

**VALDOR TECHNOLOGY INTERNATIONAL INC.**  
**ANNUAL CONSOLIDATED FINANCIAL STATEMENTS**  
For the years ended December 31, 2016 and 2015  
(Stated in US Dollars)



**Crowe MacKay LLP**  
Member Crowe Horwath International  
1100 - 1177 West Hastings Street  
Vancouver, BC V6E 4T5  
+1.604.687.4511 Tel  
+1.604.687.5805 Fax  
+1.800.351.0426 Toll Free  
[www.crowemackay.ca](http://www.crowemackay.ca)

## **Independent Auditor's Report**

### **To the Shareholders of Valdor Technology International Inc.**

We have audited the accompanying consolidated financial statements of Valdor Technology International Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, and the consolidated statements of operations and comprehensive loss, changes in shareholders' deficit and cash flows for the years then ended, 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**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Valdor Technology International Inc. and its subsidiaries as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

#### **Emphasis of matter**

Without modifying our opinion, we draw attention to Note 2 to the consolidated financial statements which describes the material uncertainty that may cast significant doubt about the ability of Valdor Technology International Inc. to continue as a going concern.

#### **"Crowe MacKay LLP"**

**Chartered Professional Accountants  
Vancouver, British Columbia  
May 1, 2017**

**VALDOR TECHNOLOGY INTERNATIONAL INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
December 31, 2016 and 2015  
(Stated in US Dollars)

	<u>2016</u>	<u>2015</u>
<b><u>ASSETS</u></b>		
Current		
Cash	\$ 6,434	\$ 881
Accounts receivable – Note 13a	27,103	108,272
Prepaid expenses and deposit	7,473	6,441
Discontinued operations	<u>-</u>	<u>75,127</u>
	41,010	190,721
Equipment – Note 5	<u>3,190</u>	<u>4,706</u>
Total Assets	<u>\$ 44,200</u>	<u>\$ 195,427</u>
<b><u>LIABILITIES</u></b>		
Current		
Accounts payable and accrued liabilities	\$ 474,121	\$ 388,374
Loans payable – Note 6	32,771	32,512
Due to related parties – Note 7	772,095	343,107
Current portion of lease obligation – Note 13b	20,892	10,867
Convertible debentures – Note 8	296,820	-
Discontinued operations	<u>178,416</u>	<u>179,147</u>
	1,775,115	954,007
Convertible debentures – Note 8	-	274,246
Lease obligation – Note 13b	<u>-</u>	<u>10,025</u>
Total liabilities	<u>1,775,115</u>	<u>1,238,278</u>
<b><u>SHAREHOLDERS' DEFICIT</u></b>		
Equity portion of convertible debentures – Note 8	45,385	45,385
Share capital – Note 9	22,759,673	22,732,750
Contributed surplus	3,756,215	3,738,757
Accumulated other comprehensive income	134,842	158,366
Accumulated deficit	<u>(27,771,112)</u>	<u>(27,073,108)</u>
Attributable to parent	(1,074,997)	(397,850)
Non-controlling interest	<u>(655,918)</u>	<u>(645,001)</u>
Total Shareholders' Deficit	<u>(1,730,915)</u>	<u>(1,042,851)</u>
Total Liabilities and Shareholders' Deficit	<u>\$ 44,200</u>	<u>\$ 195,427</u>
Going Concern of Operations – Note 2b		
Commitments – Notes 8 and 9c		
Contingency – Note 15		

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

*"Elston Johnston"*

Director

*"Brian Findlay"*

Director

Elston Johnston

Brian Findlay

**VALDOR TECHNOLOGY INTERNATIONAL INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
For the years ended December 31, 2016 and 2015  
(Stated in US Dollars)

	<u>2016</u>	<u>2015</u>
Revenue – Note 12	\$ 124,539	\$ 202,912
Cost of goods sold – Schedule I	<u>59,372</u>	<u>109,290</u>
Gross profit	<u>65,167</u>	<u>93,622</u>
Expenses		
Administration and general – Schedule II	690,078	1,094,706
Amortization and depreciation	1,516	736
Marketing	454	3,919
Research and development	3,019	75,526
Interest and accretion – Note 8	53,913	53,746
Share-based payments – Notes 9 and 10	<u>25,108</u>	<u>334,405</u>
	<u>774,088</u>	<u>1,563,038</u>
Loss before other item	(708,921)	(1,469,416)
Other item:		
Write-off of accounts payable	<u>-</u>	<u>39,700</u>
Net loss from continuing operations	(708,921)	(1,429,716)
Net loss from discontinued operations – Note 16	<u>-</u>	<u>(265,646)</u>
Net loss for the year	<u>(708,921)</u>	<u>(1,695,362)</u>
Other comprehensive income (loss)		
Exchange differences on translating into presentation currency	<u>(23,524)</u>	<u>133,512</u>
Total comprehensive loss for the year	<u>\$ (732,445)</u>	<u>\$ (1,561,850)</u>
Basic and diluted loss per share – Continuing operations	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
Discontinued operations	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>
All operations	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>
Weighted average number of shares outstanding – basic and diluted	<u>113,386,741</u>	<u>110,868,450</u>

For the year ended December 31, 2016:

