

**Ranaz Corporation**  
**Interim Consolidated Financial**  
**Statements**  
**for the Quarters ended**  
**September 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 September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>Sales</b>	4 184 227	4 638 313	13 524 990	14 635 122
Cost of sales	2 926 638	3 603 220	9 258 471	10 774 855
<b>Gross profit</b>	<u>1 257 589</u>	<u>1 035 093</u>	<u>4 266 519</u>	<u>3 860 267</u>
Research expenses	86 776	100 114	284 978	365 478
Selling expenses	390 475	535 029	1 561 001	1 574 399
Administrative expenses	469 808	828 100	1 685 406	2 375 360
Product recall compensation (Note 4)				(320 000)
Stock-based compensation expense	10 515	19 790	31 545	127 321
Interest expense	78 022	112 637	233 474	261 341
Amortization of property, plant and equipment and intangibles assets	101 221	127 301	320 157	342 440
Change in fair value of derivative financial instruments	(18 155)	(4 499)	(20 895)	(101 157)
Exchange loss (gain)	(44 578)	16 441	21 015	2 043
	<u>1 074 084</u>	<u>1 734 913</u>	<u>4 116 681</u>	<u>4 627 225</u>
Earnings (loss) before future income taxes	<u>183 505</u>	<u>(699 820)</u>	<u>149 838</u>	<u>(766 958)</u>
Future income taxes				(245 000)
<b>Net earnings (loss) and comprehensive income (loss)</b>	<u>183 505</u>	<u>(699 820)</u>	<u>149 838</u>	<u>(521 958)</u>
Basic and diluted earnings (loss) per common share	<u>0.003</u>	<u>(0.014)</u>	<u>0.002</u>	<u>(0.011)</u>
Basic and diluted weighted average number of common shares outstanding	<u>60 099 788</u>	<u>50 600 995</u>	<u>60 086 877</u>	<u>46 686 785</u>
<b>CONSOLIDATED DEFICIT</b>				
Deficit, beginning of period	(10 296 807)	(9 312 737)	(10 263 140)	(9 490 599)
Net earnings (loss)	<u>183 505</u>	<u>(699 820)</u>	<u>149 838</u>	<u>(521 958)</u>
Deficit, end of period	<u>(10 113 302)</u>	<u>(10 012 557)</u>	<u>(10 113 302)</u>	<u>(10 012 557)</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 September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>				
Net earnings (loss)	183 505	(699 820)	149 838	(521 958)
Non-cash items				
Stock-based compensation expense	10 515	19 790	31 545	127 321
Amortization of property, plant and equipment and intangibles assets	101 221	127 301	320 157	342 440
Interest on debenture and terms loans	8 428	59 052	42 732	179 166
Change in fair value of derivative financial instruments	(18 155)	(4 499)	(20 895)	(101 157)
Future income taxes				(245 000)
Changes in working capital items (Note 5)	(685 937)	(363 607)	(5 353)	(1 451 212)
Cash flow from operating expenses	(400 423)	(861 783)	518 024	(1 670 400)
<b>INVESTING ACTIVITIES</b>				
Advances to private companies	13 622	5 927	39 594	22 906
Property, plant and equipment	(26 566)	(141 766)	(35 105)	(938 723)
Cash flow from investing activities	(12 944)	(135 839)	4 489	(915 817)
<b>FINANCING ACTIVITIES</b>				
Bank loan	(248 616)	610 000	(248 616)	905 000
Long-term debt	250 000	37 201	250 000	37 201
Repayment of long-term debt	(159 528)	(59 959)	(349 066)	(267 958)
Issuance of equity instruments	7 678	1 007 117	7 678	1 671 352
Equity instrument issue costs		(65 270)	(3 927)	(115 148)
Cash flow from financing activities	(150 466)	1 529 089	(343 931)	2 230 447
Impact of foreign exchange on cash	(25 867)	(25 579)	(10 942)	(15 111)
<b>Net increase (decrease) in cash</b>	<b>(589 700)</b>	<b>505 888</b>	<b>167 640</b>	<b>(370 881)</b>
Cash (bank overdraft), beginning of period	841 684	(33 778)	84 344	842 991
Cash, end of period	251 984	472 110	251 984	472 110

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

# Ranaz Corporation

## Consolidated Balance Sheets

	Unaudited 2010-09-30	Audited 2009-12-31
	\$	\$
<b>ASSETS</b>		
Current assets		
Cash	251 984	84 344
Accounts receivable	2 253 046	2 218 056
Fair value of derivative financial instruments	20 895	
Inventories	3 521 395	3 843 640
Prepaid expenses	171 027	63 864
	<u>6 218 347</u>	<u>6 209 904</u>
Balance of sale, receivable in monthly instalments of €1,875 until May 2018 (effective rate of 7.75%)	130 886	170 480
Property, plant and equipment	2 414 204	2 648 847
Goodwill	999 336	999 336
Intangible assets	603 117	653 526
	<u>10 365 890</u>	<u>10 682 093</u>
<b>LIABILITIES</b>		
Current liabilities		
Bank loan		252 240
Accounts payable and accrued liabilities	1 516 718	1 704 283
Instalments on long-term debt	941 245	805 119
	<u>2 457 963</u>	<u>2 761 642</u>
Long-term debt	1 473 058	1 670 716
Future income taxes	13 721	13 721
	<u>3 944 742</u>	<u>4 446 079</u>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 7)	13 148 046	13 144 295
Warrants (Note 8)	361 930	860 033
Equity component of convertible debenture	146 710	146 710
Contributed surplus (Note 9)	2 877 764	2 348 116
Deficit	<u>(10 113 302)</u>	<u>(10 263 140)</u>
	<u>6 421 148</u>	<u>6 236 014</u>
	<u>10 365 890</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 September 30, 2010 and for the three and nine-month periods ended September 30, 2010 and 2009 are unaudited.)

