

# **FTI Foodtech International Inc.**

**2007 Annual Report  
Year Ended March 31, 2007**

# **CORPORATE STRATEGY**

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FTI Foodtech International Inc.'s (FTI) expansion into the surplus goods industry has allowed it to leverage its strong long-term relationships with key distribution and buying groups in order to realize substantial sales and profits for its shareholders. By providing an alternative distribution channel for Canadian manufacturers and importers, FTI has developed strong business relationships with many companies within the consumer goods industry. These surplus goods are then distributed throughout our network of wholesalers and retailers across Canada. For the 2008 fiscal year, the Company is focused on building its supply and distribution networks within Canada; strengthening our existing alliances and forging new ones. With the sale of the Maxi Treat pet food division last year, FTI is able to concentrate all its efforts on this one common goal.

FTI will continue to search for other innovative technologies and value-added products to match the market needs of both its current and new customers.

## **EXCHANGE LISTING**

TSX Venture Exchange (Symbol: FTI)

## **ANNUAL GENERAL MEETING**

10:00 am, Friday, September 7, 2007  
Board Room - 210 - 40 Wynford Drive  
Toronto, Ontario, Canada, M3C 1J5

## **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. The Company has realized a significant opportunity by buying overstocked consumer goods and leveraging its strong long-standing relationships to realize rapid sales.

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

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

The FTI financial statements for the year ending March 31, 2007 demonstrate gross revenue of \$440,945 (compared to \$236,155 for 2006) and a net profit of \$39,219 (compared to a net loss of \$169,371 for 2006) which represents a net profit of 0.6 cents per share (compared to a net loss in 2006 of 2.4 cent per share). The total assets of the corporation are \$347,207 (compared to \$314,573 for 2006).

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, 2007

# **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 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.

Through NABEL, FTI has access to hundreds of member-companies that provide products and services throughout North America. The members of this strong and loyal exchange work as a source for surplus goods and an outlet to sell

## **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.

## **CORPORATE GOVERNANCE**

FTI Foodtech International Inc. is committed to transparency in our operations and our approach to governance meets recommended standards. Disclosure of our compliance with existing corporate governance rules is part of the Information circular.

# **MANAGEMENT DISCUSSION AND ANALYSIS**

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The following management's discussion and analysis ("MD&A") of the performance, financial condition and future prospects of FTI Foodtech International Inc. (which is also referred to herein as "FTI" or the "Company") should be read in conjunction with the Company's 2007 audited financial statements. Further information may be accessed at [www.sedar.com](http://www.sedar.com). All financial data herein has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and all dollar amounts herein are in Canadian dollars unless otherwise specified. This MD&A is dated as of August 27, 2007.

## **FORWARD LOOKING STATEMENTS**

Some of the statements contained or incorporated by reference in this MD&A, including those relating to strategies and other statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates" or similar expressions, are forward-looking statements within the meaning of Canadian securities laws. Forward-looking statements include, without limitation, the information concerning possible or assumed future results of operations of FTI Foodtech International Inc as set forth herein. These statements are not historical facts but instead represent only FTI's expectations, estimates and projections regarding future events. The forward-looking statements contained or incorporated by reference in this MD&A are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. The future results and shareholder value of FTI may differ materially from those expressed in the forward-looking statements contained or incorporated by reference in this MD&A due to, among other factors, the risks and uncertainties discussed herein and other filings with Canadian securities regulators, including the factors detailed in FTI's annual financial statements and the notes thereto. FTI does not undertake any obligation to update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this MD&A or to reflect the occurrence of unanticipated events, except as required by law.

## **1. OVERALL PERFORMANCE**

FTI has 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 an event sale in an area just outside Toronto. FTI Anticipates it will hold more events sales in the 2008 fiscal year.

Overall product sales in the current fiscal year increased by approximately 72.9% in comparison to 2006. The increase was primarily due to the push to sell off all remaining inventory prior to relocating the office and warehouse location.

