

**FTI FOODTECH INTERNATIONAL INC.**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2008**

AUDITOR'S REPORT

August 15, 2008

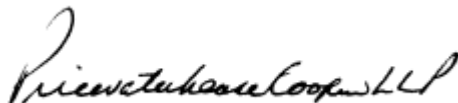
To the Shareholders  
FTI Foodtech International Inc.

We have audited the balance sheets of FTI Foodtech International Inc. as at March 31, 2008 and 2007 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, 2008 and 2007 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.

Toronto, Canada



PricewaterhouseCoopers, LLP.  
Chartered Accountants

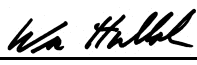

**FTI FOODTECH INTERNATIONAL INC.**

**BALANCE SHEETS**

**MARCH 31, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
	\$	\$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	-	1,530
Accounts Receivable (Note 4)	223,770	277,122
Inventories	31,493	60,408
Prepaid expenses and sundry receivables	<u>428</u>	<u>474</u>
	<u>255,691</u>	<u>339,534</u>
<b>EQUIPMENT</b> (Note 5)	<u>5,125</u>	<u>7,673</u>
	<u>260,816</u>	<u>347,207</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Bank Indebtedness	1,028	-
Accounts Payable and Accrued Liabilities	<u>38,103</u>	<u>19,669</u>
	<u>39,131</u>	<u>19,669</u>
<b>SHAREHOLDERS' EQUITY AND DEFICIT</b>		
<b>CAPTIAL STOCK</b> (Note 6)	4,687,288	4,687,288
<b>CONTRIBUTED SURPLUSES</b> (Note 6)	26,000	26,000
<b>DEFICIT</b>	<u>(4,491,603)</u>	<u>(4,385,750)</u>
	<u>221,685</u>	<u>327,538</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>260,816</u>	<u>347,207</u>

Going concern (note 1)

Approved by the Board: Director  Director   
 William Hullah Gary Hullah

**FTI FOODTECH INTERNATIONAL INC.**  
**STATEMENTS OF OPERATIONS AND DEFICIT**  
**FOR THE YEARS ENDED MARCH 31, 2008 AND 2007**

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	<u>2008</u> \$	<u>2007</u> \$
<b>REVENUE</b>		
Product Sales	282,848	396,029
Other (Note 8)	<u>1,888</u>	<u>44,916</u>
	<u>284,736</u>	<u>440,945</u>
 <b>EXPENSES</b>		
Cost of Product Sales	236,604	231,838
General and Administrative (Note 9)	151,437	167,442
Amortization of Equipment	<u>2,548</u>	<u>2,446</u>
	<u>390,589</u>	<u>401,726</u>
 <b>NET INCOME (LOSS) FOR THE YEAR</b>	 (105,853)	 39,219
 <b>DEFICIT – Beginning of Year</b>	 <u>(4,385,750)</u>	 <u>(4,424,969)</u>
 <b>DEFICIT – End of Year</b>	 <u>(4,491,603)</u>	 <u>(4,385,750)</u>
 <b>NET INCOME (LOSS) PER SHARE (Note 10)</b>		
Basic and fully diluted	<u>(0.015)</u>	<u>0.006</u>

