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Annual Report

FTI Foodtech International Inc.

CORPORATE STRATEGY

FTI Foodtech International Inc. is expanding its marketing activities to accelerate growth from the profitable base on a selected range of both technology and products.

The corporation has moved into the surplus goods industry. This allowed FTI to leverage its strong long-term relationships with key distribution and buying groups in order to realize substantial sales and profits for its shareholders.

FTI will continue to search for other innovative technologies to market to its customers.

EXCHANGE LISTING

The Canadian Venture Exchange

TRADING SYMBOL

FTI

ANNUAL GENERAL MEETING NOTICE

10:00 am
Thursday, September 6, 2001
Board Room
43 Rainside Rd.
North York, Ontario
Canada
M3A 3L9

MANAGEMENT REPORT

To the Shareholders

FTI Foodtech International Inc. has traditionally acquired new food products and technologies for licensing or sale. FTI has now made a major push into Surplus Product Sales, which has resulted in a sharp increase in sales and profits. FTI has realized a significant opportunity by buying overstocked food and non-food items at a fraction of the wholesale cost. The company then leveraged its strong long-term relationships with key distribution and buying groups in order to realize quick sales.

FTI continues to market and distribute Mitsubishi's Ageless™ oxygen absorbers. The Ageless™ packet absorber extends the shelf life of food products by removing oxygen from within the package. The presence of oxygen reduces the shelf life by effecting its taste, flavour and aroma.

FTI's **maxi treat™**, all natural liver treat for dogs and cats, are sold across Canada, in pet stores and by veterinarians. They are the all-natural treat of choice by true animal lovers.

FINANCIAL POSITION

The FTI financial statement ending March 31, 2001 demonstrates a gross revenue of \$2,652,078 (compared to \$916,958 for 2000) and a profit of \$200,375 (compared to a profit of \$44,953 for 2000) which represents 3.1 cents per share (compared to a profit in 2000 of 0.7 cents per share).

The total assets of the corporation are \$582,325 (compared to \$586,524 for 2000). The sharp increase in sales can be attributed to the success of the Surplus Product Sales Division which commenced in February 2000.

Appreciation is expressed to the staff of Cardinal Biologicals Limited, to our associates in the food and pet food industry and to our shareholders for their continuing support.

Please visit FTI on the World Wide Web at: www.fti-foodtech.com
On Behalf of the Board of Directors

William Hullah
President

July 31, 2001

BUSINESS ACTIVITIES

FTI TRADING

The internet technologies have allowed FTI to capitalize on an amazing opportunity in the surplus goods industry. This worldwide “power brokerage” of goods has allowed us to perfect the area of Buying Low and Selling High. Through FTI’s established network, multiple products with multiple buyers come together to generate elevated profits.

NORTH AMERICAN BARTER EXCHANGE – TORONTO OFFICE

In December of 2000, FTI obtained the license to operate the Toronto Office of the North American Barter Exchange. The barter exchange provides a network that brings buyers and sellers together. Barter is the exchange of goods and services, without the exchange of cash. North American Barter Exchange provides business to business communications for all its members’ products and services.

TECHNOLOGY TRANSFER

FTI Foodtech International Inc. is the Canadian technical and marketing agent for **Ageless™**, an oxygen absorber product developed by Mitsubishi Gas Chemical Company.

The **Ageless™** oxygen absorber effectively extends product shelf life, by maintaining the original fresh taste, flavour and texture. **Ageless™** oxygen absorbers permit food processors to create innovative new packaging designs and more economical distribution methods.

The potential market for **Ageless™** is large. It is already being used in Canada in packaging of sandwiches for vending machines, for pasta, perogies, dehydrated canned food and beef jerky, which is largely destined for export to Japan. Other applications include: packaged cereals, cakes, nuts, spices and pharmaceutical products including vitamins.

The major ingredient in this patented oxygen absorber is a non-toxic powdered active iron oxide. The product is supplied in the form of sachets of varying sizes for different size containers and applications. By totally eliminating oxygen, **Ageless™** sachets prevent the deterioration of fats and oils, prevent discolouration, kill vermin which might be present in grains, prevent the growth of mould and other microorganisms and facilitate storage.

PET FOOD PRODUCTS

maxi treat™ - In December of 1991, FTI launched **maxi treat™**. **maxi treat™** is an all natural obedience treat for dogs, with no additives or preservatives. High acceptance of **maxi treat™** has led to the development of two companion lines: **maxi treat™** liver bits with garlic, and **maxi treat™** beef heart bits. Distribution of **maxi treat™** is coast to coast in Canada through both specialty trade and veterinarians.

MANAGEMENT'S STATEMENT ON FINANCIAL REPORTING

All information contained in this Annual Report of FTI Foodtech International Inc. including the financial statements, is the responsibility of management and has been approved by Directors. Financial information presented throughout this report is consistent with the information presented in the financial statements which are prepared in accordance with generally accepted accounting principles.