### ***Expenses***

The Company's monthly expenses for general and administration decreased during the year ending March 31, 2007, due mainly to a decrease in rent. The cost of product sales was up 33% in 2007 over 2006, due mainly to the sharp increase in sales.

### ***Financing***

The Company did not sell or issue any shares during the year. There were no options granted during the first, third or fourth quarters. During the second quarter, 50,000 options were granted (September 19, 2006) at \$0.10 expiring September 19, 2011.

## **2. RESULTS OF OPERATIONS**

The revenue for this year over last year was up significantly. 2007 sales were \$396,029 compared to \$228,933 in 2006. The fourth quarter sales in 2007 were up slightly to \$67,753 compared to \$47,136 in 2006. The income per share year to date for 2007 was \$0.006 compared to a loss of \$0.024 per share in 2006. The fourth quarter had a profit of \$4,562 in 2007 compared to a loss of \$85,184 in 2006. The difference in the profit was due to product being sold off at liquidation prices in the fourth quarter of 2006, prior to moving, and the subsequent return to normal business in 2007.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

### Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. These estimates are reviewed periodically, and as adjustments become necessary, they are made in the period in which they become known. Actual results could differ from these estimates.

### Fair value of financial instruments

The carrying value of cash and cash equivalents, accounts receivable and accounts payable approximate their fair values due to their immediate or short term nature.

### Stock Based Compensation

Compensation expense is recognized in equal installments over the vesting period of the options issued. The expense is determined using an option pricing model that takes into account the exercise price, the term of the options, the current stock price, the expected volatility of the underlying shares, the expected dividend yield and the risk free rate for the term of the option.

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, 2007 or March 31, 2006.

The Accounting Standards Board of the Canadian Institute of Chartered Accountants has issued CICA 3855, Financial Instruments – Recognition and Measurement, CICA 3855, Hedges, and CICA 1530, Comprehensive Income, which we will apply in our fiscal year beginning on March 31, 2007. CICA 3855 prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and the measurement of such amount. It also specifies how financial instrument gains and losses are to be presented. CICA 3865 is applicable for designated hedging relationships and builds on existing Canadian GAAP guidance by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. CICA 1530 introduces new standards for the presentation and disclosure of components of comprehensive income. Comprehensive income is defined as the change in net assets of an enterprise during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in net assets during a period except those resulting from investments by owners and distributions to owners. We are currently considering the impacts of the adoption of such standards.

Please refer to the notes of the financial statements of the Company dated March 31, 2007 for further information on the Company's financial policies and estimates.

The following table highlights selected financial information for the Company's past three years:

	<b>Year ended March 31, 2007</b>	<b>Year ended March 31, 2006</b>	<b>Year ended March 31, 2005</b>
Revenue	\$440,945	\$236,155	\$410,985
Net Income (Loss)	39,219	(169,371)	(39,841)
Net Income (Loss) per Share			
- basic and fully diluted	0.006	(0.024)	(0.006)
Total Assets	347,207	314,573	478,709
Long Term Debt	Nil	Nil	Nil
Cash Dividends Declared per Share	Nil	Nil	Nil

\* Fully diluted earnings (loss) per share information has not been shown as the average price of the Company's stock did not exceed the exercise prices subsequent to the grant dates.

### 3. SUMMARY OF QUARTERLY RESULTS

The following information is provided for each of the 8 most recently completed quarters of the Company:

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Jun 30 2005	Sept 30 2005	Dec 31 2005	Mar 31 2006	Jun 30 2006	Sep 30 2006	Dec 31 2007	Mar 31 2007
Total revenue	69,427	35,523	84,068	47,136	243,859	112,028	18,136	66,922
Net Income (Loss)								
- total	(3,088)	(46,727)	(34,372)	(85,184)	54,927	7,433	(27,703)	4,562
- per share undiluted	(0.000)	(0.007)	(0.005)	(0.012)	0.008	0.001	(0.004)	0.001
- per share diluted*	(0.000)	(0.007)	(0.005)	(0.012)	0.008	0.001	(0.004)	0.000

\* Fully diluted earnings (loss) per share information has not been shown as the average price of the Company's stock did not exceed the exercise prices subsequent to the grant dates.

