

**FTI**

**2005**

**Annual Report**

**FTI Foodtech International Inc.**

# **CORPORATE STRATEGY**

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

The corporation has expanded into the surplus goods industry. This allows 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 has opened its first retail clearance outlet, located conveniently in Metro Toronto. As well, operating under the new Choice Buys banner, FTI has held successful event sales in the area around Toronto.

FTI will continue to search for other innovative technologies and value added products to market to its customers.

## **EXCHANGE LISTING**

TSX Venture Exchange

## **TRADING SYMBOL**

FTI

## **ANNUAL GENERAL MEETING**

10:00 am  
Thursday, September 8, 2005  
Board Room  
43 Railside Road  
Toronto, Ontario  
Canada  
M3A 3L9

# **MANAGEMENT REPORT**

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## **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 Products Sales. FTI has realized a significant opportunity by buying overstocked food and non-food items at a fraction of the wholesale cost. The company then leverages its strong long-term relationships with key distribution and buying groups in order to realize quick sales. FTI has opened its first retail clearance centre in Toronto, and has successfully held an event sale in an area just outside Toronto. FTI Anticipates it will hold more events sales before the end of 2005.

FTI owns the Toronto Franchise for North American Barter Exchange Limited (NABEL). NABEL is an established and growing barter exchange, comprised of a diversified group of member companies which trade goods and services throughout North America.

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<sup>TM</sup>, a product line of all-natural liver treats for dogs and cats, is sold across Canada, in pet stores and by veterinarians. Maxi Treat<sup>TM</sup> products are the all-natural treats of choice by many true animal lovers.

## **FINANCIAL POSITION**

The FTI financial statements for the year ending March 31, 2005 demonstrate gross revenue of \$410,609 (compared to \$500,229 for 2004) and a net loss of \$39,841 (compared to a net loss of \$96,700 for 2004) which represents a net loss of 0.6 cents per share (compared to a net loss in 2004 of 1.4 cent per share).

The total assets of the corporation are \$478,709 (compared to \$489,301 for 2004).

Appreciation is expressed to the staff of FTI Foodtech International Inc., to our associates in the food and pet food and surplus goods industries and to our shareholders for their continuing support.

On Behalf of the Board of Directors



William Hullah  
President

July 25, 2005

# **BUSINESS ACTIVITIES**

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## **FTI TRADING**

FTI has capitalized on an amazing opportunity in the surplus goods industry. Through use of the internet, FTI has created a worldwide “power brokerage” of goods, allowing us to perfect the concept of Buying Low and Selling High. With FTI’s established network, multiple products with multiple buyers come together from around the globe to generate elevated profits. FTI has opened its first retail clearance centre to the public in Toronto, and has successfully held an event sale in an area just outside Toronto. FTI Anticipates it will hold more event sales before the end of 2005.

## **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 absorbent effectively extends product shelf life, by maintaining the original fresh taste, flavour, aroma and texture of food products. 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, pasta, dehydrated canned food and beef jerky, which is largely destined for export to Japan. Other applications include packaged 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 mold and other aerobic micro organisms and facilitate storage in controlled atmospheres.

## **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™ for cat. Distribution for Maxi Treat™ is coast to coast in Canada through both specialty trade and veterinarians. Recent automation of Maxi Treat™ processing has enabled FTI to streamline its operations in this area.

# MANAGEMENT'S STATEMENT ON FINANCIAL REPORTING

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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 the 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. as at March 31, 2005 and 2004 and the statements of loss 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 Canadian 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, 2005 and 2004 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.

*Beallor + Partners LLP*

**Toronto, Canada  
June 15, 2005**

**Chartered Accountants**

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**FTI FOODTECH INTERNATIONAL INC.**

**BALANCE SHEETS**

**MARCH 31, 2005 AND 2004**

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	<u>2005</u>	<u>2004</u>
	\$	\$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	63,840	39,794
Accounts Receivable (Note 3)	167,340	175,319
Inventories	<u>223,976</u>	<u>256,756</u>
<b>TOTAL CURRENT ASSETS</b>	455,156	471,869
<b>EQUIPMENT (Note 4)</b>	<u>23,553</u>	<u>17,432</u>
<b>TOTAL ASSETS</b>	<u>478,709</u>	<u>489,301</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts Payable and Accrued Liabilities	<u>47,019</u>	<u>17,770</u>
<b>TOTAL LIABILITIES</b>	<u>47,019</u>	<u>17,770</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>CAPITAL STOCK (Note 5)</b>	4,687,288	4,687,288
<b>DEFICIT</b>	<u>(4,255,598)</u>	<u>(4,215,757)</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>478,709</u>	<u>489,301</u>

The accompanying notes are an integral part of these financial statements.