Losses attributable to:	Shareholders of parent	Non-controlling interest	Total
Net loss from continuing operations	\$ (698,004)	\$ (10,917)	\$ (708,921)
Net loss from discontinued operations	\$ -	\$ -	\$ -
Net loss for the year	\$ (698,004)	\$ (10,917)	\$ (708,921)
Total comprehensive loss for the year	\$ (721,528)	\$ (10,917)	\$ (732,445)

For the year ended December 31, 2015:

Losses attributable to:	Shareholders of parent	Non-controlling interest	Total
Net loss from continuing operations	\$ (1,419,490)	\$ (10,226)	\$ (1,429,716)
Net loss from discontinued operations	\$ (249,707)	\$ (15,939)	\$ (265,646)
Net loss for the year	\$ (1,669,197)	\$ (26,165)	\$ (1,695,362)
Total comprehensive loss for the year	\$ (1,535,685)	\$ (26,165)	\$ (1,561,850)

**VALDOR TECHNOLOGY INTERNATIONAL INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the years ended December 31, 2016 and 2015  
(Stated in US Dollars)

	<u>2016</u>	<u>2015</u>
<b>Operating Activities</b>		
Net loss for the year from continuing operations	\$ (708,921)	\$ (1,429,716)
Charges to net loss not affecting cash:		
Amortization and depreciation	1,516	1,215
Accretion	14,303	12,585
Accrued interest	36,431	37,630
Bad debts	40,325	-
Write-off of accounts payable	-	(39,700)
Unrealized foreign exchange gain	(6,657)	-
Share-based payments	<u>25,108</u>	<u>334,405</u>
	(597,895)	(1,083,581)
Changes in non-cash working capital balances related to operations:		
Accounts receivable	40,405	(82,583)
Inventories	-	18,988
Prepaid expenses and deposit	(1,032)	55,730
Accounts payable and accrued liabilities	<u>37,425</u>	<u>24,182</u>
Cash provided by (used in) operating activities – continuing operations	(521,097)	(1,067,264)
Cash provided by (used in) operating activities – discontinued operations	<u>74,396</u>	<u>(104,738)</u>
Cash flows used in operating activities from all operations	<u>(446,701)</u>	<u>(1,172,002)</u>
<b>Financing Activities</b>		
Increase in due to related parties	428,996	148,483
Proceeds from loans payable	4,000	32,512
Proceeds from issuance of common shares	19,273	794,197
Repayment of lease obligation	<u>-</u>	<u>(9,930)</u>
Cash provided by (used in) financing activities – continuing operations	452,269	965,262
Cash provided by (used in) financing activities – discontinued operations	<u>-</u>	<u>(5,000)</u>
Cash flows provided by financing activities from all operations	<u>452,269</u>	<u>960,262</u>
Effect of unrealized foreign exchange gain (loss) on cash	<u>(15)</u>	<u>81,849</u>
Increase (decrease) in cash during the year	5,553	(129,891)
Cash, beginning of the year	<u>881</u>	<u>130,772</u>
Cash, end of the year	<u>\$ 6,434</u>	<u>\$ 881</u>

Supplemental disclosure – See Note 17

**VALDOR TECHNOLOGY INTERNATIONAL INC.**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIT**  
For the years ended December 31, 2016 and 2015  
(Stated in US Dollars)

	Share capital Issued Shares	Amount	Subscriptions (receivable) received in advance	Equity portion of convertible debentures	Contributed Surplus	Accumulated Other Comprehensive Income	Accumulated Deficit	Non- Controlling Interest	Total
Balance, December 31, 2014	100,105,720	\$ 21,889,807	\$ 166,466	\$ 45,385	\$ 3,286,632	\$ 24,854	\$ (25,403,911)	\$ (618,836)	\$ (609,603)
Shares issued for cash:									
Pursuant to a private placement									
– at CDN\$0.10	11,710,500	792,233	(203,231)	-	139,806	-	-	-	728,808
On exercise of share purchase warrants – at CDN\$0.10	100,000	7,631	-	-	-	-	-	-	7,631
On exercise of share purchase options – at CDN\$0.05	1,500,000	57,758	-	-	-	-	-	-	57,758
Fair value of stock options exercised	-	23,590	-	-	(23,590)	-	-	-	-
Shares issued as finders fees	126,000	8,524	-	-	1,504	-	-	-	10,028
Share issue cost	-	(10,028)	-	-	-	-	-	-	(10,028)
Shares returned to treasury	(500,000)	(36,765)	36,765	-	-	-	-	-	-
Share-based payments	-	-	-	-	334,405	-	-	-	334,405
Exchange differences on translating to presentation currency	-	-	-	-	-	133,512	-	-	133,512
Net loss for the year	-	-	-	-	-	-	(1,669,197)	(26,165)	(1,695,362)
Balance, December 31, 2015	113,042,220	22,732,750	-	45,385	3,738,757	158,366	(27,073,108)	(645,001)	(1,042,851)
Shares issued for cash:									
On exercise of share purchase options – at CDN\$0.05	500,000	19,273	-	-	-	-	-	-	19,273
Fair value of stock options exercised	-	7,650	-	-	(7,650)	-	-	-	-
Share-based payments	-	-	-	-	25,108	-	-	-	25,108
Exchange differences on translating to presentation currency	-	-	-	-	-	(23,524)	-	-	(23,524)
Net loss for the year	-	-	-	-	-	-	(698,004)	(10,917)	(708,921)
Balance, December 31, 2016	<u>113,542,220</u>	<u>\$ 22,759,673</u>	<u>\$ -</u>	<u>\$ 45,385</u>	<u>\$ 3,756,215</u>	<u>\$ 134,842</u>	<u>\$ (27,771,112)</u>	<u>\$ (655,918)</u>	<u>\$ (1,730,915)</u>

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, 2013, the Company's principal business was developing, manufacturing and marketing of fiber optic products. During the year ended December 31, 2014, the Company expanded its business to include the developing, manufacturing and marketing of video streaming products following the completion of a business acquisition. During the year ended December 31, 2015, the Company sold substantially all of the assets and certain liabilities in connection with the video streaming operations (Note 16).

