

FTI

Foodtech International Inc.

2006 Annual Report

Year Ended March 31, 2006

CORPORATE STRATEGY

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, operating under the new Choice Buys banner, 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
Friday, September 8, 2005
Meeting Room
16 Yonge Street
Toronto, Ontario
Canada
M5E 2A1

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 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 successfully held event sales in an area just outside Toronto and anticipates it will hold more events sales before the end of 2006.

FTI owns the Toronto Franchise for North American Barter Exchange Limited (NABEL). NABEL is an established exchange with continuous growth, 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 TreatTM, a product line of all-natural liver treats for dogs and cats, is sold across Canada, in pet stores and by veterinarians. Maxi TreatTM 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, 2006 demonstrate gross revenue of \$236,155 (compared to \$410,609 for 2005) and a net loss of \$169,371 (compared to a net loss of \$39,841 for 2005) which represents a net loss of 2.4 cents per share (compared to a net loss in 2005 of 0.6 cent per share).

The total assets of the corporation are \$314,573 (compared to \$478,709 for 2005).

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

On Behalf of the Board of Directors



William Hullah
President

August 8, 2005

BUSINESS ACTIVITIES

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 successfully held event sales in an area just outside Toronto and anticipates holding more event sales before the end of 2006.

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.

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 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, 2006 and 2005 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, 2006 and 2005 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
July 10, 2006

Chartered Accountants

FTI FOODTECH INTERNATIONAL INC.

BALANCE SHEETS

MARCH 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
	\$	\$
ASSETS		
CURRENT		
Cash	1,893	63,840
Accounts Receivable (Note 4)	107,608	167,340
Inventories	<u>185,295</u>	<u>223,976</u>
TOTAL CURRENT ASSETS	294,796	455,156
EQUIPMENT (Note 5)	<u>19,777</u>	<u>23,553</u>
TOTAL ASSETS	<u>314,573</u>	<u>478,709</u>
LIABILITIES		
CURRENT		
Accounts Payable and Accrued Liabilities	<u>26,254</u>	<u>47,019</u>
TOTAL LIABILITIES	<u>26,254</u>	<u>47,019</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 6)	4,687,288	4,687,288
CONTRIBUTED SURPLUSES	26,000	-
DEFICIT	<u>(4,424,969)</u>	<u>(4,255,598)</u>
	<u>288,319</u>	<u>431,690</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>314,573</u>	<u>478,709</u>

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

Approved by the Board: Director



William Hullah

Director



Gary Hullah

FTI FOODTECH INTERNATIONAL INC.

STATEMENTS OF LOSS AND DEFICIT

FOR THE YEARS ENDED MARCH 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
	\$	\$
REVENUE		
Product Sales	228,933	405,985
Other	<u>7,222</u>	<u>4,624</u>
	<u>236,155</u>	<u>410,609</u>
 EXPENSES		
Cost of Product Sales	173,802	258,655
General and Administrative	199,851	186,251
Stock-based Compensation	26,000	-
Amortization of Equipment	<u>5,873</u>	<u>5,544</u>
	<u>405,526</u>	<u>450,450</u>
 NET LOSS	 (169,371)	 (39,841)
 DEFICIT – Beginning of Year	 <u>(4,255,598)</u>	 <u>(4,215,757)</u>
 DEFICIT – End of Year	 <u>(4,424,969)</u>	 <u>(4,255,598)</u>
 LOSS PER SHARE (Note 9)		
Basic	<u>(0.024)</u>	<u>(0.006)</u>
Fully Diluted	<u>(0.024)</u>	<u>(0.006)</u>

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

FTI FOODTECH INTERNATIONAL INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MARCH 31, 2006 AND 2005

	<u>2006</u> \$	<u>2005</u> \$
OPERATIONS		
Net Loss	(169,371)	(39,841)
Item not Involving Cash:		
Amortization of Equipment	5,873	5,544
Stock-based Compensation	<u>26,000</u>	<u>-</u>
	(137,498)	(34,297)
Decrease in Accounts Receivable	59,732	7,979
Decrease in Inventories	38,681	32,780
Increase (Decrease) in Accounts Payable and Accrued Liabilities	<u>(20,765)</u>	<u>29,249</u>
CASH DERIVED FROM (EXPENDED ON) OPERATIONS	(59,850)	35,711
 INVESTING ACTIVITIES		
Purchase of Equipment (Net)	<u>(2,097)</u>	<u>(11,665)</u>
INCREASE (DECREASE) IN CASH	(61,947)	24,046
CASH – Beginning of Year	<u>63,840</u>	<u>39,794</u>
CASH – End of Year	<u>1,893</u>	<u>63,840</u>

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

FTI FOODTECH INTERNATIONAL INC.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2006 AND 2005

1. GOING CONCERN

The financial statements have been prepared by management on the assumption that the Company will continue as a going concern and realize its assets and discharge its liabilities in the normal course of business rather than through a forced liquidation. The ability of the Company to continue as a going concern is dependent upon developing and maintaining profitable operations. It is not possible to determine with certainty the success or adequacy of the initiatives undertaken to achieve these goals. If the going concern assumption was not appropriate for these financial statements, adjustments would be necessary to the carrying values of assets and liabilities, the reported net loss and the balance sheet classifications used. The Company had the following deficits and working capital as at the following dates:

Date	Deficit	Working Capital
March 31, 2006	\$4,424,969	\$268,542
March 31, 2005	\$4,255,598	\$408,137

2. NATURE OF OPERATIONS

The Company's primary business is the resale of liquidation merchandise. Approximately 10% 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.

