# VALDOR TECHNOLOGY INTERNATIONAL INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012 and 2011

(Stated in US Dollars)

(Unaudited - Prepared by Management)

UNAUDITED FINANCIAL STATEMENTS: In accordance with National Instrument 51-102 of the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the nine months ended September 30, 2012 and 2011.

**VALDOR TECHNOLOGY INTERNATIONAL INC.**
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
September 30, 2012 and December 31, 2011
(Stated in US Dollars)
(Unaudited - Prepared by Management)

| **ASSETS** | September 30 2012 | December 31, 2011 |
|---|---|---|
| Current | | |
| Cash | $ 37,586 | $ 9,568 |
| Accounts receivable | 29,352 | 32,645 |
| Inventories | 65,564 | 81,564 |
| Prepaid expenses – Note 8 | 14,464 | 24,464 |
| | 146,966 | 148,241 |
| Equipment | 14,442 | - |
| | $ 161,408 | $ 148,241 |
| **LIABILITIES** | | |
| Current | | |
| Accounts payable and accrued liabilities | $ 291,429 | $ 456,187 |
| Advances on private placement – Notes 5 and 13 | 1,254,346 | 246,317 |
| Due to related parties – Note 6 | 408,499 | 248,873 |
| | 1,954,274 | 951,377 |
| **SHAREHOLDERS' DEFICIENCY** | | |
| Share capital – Note 7 | 16,509,762 | 16,491,101 |
| Share subscriptions received – Note 7 | 915 | 915 |
| Contributed surplus | 3,095,769 | 3,103,284 |
| Accumulated other comprehensive income (loss) | (55,733) | (9,704) |
| Deficit | (20,800,188) | (19,863,201) |
| Attributable to parent | (1,249,475) | (277,605) |
| Attributable to non-controlling interest | (543,391) | (525,531) |
| Total Shareholders' Deficiency | (1,792,866) | (803,136) |
| | $ 161,408 | $ 148,241 |

Nature of Operations – Note 1
Commitment – Note 7
Contingency – Note 12

APPROVED BY THE DIRECTORS:

| | | | |
|---|---|---|---|
| *"Elston Johnston"* | Director | *"Brian Findlay"* | Director |
| Elston Johnston | | Brian Findlay | |

SEE ACCOMPANYING NOTES

**VALDOR TECHNOLOGY INTERNATIONAL INC.**

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

for the nine months ended September 30, 2012 and 2011

(Stated in US Dollars)

(Unaudited - Prepared by Management)

| | Three months ended September 30, 2012 | Three months ended September 30, 2011 | Nine months ended September 30, 2012 | Nine months ended September 30, 2011 |
|---|---|---|---|---|
| Revenue | $ 30,295 | $ 31,675 | $ 96,672 | $ 139,258 |
| Direct expenses | 15,853 | 24,138 | 45,823 | 80,472 |
| Gross profit | 14,442 | 7,537 | 50,849 | 58,786 |
| Expenses | | | | |
| Administration and general – Schedule 1 | 368,226 | 191,026 | 867,482 | 627,626 |
| Amortization | 2,548 | - | 2,548 | - |
| Marketing | 30,483 | 28,190 | 90,411 | 68,280 |
| Research and development | 25,797 | 24,086 | 77,534 | 137,168 |
| Interest | 868 | 16,388 | 3,418 | 48,296 |
| Stock-based compensation – Note 7 | (8,047) | 32,397 | (2,433) | 129,866 |
| | 419,875 | 292,087 | 1,038,960 | 1,011,236 |
| Net loss before other item | (405,433) | (284,550) | (988,111) | (952,450) |
| Gain on write-off of accounts payable | - | - | 33,264 | - |
| Net loss for the period | (405,433) | (284,550) | (954,847) | (952,450) |
| Other Comprehensive (Loss) Income | | | | |
| Exchange differences on translating into functional currency | (73,591) | 46,283 | (46,029) | (7,765) |
| Total comprehensive loss for the period | $ (479,024) | $ (238,267) | $ (1,000,876) | $ (960,215) |
| Net loss attributable to non-controlling interest | (6,528) | (9,552) | (17,860) | (26,615) |
| Net loss attributable to parent | (398,905) | (274,998) | (936,987) | (925,835) |
| Net loss for the period | $ (405,433) | $ (284,550) | $ (954,847) | $ (952,450) |
| Total comprehensive loss attributable to non-controlling interest | (6,528) | (9,552) | (17,860) | (26,615) |
| Total comprehensive loss attributable to parent | (472,496) | (228,715) | (983,016) | (933,600) |
| Total comprehensive loss for the period | $ (479,024) | $ (238,267) | $ (1,000,876) | $ (960,215) |
| Basic and diluted loss per share | $ (0.01) | $ (0.00) | $ (0.02) | $ (0.02) |
| Weighted average number of shares outstanding | 44,075,503 | 43,933,220 | 44,044,913 | 41,860,330 |