### 4. FOURTH QUARTER

The Company has continued to show operating losses. No extraordinary costs were incurred in the final quarter of 2007.

### 5. LIQUIDITY

At March 31, 2007 the Company had net working capital of approximately \$339,534, comprising \$1,530 cash; and \$277,596 accounts receivable; and \$60,408 inventory against accounts payable and accrued liabilities of \$19,669. This is compared to March 31, 2006 working capital of approximately \$294,796, comprising \$1,893 cash; \$107,608 accounts receivable and \$185,295 inventory against accounts payable and accrued liabilities of \$26,000. (Included in accounts receivable are amounts receivable from NABEL in the amount of \$243,494 (2006 - \$99,746). 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 2008 fiscal year.) It is anticipated that realization on barter receivable and sales of inventory in the next quarter will increase the cash position in the Company. The Company does not have any long term debt. The Company has no financial commitments other than to pay its monthly general and administrative expenses.

### 6. CONTRACTUAL OBLIGATIONS

The Company has no material contractual obligations, leases or commitments at March 31, 2007.

### 7. DIVIDENDS

The Company has not declared or paid a dividend in its history. There are no restrictions on the Company that would prevent it from paying a dividend. However, the board of directors of the Company intends to retain future earnings for reinvestment in the Company's business and therefore has no current intention to pay dividends on its common shares in the foreseeable future. The Company's dividend policy will be reviewed from time to time in the context of the Company's earnings, financial condition and other relevant factors.

### 8. TRANSACTIONS WITH RELATED PARTIES

During the year, a corporation that owns a significant portion of the Company's capital stock provides premises and administrative services for a total consideration of \$70,000 (2006 \$80,000). During the year, a director of the Company received a salary of \$29,000 (2006 \$34,000) for services performed on behalf of the Company. These transactions were in normal course of operation and are measured at the exchange amount which is the amount of consideration established and agreed to by related parties.

## 9. DISCLOSURE CONTROLS AND PROCEDURES

The Company's certifying officers have designed a system of disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to them with respect to financial and operational conditions impacting disclosure with respect to the fiscal year ended March 31, 2007. The certifying officers have evaluated the effectiveness of the disclosure controls and procedures and have concluded that these disclosure controls and procedures are effective at the reasonable assurance level. The management of the Company was required to apply its judgement in evaluating the cost-benefit relationship of possible controls and procedures. The result of the inherent limitations in all control systems means no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. During the most recent year end there were no changes in the Company's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## 10. OTHER MD & A REQUIREMENTS

(a) Additional information relating to the Company is available at [www.sedar.com](http://www.sedar.com).

(b) Outstanding share data:

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

Common Shares

	Number	\$
Balance - March 31, 2006	6,935,563	4,687,288
Issued during year	_____ -	_____ -
Balance - March 31, 2007	<u>6,935,563</u>	<u>4,687,288</u>

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, 2007 are as follows:

Number Outstanding	Option Price Per Share	Expiry Date
350,000	0.10	September 8, 2010
250,000	0.10	February 22, 2011
50,000	0.10	September 19, 2011

The Company has not issued or retracted any shares or granted any additional options between March 31, 2007 and the date of this MD&A.

## 11. OUTLOOK

By providing an alternative distribution channel for Canadian manufacturers and importers, FTI has developed strong business relationships with many companies within the consumer goods industry. These surplus goods are then distributed throughout our network of wholesalers and retailers across Canada. For the 2008 fiscal year, the Company is focused on building its supply and distribution networks within Canada; strengthening our existing alliances and forging new ones. With the sale of the Maxi Treat pet food division last year, FTI is able to concentrate all its efforts on this one common goal.

