

**Ranaz Corporation**  
**Consolidated Financial Statements**  
**December 31, 2008 and 2007**

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## Management's Report

Management is responsible for the consolidated financial statements and management's discussion and analysis of Ranaz Corporation as well as the other financial information contained in this annual report.

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial statements include amounts based on management's best estimates and judgment regarding the future impact of current events and operations. Management establishes such amounts in a reasonable manner so as to ensure that the financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles.

The Board of Directors is responsible for ensuring that management fulfills its financial reporting responsibilities and has ultimate responsibility for reviewing and approving the financial statements. The Board fulfills this responsibility primarily through its Audit Committee which is composed of external, independent directors. The Audit Committee met with management and the external auditors to discuss internal controls over the financial reporting process, audit-related matters and financial statement presentation matters, to ensure that each party is fulfilling its duties correctly and to review the financial statements and management's discussion and analysis.

These consolidated financial statements have been audited on behalf of the shareholders by the external auditors, Raymond Chabot Grant Thornton LLP, chartered accountants.

The Board of Directors has approved the Company's consolidated financial statements and management's discussion and analysis on the recommendation of the Audit Committee.

/S/ Jean Bourassa-Marineau, President and Chief Executive Officer

/S/ Martin Vidal, Chief Financial Officer

Montréal, March 18, 2009

**Raymond Chabot Grant Thornton**LLP

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## **Auditors' Report**

To the Shareholders of  
Ranaz Corporation

We have audited the consolidated balance sheets of Ranaz Corporation as at December 31, 2008 and 2007 and the consolidated statements of earnings and comprehensive loss, 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007, and the results of its operation and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

/S/ RAYMOND CHABOT GRANT THORNTON LLP <sup>1</sup>

Chartered Accountants

Montréal, March 18, 2009

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<sup>1</sup> Chartered accountant auditor permit no. 18510

**Ranaz Corporation**  
**Consolidated Earnings and Comprehensive Loss**  
**Consolidated Deficit**

Years ended December 31, 2008 and 2007

**CONSOLIDATED EARNINGS AND COMPREHENSIVE LOSS**

	2008	2007
	\$	\$
<b>Sales</b>	20,828,164	12,798,852
Cost of sales	<u>15,634,390</u>	<u>9,047,997</u>
<b>Gross profit</b>	<u>5,193,774</u>	<u>3,750,855</u>
Research expenses	422,654	335,519
Selling and administrative expenses	7,058,948	7,060,500
Product recall costs (Note 6)	793,823	
Stock-based compensation expense	250,959	323,453
Amortization of property, plant and equipment, intangible assets and deferred costs	370,261	275,403
Interest expense	182,042	48,962
Interest income		(45,321)
Gain on disposal of property, plant and equipment and intangible assets	(41,327)	(40,000)
Loss on write-off of advances	69,576	
Change in fair value of derivative financial instruments	37,160	
Exchange (gain) loss	<u>(165,982)</u>	<u>76,250</u>
	<u>8,978,114</u>	<u>8,034,766</u>
<b>Net loss and comprehensive loss</b>	<u>(3,784,340)</u>	<u>(4,283,911)</u>
Basic and diluted loss per common share	<u>(0.099)</u>	<u>(0.139)</u>
Basic and diluted weighted average number of common shares outstanding	<u>38,169,025</u>	<u>30,825,853</u>
<b>CONSOLIDATED DEFICIT</b>		
Deficit, beginning of year	(5,706,259)	(1,422,348)
Net loss	<u>(3,784,340)</u>	<u>(4,283,911)</u>
Deficit, end of year	<u>(9,490,599)</u>	<u>(5,706,259)</u>

The accompanying notes are an integral part of the consolidated financial statements and Note 6 provides other information on consolidated earnings.

## Ranaz Corporation

### Consolidated Cash Flows

Years ended December 31, 2008 and 2007

	2008	2007
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss	(3,784,340)	(4,283,911)
Non-cash items		
Stock-based compensation expense	250,959	323,453
Amortization of property, plant and equipment, intangible assets and deferred costs	370,261	275,403
Amortization of development costs	16,330	81,670
Gain on disposal of property, plant and equipment and intangible assets	(41,327)	(40,000)
Loss on write-off of advances	69,576	
Fair value of derivative financial instruments	37,160	
Interest on convertible debenture	68,458	
Changes in working capital items (Note 8)	(545,385)	(2,580,982)
Cash flows from operating activities	<u>(3,558,308)</u>	<u>(6,224,367)</u>
<b>INVESTING ACTIVITIES</b>		
Note receivable	397,390	(397,390)
Advances to private companies	(15,195)	112,282
Business acquisition	(16,092)	(82,438)
Acquisition of property, plant and equipment	(497,403)	(1,092,043)
Disposal of property, plant and equipment	413,652	40,000
Acquisition of intangible assets	(21,318)	
Disposal of intangible assets	20,638	
Development expenses	(509,767)	
Cash flows from investing activities	<u>(228,095)</u>	<u>(1,419,589)</u>
<b>FINANCING ACTIVITIES</b>		
Bank loan	253,726	(690,000)
Convertible debenture	1,426,330	
Repayment of long-term debt	(1,099,504)	(118,035)
Long-term debt	1,396,020	134,016
Issuance of equity instruments	2,361,609	6,173,043
Equity instrument issue costs	(359,545)	(807,187)
Cash flows from financing activities	<u>3,978,636</u>	<u>4,691,837</u>
Impact of foreign exchange on cash	67,739	
<b>Net increase (decrease) in cash</b>	<u>259,972</u>	<u>(2,952,119)</u>
Cash, beginning of year	<u>583,019</u>	<u>3,535,138</u>
Cash, end of year	<u><u>842,991</u></u>	<u><u>583,019</u></u>