The address of the Company's corporate office is 450 - 789 West Pender Street, Vancouver, BC V6C 1H2 and the Company's operations are at 3116 Diablo Avenue, Hayward, CA 94545-2702.

Note 2      Basis of Preparation

a) Statement of Compliance

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and which were in effect as of December 31, 2016.

The consolidated financial statements were authorized for issue by the Board of Directors on May 1, 2017.

b) Going Concern of Operations

These consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company was not expected to continue operations for the foreseeable future. As at December 31, 2016, the Company has not achieved profitable operations, has accumulated losses of \$27,771,112 (2015 - \$27,073,108) since inception and expects to incur further losses in the development of its business, and has a working capital deficiency of \$1,734,105 (2015 - \$763,286), all of which are material uncertainties that cast significant doubt about the Company's ability to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to attain profitable operations to generate funds and/or its ability to raise equity capital or borrowings sufficient to meet its current and future obligations. Although the Company has been successful in the past in raising funds to continue operations and management is intending to secure additional financing as may be required, there is no assurance it will be able to do so in the future. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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 judgments 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 future periods if the revision affects both current and future periods. See Note 4 for use of estimates and judgments made by management in the application of IFRS.

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as fair value through profit or loss and available-for-sale financial assets. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The consolidated financial statements are 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 consolidated financial statements, unless otherwise indicated.

a) Basis of Consolidation

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

Company	Country of Incorporation	Percentage Held		Principal Activity
		2016	2015	
Fiberlight Optics, Inc.	USA	94%	94%	Inactive
Valdor Fiber Optics, Inc.	USA	94%	94%	Sale of fiber optics products

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, 2016 and 2015, the Company did not hold any cash equivalents.



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

c) Inventories

Inventories are 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

Equipment is measured at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

The carrying amounts of equipment are depreciated from the date of use to their estimated residual value over the estimated useful lives of the assets. Estimates of residual values and useful lives are reassessed annually and any changes in estimate are taken into account in the determination of remaining depreciation charges.

The Company is depreciating its equipment on a straight-line basis over a five year period.

e) Leases

Leases are classified as either finance or operating leases. Leases that transfer substantially all of the benefits and inherent risks of ownership of property to the Company are accounted for as finance leases. At the time a finance lease is entered into, an asset is recorded together with its related long-term obligation to reflect the acquisition and financing. Equipment recorded under finance leases is amortized on the same basis as described above. Operating lease payments are recognized as an operating expense in the profit or loss on a straight-line basis over the lease term.

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

f) 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 the US dollar as its presentation currency. The functional currency of the US subsidiaries are US dollars as it is the currency in which the majority of their 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. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

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 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 to the presentation currency are transferred directly to the Group's foreign currency translation reserve in accumulated other comprehensive loss/income.

g) 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.

h) Income Taxes

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss 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 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.

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

h) Income Taxes – (cont'd)

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 consolidated 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 date of the statement of financial position 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, if any, are presented as non-current.

i) Revenue Recognition

The Company recognizes revenue from the sale of products upon shipment and when all significant contractual obligations have been satisfied and collection is reasonably assured.

Extended warranty revenue is recognized over the extended warranty period when that period begins. Revenue from licensed software is recognized over the license term and revenue from software maintenance and technical support contracts is recognized over the period these services are provided.

j) Share Capital

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

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

j) Share Capital – (cont'd)

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.

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.

k) Share-based Payments

Equity-settled share based payments for directors, officers and employees are measured at fair value at the date of grant using the Black-Scholes valuation model and recorded as compensation expense in the consolidated 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 profit or loss over the remaining vesting period.

Share-based payments to non-employees are measured at fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case the fair value of the equity instruments issued is used. The value of the goods or services is recorded at the earlier of the vesting date, or the date the goods or services are received.

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. The Company also makes an estimate of the forfeiture rate based on historical information.

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

k) Share-based Payments – (cont'd)

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. If the options expire unexercised, the amount remains in contributed surplus.

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.

l) 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 consolidated statement of financial position 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 at fair value through profit or loss (“FVTPL”), held-to-maturity investments, available-for-sale (“AFS”) financial assets and loans and receivables.

Subsequent measurement and changes in fair value will depend on their initial classification. Financial assets at FVTPL are measured at fair value and changes in fair value are recognized in profit or loss. Investments in equity instruments that do not have a quoted price in an active market and whose fair value cannot be reliably measured are measured at cost. All other available-for-sale financial assets are measured at fair value with changes in fair value recorded in other comprehensive income/loss until the investment is derecognized or impaired at which time the amounts would be recorded in profit or loss. Held-to-maturity investments and loans and receivables are measured at amortized cost.

