

Ranaz Corporation
Interim Consolidated Financial
Statements
for the Quarters ended
June 30, 2010 and 2009

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Ranaz Corporation
Consolidated Earnings and Comprehensive income
Consolidated Deficit
(unaudited)

CONSOLIDATED EARNINGS AND COMPREHENSIVE INCOME

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Sales	5,147,814	5,689,424	9,340,763	9,996,809
Cost of sales	<u>3,338,052</u>	<u>3,970,509</u>	<u>6,331,833</u>	<u>7,171,635</u>
Gross profit	<u>1,809,762</u>	<u>1,718,915</u>	<u>3,008,930</u>	<u>2,825,174</u>
Research expenses	115,678	137,610	198,202	265,364
Selling expenses	557,917	595,909	1,170,526	1,039,370
Administrative expenses	564,265	770,789	1,215,598	1,547,260
Product recall compensation (Note 4)				(320,000)
Stock-based compensation expense	(15,333)	35,376	21,030	107,531
Interest expense	77,218	76,504	155,452	148,704
Amortization of property, plant and equipment and intangibles assets	104,350	121,520	218,936	215,139
Change in fair value of derivative financial instruments	(2,740)	(112,343)	(2,740)	(96,658)
Exchange loss (gain)	<u>(2,036)</u>	<u>(29,558)</u>	<u>65,593</u>	<u>(14,398)</u>
	<u>1,399,319</u>	<u>1,595,807</u>	<u>3,042,597</u>	<u>2,892,312</u>
Earnings (loss) before future income taxes	<u>410,443</u>	<u>123,108</u>	<u>(33,667)</u>	<u>(67,138)</u>
Future income taxes		<u>(245,000)</u>		<u>(245,000)</u>
Net earnings (loss) and comprehensive income (loss)	<u>410,443</u>	<u>368,108</u>	<u>(33,667)</u>	<u>177,862</u>
Basic and diluted earnings (loss) per common share	<u>0.007</u>	<u>0.008</u>	<u>(0.001)</u>	<u>0.004</u>
Basic weighted average number of common shares outstanding	<u>60,080,314</u>	<u>45,485,571</u>	<u>60,080,314</u>	<u>44,697,242</u>
Diluted weighted average number of common shares outstanding	<u>60,080,314</u>	<u>45,830,302</u>	<u>60,080,314</u>	<u>45,107,264</u>
CONSOLIDATED DEFICIT				
Deficit, beginning of period	(10,707,250)	(9,680,845)	(10,263,140)	(9,490,599)
Net earnings (loss)	<u>410,443</u>	<u>368,108</u>	<u>(33,667)</u>	<u>177,862</u>
Deficit, end of period	<u>(10,296,807)</u>	<u>(9,312,737)</u>	<u>(10,296,807)</u>	<u>(9,312,737)</u>

The accompanying notes are an integral part of the unaudited interim consolidated financial statements and Note 4 provides other information on the unaudited interim consolidated earnings.

Ranaz Corporation
Consolidated Cash Flows
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net earnings (loss)	410,443	368,108	(33,667)	177,862
Non-cash items				
Stock-based compensation expense	(15,333)	35,376	21,030	107,531
Amortization of property, plant and equipment and intangibles assets	104,350	121,520	218,936	215,139
Interest on debenture and terms loans	13,950	59,318	34,304	120,113
Change in fair value of derivative financial instruments	(2,740)	(112,343)	(2,740)	(96,658)
Future income taxes		(245,000)		(245,000)
Changes in working capital items (Note 5)	194,150	20,170	680,584	(1,087,605)
Cash flow from operating expenses	704,820	247,149	918,447	(808,618)
INVESTING ACTIVITIES				
Advances to private companies	12,033	8,389	25,972	16,979
Property, plant and equipment	(3,874)	(360,179)	(8,539)	(796,957)
Cash flow from investing activities	8,159	(351,790)	17,433	(779,978)
FINANCING ACTIVITIES				
Bank loan		295,000		295,000
Repayment of long-term debt	(86,190)	(108,303)	(189,538)	(207,998)
Issuance of equity instruments				664,235
Equity instrument issue costs	(2,051)	(240)	(3,927)	(49,878)
Cash flow from financing activities	(88,241)	186,457	(193,465)	701,359
Impact of foreign exchange on cash	14,925	(19,995)	14,925	10,468
Net increase (decrease) in cash	639,663	61,821	757,340	(876,769)
Cash (bank overdraft), beginning of period	202,021	(95,599)	84,344	842,991
Cash (bank overdraft), end of period	841,684	(33,778)	841,684	(33,778)

The accompanying notes are an integral part of the unaudited interim consolidated financial statements.