3. 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 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 these 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 for the years ended March 31, 2006 or March 31, 2005.

c) Revenue Recognition

The Company recognizes revenue as follows:

- Revenue from the sales of "Ageless" packet oxygen absorbers and "Maxi Treat" animal treats is recognized at the time of shipment (primarily to food manufacturers and to pet stores and veterinarians, respectively). The Company does not provide for a right of return for these products.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

- b) The Company operates one (2005 - two) retail store(s) in the Greater Toronto Area for sales to the general public. From time to time the Company rents additional retail space. Revenue from retail sales is recognized at the point of sale. The Company's policy is to offer exchanges of merchandise of similar value for goods returned by these customers.
- c) Trading fee revenue comprises a percentage of the value of each trade made between NABEL members and is recognized on a monthly basis upon receipt of trading reports from NABEL. Commission revenue historically has been negligible.

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.

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 attributable to differences between financial statement 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 Instruments

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 has a significant exposure as a result of the accounts receivable due from NABEL as described in Note 4. 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, 2006, the amount of compensation cost recognized in income and credited to contributed surplus was \$26,000 (year ended March 31, 2005 - \$Nil).

4. ACCOUNTS RECEIVABLE

Included in accounts receivable are amounts receivable from NABEL in the amount of \$99,746 (2005 - \$148,580). 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 2007 fiscal year.

5. EQUIPMENT

	<u>2006</u>			<u>2005</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Net</u>
	\$	\$	\$	\$
Furniture and Fixtures	28,530	24,599	3,931	4,913
Manufacturing Equipment	36,604	25,952	10,652	12,176
Computer Software	9,554	8,447	1,107	1,582
Computer Hardware	15,950	11,863	4,087	4,882
	<u>90,638</u>	<u>70,861</u>	<u>19,777</u>	<u>23,553</u>

6. 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

	<u>Number</u>	<u>\$</u>
Balance - March 31, 2005	6,935,563	4,687,288
Issued during year	-	-
Balance - March 31, 2006	<u>6,935,563</u>	<u>4,687,288</u>

b) Stock Options

The Company's Incentive Stock Option Plan, as amended by the Company's Board of Directors and approved by the TSX Venture in September 2005, is intended to attract, retain and motivate officers, salaried employees and directors who will make important contributions to the success of the Company. The right to exercise an award of options typically vests at the grant date unless otherwise determined by the Board of Directors at the time of grant. Options must be exercised during a period established by the Company, but in any event, within five years of the grant. A maximum of 670,000 common shares may be reserved for issuance pursuant to outstanding options at any one time. Outstanding options at March 31, 2006 are as follows:

<u>Number Outstanding</u>	<u>Option Price Per Share</u>	<u>Expiry Date</u>
350,000	0.10	September 8, 2010
250,000	0.10	February 22, 2011

On September 8, 2005, 350,000 stock options were given to directors, officers and employees of the Company. For purposes of estimating the fair market value under the Black-Scholes option pricing model, the options were valued at \$18,300. The following assumptions were used to estimate this figure: expected dividend yield - 0%; expected volatility - 144%; risk-free interest rate - 3%; and, an expected average life of 5 years.

On February 22, 2006, 250,000 stock options were given to directors of the Company, replacing 300,000 options at an exercise price of \$0.35 per share that had expired on January 24, 2006. For purposes of estimating the fair market value under the Black-Scholes option pricing model, the options were valued at \$7,700. The following assumptions were used to estimate this figure: expected dividend yield - 0%; expected volatility - 126%; risk-free interest rate - 3.75%; and, an expected average life of 5 years.

7. INCOME TAXES

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

	<u>2006</u>	<u>2005</u>
	\$	\$
Loss Before Taxes	(169,371)	(39,841)
Additional Amortization of Property and Equipment	(1,596)	(2,596)
Deduction for Eligible Capital Expenditures	(32,528)	(34,976)
Stock-based Compensation	<u>26,000</u>	<u>-</u>
Loss for Tax Purposes	<u>(177,495)</u>	<u>(77,413)</u>
Provision for Income Taxes	<u>-</u>	<u>-</u>

At March 31, 2006, the Company has the following unused tax balances:

Undepreciated Capital Cost	\$ 27,400
Cumulative Eligible Capital	432,000
Capital Loss Carry Forwards	2,187,000
Non-Capital Loss Carry Forwards	475,300

Of the non-capital losses, \$113,200 expire in 2010; \$139,000 expire in 2011; \$45,600 expire in 2015 and \$177,500 expire in 2016. 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.

8. 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 (2005 - \$80,000).

During the year, a director of the Company received a salary of \$34,000 (2005 - \$18,000) 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.

9. 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 2005 and 2006 fiscal years did not exceed the option exercise prices subsequent to the grant dates, the options outstanding were not included in the calculation of fully diluted earnings per share for those years.

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

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

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

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

HEAD OFFICE

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M3A 3L9

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Fax: (416) 444-9524
Email: info@fti-foodtech.com
Website: 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

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

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