SEE ACCOMPANYING NOTES

**VALDOR TECHNOLOGY INTERNATIONAL INC.**
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
for the nine months ended September 30, 2012 and 2011
(Stated in US Dollars)
(Unaudited - Prepared by Management)

| | Three months ended September 30, 2012 | Three months ended September 30, 2011 | Nine months ended September 30, 2012 | Nine months ended September 30, 2011 |
|---|---|---|---|---|
| Operating Activities | | | | |
| Net loss for the period | $ (405,433) | $ (284,550) | $ (954,847) | $ (952,450) |
| Charges to income not affecting cash: | | | | |
| Amortization | 2,548 | - | 2,548 | - |
| Unrealized foreign exchange | (335) | - | (2,520) | - |
| Write-off of accounts payable | - | - | (33,264) | - |
| Non-cash compensation charge | (8,047) | (32,397) | (2,433) | 129,866 |
| | (411,267) | (252,153) | (990,516) | (822,584) |
| Changes in non-cash working capital balances related to operations: | | | | |
| Accounts receivable | 10,723 | 31,238 | 2,665 | 10,807 |
| Inventories | 7,031 | 5,969 | 16,001 | (10,427) |
| Prepaid expenses | 6,618 | 10,895 | 9,929 | 5,529 |
| Accounts payable and accrued liabilities | 130,678 | 6,760 | (138,018) | (23,292) |
| | (256,217) | (197,291) | (1,099,939) | (839,967) |
| Financing Activities | | | | |
| Increase (decrease) in due to related parties | 111,279 | 32,076 | 150,224 | (51,039) |
| Increase in promissory note payable | - | 14,137 | - | 72,369 |
| Increase loans payable | 135,193 | - | 980,837 | - |
| Proceeds from issuance of common shares | 2,011 | 4,298 | 13,579 | 518,032 |
| Share subscriptions | - | - | - | 1,053 |
| | 248,483 | 50,511 | 1,144,640 | 540,415 |
| Investing activities | | | | |
| Acquisition of equipment | (16,990) | - | (16,990) | - |
| Effect of unrealized foreign exchange gain or loss on cash | (8,941) | (5,105) | 307 | (22,911) |
| Increase (decrease) in cash during the period | (33,665) | (151,885) | 28,018 | (322,463) |
| Cash, beginning of the period | 71,251 | 188,338 | 9,568 | 358,916 |
| Cash, end of the period | $ 37,586 | $ 36,453 | $ 37,586 | $ 36,453 |
| Supplementary disclosure of cash flow information | | | | |
| Cash paid for: | | | | |
| Interest | $ - | $ - | $ - | $ - |
| Income taxes | $ - | $ - | $ - | $ - |

SEE ACCOMPANYING NOTES

**VALDOR TECHNOLOGY INTERNATIONAL INC.**

CONDENSED INTERIM CONSOLIDATED STATEMENT OF SHAREHOLDERS' DEFICIENCY

for the nine months ended September 30, 2012

(Stated in US Dollars)

(Unaudited - Prepared by Management)

| | Common Stock Issued Shares | Common Stock Amount | Common Stock Subscriptions | Contributed Surplus | Accumulated Other Comprehensive Income (loss) | Deficit | Non-Controlling Interest | Total |
|---|---|---|---|---|---|---|---|---|
| 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 | 23,000 | 3,988 | | | | | | 3,988 |
| Fair value of options exercised | | 16,337 | | (16,337) | | | | - |
| Fair market value of stock based compensation | - | - | - | 129,866 | - | - | - | 129,866 |
| Share subscriptions received | - | - | 1,071 | - | - | - | - | 1,071 |
| Exchange differences on translating foreign operation | - | - | - | - | (7,765) | - | - | (7,765) |
| Net loss for the period | - | - | - | - | - | (925,835) | (26,615) | (952,450) |
| Balance, September 30, 2011 | 43,950,720 | 16,475,279 | 946 | 3,037,932 | (37,096) | (19,796,180) | (512,046) | (831,165) |
| Shares issued for cash: | | | | | | | | |
| On exercise of share purchase warrants | | | | | | | | |
| – at CND$0.125 | - | - | - | - | - | - | - | - |
| On exercise of share purchase options | | | | | | | | |
| – at CND$0.17 | 46,000 | 8,000 | - | - | - | - | - | 8,000 |
| Fair value of options exercised | - | 7,8220 | - | (7,822) | - | - | - | - |
| Fair market value of stock based compensation | - | - | - | 73,174 | - | - | - | 73,174 |
| Share subscriptions received | - | - | (31) | - | - | - | - | (31) |
| Exchange differences on translating foreign operation | - | - | - | - | 27,392 | - | - | 27,392 |
| Net loss for the period | - | - | - | - | - | (67,021) | (13,485) | (80,506) |
| 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: | - | - | - | - | - | - | - | - |
| On exercise of share purchase options | - | - | - | - | - | - | - | - |
| – at CND$0.17 | 81,000 | 13,579 | - | - | - | - | - | 13,579 |
| Fair value of options exercised | - | 5,082 | - | (5,082) | - | - | - | - |
| Fair market value of stock based compensation | - | - | - | (2,433) | - | - | - | (2,433) |
| Exchange differences on translating foreign operation | - | - | - | - | (46,029) | - | - | (46,029) |
| Net loss for the period | - | - | - | - | - | (936,987) | (17,860) | (954,847) |
| Balance, September 30, 2012 | 44,077,720 | $ 16,509,762 | $ 915 | $ 3,095,769 | $ (55,733) | $ (20,800,188) | $ (543,391) | $ (1,792,866) |