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

# Ranaz Corporation

## Consolidated Balance Sheets

December 31, 2008 and 2007

	2008	2007
	\$	\$
<b>ASSETS</b>		
Current assets		
Cash	842,991	583,019
Accounts receivable (Note 9)	2,242,543	2,097,154
Inventories (Note 10)	3,827,268	2,960,543
Prepaid expenses	60,973	46,038
	<u>6,973,775</u>	<u>5,686,754</u>
Balance of sale, receivable in monthly instalments of €1,875 until May 2018 (effective rate of 7.75%)	197,662	
Note receivable and advances (Note 5)		397,390
Advances to private companies (Note 11)		27,034
Property, plant and equipment (Note 12)	2,121,106	1,423,745
Goodwill	999,336	61,919
Intangible assets (Note 13)	196,483	222,726
Development costs (Note 14)	509,767	16,330
Deferred costs		82,438
	<u>10,998,129</u>	<u>7,918,336</u>
<b>LIABILITIES</b>		
Current liabilities		
Bank loan (Note 15)	291,711	
Fair value of derivative financial instruments	37,160	
Accounts payable and accrued liabilities	2,466,289	1,748,046
Instalments on long-term debt	1,021,503	116,759
	<u>3,816,663</u>	<u>1,864,805</u>
Long-term debt (Note 16)	1,584,225	273,487
Future income taxes (Note 5)	436,649	
	<u>5,837,537</u>	<u>2,138,292</u>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 18)	11,846,424	9,556,926
Warrants (Note 19)	1,381,202	1,605,924
Equity component of convertible debenture	146,710	
Contributed surplus (Note 20)	1,276,855	323,453
Deficit	(9,490,599)	(5,706,259)
	<u>5,160,592</u>	<u>5,780,044</u>
	<u>10,998,129</u>	<u>7,918,336</u>

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

On behalf of the Board,

/S/ Jean Bourassa-Marineau  
Director

/S/ Valier Boivin  
Director

# Ranaz Corporation

## Notes to Consolidated Financial Statements

December 31, 2008 and 2007

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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 - CHANGES IN ACCOUNTING POLICIES**

The Company has adopted the following new sections of the Canadian Institute of Chartered Accountants' ("CICA") Handbook. Adoption of these new standards has not had a material effect on the Company's earnings, financial position or cash flows. These changes were adopted taking into account transitional provisions.

#### **Financial instruments – disclosure**

Section 3862, *Financial Instruments – Disclosures*, applicable to interim periods for years beginning on or after October 1, 2007, describes disclosure required by entities regarding the importance of financial instruments relative to the entity's financial position and performance, as well as the nature and level of risk arising from the financial instruments to which the entity is exposed, and how the entity manages such risk. This section supplements the accounting, measurement and presentation standards for financial instruments set out in Section 3855, *Financial Instruments – Recognition and Measurement*. The new standard only covers disclosure.

#### **Financial instruments – presentation**

Section 3863, *Financial Instruments - Presentation*, applicable to interim periods for years beginning on or after October 1, 2007, establishes presentation standards for financial instruments and non-financial derivatives. It supplements the presentation standards in Section 3862, *Financial Instruments - Disclosures*. This new section establishes presentation standards for financial instruments and non-financial derivatives.

#### **Capital disclosures**

Section 1535, *Capital Disclosures*, applicable to interim periods for years beginning on or after October 1, 2007, establishes disclosure standards for the entity's capital and how it is managed, to enable users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital. The new standard only covers disclosure.

#### **Inventories**

Section 3031, *Inventories*, applicable to interim periods for years beginning on or after January 1, 2008, establishes standards for the determination of cost and its subsequent recognition as an expense, including any depreciation to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories and on disclosures. This new standard did not have a significant impact on the current and prior years' financial statements.

# Ranaz Corporation

## Notes to Consolidated Financial Statements

December 31, 2008 and 2007

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### **2 - CHANGES IN ACCOUNTING POLICIES (Continued)**

#### **General standards of financial statement presentation**

In June 2007, the CICA amended Section 1400, *General Standards of Financial Statement Presentation* to require that management assess the Company's ability to continue as a going concern for a period of at least but not limited to twelve months from year-end. These new requirements are applicable to financial years beginning on or after January 1, 2008. The new standards only cover disclosure and did not effect the Company's financial results.