# 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.

## AUDITORS' REPORT

**PricewaterhouseCoopers LLP**  
**Chartered Accountants**  
5700 Yonge Street, Suite 1900  
North York, Ontario  
Canada M2M 4K7

August 27, 2007

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

We have audited the balance sheets of **FTI Foodtech International Inc.** as at March 31, 2007 and 2006 and the statements of operations 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, 2007 and 2006 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.

The comparative figures as at March 31, 2006 and 2005 and for the year then ended were audited by another firm of chartered accountants who expressed an opinion without reservation in their report dated July 10, 2006.

*PricewaterhouseCoopers LLP*

**PricewaterhouseCoopers LLP**  
**Chartered Accountants, Licensed Public Accountants**

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and the other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

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**FTI FOODTECH INTERNATIONAL INC.**

**BALANCE SHEETS**

**MARCH 31, 2007 AND 2006**

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	<u>2007</u>	<u>2006</u>
	\$	\$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	1,530	1,893
Accounts Receivable (Note 4)	277,596	107,608
Inventories	<u>60,408</u>	<u>185,295</u>
	339,534	294,796
<b>EQUIPMENT (Note 5)</b>	<u>7,673</u>	<u>19,777</u>
	<u>347,207</u>	<u>314,573</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts Payable and Accrued Liabilities	<u>19,669</u>	<u>26,254</u>
<b>SHAREHOLDERS' EQUITY AND DEFICIT</b>		
<b>CAPITAL STOCK (Note 6)</b>	4,687,288	4,687,288
<b>CONTRIBUTED SURPLUS (Note 6)</b>	26,000	26,000
<b>DEFICIT</b>	<u>(4,385,750)</u>	<u>(4,424,969)</u>
	<u>327,538</u>	<u>288,319</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>347,207</u>	<u>314,573</u>


**GOING CONCERN (Note 1)**

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 OPERATIONS AND DEFICIT**  
**FOR THE YEARS ENDED MARCH 31, 2007 AND 2006**

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	<u>2007</u>	<u>2006</u>
	\$	\$
<b>REVENUE</b>		
Product Sales	396,029	228,933
Other (Note 8)	<u>44,916</u>	<u>7,222</u>
	<u>440,945</u>	<u>236,155</u>
 <b>EXPENSES</b>		
Cost of Product Sales	231,838	173,802
General and Administrative (Note 9)	167,442	199,851
Stock-based Compensation	-	26,000
Amortization of Equipment	<u>2,446</u>	<u>5,873</u>
	<u>401,726</u>	<u>405,526</u>
 <b>NET INCOME FOR THE YEAR</b>	 39,219	 (169,371)
<b>DEFICIT – Beginning of Year</b>	<u>(4,424,969)</u>	<u>(4,255,598)</u>
<b>DEFICIT – End of Year</b>	<u>(4,385,750)</u>	<u>(4,424,969)</u>
 <b>NET INCOME (LOSS) PER SHARE</b> (Note 10)		
Basic and fully diluted	<u>0.006</u>	<u>(0.024)</u>

**GOING CONCERN (Note 1)**

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, 2007 AND 2006**

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	<u>2007</u>	<u>2006</u>
	\$	\$
<b>OPERATIONS</b>		
Net income (loss) for the year	39,219	(169,371)
Item not Involving Cash:		
Amortization of Equipment	2,446	5,873
Stock-based Compensation	-	26,000
Gain on sale of maxi-treat	(39,832)	-
Decrease (Increase) in NABEL Receivable	<u>(143,748)</u>	<u>48,834</u>
	<u>(141,915)</u>	<u>(88,664)</u>
Decrease (Increase) in Accounts Receivable	(26,240)	10,898
Decrease in Inventories	124,887	38,681
Decrease in Accounts Payable and Accrued Liabilities	<u>(6,585)</u>	<u>(20,765)</u>
	<u>(49,853)</u>	<u>(59,850)</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of Equipment	(1,245)	(2,907)
Proceeds on sale of maxi-treat	<u>50,735</u>	<u>-</u>
	<u>49,490</u>	<u>(2,097)</u>
<b>DECREASE IN CASH DURING THE YEAR</b>	<b>(363)</b>	<b>(61,947)</b>
<b>CASH – Beginning of Year</b>	<u><b>1,893</b></u>	<u>63,840</u>
<b>CASH – End of Year</b>	<u><b>1,530</b></u>	<u>1,893</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, 2007 AND 2006