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 nine months ended September 30, 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 condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting.

The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on November 29, 2012.

b) Going Concern

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 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 condensed interim consolidated financial statements have been prepared on a historical cost basis and have been presented in US dollars. 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.

Note 3 Significant Accounting Policies

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited consolidated financial statements as at December 31, 2011. The accompanying unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2011.

Accounting standards issued but not yet applied

The following new standards and interpretations are not yet effective and have not been applied in preparing these interim consolidated financial statements. The Company is currently evaluating the potential impacts of these new standards.

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.

Note 3 Significant Accounting Policies – (cont'd)

IFRS 13, *Fair Value Measurements* (effective January 1, 2013) provides new guidance on fair value measurement and disclosure requirements. • Amendments to IAS 1, *Presentation of Comprehensive Income* (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.

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.

Note 5 Advances on Private Placement

These amounts represent advances on a private placement financing to be completed and include $335,577 (December 31, 2011: $204,035) received from a director and companies with common directors.

Note 6 Due to Related Parties

Due to related parties, representing amounts due to directors and officers of the Company and companies with common directors, are non-interest bearing, unsecured and are due on demand.

Note 7 Share Capital

a) Authorized:

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

(Stated in US Dollars)

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 options will be exercisable until it has vested. Options vest at 25% on a quarterly basis unless specified by the board. The options are for a maximum term of five years.

The Company has granted employees and directors common share purchase options. These options are granted with an exercise price in accordance with the stock option plan.

A summary of the status of the stock option plan as of September 30, 2012 and 2011 and changes during the periods then ended on those dates is presented below:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| Outstanding at the beginning of the period | 6,183,500 | CDN$0.15 | 4,750,000 | CDN$0.15 |
| Granted | | | 800,000 | CDN$0.18 |
| Exercised | (81,000) | CDN$0.17 | (85,500) | CDN$0.15 |
| Expired/cancelled | (1,870,000) | CDN$0.15 | - | - |
| Options outstanding at end of the period | 4,232,500 | CDN$0.16 | 5,464,500 | CDN$0.15 |
| Options exercisable at end of the period | 3,875,000 | | 4,394,500 | |

(Stated in US Dollars)

Note 7 Share Capital – (cont'd)

b) Commitments - (cont'd)

Stock-Based Compensation Plan – (cont'd)

At September 30, 2012, the Company has 4,232,500 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 16, 2016 |
| 4,232,500 | | |

As of September 30, 2012, the 4,232,500 share purchase options outstanding have a weighted average remaining contractual life of 2.52 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 nine months ended September 30, 2012, the Company recorded stock-based compensation expense of $(2,433) (September 30, 2011: $129,866) 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% (September 30, 2011 – 0.95% - 2.71%) risk free rate, 0% (September 30, 2011 – 0%) dividend yield, 86% - 144% (September 30, 2011 - 58% – 155%) expected volatility and 3.5 – 5 years (September 30, 2011 – 0.62 – 5 years) weighted average expected stock option life.

(Stated in US Dollars)

Note 7 Share Capital – (cont'd)

b) Commitments - (cont'd)

Share Subscriptions received

As at September 30, 2012, share subscriptions consist of $915 received in respect of private placements to take place in 2012.