Approved by the Board: Director

  
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William Hullah

Director

  
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Gary Hullah

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**FTI FOODTECH INTERNATIONAL INC.**

**STATEMENTS OF LOSS AND DEFICIT**

**FOR THE YEARS ENDED MARCH 31, 2005 AND 2004**

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	<u>2005</u>	<u>2004</u>
	\$	\$
<b>REVENUE</b>		
Product Sales	405,985	487,314
Other	<u>4,624</u>	<u>12,915</u>
	<u>410,609</u>	<u>500,229</u>
 <b>EXPENSES</b>		
Cost of Product Sales	258,655	367,303
General and Administrative	186,251	224,614
Amortization of Equipment	<u>5,544</u>	<u>5,012</u>
	<u>450,450</u>	<u>596,929</u>
 <b>NET LOSS</b>	 (39,841)	 (96,700)
 <b>DEFICIT – Beginning of Year</b>	 <u>(4,215,757)</u>	 <u>(4,119,057)</u>
 <b>DEFICIT – End of Year</b>	 <u>(4,255,598)</u>	 <u>(4,215,757)</u>
 <b>EARNINGS PER SHARE</b>		
Basic	<u>(0.006)</u>	<u>(0.014)</u>
Fully Diluted	<u>(0.006)</u>	<u>(0.014)</u>

The accompanying notes are an integral part of these financial statements.

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**FTI FOODTECH INTERNATIONAL INC.**

**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED MARCH 31, 2005 AND 2004**

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	<u>2005</u>	<u>2004</u>
	\$	\$
<b>OPERATIONS</b>		
Net Loss	(39,841)	(96,700)
Item not Involving Cash:		
Amortization of Equipment	<u>5,544</u>	<u>5,012</u>
	(32,297)	(91,688)
Decrease in Accounts Receivable	7,979	137,011
Decrease in Inventories	32,780	7,625
Increase (Decrease) in Accounts Payable and Accrued Liabilities	<u>29,249</u>	<u>(25,905)</u>
<b>CASH DERIVED FROM OPERATIONS</b>	<b>35,711</b>	<b>27,045</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of Equipment (Net)	<u>(11,665)</u>	<u>(4,388)</u>
<b>INCREASE IN CASH</b>	<b>24,046</b>	<b>22,657</b>
<b>CASH– Beginning of Year</b>	<u>39,794</u>	<u>17,137</u>
<b>CASH– End of Year</b>	<u>63,840</u>	<u>39,794</u>

The accompanying notes are an integral part of these financial statements.

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# FTI FOODTECH INTERNATIONAL INC.

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2005 AND 2004

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### 1. NATURE OF OPERATIONS

The Company's primary business is the resale of liquidation merchandise. Approximately 20% of this business is conducted through the North American Barter Exchange Limited (NABEL).

As well, the Company owns the Toronto, Ontario franchise of NABEL for which it receives membership and trading fees.

### 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and include the following significant accounting policies:

#### a) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

#### b) Generally Accepted Accounting Principles

Effective April 1, 2004, the Company adopted the new CICA Handbook section 1100, Generally Accepted Accounting Principles ("GAAP"). The standard clarifies what constitutes Canadian GAAP, identifies its sources and describes the order of authority of those sources. It requires the Company to identify and apply every primary source of GAAP and to adopt policies and disclosures that are consistent with the primary sources of GAAP on a prospective basis. The adoption of the accounting standard did not have a material effect on the results of operations of the years ended March 31, 2005 or March 31, 2004.

#### c) Asset Impairment

Effective April 1, 2004, the Company adopted the new CICA Handbook section 3063, Impairment of Long-lived Assets. This standard establishes principles for the recognition, measurement and disclosure of the impairment of long-lived assets. The standard outlines the impairment process and defines the impairment loss as being measured at the excess of carrying value of the asset over its fair value. The evaluation is performed at the lowest level of a group of assets and liabilities with identifiable cash flows that are independent of those of other assets and liabilities on a prospective basis. The adoption of the accounting standard did not have a material effect on the results of operations for the years ended March 31, 2005 or March 31, 2004.

#### d) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined principally on a first-in, first-out basis. The nature of the Company's business results in significant quantities of goods being purchased for sale over a number of years. These goods are reflected at cost until management determines that a write-down to net realizable value is required.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### e) Amortization of Equipment

Equipment assets are stated at cost. Amortization is charged to earnings over the estimated useful lives of the assets on the following bases:

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

### f) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributed to differences between financial statements carrying amounts of assets and liabilities and their respective tax bases and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

### g) Financial Instrument

The Company is exposed to credit risk on the accounts receivable from its customers. In order to reduce its 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 has a significant exposure as a result of the accounts receivable due from NABEL as described in Note 3. The collection of the receivable is dependant on the purchase of sufficient goods and services through NABEL.

The carrying value of the Company's financial instruments approximates fair value due to the short-term maturity of these instruments.

### h) Stock-Based Compensation

Effective April 1, 2004, the Company adopted the revised accounting recommendations contained in the CICA Handbook Section 3870 – Stock-Based Compensation and Other Stock-Based Payments. This section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services, and applies to transactions, including non-reciprocal transactions, in which an enterprise grants shares of common stock or other equity instruments, or incurs liabilities based on the price of common stock or other equity instruments. Commencing in the fiscal year 2005, the Company records compensation expense for stock options granted to employees on or after April 1, 2004, based on the fair value method of accounting on a prospective basis. For the year ended March 31, 2005, the amount of compensation cost recognized in income and credited to contributed surplus was \$Nil.