The Board of Directors carries out its responsibilities for the financial statements primarily through its Audit Committee, a majority of whom are not employees of the Corporation. The Audit Committee meets annually with management and the independent auditors both of whom have full and free access to the Committee.

AUDITOR'S REPORT

**To the Shareholders
FTI Foodtech International Inc.**

We have audited the balance sheets of FTI Foodtech International Inc. (a British Columbia Corporation) as at March 31, 2001 and 2000 and the statements of income and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the Company Act (British Columbia), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Bealor + Partners LLP

**Toronto, Canada
June 12, 2001**

Chartered Accountants

FTI FOODTECH INTERNATIONAL INC.

BALANCE SHEETS

MARCH 31, 2001 AND 2000

	<u>2001</u>	<u>2000</u>
	\$	\$
ASSETS		
CURRENT		
Cash	142,683	186,291
Accounts Receivable (Note 2)	200,878	286,897
Advances to Related Company	-	14,223
Inventories	208,669	86,527
Prepaid Expenses and Sundry Receivables	<u>16,293</u>	<u>2,479</u>
TOTAL CURRENT ASSETS	568,523	576,417
CAPITAL (Note 3)	<u>13,802</u>	<u>10,107</u>
TOTAL ASSETS	<u>582,325</u>	<u>586,524</u>
LIABILITIES		
CURRENT		
Accounts Payable and Accrued Liabilities	<u>19,642</u>	<u>324,216</u>
TOTAL LIABILITIES	<u>19,642</u>	<u>324,216</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 4)	4,687,288	4,587,288
DEFICIT	<u>(4,124,605)</u>	<u>(4,324,980)</u>
	<u>562,683</u>	<u>262,308</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>582,325</u>	<u>586,524</u>

See accompanying notes.

Approved by the Board: Director

Signed William Hullah

Director

Signed Mark Nuernberger

FTI FOODTECH INTERNATIONAL INC.

STATEMENTS OF INCOME AND DEFICIT

FOR THE YEARS ENDED MARCH 31, 2001 AND 2000

	<u>2001</u>	<u>2000</u>
	\$	\$
REVENUE		
Product Sales	2,649,240	910,036
Other	<u>2,838</u>	<u>6,922</u>
	<u>2,652,078</u>	<u>916,958</u>
 EXPENSES		
Cost of Product Sales	2,242,755	790,904
General and Administrative	205,891	78,661
Amortization of Capital Assets	<u>3,057</u>	<u>2,440</u>
	<u>2,451,703</u>	<u>872,005</u>
 NET INCOME	 200,375	 44,953
 DEFICIT - Beginning of Year	 <u>(4,324,980)</u>	 <u>(4,369,933)</u>
 DEFICIT - End of Year	 <u>(4,124,605)</u>	 <u>(4,324,980)</u>
 EARNINGS PER SHARE		
Basic	<u>0.031</u>	<u>0.007</u>
Fully Diluted	<u>0.029</u>	<u>0.007</u>

See accompanying notes.

FTI FOODTECH INTERNATIONAL INC.**STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED MARCH 31, 2001 AND 2000**

	<u>2001</u>	<u>2000</u>
	\$	\$
OPERATIONS		
Net Income	200,375	44,953
Item not Involving Cash:		
Amortization of Capital Assets	<u>3,057</u>	<u>2,440</u>
	203,432	47,393
Decrease (Increase) in Inventories	(122,142)	3,521
Decrease (Increase) in Accounts Receivable	86,019	(212,458)
Increase in Prepaid Expenses and Sundry Receivables	(13,814)	(319)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	<u>(304,574)</u>	<u>317,208</u>
CASH DERIVED FROM (EXPENDED ON) OPERATIONS	<u>(151,079)</u>	<u>155,345</u>
FINANCING ACTIVITIES		
Issuance of Common Shares	<u>100,000</u>	<u>-</u>
INVESTING ACTIVITIES		
Decrease (Increase) in Advances to Related Company	14,223	(14,223)
Purchase of Capital Assets (Net)	<u>(6,752)</u>	<u>(1,377)</u>
CASH DERIVED FROM (EXPENDED ON) INVESTING ACTIVITIES	<u>7,471</u>	<u>(15,600)</u>
INCREASE (DECREASE) IN CASH	(43,608)	139,745
CASH - Beginning of Year	<u>186,291</u>	<u>46,546</u>
CASH - End of Year	<u>142,683</u>	<u>186,291</u>

See accompanying notes.

FTI FOODTECH INTERNATIONAL INC.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2001 AND 2000

1. SIGNIFICANT ACCOUNTING POLICIES

a) New Accounting Standard

On January 1, 2000, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook section 3465, Income Taxes, which replaces the deferral method with the liability method of tax allocation. The Company applied the new recommendations retroactively without restating prior years.

b) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined principally on a first-in, first-out basis.

c) Amortization of Capital Assets

Capital assets are stated at historical cost. Amortization is charged to earnings over the estimated useful life of the asset on the following basis:

Furniture and Fixtures	-	20% declining balance
Manufacturing Equipment	-	20% declining balance
Computer Software	-	20% declining balance
Computer Hardware	-	30% declining balance

d) Income Taxes

The Company provides for income taxes using the asset and liability method. This approach recognizes the amount of taxes payable or refundable for the current year, as well as future income tax assets and liabilities for the future tax consequences of events recognized in the financial statements and tax returns. Future income taxes are adjusted to reflect the effects of substantively enacted changes in tax laws or tax rates.

e) Comparative Figures

The comparative figures have been reclassified, where necessary, to conform with the presentation adopted for 2001.