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### 1. GOING CONCERN

These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as the come due. The Company's ability to continue as a going concern is dependent upon its ability to develop and maintain profitable operations. During the year the Company sold its Maxi-Treat operations. With the sale of the Maxi Treat pet food division, FTI is able to concentrate all its efforts on its surplus goods operations. By providing an alternative distribution channel for Canadian manufacturers and importers, FTI has developed strong business relationships with many companies within the consumer goods industry. These surplus goods are then distributed throughout the company's network of wholesalers and retailers across Canada. For the 2008 fiscal year, the Company plans to focus on building its supply and distribution networks within Canada; strengthening its existing alliances and forging new ones. However, there is no assurance that these initiatives will be successful in developing and maintaining profitable operations, and, as a result, there is substantial doubt regarding the going concern assumption. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material

The Company had the following deficits and working capital as at the following dates:

Date	Deficit	Working Capital
March 31, 2007	\$4,385,750	\$319,865
March 31, 2006	\$4,424,969	\$268,542

### 2. NATURE OF OPERATIONS

The Company's primary business is the resale of liquidation merchandise. Approximately 80% 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### 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 the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## REVENUE RECOGNITION

The Company recognizes revenue as follows:

- a) Revenue from the sales of “Ageless” packet oxygen absorbers and “Maxi Treat” animal treats is recognized at the time of shipment and transfer of title to the customer has occurred (primarily to food manufactures and to pet stores and veterinarians, respectively) and collectability is reasonably assured. The Company does not provide for a right of return for these products.
- b) The Company operates event sales in the Greater Toronto Area for sales to the general public. 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. Trading fee revenue historically has been negligible.

## 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 writedown to net realizable value is required.

## EQUIPMENT

Equipment assets are stated at cost. Amortization is charged to income 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

## 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 substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

## 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 that 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 dependent 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.

## 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, 2007, the amount of

compensation cost recognized in earnings and credited to contributed surplus was \$nil (year ended March 31, 2006 \$26,000).

#### 4. ACCOUNTS RECEIVABLE

Included in accounts receivable are amounts receivable from NABEL in the amount of \$243,494 (2006 \$99,746). 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 2008 fiscal year.

#### 5. EQUIPMENT

	2007			2006		
	COST	ACCUMULATED AMORTIZATION	NET	COST	ACCUMULATED AMORTIZATION	NET
	\$	\$	\$	\$	\$	\$
Furniture And Fixtures	29,525	25,486	4,039	28,530	24,599	3,931
Manufacturing Equipment	-	-	-	36,604	25,952	10,652
Computer Software	9,554	8,779	775	9,554	8,447	1,107
Computer Hardware	<u>15,950</u>	<u>13,091</u>	<u>2,859</u>	<u>15,950</u>	<u>11,863</u>	<u>4,087</u>
	<u>55,029</u>	<u>47,356</u>	<u>7,673</u>	<u>90,638</u>	<u>70,861</u>	<u>19,777</u>

#### 6. CAPITAL STOCK

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

Authorized

15,000,000 common shares without par value.

Issued

	2007	2006
	\$	\$
6,935,563 common shares	<u>4,687,288</u>	<u>4,687,288</u>

#### 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.

On September 8, 2005, 350,000 stock options were issued 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 nil%; 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 nil%; expected volatility 126%; risk-free interest rate 3.75%; and, an expected average life of 5 years.