**Going concern (note 1)**

**FTI FOODTECH INTERNATIONAL INC.**

**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED MARCH 31, 2008 AND 2007**

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	<u>2008</u>	<u>2007</u>
	\$	\$
<b>CASH PROVIDED BY (USED IN)</b>		
<b>OPERATIONS</b>		
Net income (loss) for the year	(105,853)	39,219
Item not Involving Cash:		
Amortization of Equipment	2,548	2,446
Gain on sale of Maxi Treat	-	(39,832)
Decrease (Increase) in barter receivable	<u>123,913</u>	<u>(133,383)</u>
	<u>20,608</u>	<u>(131,550)</u>
Increase in Accounts Receivable	(70,561)	(36,885)
Decrease in Inventories	28,915	124,887
Decrease in prepaid expenses and sundry receivables	46	280
Increase (decrease) in Accounts Payable and Accrued Liabilities	<u>18,434</u>	<u>(6,585)</u>
	<u>(2,558)</u>	<u>(49,853)</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of Equipment	-	(1,245)
Proceeds on sale of maxi-treat	<u>-</u>	<u>50,735</u>
	<u>-</u>	<u>49,490</u>
<b>DECREASE IN CASH DURING THE YEAR</b>	<b>(2,558)</b>	<b>(363)</b>
<b>CASH – Beginning of Year</b>	<u><b>1,530</b></u>	<u><b>1,893</b></u>
<b>CASH (DEFICIENCY) – End of Year</b>	<u><b>(1,028)</b></u>	<u><b>1,530</b></u>

**Going concern (note 1)**

**FTI FOODTECH INTERNATIONAL INC.**

**NOTES TO FINANCIAL STATEMENTS**

**MARCH 31, 2008 AND 2007**

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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 they come due.

For the year ended March 31, 2008, the Company reported a loss of \$105,853 and an accumulated deficit of \$4,491,603 at that date. The Company's ability to continue as a going concern is dependent upon its ability to develop and maintain profitable operations. FTI is concentrating 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 2009 fiscal year, the Company plans to focus on building its supply and distribution networks within Canada; strengthening its existing alliances and forging new ones. Subsequent to the year end, the Company completed a private placement in the amount of \$500,000. 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:

<u>Date</u>	<u>Deficit</u>	<u>Working Capital</u>
March 31, 2008	\$4,491,603	\$216,560
March 31, 2007	\$4,385,750	\$319,865

**2. NATURE OF OPERATIONS**

The Company's primary business is the resale of liquidation merchandise. Approximately 70% 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
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.

**NEW ACCOUNTING PRONOUNCEMENTS**

As required by The Canadian Institute of Chartered Accountants (CICA), on April 1, 2007, the company adopted CICA Handbook Section 3855, Financial Instruments - Recognition and Measurement, and Section 3861, Financial Instruments - Disclosure and Presentation. The new standards were applied retroactively without restatement and resulted in no changes in the accounting and presentation for financial instruments.

**FINANCIAL INSTRUMENTS**

The company utilizes various financial instruments. Unless otherwise noted, it is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments and the carrying amounts approximate fair values.

Under the new standards, financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the company's designation of such instruments. The standards require that all financial assets be classified as held-for-trading (HFT), available-for-sale (AFS), held-to-maturity (HTM) or loans and receivables. Financial liabilities should be classified as held-for-trading or as other liabilities.

The following is a summary of the accounting model the company has elected to apply to each of its significant categories of financial instruments outstanding as of April 1, 2007:

Cash	held for trading
Accounts receivable	loans and receivables
Accounts payable and accrued liabilities	other liabilities

**Held-for-trading:**

This category is comprised of certain investments in equity and debt instruments. These investments are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of fund balance. Transaction costs related to instruments classified as held-for-trading are expensed as incurred.

**Held-to-maturity:**

This category is comprised of non-derivative financial assets with fixed or determinable payments and a fixed maturity that an entity has the positive intention and ability to hold to maturity. These assets are earned in the statement of financial position at amortized cost. Transaction costs related to instruments classified as held-to-maturity are expensed as incurred.

**Available-for-sale:**

This category is comprised of non-derivative financial assets designated as available-for-sale or assets not classified as loans and receivables, held-to-maturity investments, or held-for-trading. These assets are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of fund balance. Transaction costs related to instruments classified as available-for-sale are expensed as incurred.

**Loans and receivables:**

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They arise principally through the provision of services to customers (accounts receivable), but also incorporate other types of contractual monetary assets. These assets are initially recognized at fair value and subsequently carried at amortized cost, using the effective interest rate method, less any provision for impairment. Transaction costs related to loans and receivables are expensed as incurred.

**Other financial liabilities:**

Other financial liabilities include all financial liabilities other than those classified as held-for-trading and comprise trade payables and other short-term monetary liabilities. These liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method.