Ranaz Corporation

Consolidated Balance Sheets

	Unaudited 2010-06-30	Audited 2009-12-31
	\$	\$
ASSETS		
Current assets		
Cash	841,684	84,344
Accounts receivable	2,187,974	2,218,056
Fair value of derivative financial instruments	2,740	
Inventories	3,913,379	3,843,640
Prepaid expenses	131,562	63,864
	<u>7,077,339</u>	<u>6,209,904</u>
Balance of sale, receivable in monthly instalments of €1,875 until May 2018 (effective rate of 7.75%)	144,508	170,480
Property, plant and equipment	2,472,162	2,648,847
Goodwill	999,336	999,336
Intangible assets	619,814	653,526
	<u>11,313,159</u>	<u>10,682,093</u>
LIABILITIES		
Current liabilities		
Bank loan	255,504	252,240
Accounts payable and accrued liabilities	2,503,070	1,704,283
Instalments on long-term debt	921,890	805,119
	<u>3,680,464</u>	<u>2,761,642</u>
Long-term debt	1,399,524	1,670,716
Future income taxes	13,721	13,721
	<u>5,093,709</u>	<u>4,446,079</u>
SHAREHOLDERS' EQUITY		
Capital stock (Note 7)	13,140,368	13,144,295
Warrants (Note 8)	647,447	860,033
Equity component of convertible debenture	146,710	146,710
Contributed surplus (Note 9)	2,581,732	2,348,116
Deficit	<u>(10,296,807)</u>	<u>(10,263,140)</u>
	<u>6,219,450</u>	<u>6,236,014</u>
	<u>11,313,159</u>	<u>10,682,093</u>

The accompanying notes are an integral part of the unaudited interim consolidated financial statements.

On behalf of the Board of Directors,

(s) Jean Bourassa Marineau
Director

(s) Alain Lachambre
Director

Ranaz Corporation

Notes to the Consolidated Financial Statements

(Figures to June 30, 2010 and for the three and six-month periods ended June 30, 2010 and 2009 are unaudited.)

1 - GOVERNING STATUTES AND NATURE OF OPERATIONS

The Company was incorporated under the Canada Business Corporations Act and is involved primarily in the manufacturing and distribution of specialized, diet and energy products.

2 - BASIS OF PRESENTATION

The unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and the accounting policies used in the preparation of the audited annual consolidated financial statements. These interim financial statements do not include all the disclosures required by GAAP and applicable to the annual financial statements and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2009.

The interim consolidated financial statements for the three and six-month period ended June 30, 2010 and 2009 have not been subject to a review by the Company's external auditors.

3 - IMPACT OF NEW ACCOUNTING STANDARDS NOT YET APPLIED

Certain new primary sources of generally accepted accounting principles have been published but are not yet in effect. The Company has not early adopted any of these standards. The new standards which could potentially impact the Company's financial statements are detailed as follows:

Business combinations

Section 1582, "Business combinations", which replaces Section 1581, "Business Combinations". The Section establishes standards for the accounting for a business combination. It provides the Canadian equivalent to the IFRS Standard, IFRS 3, *Business Combinations*. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted. The Company is evaluating the impact of the adoption of this new Section on the consolidated financial statements.

Consolidated financial statements and non-controlling interest

Section 1601, "Consolidated financial statements" and Section 1602, "Non controlling interests," which together replace Section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the consolidated financial statement subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS standard, IAS 27, *Consolidated and Separate Financial Statements*. The Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The Company is evaluating the impact of the adoption of these new Sections on the consolidated financial statements.