Share Purchase Warrants

| | September 30, 2012 | | September 30, 2011 | |
|---|---|---|---|---|
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| Balance, beginning of the period | - | CDN $ - | 7,740,000 | CDN $0.232 |
| Expired | - | CDN $ - | (100,000) | CDN $0.125 |
| Exercised | - | CDN $ - | (3,950,000) | CDN $0.125 |
| Balance, end of the period | - | CDN $ - | 3,690,000 | CDN $0.35 |

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:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Research and development | $ - | $ 60,000 | $ - | $ 60,000 |
| Administrative expenses | | | | |
| Office and miscellaneous – secretarial services | 5,726 | - | 9,703 | - |
| Salaries, wages and benefits | - | 10,790 | 24,737 | 34,917 |
| | 5,726 | 10,790 | 34,440 | 34,917 |
| Key management compensation | | | | |
| Consulting fees | 105,885 | - | 141,682 | 36,850 |
| Management fees | 34,439 | 9,222 | 67,352 | 27,636 |
| Rent | 4,270 | 6,142 | 18,921 | 18,425 |
| Salaries, wages and benefits | - | 17,550 | 28,513 | 48,748 |
| | 144,594 | 32,914 | 256,468 | 131,659 |
| | $ 150,320 | $ 103,704 | $ 290,908 | $ 226,576 |

(Stated in US Dollars)

Note 8 Related Party Transactions – (cont'd)

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

Included in prepaid expenses at September 30, 2012 is $2,150 (December 31, 2011: $2,091) of prepaid rent paid to a company with a common director.

Note 9 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 nine months ended September 30, 2012, the Company was economically dependent on two (2011: three) customers each accounted for more than 10% of sales and in aggregate accounted for 37% (2011: 56%) of sales.

The Company's sales revenues are allocated to geographic segments for the three months ended September 30, 2012 and 2011 are as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| United States of America | $ 25,574 | $ 26,861 | $ 78,437 | $ 107,021 |
| Europe | 2,711 | 4,095 | 7,799 | 12,516 |
| Other | 2,010 | 719 | 10,436 | 19,721 |
| | $ 30,295 | $ 31,675 | $ 96,672 | $ 139,258 |

Net losses

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Canada | $ 296,623 | $ 125,354 | $ 657,174 | $ 508,869 |
| United States of America | 108,810 | 159,196 | 297,673 | 443,581 |
| | $ 405,433 | $ 284,550 | $ 954,847 | $ 952,450 |

Total Assets

| | September 30, 2012 | December 31, 2011 |
|---|---|---|
| Canada | $ 33,478 | $ 25,837 |
| United States of America | 127,930 | 122,404 |
| | $ 161,408 | $ 148,241 |

Note 10 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, 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 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 10 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 September 30, 2012, the Company has Canadian dollars cash of $10,496 (December 31, 2011: $7,564), accounts payable of $157,360 (December 31, 2011: $242,727), advances on private placement of $1,233,500 (December 31, 2011 $250,500) due to related parties of $401,709 (December 31, 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 11 Management of Capital

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

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

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

The Company is not subject to any external capital requirements

Note 12 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 13 Subsequent Event

Subsequent to September 30, 2012, the TSX Venture Exchange approved the Non-Brokered Private Placement of 13,836,000 units at $0.10 per unit. Each unit is 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. A finder's fee of up to 641,000 units may be issued relative to this private placement.

**VALDOR TECHNOLOGY INTERNATIONAL INC.** Schedule I

CONDENSED INTERIM CONSOLIDATED SCHEDULE OF ADMINISTRATIVE AND GENERAL EXPENSES

for the nine months ended September 30, 2012 and 2011

(Stated in US Dollars)

(Unaudited - Prepared by Management)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Consulting fees – Note 8 | $ 206,662 | $ 21,920 | $ 410,380 | $ 162,531 |
| Entertainment and travel | 21,938 | 23,556 | 33,626 | 42,709 |
| Investor relations | 5,063 | 7,693 | 12,521 | 38,383 |
| Legal and accounting fees | 22,763 | 9,997 | 47,185 | 27,776 |
| Licenses and permits | 866 | 1,777 | 1,556 | 2,964 |
| Management fees – Note 8 | 34,439 | 9,222 | 67,352 | 27,636 |
| Office and miscellaneous – Note 8 | 19,374 | 15,051 | 45,802 | 45,326 |
| Rent – Note 8 | 10,310 | 18,010 | 43,708 | 46,278 |
| Repairs and maintenance | 1,066 | 1,894 | 3,131 | 6,016 |
| Salaries, wages and benefits – Note 8 | 33,542 | 68,888 | 161,090 | 195,008 |
| Stock exchange filing fees | 857 | 1,209 | 15,255 | 11,347 |
| Telephone and utilities | 5,612 | 4,869 | 17,468 | 11,764 |
| Transfer agent fees | 5,735 | 6,940 | 8,409 | 9,888 |
| | $ 368,226 | $ 191,026 | $ 867,482 | $ 627,626 |