The Company has classified cash and accounts receivable as loans and receivables. The investment in shares of Niagara Video Corp. (see Note 16) has been classified as AFS financial assets as the Company determined that it does not have significant influence over the investee. The shares do not have a quoted price in an active market and accordingly, are carried at cost.

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

l) Financial Instruments – (cont'd)

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.

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 accounts receivable, is directly reduced by the impairment loss. The carrying amount of accounts 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 financial assets are not reversed.

Financial liabilities 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 other financial liabilities include accounts payables and accrued liabilities, due to related parties, loans payable and convertible debentures. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

*Compound Financial Instruments*

Compound financial instruments issued by the Company comprise convertible debentures that can be converted into shares of the Company at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to the initial recognition, the liability component of a compound financial instrument is accreted over the life of the loan using the effective interest method and measured at amortized cost. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition. Interest, dividends, losses and gains relating to the financial liability are recognized in profit or loss. When the conversion option is exercised, the consideration received is recorded as share capital and the equity component of the compound financial instrument is transferred to share capital.

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

l) Financial Instruments – (cont'd)

When the Company extinguishes convertible debentures before maturity through early redemption or repurchase where the conversion option is unchanged, the Company allocates the consideration paid and any transaction costs for the repurchase or redemption to the liability and equity components of the instrument at the date of settlement. The method used in allocating the consideration paid and transaction costs to the separate components is consistent with the method used in the original allocation to the separate components of the proceeds received by the entity when the convertible instrument was issued. The amount of gain or loss relating to the early redemption or repurchase of the liability component is recognized in profit or loss. The amount of consideration relating to the equity component is recognized in equity.

m) Future Accounting Pronouncements

The following new standards and amendments are not yet effective and have not been applied in preparing these consolidated financial statements. The Company does not plan to early adopt any of these standards and amendments and is currently evaluating their potential impacts.

- Amendments to IAS 7 *Statement of Cash Flows* require that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. One way to fulfil the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities. These amendments are effective for reporting periods beginning on or after January 1, 2017.
- IFRS 9 *Financial Instruments* 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. This standard is effective for reporting periods beginning on or after January 1, 2018.
- IFRS 15 *Revenue from Contracts with Customers* provides a single principle-based framework to be applied to all contracts with customers. IFRS 15 replaces the previous revenue standard IAS 18, Revenue, and the related Interpretations on revenue recognition. The standard scopes out contracts that are considered to be lease contracts, insurance contracts and financial instruments. The new standard is a control-based model as compared to the existing revenue standard which is primarily focused on risks and rewards. Under the new standard, revenue is recognized when a customer obtains control of a good or service. Transfer of control occurs when the customer has the ability to direct the use of and obtain the benefits of the good or service. This standard is effective for reporting periods beginning on or after January 1, 2018.

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

m) Future Accounting Pronouncements – (cont'd)

- IFRS 16 *Leases* establishes a single lease accounting model requiring lessees to recognize assets and liabilities for all leases unless the leases term is twelve months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with the approach to lessor accounting in IFRS 16 substantially unchanged from the predecessor standards IAS 17 *Leases*. The standard replaces IAS 17 *Leases* and related interpretations. This standard is effective for reporting periods beginning on or after January 1, 2019.

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.

Critical estimates which are most subject to uncertainty and have the most significant risk of resulting in a material adjustment to the carrying values of assets and liabilities within the next twelve months are as follows:

a) Recoverability of accounts receivable and allowance for doubtful accounts

The Company provides allowances for doubtful accounts based on an assessment of the recoverability of account receivables. Allowances are applied to account receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management analyses historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgment to evaluate the adequacy of the allowance for doubtful accounts. Where the expectation is different from the original estimate, such difference will impact the carrying value of accounts receivable.

b) 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, forfeiture rate, 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.



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

c) Estimate of the shares of Niagara Video Corp.

The determination of the fair value of the shares of Niagara Video Corp. required management to make estimates regarding the fair value of the shares on the date received. Management has determined that the investment in the shares is considered to be financial instruments that are not quoted in an active market. Due to the uncertainty of the investment the Company has decided to value the investment at a \$Nil amount at the date of acquisition and as at December 31, 2016.

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

a) Going concern

The assessment of the Company's ability to continue as a going concern requires significant judgment. The consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, as disclosed in Note 2.

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. Deferred income taxes are based on estimates as to the timing of the reversal of temporary differences, tax rates currently substantively enacted and the determination of tax assets not recognized. Tax assets not recognized are based on estimates of the probability of the Company utilizing certain tax pools and losses in future periods.

