

Note 7 Loans Payable

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

Note 8 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 9 Share Capital

a) Authorized:

Unlimited common shares without par value
Unlimited preferred shares

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.

(Stated in US Dollars) – Page 17

Note 9 Share Capital – (cont'd)

b) Commitments - (cont'd)

Stock-Based Compensation Plan – (cont'd)

A summary of the status of the stock option plan as of December 31, 2011 and 2010 and changes during the years then ended on those dates is presented below:

	2011		2010	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at the beginning of the period	4,750,000	CDN$0.15	3,510,000	CDN$0.14
Granted	1,515,000	CDN$0.17	1,590,000	CDN$0.16
Exercised	(131,500)	CDN$0.16	(25,000)	CDN$0.20
Expired/Forfeited	-	-	(325,000)	CDN$0.14
Options outstanding at end of the period	6,133,500	CDN$0.15	4,750,000	CDN$0.15
Options exercisable at end of the period	4,924,750		3,420,000	

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
400,000	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
6,133,500		

(Stated in US Dollars) – Page 18

Note 9 Share Capital – (cont'd)

b) Commitments - (cont'd)

Stock-Based Compensation Plan – (cont'd)

As of December 31, 2011, the 6,133,500 share purchase options outstanding have a weighted average remaining contractual life of 2.85 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.

During the year ended December 31, 2011, the Company recorded stock-based compensation expense of $203,040 (2010: $156,332) 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: 1.10% - 2.71% (2010 – 1.69% - 2.6%) risk free rate, 0% (2010 – 0%) dividend yield, 62% - 155% (2010 - 109% – 153%) expected volatility and 0.5 – 5 years (2010 – 1 - 5 years) weighted average expected stock option life.

Share Purchase Warrants

	2011		2010	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Balance, beginning of the year	7,740,000	CDN $0.232	16,675,000	CDN $0.175
Expired	(3,790,000)	CDN $0.344	(205,000)	CDN $0.125
Exercised	(3,950,000)	CDN $0.125	(8,730,000)	CDN $0.125
Balance, end of the year	-	-	7,740,000	CDN $0.232

During 2011, 550,000 of the exercised warrants were exercised by Directors of the Company for total proceeds of $68,750 (2010 – 4,350,000 warrants for proceeds of $435,000).

Share Subscriptions

As at December 31, 2011, share subscriptions consist of $915 received in respect of private placements to take place in 2012.

As at December 31, 2010, share subscriptions consist of $125 in respect to proceeds receivable pursuant to the exercise of 1,000 share purchase warrants that took place in December 31, 2010 at a price of $0.125 per share.

(Stated in US Dollars) – Page 19

Note 10 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:

	2011	2010
Inventory Purchases	$ 76,305	$ 63,777
Research and development	187,340	218,536
Administrative expenses		
Office and miscellaneous		
– secretarial services	5,561	11,645
Salaries, wages and benefits	40,152	40,963
	45,713	52,608
Key management compensation		
Consulting fees	109,193	104,806
Management fees	46,508	49,492
Rent	24,423	23,290
Salaries, wages and benefits	72,001	63,071
Stock-based compensation	2,420	12,232
	254,545	252,891
	$ 563,903	$ 587,812

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, 2011 is $2,091 (2010: $2,218) of prepaid rent paid to a company with a common director.

Included in loans payable at December 31, 2011 is $204,035 (2010: $Nil) owing to a director.

(Stated in US Dollars) – Page 20

Note 11 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:

	2011	2010
Income (losses) before income taxes	$ (1,032,956)	$ (1,213,770)
Statutory rates	27.00%	28.50%
Expected income tax (recovery)	$ (279,000)	$ (346,000)
Foreign income taxes at other than Canadian statutory rate	(53,000)	(41,000)
Change in statutory rates	(672,000)	578,000
Stock based compensation	49,000	53,000
Change in foreign exchange rate	(13,000)	118,000
Share issuance costs	(6,000)	(6,000)
Change in valuation allowance	974,000	(356,000)
	$ -	$ -

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.

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

	2011	2010
Deferred income tax assets		
Non-capital and net operating losses	$ 5,090,000	$ 4,040,000
Capital losses	559,000	628,000
Mineral properties	4,000	4,000
Share issue costs	7,000	14,000
Non-deductible accruals	11,000	11,000
Non-deductible interest	631,000	631,000
	6,302,000	5,328,000
Less: valuation allowance	(6,302,000)	(5,328,000)
	$ -	$ -

(Stated in US Dollars) – Page 21

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

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.

At December 31, 2011, the Company has accumulated non-capital losses of approximately CDN $1,922,000 in Canada and its subsidiaries have approximately $13,192,000 in USA, which are available to carry forward and offset future year's taxable income. The non-capital losses expire beginning in 2018.

At December 31, 2011, 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 12 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, 2011, the Company was economically dependent on three (2010: two) customers who each accounted for more than 10% of sales and in aggregate accounted for 52% (2010: 46%) of sales.

The Company's sales revenues are allocated to geographic segments for the years ended December 31, 2011 and 2010 as follows:

Revenues	2011	2010
United States of America	$ 125,649	$ 191,355
Europe	19,538	30,181
Asia	13,355	11,313
Other	10,743	6,751
	$ 169,285	$ 239,600

Net losses	2011	2010
Canada	$ 364,632	$ 585,809
United States of America	668,324	627,961
	$ 1,032,956	$ 1,213,770

Total Assets	December 31, 2011	December 31, 2010	January 1, 2010
Canada	$ 25,837	$ 280,521	$ 59,320
United States of America	122,404	180,153	148,735
	$ 148,241	$ 460,674	$ 208,055

Note 13 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 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, promissory notes payable, loans payable and due to related parties are classified as other financial liabilities and are measured at fair value at inception. Promissory notes payable are measured at amortized cost using the effective interest rate at subsequent periods. 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.

Note 13 Financial Instruments – (cont'd)

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, 2011, the Company has Canadian dollars cash of $7,564 (2010: $209,871), accounts payable of $242,727 (2010: $58,063), loans payable of $250,500 (2010: $Nil), due to related parties of $119,185 (2010: $1,206). 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 14 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.

As at December 31, 2011, the Company had $(793,568) of capital (December 31, 2010 - $(165,575)), a decrease of capital of $627,993 during the year ended December 31, 2011 (2010 – increase of $681,260).

Note 15 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 16 Subsequent Events

The Company issued 46,000 common shares pursuant to the exercise of share purchase options at CDN $0.17 per share for a total consideration of CDN $7,820.

The Company received loan advances of $596,615. The loan advances are non-interest bearing, unsecured and due on demand.

VALDOR TECHNOLOGY INTERNATIONAL INC. Schedule I

CONSOLIDATED SCHEDULE OF ADMINISTRATIVE AND GENERAL EXPENSES

for the year ended December 31, 2011 and 2010

(Stated in US Dollars)

	2011	2010
Consulting fees – Note 10	$ 388,059	$ 253,526
Entertainment and travel	57,527	46,915
Investor relations	45,497	52,143
Legal and accounting fees	59,546	50,116
Insurance, licenses and permits	3,382	2,629
Management fees – Note 10	46,508	49,492
Office and miscellaneous – Note 10	46,790	36,521
Rent – Note 10	61,250	59,551
Repairs and maintenance	8,240	28,762
Salaries, wages and benefits – Note 10	168,800	177,019
Stock exchange filing fees	11,208	9,120
Telephone and utilities	16,651	16,608
Transfer agent fees	10,927	11,927
	$ 924,385	$ 794,329