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### **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 nine-month periods ended September 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 September 30, 2010 and for the three and nine-month periods ended September 30, 2010 and 2009 are unaudited.)

#### 4 - INFORMATION INCLUDED IN CONSOLIDATED EARNINGS

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Amortization of property, plant and equipment	84 367	112 282	269 591	306 569
Amortization of trademark	472	472	1 416	1 416
Amortization of client listings	8 115	8 117	24 350	24 351
Amortization of development costs	8 267	6 430	24 800	10 104
Gross amount of research expenses	114 276	130 114	367 444	465 478
Investment tax credits applied against research expenses	27 500	30 000	82 466	100 000
Interest expense				
Interest on bank loan	3 018	10 395	7 653	23 426
Interest on long-term debt				
Interest on convertible debenture	65 358	61 814	194 270	181 927
Interest on long-term debt	9 646	40 428	31 551	55 988
	<u>75 004</u>	<u>102 242</u>	<u>225 821</u>	<u>237 915</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 September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Accounts receivable	(69 528)	352 478	(71 520)	(447 730)
Inventories	391 984	395 564	322 245	(487 917)
Prepaid expenses	(39 465)	44 436	(107 163)	(58 695)
Accounts payable and accrued liabilities	(968 928)	(1 156 085)	(148 915)	(456 870)
	<u>(685 937)</u>	<u>(363 607)</u>	<u>(5 353)</u>	<u>(1 451 212)</u>

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Interest paid	63 478	21 192	184 626	49 783

# Ranaz Corporation

## Notes to the Consolidated Financial Statements

(Figures to September 30, 2010 and for the three and nine-month periods ended September 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 September 30,		Nine months ended September 30,	
	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

# Ranaz Corporation

## Notes to the Consolidated Financial Statements

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

### 6 - STOCK-BASED COMPENSATION (Continued)

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

Exercise price	Options outstanding			Options exercisable	
	Number	Weighted average remaining term	Weighted average exercise price	Number	Weighted average exercise price
\$0.24	350 000	3.25 years	\$0.24	175 000	\$0.24
\$0.35	304 942	1.25 year	\$0.35	296 192	\$0.35
\$0.60	15 000	1.25 year	\$0.60	15 000	\$0.60
\$0.70	115 000	1.25 year	\$0.70	107 500	\$0.70
\$1.16	100 000	1.33 year	\$1.16	75 000	\$1.16
\$1.40	30 000	2.42 years	\$1.40	15 000	\$1.40
Outstanding at the end of the period	<u>914 942</u>	<u>2.06 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 2010-09-30	Audited 2009-12-31
<b>Issued and fully paid</b>	\$	\$
60,208,285 common shares (60,080,314 in 2009)	<u>13 148 046</u>	<u>13 144 295</u>

# Ranaz Corporation

## Notes to the Consolidated Financial Statements

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

### 7 - CAPITAL STOCK (Continued)

On September 2010, the Company issued 127,971 common shares as issue cost related to the closing of a long-term debt.

### Earnings (loss) per share

For the three and nine months periods ended September 30, 2010, potentially dilutive factors have not been included in the calculation of the diluted earnings per common share, since inclusion of such securities would be anti-dilutive due to the price of the shares as compared to the price of the potentially dilutive factors.

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 2010-09-30	Audited 2009-12-31
	\$	\$
12,134,614 warrants (14,003,951 in 2009)	361 930	772 763
300,000 broker warrants in 2009 (nil in 2010)		87 270
	<u>361 930</u>	<u>860 033</u>

During the nine months period, 1,869,337 warrants with a carrying amount of \$410,833 and 300,000 broker warrants with a carrying amount of \$87,270 expired.

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

<u>Expiry</u>	<u>Exercise price</u>	<u>Number issued</u>	Number exercisable as at September 30, 2010
August 28, 2014	\$0.10	10 384 614	10 384 614
October 2, 2014	\$0.10	1 750 000	1 750 000
			<u>12 134 614</u>

# Ranaz Corporation

## Notes to the Consolidated Financial Statements

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

### 9 - CONTRIBUTED SURPLUS

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Balance, beginning of period	2 581 732	1 427 030	2 348 116	1 276 855
Stock-based compensation expense	10 515	35 376	31 545	107 531
Warrants expired	285 517		498 103	78 020
Balance, end of period	<u>2 877 764</u>	<u>1 462 406</u>	<u>2 877 764</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 September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Revenue by geographic location based on customer location				
Canada	1 501 010	1 572 644	5 413 252	5 131 729
United States	2 338 038	2 597 880	6 970 049	8 057 208
International	345 179	467 789	1 141 689	1 446 185
	<u>4 184 227</u>	<u>4 638 313</u>	<u>13 524 990</u>	<u>14 635 122</u>
			Unaudited 2010-09-30	Audited 2009-12-31
			\$	\$
Property, plant and equipment by geographic location			<u>2 414 204</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.