c) Functional currency

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

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Note 5 Equipment

	<u>Information system</u>	<u>Office equipment</u>	<u>Machinery and equipment</u>	<u>Total</u>
<u>Cost</u>				
Balance December 31, 2014	\$ 89,798	\$ 4,967	\$ 83,315	\$ 178,080
Disposition	<u>(89,798)</u>	<u>-</u>	<u>(80,700)</u>	<u>(170,498)</u>
Balance December 31, 2015 and December 31, 2016	<u>\$ -</u>	<u>\$ 4,967</u>	<u>\$ 2,615</u>	<u>\$ 7,582</u>
<u>Depreciation and impairment loss</u>				
Balance December 31, 2014	\$ -	\$ 981	\$ 15,475	\$ 16,456
Depreciation (1)	12,561	736	27,080	40,377
Disposition	<u>(12,561)</u>	<u>-</u>	<u>(41,396)</u>	<u>(53,957)</u>
Balance December 31, 2015	-	1,717	1,159	2,876
Depreciation (1)	<u>-</u>	<u>993</u>	<u>523</u>	<u>1,516</u>
Balance December 31, 2016	<u>\$ -</u>	<u>\$ 2,710</u>	<u>\$ 1,682</u>	<u>\$ 4,392</u>
<u>Carrying amounts</u>				
Balance, December 31, 2015	<u>\$ -</u>	<u>\$ 3,250</u>	<u>\$ 1,456</u>	<u>\$ 4,706</u>
Balance, December 31, 2016	<u>\$ -</u>	<u>\$ 2,257</u>	<u>\$ 933</u>	<u>\$ 3,190</u>

The net carrying value of asset under capital lease as at December 31, 2016 and 2015 was \$Nil.

(1) Depreciation related to discontinued operations was \$Nil (2015 - \$39,162).

Note 6 Loans payable

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

Note 7 Due to Related Parties

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

Note 8      Convertible Debentures

During the year ended December 31, 2014, the Company issued CDN\$401,000 convertible debentures of which 20% of the principal amount of the debentures may be convertible into units consisting of one common share and one non-transferable share purchase warrant at CDN\$0.10 of principal outstanding (i.e. up to 802,000 units may be issued upon conversion). Each warrant will have a term of three years from the date of issuance of the debentures and entitle the holder to purchase one common share. The non-transferable share purchase warrants are exercisable at the price of CDN\$0.20 per share. The convertible debentures are unsecured, bear interest at 12% per annum and matured on February 18, 2017. The Company defaulted on the repayment. On initial recognition, the Company bifurcated CDN\$49,710 to equity and CDN\$351,290 to the carrying value of the loan, which will be accreted to CDN\$401,000 over the term of the convertible debentures. During the year ended December 31, 2016, the Company recognized accretion and interest of \$50,734 (CDN\$67,197) (2015: \$50,215 (CDN\$62,214)). The effective interest rate of the debentures is 18%.

Note 9      Share Capital

a) Authorized:

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

Nature and Purpose of Equity and Reserves:

The reserves recorded in equity on the Company's consolidated statements of financial position include 'Contributed Surplus', 'Accumulated Other Comprehensive Income', 'Accumulated Deficit' and 'Non-Controlling Interest'.

'Contributed Surplus' is used to recognize the value of stock option grants prior to exercise and the allocated value of the warrants issued as part of unit issuances.

'Accumulated Other Comprehensive Income' is used to record the change in cumulative foreign currency adjustment on conversion from the functional currency of the parent company to the presentation currency.

'Accumulated Deficit' is used to record the Company's change in deficit from profits or losses from year to year.

'Non-Controlling Interest' is used to record the change in equity in subsidiaries not attributable, directly or indirectly, to the Company.

Note 9 Share Capital – (cont'd)

b) Issued:

Shares issued during the year ended December 31, 2016

During the year the Company issued 500,000 common shares upon the exercise of share purchase options at CDN\$0.05 per share for gross proceeds of CDN\$25,000 (\$19,273). The weighted average share price on the date of exercises was CDN\$0.06.

Shares issued during the year ended December 31, 2015

On February 11, 2015, the Company completed a non-brokered private placement for a total of 11,710,500 units at a price of CDN\$0.10 per unit for gross proceeds of CDN\$1,171,050 of which CDN\$193,116 (\$166,466) was received during the year ended December 31, 2014 and is recorded as subscriptions received in advance and CDN\$50,000 (\$36,765) was not collected. The 500,000 common shares related to this amount were later returned to treasury. Each unit consists of one common share and one non-transferable share purchase warrant. Each warrant will entitle the holder to purchase one common share of the Company at a price of CDN\$0.10 on or before February 11, 2018. The Company uses the residual method and have allocated CDN\$995,392 (\$792,233) to the shares and CDN\$175,658 (\$139,806) to the warrants. Finders' fees of 126,000 units were paid in respect to this financing and have similar terms as the non-brokered private placement. The Company fair valued the finders' units at CDN\$12,600 (\$10,028) and have allocated CDN\$1,890 (\$1,504) to the warrants attached to the unit.

During the year the Company issued 100,000 common shares upon the exercise of warrants at CDN\$0.10 per share for gross proceeds of CDN\$10,000 (\$7,631).

During the year the Company issued 1,500,000 common shares upon the exercise of options at CDN\$0.05 per share for gross proceeds of CDN\$75,000 (\$57,758). The share price of the Company's shares on the date of exercise was CDN\$0.10.

c) Commitments:

Stock-Based Compensation Plan

The Company has established a formal stock option plan in accordance with the policies of the TSX-V under which it is authorized to grant options up to a maximum of 22,600,000 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. No option will be exercisable until it has vested. Options vest immediately unless a vesting schedule is imposed by the board, or unless the options are granted to an Eligible Person providing Investor Relations Activities to the Company, in which case a maximum of 25% of the options vest on a quarterly basis. The options are for a maximum term of ten years.