2. ACCOUNTS RECEIVABLE

Included in accounts receivable are amounts due from the North American Barter Exchange in the amount of \$117,231 (2000 - \$Nil). This receivable can be realized through the purchase of items through the Barter Exchange.

3. CAPITAL ASSETS

	<u>2001</u>			<u>2000</u>
	<u>Cost</u>	<u>Accumulated</u> <u>Amortization</u>	<u>Net</u>	<u>Net</u>
	\$	\$	\$	\$
Furniture and Fixtures	23,317	20,625	2,692	1,002
Manufacturing Equipment	26,850	21,845	5,005	7,148
Computer Software	7,082	6,148	934	786
Computer Hardware	<u>6,253</u>	<u>1,082</u>	<u>5,171</u>	<u>1,171</u>
	<u>63,502</u>	<u>49,700</u>	<u>13,802</u>	<u>10,107</u>

4. CAPITAL STOCK

The Company is authorized to issue 15,000,000 Common shares without par value

a) Common Shares

	<u>Number of Shares</u>		<u>Stated Value</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
			\$	\$
Balance - Beginning and End of Year	<u>6,935,563</u>	<u>6,685,563</u>	<u>4,687,288</u>	<u>4,587,288</u>

250,000 common shares were issued during the year for \$100,000 (2000 - 1,451,938 common shares issued subject to an escrow agreement were cancelled during the year).

b) Outstanding Options at March 31, 2001 are as follows:

<u>Outstanding</u>	<u>Option Price Per Share and Expiry Dates</u>
350,000	0.40 to September 26, 2001
35,000	0.35 to January 24, 2004
300,000	0.35 to January 24, 2006

5. INCOME TAXES

The Company has utilized loss carry-forwards to reduce taxable income in the current year. In addition, the Company had approximately \$1,639,000 of unused cumulative Foreign Exploration Expenses, \$42,000 of Canadian Exploration Expenses, \$14,000 in Earned Depletion Base, \$661,624 in unused Eligible Capital Expenditures and Capital Cost Allowances, and \$97,000 in unused Research and Development costs. There is no expiry date on any of the above noted unused tax balances. The future tax benefits of these amounts have not been reflected in these financial statements, as there is no certainty that the tax benefits will be realized at this point in time.

6. RELATED PARTY TRANSACTIONS

During the year, Cardinal provided the Company premises and administrative services for \$80,000 (2000 - \$4,673).

7. INCOME PER SHARE

Income per share is determined by dividing the net income for the years by the weighted average number of shares outstanding during the years (6,860,220 shares in 2001 and 6,685,563 shares in 2000).

8. FINANCIAL INSTRUMENTS

Credit Risk Management

The Company is exposed to credit risk on the accounts receivable from its customers. In order to reduce its credit risk, the Company has adopted credit policies which include the analysis of the financial position of its customers and a regular review of their credit limits.

The Company does not have a significant exposure to any individual customer or counterpart.

DIRECTORS

William Campbell

Toronto, Ontario
Business Consultant

William A. Hullah, M.Sc.

Toronto, Ontario
President and Principal Owner
Cardinal Biologicals Ltd.
and President of the Company

Miles Moore, M.D.

Toronto, Ontario
Family Physician

Mark Nuernberger, B. Comm.

Toronto, Ontario
Account Representative
Clarica Life Insurance Co.

John Skomba, B.A., C.F.A., F.C.S.I.

Toronto, Ontario
Chartered Financial Analyst
IPO Capital Corp.

Marc Strongman

Vancouver, British Columbia
Businessman

OFFICERS

William A. Hullah, M.Sc.

President

William E. Bateman, Q.C.

Corporate Secretary
Nobbs, Woods, Kavanagh & Bateman

Printed in Canada

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CAPITALIZATION

Authorized –
15,000,000 common shares
Issued and Outstanding –
6,935,563 shares

SHARES LISTED

Canadian Venture Exchange
Symbol: FTI

TRANSFER AGENT AND REGISTRAR

Montreal Trust
510 Burrard Street
Vancouver, B.C., Canada
V6C 3B9

INFORMATION

Copies of the annual report, quarterly reports and other information can be obtained by writing to:

Shareholder Relations
FTI Foodtech International Inc.
43 Railside Road
Don Mills, Ontario, Canada
M3A 3L9

Website: www.fti-foodtech.com

Information on trading in FTI Foodtech International shares appears in major newspapers and in the Pink Sheets of the U.S. over-the-counter market, New York.