## 3. ACCOUNTS RECEIVABLE

Included in accounts receivable are amounts receivable from NABEL in the amount of \$148,580 (2004 - \$161,599). These amounts can only be realized through the purchase of goods and services through NABEL. Management is satisfied that a sufficient value of transactions will be completed through NABEL to realize the value of this balance in the 2006 fiscal year.

#### 4. EQUIPMENT

	2005			2004
	Cost	Accumulated Amortization	Net	Net
	\$	\$	\$	\$
Furniture and Fixtures	28,530	23,617	4,913	5,136
Manufacturing Equipment	35,464	23,288	12,176	3,064
Computer Software	9,554	7,972	1,582	2,258
Computer Hardware	<u>14,933</u>	<u>10,111</u>	<u>4,882</u>	<u>6,974</u>
	<u><u>88,541</u></u>	<u><u>64,988</u></u>	<u><u>23,553</u></u>	<u><u>17,432</u></u>

#### 5. CAPITAL STOCK

The Company is authorized by its Articles to issue a maximum of 15,000,000 common shares without par value.

##### a) Common Shares

	Number	\$
Balance - March 31, 2004	6,935,563	4,687,288
Issued during year	<u>-</u>	<u>-</u>
Balance - March 31, 2005	<u><u>6,935,563</u></u>	<u><u>4,687,288</u></u>

##### b) Outstanding Options at March 31, 2005 are as follows:

Number Outstanding	Option Price Per Share	Expiry Dates
300,000	0.35	January 24, 2006

#### 6. INCOME TAXES

The computation of the provision for income taxes, which requires adjustments to earnings before income taxes for temporary differences, is as follows:

	2005	2004
	\$	\$
Loss Before Taxes	(39,841)	(96,700)
Additional Amortization of Property and Equipment	(2,596)	(4,765)
Deduction for Eligible Capital Expenditures	<u>(34,976)</u>	<u>(37,608)</u>
Loss for Tax Purposes	<u>(77,413)</u>	<u>(139,073)</u>
Provision for Income Taxes	<u><u>-</u></u>	<u><u>-</u></u>

At March 31, 2005, the Company has the following unused tax balances available:

Undepreciated Capital Cost	\$ 34,913
Cumulative Eligible Capital	465,000
Capital Loss Carry Forwards	2,187,000
Non-Capital Loss Carry Forwards	329,600

## **6. INCOME TAXES (Continued)**

Of the non-capital losses, \$113,200 expire in 2010 and \$139,000 expire in 2011 and \$77,400 expire in 2015. The balance of the unused tax balances may be carried forward indefinitely, however, certain restrictions apply as to the type of taxable income against which these amounts may be applied. As the Company has not demonstrated that it is likely to benefit from these carry-forwards in the foreseeable future, no future tax asset has been reflected in these financial statements.

## **7. RELATED PARTY TRANSACTIONS**

During the year, a corporation that owns a significant portion of the Company's capital stock provided premises and administrative services for total consideration of \$80,000 (2004 - \$80,000).

During the year, a director of the Company received a salary of \$18,000 (2004 - \$Nil) for services performed on behalf of the Company.

These transactions were in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## **8. EARNINGS PER SHARE**

Income per share is determined by dividing the net income for the year by the weighted average number of shares outstanding during the year. As the average price of the Company's stock during the year did not exceed the option exercise price, the options outstanding were not included in the calculation of fully diluted earnings per share for that year, and were not included in 2005 as the result would have been anti-dilutive.

## **DIRECTORS**

**William A. Hullah, M.Sc.**

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

**Gary R. Hullah**

Toronto, Ontario  
Businessman

**Mark Nuernberger, B. Comm.**

Toronto, Ontario  
Businessman

**Marc Strongman**

Vancouver, British Columbia  
Businessman

**Dr. Linda Lakats**

Toronto, Ontario  
Professor, York University

**Jim Adams**

Toronto, Ontario  
Businessman

## **OFFICERS**

**William A. Hullah, M.Sc.**

President

**William E. Bateman, Q.C.**

Corporate Secretary  
Nobbs, Woods, Kavanaugh & Bateman

## **HEAD OFFICE**

43 Railside Road  
Don Mills, Ontario, Canada  
M3A 3L9  
Tel: (416) 444-1058  
Fax: (416) 444-9524  
Email: [info@fti-foodtech.com](mailto:info@fti-foodtech.com)  
Website: [www.fti-foodtech.com](http://www.fti-foodtech.com)

## **CAPITALIZATION**

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

## **SHARES LISTED**

TSX Venture  
Symbol: FTI

## **TRANSFER AGENT AND REGISTRAR**

Computershare  
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

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

Website: [www.fti-foodtech.com](http://www.fti-foodtech.com)

Printed in Canada.