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

Note 9 Share Capital – (cont'd)

c) Commitments: – (cont'd)

Stock-Based Compensation Plan – (cont'd)

A summary of the status of the stock option plan as of December 31, 2016 and 2015 and changes during the years then ended on those dates is presented below:

	2016		2015	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at the beginning of the year	7,350,000	CDN\$0.10	9,325,000	CDN\$0.11
Granted	500,000	CDN\$0.05	11,250,000	CDN\$0.09
Exercised	(500,000)	CDN\$0.05	(1,500,000)	CDN\$0.05
Expired/Forfeited/cancelled	(15,000)	CDN\$0.15	(11,725,000)	CDN\$0.10
	<u>7,335,000</u>	<u>CDN\$0.10</u>	<u>7,350,000</u>	<u>CDN\$0.10</u>
Options outstanding at end of the year				
	<u>7,335,000</u>		<u>4,200,000</u>	
Options exercisable at end of the year				
	<u>5,235,000</u>		<u>4,200,000</u>	

At December 31, 2016, the Company has 7,335,000 options outstanding entitling the holders thereof the right to purchase one common share for each option held as follows:

Outstanding	Exercisable	Exercise Price	Expiry Date
250,000	250,000	CDN \$0.10	November 23, 2017
400,000	400,000	CDN \$0.10	December 19, 2017
735,000	735,000	CDN \$0.13	January 7, 2018
1,750,000	1,750,000	CDN \$0.10	March 11, 2019
<u>4,200,000</u>	<u>2,100,000</u>	<u>CDN \$0.10</u>	<u>January 2, 2020</u>
<u>7,335,000</u>	<u>5,235,000</u>		

As of December 31, 2016, the 7,335,000 (2015 – 7,350,000) options outstanding have a weighted average remaining contractual life of 2.43 (2015 - 3.43) years.

Stock-based compensation charges are expensed for stock options granted and vested with a corresponding increase to contributed surplus. Upon exercise of stock options, consideration paid on the exercise of stock options and purchase of stock is credited to share capital.

Note 9 Share Capital – (cont'd)

c) Commitments: – (cont'd)

Stock-Based Compensation Plan – (cont'd)

During the year ended December 31, 2016, the Company recorded stock-based compensation expense of \$25,108 (2015: \$334,405) for stock options vested and cancelled during the year. 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 weighted average assumptions used in calculating fair value were as follows: \$0.05 (2015 - \$0.08) share price on grant date, 0.48% (2015 –0.81%) risk free rate, 0% (2015 – 0%) dividend yield, 85% (2015 - 80%) expected annualized volatility, 3 years (2015 – 5 years) expected stock option life and 30% (2015 – 30%) forfeiture rate. Expected annualized volatility was estimated by reference to historical volatility of the Company with a comparable period in their lives.

Share Purchase Warrants

A summary of the status of share purchase warrants as of December 31, 2016 and 2015 and changes during the years then ended on those dates is presented below:

	2016		2015	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Balance, beginning of the year	52,812,500	CDN\$0.18	55,303,000	CDN\$0.20
Issued	-	-	11,836,500	CDN\$0.10
Exercised	-	-	(100,000)	CDN\$0.10
Expired	(20,874,000)	CDN\$0.20	(14,227,000)	CDN\$0.20
Balance, end of the year	<u>31,938,500</u>	<u>CDN\$0.16</u>	<u>52,812,500</u>	<u>CDN\$0.18</u>

At December 31, 2016, the Company has 31,938,500 share purchase warrants outstanding as follows:

Outstanding	Exercise Price	Expiry Date
5,777,000	CDN \$0.20	February 19, 2017*
14,425,000	CDN \$0.20	June 23, 2017
<u>11,736,500</u>	<u>CDN \$0.10</u>	<u>February 11, 2018</u>
<u>31,938,500</u>		

\* Subsequent to December 31, 2016, these share purchase warrants expired unexercised.

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Note 10 Related Party Transactions

The Company incurred the following expenses with related parties of the Company:

	<u>2016</u>	<u>2015</u>
Administrative expenses to other related parties		
Consulting fees incurred with a spouse and family members of a director	\$ -	\$ 44,770
Office and miscellaneous – secretarial services incurred with an officer of the Company	2,074	4,145
Rent reimbursed to a company controlled by the CFO	20,385	21,114
Share-based payments incurred with family members of two directors of the Company	<u>415</u>	<u>35,378</u>
	<u>22,874</u>	<u>105,407</u>
Key management compensation		
Consulting fees	233,835	254,150
Management fees	63,420	65,688
Salaries, wages and benefits	65,893	95,428
Share-based payments	<u>17,036</u>	<u>88,059</u>
	<u>380,184</u>	<u>503,325</u>
	<u>\$ 403,058</u>	<u>\$ 608,732</u>

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

Note 11 Income Taxes

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

	<u>2016</u>	<u>2015</u>
Net loss before income taxes	\$ (708,921)	\$ (1,695,360)
Statutory rates	<u>26.00%</u>	<u>26.00%</u>
Expected income tax recovery	(184,000)	(441,000)
Difference in tax rates in other jurisdictions	(32,000)	(78,000)
Permanent differences	(20,000)	88,000
Change in foreign exchange rate	(82,000)	331,000
Unrecognized tax benefits	<u>318,000</u>	<u>100,000</u>
	<u>\$ -</u>	<u>\$ -</u>

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Note 11 Income Taxes – (cont'd)

Deferred income tax assets and liabilities are recognized for temporary differences between the carrying amount of the balances on the consolidated statements of financial position and their corresponding tax values as well as for the benefit of losses available to be carried forward to future years for tax purposes to the extent that it is probable that future taxable profit will allow the deferred tax assets to be recovered.