Ranaz Corporation

Notes to the Consolidated Financial Statements

(Figures to June 30, 2010 and for the three and six-month periods ended June 30, 2010 and 2009 are unaudited.)

4 - INFORMATION INCLUDED IN CONSOLIDATED EARNINGS

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Amortization of property, plant and equipment	87,180	110,175	185,224	194,287
Amortization of trademark	472	472	944	944
Amortization of client listings	8,118	8,117	16,235	16,234
Amortization of development costs	8,580	2,756	16,533	3,674
Gross amount of research expenses	145,678	167,610	253,168	335,364
Investment tax credits applied against research expenses	30,000	30,000	54,966	70,000
Interest expense				
Interest on bank loan	1,883	8,202	4,635	13,031
Interest on convertible debenture	64,764	59,318	128,912	120,113
Interest on long-term debt	10,571	8,984	21,905	15,560
	<u>75,335</u>	<u>68,302</u>	<u>150,817</u>	<u>135,673</u>

Product recall compensation, consisting of refund from the subcontractor related to the recall.

5 - INFORMATION INCLUDED IN CONSOLIDATED CASH FLOWS

Changes in working capital items were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Accounts receivable	(364,840)	(574,162)	(1,992)	(800,208)
Inventories	(172,858)	(53,052)	(69,739)	(883,481)
Prepaid expenses	63,975	(29,347)	(67,698)	(103,131)
Accounts payable and accrued liabilities	667,873	676,731	820,013	699,215
	<u>194,150</u>	<u>20,170</u>	<u>680,584</u>	<u>(1,087,605)</u>

The breakdown of cash flows from interest on operating earnings are detailed as follows:

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Interest paid	63,268	17,186	121,148	28,591

Ranaz Corporation

Notes to the Consolidated Financial Statements

(Figures to June 30, 2010 and for the three and six-month periods ended June 30, 2010 and 2009 are unaudited.)

6 - STOCK-BASED COMPENSATION

The Company may grant eligible directors, officers, employees and consultants of the Company and its subsidiaries up to 2,952,381 stock options. The options granted expire five years after the grant date. Options granted to directors vest in thirds (33.3%) starting on the first anniversary following the grant and the other options vest in quarters (25%) starting on the first anniversary. Options are granted at an exercise price that cannot be less than the closing price of the common shares on the day preceding the grant date, to which a discount may however be applied in accordance with TSX Venture Exchange rules.

The plan includes the following restrictions relating to the number of options:

- The number of common shares reserved for issuance to directors, officers and employees under the plan may not exceed 5% of the outstanding common shares in any given 12-month period;
- The maximum number of options that can be granted to consultants must not exceed 2% of the outstanding common shares in any given 12-month period;
- The maximum number of options that can be granted to people in a business relationship with investors may not exceed 2% of outstanding common shares during a 12-month period and must gradually vest over this 12-month period, on the basis of no more than a quarter of the prescribed shares in a given quarter.

Changes in the number of options outstanding are as follows:

	Three months ended June 30, 2010		Six months ended June 30, 2010	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance, beginning of period	1,409,942	\$0.64	1,409,942	\$0.64
Options expired	495,000	\$0.94	495,000	\$0.94
Balance, end of period	914,942	\$0.48	914,942	\$0.48
Options exercisable, end of period	683,692	\$0.49	683,692	\$0.49

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Notes to the Consolidated Financial Statements

(Figures to June 30, 2010 and for the three and six-month periods ended June 30, 2010 and 2009 are unaudited.)

6 - STOCK-BASED COMPENSATION (Continued)

Stock options granted as of June 30, 2010, were as follows:

Exercise price	Number	Options outstanding		Options exercisable	
		Weighted average remaining term	Weighted average exercise price	Number	Weighted average exercise price
\$0.24	350,000	3.5 years	\$0.24	175,000	\$0.24
\$0.35	304,942	1.5 years	\$0.35	296,192	\$0.35
\$0.60	15,000	1.5 years	\$0.60	15,000	\$0.60
\$0.70	115,000	1.5 years	\$0.70	107,500	\$0.70
\$1.16	100,000	1.58 years	\$1.16	75,000	\$1.16
\$1.40	30,000	2.67 years	\$1.40	15,000	\$1.40
Outstanding at the end of the period	<u>914,942</u>	<u>2.31 years</u>	<u>\$0.48</u>	<u>683,692</u>	<u>\$0.49</u>