On September 19, 2006, 50,000 stock options were issued to a director of the Company. For purposes of estimating the fair market value under the Black-Scholes option pricing model, the options were valued at \$nil. The following assumptions were used to estimate this figure: expected dividend yield nil%; expected volatility 75%; risk-free interest rate 3.95%; and, an expected average life of 5 years.

	Number of options	Weighted average exercise price per share \$
<b>Options Outstanding</b> – March 31, 2005	300,000	0.35
Granted during the year ended March 31, 2006	600,000	0.10
Expired during the year ended March 31, 2006	<u>(300,000)</u>	<u>0.35</u>
<b>Options Outstanding</b> – March 31, 2006	600,000	0.10
Granted during the year ended March 31, 2007	<u>50,000</u>	<u>0.10</u>
<b>Total Outstanding</b> – March 31, 2007	<u>650,000</u>	<u>0.10</u>
<b>Exercisable</b> – March 31, 2007	<u>650,000</u>	<u>0.10</u>

The following table summarizes information about the Company's outstanding stock options at March 31, 2007.

Exercise Price	Number Outstanding	Options Outstanding Expiry Date	Number Exercisable	Options Exercisable Exercise Price
\$0.10	350,000	September 8, 2010	350,000	\$0.10
\$0.10	250,000	February 22, 2011	250,000	\$0.10
\$0.10	50,000	September 19, 2011	50,000	\$0.10

## 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:

	2007 \$	2006 \$
Income (Loss) before taxes	39,219	(169,371)
Additional amortization of property and equipment	(1,452)	(1,596)
Deduction for eligible capital expenditures	(30,251)	(32,528)
Stock-based compensation	-	26,000
	<hr/>	<hr/>
Income (Loss) for tax purposes	7,516	(177,495)
	<hr/>	<hr/>
Provision for income	3,200	-
Reduction in taxes by application of loss-carry forwards	(3,200)	-
	<hr/>	<hr/>
Net provision for income taxes	-	-

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

	2007 \$	2006 \$
Undepreciated capital costs	13,900	27,400
Cumulative eligible capital	402,000	402,000
Capital loss carry-forwards	2,187,000	2,187,000
Non-capital loss carry-forwards	468,100	475,400

Of the non capital losses, \$106,000 expire in 2010; \$139,000 expire in 2014; \$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. OTHER INCOME

Other income consists of the following:

	2007	2006
	\$	\$
Gain on sale of maxi-treat	39,832	-
Rental Income	1,750	6,000
Other	3,334	1,222
	<hr/>	<hr/>
	44,916	7,222

## 9. 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 \$70,000 (2006 - \$80,000).

During the year, a director of the Company received a salary of \$29,000 (2006 - \$34,000) 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.

## 10. NET INCOME (LOSS) 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 2006 and 2007 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 income per share for those years. The weighted average number of common shares outstanding at March 31, 2007 and 2006 amounted to 6,935,563.

## **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  
Vice-President and CFO  
Businessman

**Mark Nuernberger, B. Comm.**  
Toronto, Ontario  
Businessman

**Dr. Linda Lakats**  
Toronto, Ontario  
Professor, York University

**Jim Adams**  
Toronto, Ontario  
Businessman

**JoAnne Strongman**  
Vancouver, B.C.  
Businesswoman

## **TRANSFER AGENT AND REGISTRAR**

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

## **OFFICERS**

**William A. Hullah, M.Sc.**  
President and CEO

**Gary R. Hullah**  
Vice-President and CFO

**William E. Bateman, Q.C.**  
Corporate Secretary  
Nobbs, Woods, Kavanaugh & Bateman

## **HEAD OFFICE**

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## **SHARES LISTED**

TSX Venture  
Symbol: FTI

## **CAPITALIZATION**

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

## **INFORMATION**

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

Shareholder Relations  
FTI Foodtech International Inc.  
210 – 40 Wynford Drive  
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Information on trading FTI Foodtech International Inc. shares appears in major newspapers.

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

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