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

	2016	2015
Deferred income tax assets		
Non-capital and net operating losses	\$ 8,282,000	\$ 8,028,000
Capital losses	494,000	473,000
Capital assets and other	2,000	-
	<u>8,778,000</u>	<u>8,501,000</u>
Less: deferred income tax assets not recognized	<u>(8,778,000)</u>	<u>(8,501,000)</u>
Net deferred income tax assets	<u>\$ -</u>	<u>\$ -</u>

The Company has non-capital losses available to reduce taxable income in Canada and in USA and expire in stages through 2036 as follows:

	Canada (CDN)	USA
2018	\$ -	\$ 480,000
2019	-	1,516,000
2020	-	2,034,000
2021	-	2,366,000
2022	-	1,037,000
2023	-	871,000
2024	-	779,000
2025	-	716,000
2026	256,000	530,000
2027	308,000	595,000
2028	396,000	433,000
2029	589,000	587,000
2030	467,000	628,000
2031	161,000	668,000
2032	951,000	360,000
2033	1,266,000	353,000
2034	1,700,000	718,000
2035	1,167,000	436,000
2036	788,000	182,000
	<u>\$ 8,049,000</u>	<u>\$ 15,289,000</u>

At December 31, 2016, the Company has accumulated capital losses of approximately CDN\$5,034,000 (2015: CDN\$5,034,000) in Canada that may be carried forward indefinitely to reduce future years' capital gains.



Note 12 Segmented Information and Economic Dependence

As at December 31, 2016, the Company only has one reportable segment. During the year ended December 31, 2015, the Company sold the video streaming operations and has treated this as discontinued operations in the current and prior year financial results. See Note 16 for details.

During the year ended December 31, 2016, the Company was economically dependent on one (2015: two) customers who each accounted for more than 10% of revenue from continuing operations and in aggregate accounted for 72% (2015: 81%) of sales.

During the years ended December 31, 2016 and 2015, all of the revenue from continuing operations are generated from the sale of products.

The Company's revenues are allocated to geographic segments for the years ended December 31, 2016 and 2015 as follows:

	<u>2016</u>	<u>2015</u>
United States of America	\$ 115,881	\$ 189,440
Other	<u>8,658</u>	<u>13,472</u>
	<u>\$ 124,539</u>	<u>\$ 202,912</u>

The Company's net income (loss) and total non-current assets are allocated to geographic segments for the years ended December 31, 2016 and 2015 as follows:

	<u>2016</u>	<u>2015</u>
Canada	\$ (526,972)	\$ (1,259,281)
United States of America	<u>(181,949)</u>	<u>(170,435)</u>
Net loss from continuing operations	<u>\$ (708,921)</u>	<u>\$ (1,429,716)</u>
	<u>2016</u>	<u>2015</u>
Canada	\$ -	\$ -
United States of America	<u>3,190</u>	<u>4,706</u>
Total non-current assets	<u>\$ 3,190</u>	<u>\$ 4,706</u>

Note 13 Financial Instruments

A fair value hierarchy prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;  
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and  
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying amounts of cash, accounts receivable, accounts payable and accrued liabilities, loans payable and due to related parties 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. The Company's maximum exposure to credit risk is the carrying amounts of cash and accounts receivable on the consolidated statements of financial position.

The aging analysis of the accounts receivable is as follows:

	<u>2016</u>	<u>2015</u>
Current to 3 months	\$ 10,162	\$ 80,398
3 to 6 months	-	17,400
Over 6 months	59,586	-
Allowance provided	<u>(45,000)</u>	<u>-</u>
Trade receivables	24,748	97,798
Goods and services tax recoverable	<u>2,355</u>	<u>10,474</u>
	<u>\$ 27,103</u>	<u>\$ 108,272</u>

Note 13 Financial Instruments – (cont'd)

b) Liquidity Risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they become due. As at December 31, 2016, the Company has a working capital deficiency of \$1,734,105. 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 and debt offerings and advances from related parties, but there can be no assurance that such financing will be available on terms acceptable to the Company.

Future minimum annual lease payments due under lease obligation are as follows:

2016 (payments are in default)	\$ 14,775
2017	<u>7,389</u>
Total minimum lease payments	22,164
Less amount representing imputed interest of 6%	<u>1,272</u>
Balance of obligation	20,892
Current portion	<u>20,892</u>
Long-term portion	<u>\$ -</u>

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 not exposed to significant 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, 2016, the Company has Canadian dollars cash of CDN\$1,794, accounts receivable of CDN\$3,163, accounts payable of CDN\$201,821, convertible debentures payable of CDN\$401,000, and due to related parties of CDN\$1,029,110, translated at USD\$1 for every CDN\$1.3426. These factors expose the Company to foreign currency exchange rate risk, which could have a material adverse effect on the ultimate profitability of the Company. A 10% change in the exchange rate would change other comprehensive income/loss by approximately \$121,000. 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 its 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' deficit, 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 technology and telecommunications 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. There is no change to the Company's approach to capital management during the years ended December 31, 2016 and 2015.