7 - CAPITAL STOCK

Authorized

Unlimited number of shares without par value
Common shares, voting and participating

Class "A" preferred shares, non-voting, convertible into common shares to the extent that at least 20% of outstanding common shares, once converted, must be held by "public shareholders" as defined in the policies of the TSX Venture Exchange and, at the time of an offer to purchase, redeem or exchange relating to more than 50% of the outstanding common shares

	Unaudited 2010-06-30	Audited 2009-12-31
Issued and fully paid	\$	\$
60,080,314 common shares (60,080,314 in 2009)	<u>13,140,368</u>	<u>13,144,295</u>

Ranaz Corporation

Notes to the Consolidated Financial Statements

(Figures to June 30, 2010 and for the three and six-month periods ended June 30, 2010 and 2009 are unaudited.)

7 - CAPITAL STOCK (Continued)

Earnings (loss) per share

The following table summarizes the reconciliation of the basic weighted average number of common shares outstanding and the diluted weighted average number of common shares outstanding used in the diluted net earnings per share calculation:

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Basic weighted average number of common shares outstanding	60,080,314	45,485,571	60,080,314	44,697,242
Dilutive effect of warrants		344,731		410,022
Diluted weighted average number of common shares outstanding	<u>60,080,314</u>	<u>45,830,302</u>	<u>60,080,314</u>	<u>45,107,264</u>

As a result of the net loss in some periods presented, potentially dilutive factors such as the warrants, stock options and convertible debenture have not been included in the calculation of the diluted loss per common share, since inclusion of such securities would be anti-dilutive.

8 - WARRANTS

	Unaudited 2010-06-30	Audited 2009-12-31
	\$	\$
13,634,614 warrants (14,003,951 in 2009)	647,447	772,763
300,000 broker warrants in 2009 (nil in 2010)		87,270
	<u>647,447</u>	<u>860,033</u>

During the six months period, 369,337 warrants with a carrying amount of \$125,316 and 300,000 broker warrants with a carrying amount of \$87,270 expired.

As at June 30, 2010, the number of outstanding warrants exercisable for common shares was as follows:

Expiry	Exercise price	Number issued	Number exercisable as at June 30, 2010
September 17, 2010	\$0.75	1,500,000	1,500,000
August 28, 2014	\$0.10	10,384,614	10,384,614
October 2, 2014	\$0.10	1,750,000	1,750,000
			<u>13,634,614</u>

Ranaz Corporation

Notes to the Consolidated Financial Statements

(Figures to June 30, 2010 and for the three and six-month periods ended June 30, 2010 and 2009 are unaudited.)

9 - CONTRIBUTED SURPLUS

The table below shows changes in contributed surplus for the periods shown:

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Balance, beginning of period	2,597,065	1,427,030	2,348,116	1,276,855
Stock-based compensation expense	(15,333)	35,376	21,030	107,531
Warrants expired			212,586	78,020
Balance, end of period	<u>2,581,732</u>	<u>1,462,406</u>	<u>2,581,732</u>	<u>1,462,406</u>

10 - SEGMENTED INFORMATION

The Company has reviewed its activities and determined that it operates in a single reportable operating segment. The following information provides the required Company-wide disclosures:

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Revenue by geographic location based on customer location				
Canada	1,766,020	1,861,949	3,912,242	3,559,085
United States	2,874,163	3,150,450	4,632,011	5,459,328
International	507,631	677,025	796,510	978,396
	<u>5,147,814</u>	<u>5,689,424</u>	<u>9,340,763</u>	<u>9,996,809</u>
			Unaudited	Audited
			2010-06-30	2009-12-31
			\$	\$
Property, plant and equipment by geographic location			<u>2,472,162</u>	<u>2,648,847</u>
Goodwill by geographic location				
Canada			61,919	61,919
United States			937,417	937,417
			<u>999,336</u>	<u>999,336</u>

11 - COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation adopted in the current period.