There is no effect of the accounting policy change.

The fair values of cash, accounts receivable, accounts payable and accrued liabilities approximate their carrying values due to the short-term maturity of these instruments.

**Changes in accounting policies**

On April 1, 2007, the company adopted Section 1506, Accounting Changes, of the CICA Handbook, which prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. This standard did not affect the company's financial position or results of operations.

**Recent Canadian accounting pronouncements issued and not yet adopted**

Section 3862 and 3863

The new Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The new standards apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically April 1, 2008 for the company.

These standards will impact the company's disclosures provided but will not affect the company's results or financial position.

**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, 2008, the amount of compensation cost recognized in earnings and credited to contributed surplus was \$nil (year ended March 31, 2007 - \$nil).

**4. ACCOUNTS RECEIVABLE**

Included in accounts receivable are amounts receivable from barter exchanges in the amount of \$109,015 (2007 - \$232,927). These amounts can only be realized through the purchase of goods and services through these barter exchanges. Management is satisfied that a sufficient value of transactions will be completed through the barter exchanges to realize the value of this balance in the 2009 fiscal year.

## 5. EQUIPMENT

	2008		
	COST	ACCUMULATED	NET
	\$	AMORTIZATION	\$
	\$	\$	\$
Furniture And Fixtures	29,525	26,474	3,051
Computer Software	9,554	9,111	443
Computer Hardware	<u>15,950</u>	<u>14,319</u>	<u>1,631</u>
	<u>55,029</u>	<u>49,904</u>	<u>5,125</u>

### 2007

Furniture And Fixtures	29525	25486	4039
Computer Software	9,554	8,779	775
Computer Hardware	<u>15,950</u>	<u>13,091</u>	<u>2,859</u>
	<u>55,029</u>	<u>47,356</u>	<u>7,673</u>

## 6. CAPITAL STOCK

Authorized: 15,000,000 common shares without par value.

Issued

	2008	2007
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.

The following table presents information concerning stock options granted by the Company:

	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 & 2008	<u>650,000</u>	<u>0.10</u>
<b>Exercisable</b> – March 31, 2007 & 2008	<u>650,000</u>	<u>0.10</u>

The following table summarizes information about the Company's outstanding stock options at March 31, 2008.

Exercise Price	Options Outstanding		Options Exercisable	
	Number Outstanding	Expiry Date	Number 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:

	2008 \$	2007 \$
Income (Loss) before taxes	(105,853)	39,219
Additional amortization of property and equipment	(468)	(1,452)
Deduction for eligible capital expenditures	<u>(28,133)</u>	<u>(30,251)</u>
Income (Loss) for tax purposes	<u>(134,454)</u>	<u>7,516</u>
Provision for income	-	3,200
Reduction in taxes by application of loss-carry forwards	<u>-</u>	<u>(3,200)</u>
Net provision for income taxes	<u>-</u>	<u>-</u>

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

	2008 \$	2007 \$
Undepreciated capital costs	10,900	13,900
Cumulative eligible capital	373,800	402,000
Capital loss carry-forwards	2,187,000	2,187,000
Non-capital loss carry-forwards	602,300	468,100

Of the non-capital losses, \$105,700 expire in 2010; \$139,000 expire in 2014; \$45,600 expire in 2015; \$177,500 expire in 2016 and \$134,500 expire in 2018. 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:

	2008	2007
	\$	\$
Gain on sale of maxi-treat	-	39,832
Rental Income	-	1,750
Other	1,888	3,334
	<hr/>	<hr/>
	1,888	44,916

## 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 \$67,729 (2007 \$70,000).

During the year, a director of the Company received a salary of \$20,831 (2007 \$29,000) 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. LEASE COMMITMENT

The aggregate amounts of future minimum lease payments for premises until completion of the lease on September 30, 2009, are approximately as follows:

2008	\$16,200
2009	\$ 8,100

## 11. 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 2007 and 2008 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, 2008 and 2007 amounted to 6,935,563.