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 consolidated financial statements.

The Company is contingently liable for the remaining unpaid \$50,000 from Niagara Video Corp. to Viewcast Inc. in connection to the Compromise and Settlement Agreement as disclosed in Note 16.

Note 16     Discontinued Operations

On December 31, 2015, the Company entered into an asset purchase agreement with Niagara Video Corp. ("Acquirer") whereby the Acquirer purchased all of the assets in connection with the Company's video streaming operations and assumed certain liabilities from the Company for total consideration of \$95,000 in cash with \$38,000 payable upon closing of the asset purchase agreement, \$32,000 to be placed in trust to cover the assumed liabilities and \$25,000 payable in monthly installments of \$5,000 per month commencing on April 1, 2016.

The Company is entitled to a royalty of 1% of net sales from products sold by the Company to the Acquirer for a period of 2 years from closing up to a maximum of \$500,000.

The Company will also receive 400,000 common shares of the Acquirer which equals to 20% of the initial equity.

Note 16 Discontinued Operations – (cont'd)

In addition, the Company entered into a Compromise and Settlement Agreement with the Acquirer and Viewcast, Inc. (“Viewcast”), the seller of Videoware assets to the Company whereby Viewcast agreed to release and discharge the Company from any and all claims, demands, actions or causes of action which Viewcast has or may have against the Company upon payment in full by the Acquirer as follows:

- \$115,000 within 10 business days of closing of the asset purchase agreement (paid)
- \$50,000 payable in monthly instalments of \$5,000 starting April 1, 2016

In addition, Viewcast is entitled to a royalty of 3% of gross sales from products sold by the Acquirer for a period of 5 years beginning October 1, 2016 and will receive 200,000 shares of the Acquirer.

The net loss from discontinued operations for the year ended December 31, 2016 and 2015 are as follows:

For the years ended December 31,	<u>2016</u>	<u>2015</u>
Revenue	\$ -	\$ 709,619
Cost of goods sold	-	(440,431)
Expenses	-	<u>(788,438)</u>
Operating loss from discontinued operations	-	(519,250)
Gain on sale of discontinued operations	-	<u>253,604</u>
Net loss from discontinued operations	<u>\$ -</u>	<u>\$ (265,646)</u>

The following table provides additional information with respect to the gain on sale of discontinued operations during the year ended December 31, 2015:

Consideration on disposal of discontinued operations	
Cash to the Company	\$ 95,000
Cash to Viewcast	165,000
Shares of Niagara Video Corp.	-
Total consideration	<u>260,000</u>
Less net assets of discontinued operations	
Inventory	258,011
Property and equipment	116,542
Intangible assets	174,667
Contingent consideration	<u>(294,468)</u>
Net assets of discontinued operations	<u>254,752</u>
Gain on disposal of net assets to the Acquirer	5,248
Gain on debt settlement with Viewcast	<u>248,356</u>
Gain on sale of discontinued operations	<u>\$ 253,604</u>

Valdor Technology International Inc.  
Notes to the Consolidated Financial Statements  
For the years ended December 31, 2016 and 2015  
(Stated in US Dollars) – Page 30

Note 17     Supplemental Cash Flows Information

	<u>2016</u>		<u>2015</u>
Share issue costs paid by issuance of shares	\$	-	\$ 10,028
Interest received (paid)	\$	-	-
Income taxes received (paid)	\$	-	-
Dividends received (paid)	\$	-	-

**VALDOR TECHNOLOGY INTERNATIONAL INC.**  
**CONSOLIDATED SCHEDULES OF COST OF GOODS SOLD**  
For the years ended December 31, 2016 and 2015  
(Stated in US Dollars)

Schedule I

	<u>2016</u>	<u>2015</u>
Depreciation	\$ -	\$ 479
Freight	1,290	6,338
Inventories recognized as an expense	11,882	102,323
Salaries, wages and benefits	<u>46,200</u>	<u>150</u>
	<u>\$ 59,372</u>	<u>\$ 109,290</u>

**VALDOR TECHNOLOGY INTERNATIONAL INC.**  
**CONSOLIDATED SCHEDULES OF ADMINISTRATIVE AND GENERAL EXPENSES**  
For the years ended December 31, 2016 and 2015  
(Stated in US Dollars)

Schedule II

	<u>2016</u>	<u>2015</u>
Bad debts	\$ 40,325	\$ -
Consulting fees – Note 10	293,319	607,026
Entertainment and travel	2,822	58,457
Insurance, licenses and permits (recovery)	(578)	3,171
Investor relations (recovery)	(1,444)	15,416
Legal and accounting fees	49,166	64,954
Management fees – Note 10	63,420	65,688
Office and miscellaneous – Note 10	17,252	30,679
Rent – Note 10	59,884	61,770
Repairs and maintenance	4,732	6,143
Salaries, wages and benefits – Note 10	132,472	133,882
Stock exchange filing fees	6,319	28,694
Telephone and utilities	16,310	13,928
Transfer agent fees	<u>6,079</u>	<u>4,898</u>
	<u>\$ 690,078</u>	<u>\$ 1,094,706</u>