### **3 – IMPACT OF NEW ACCOUNTING STANDARDS NOT YET APPLIED**

As at March 18, 2009, 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:

#### **Goodwill and intangible assets**

Section 3064, *Goodwill and Intangible Assets*, provides guidelines on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This new standard applies to years beginning on or after October 1, 2008, and requires retroactive application. The Company will apply it as of January 1, 2009. The Company believes that this new standard will not have a significant impact on the Company's results.

#### **International Financial Reporting Standards (IFRS)**

In February 2008, the Canadian Accounting Standards Board confirmed that all Canadian public corporations would be required to adopt IFRS for fiscal years beginning on or after January 1, 2011. The Company will start preparing its financial statements in accordance with IFRS as of the years beginning on January 1, 2011. The Company is currently determining the impact of adopting IFRS on its consolidated financial statements.

### **4 - ACCOUNTING POLICIES**

#### **Principles of consolidation**

The consolidated financial statements include the accounts of the Company and its subsidiaries.

#### **Basis of presentation**

The financial statements are prepared using the historical cost method, except for certain financial instruments that are recognized at fair value. No information on fair value is presented when the carrying amount corresponds to a reasonable approximation of the fair value.

# Ranaz Corporation

## Notes to Consolidated Financial Statements

December 31, 2008 and 2007

### 4 - ACCOUNTING POLICIES (Continued)

#### Accounting estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and the notes to the financial statements. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results may differ from these estimates. The main items requiring significant estimates are stock-based compensation, investment tax credits, the evaluation of long-term assets and their impairment as well as estimated costs relating to the product recall and inventory obsolescence.

#### Revenue recognition

Revenue is recognized when the following criteria are met

- Persuasive evidence of an arrangement exists;
- Delivery has occurred;
- The price to the buyer is fixed or determinable;
- Collection is reasonably assured.

Revenue is recognized when products arrive at the customer's premises, when all the risks and rewards of ownership are transferred to the customer.

#### Inventory valuation

Raw materials, packaging, finished goods and work in process are valued at the lower of cost and net realizable value. Cost is determined by the first in, first out method. Direct production costs, labour and allocated indirect, variable and fixed production costs are included in the cost of inventory.

#### Amortization

Property, plant and equipment, the trademark and the customer listing are recognized at cost and amortized over their estimated useful lives according to the following methods, annual rates and periods:

	<u>Methods</u>	<u>Rates and periods</u>
Office furniture and Website	Straight-line	5 years
Manufacturing equipment	Straight-line	10 to 20 years
Automotive equipment and computer equipment	Diminishing balance and Straight-line	30% and 3 years
Leasehold improvements and customer listing	Straight-line	20%
Trademark	Straight-line	10%

## Ranaz Corporation

### Notes to Consolidated Financial Statements

December 31, 2008 and 2007

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#### **4 - ACCOUNTING POLICIES (Continued)**

##### **Impairment of long-lived assets**

Property, plant and equipment, the trademark and client listing are tested for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. The carrying amount of a long-lived asset is not recoverable when it exceeds the sum of the undiscounted cash flows expected from its use and eventual disposal. In such a case, an impairment loss must be recognized and is equivalent to the excess of the carrying amount of long-lived asset over its fair value.

##### **Goodwill**

Goodwill is the excess of the cost of acquired enterprises over the net of the amounts assigned to assets acquired and liabilities assumed. Goodwill is not amortized. It is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it is impaired. Goodwill is allocated to reporting units and any potential goodwill impairment is identified by comparing the carrying amount of a reporting unit with its fair value. If any potential impairment is identified, it is quantified by comparing the carrying amount of goodwill to its fair value. The fair value of a reporting unit is calculated using discounted cash flows.

##### **Research and development costs and investment tax credits**

Research and development costs are expensed as they are incurred. However, development costs are deferred when they meet generally accepted criteria, to the extent that their recovery can reasonably be regarded as assured. These costs are then amortized over a five-year period starting from the commercial production of these products.

Investment tax credits are accounted for as a reduction in research and development expenses during the year in which the costs are incurred, provided that the Company is reasonably certain that the credits will be received. Investment tax credits must be examined and approved by the tax authorities, and the amounts allowed may be different from the amounts recorded.

##### **Income taxes**

The Company uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined according to differences between the carrying amounts and tax bases of assets and liabilities. They are measured by applying enacted or substantively enacted tax rates and laws at the date of the financial statements for the years in which the temporary differences are expected to reverse. The Company records a valuation allowance for future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

##### **Basic and diluted loss per share**

The basic loss per common share is computed by dividing the net loss attributable to common shares by the weighted average number of outstanding common shares during the year. The treasury stock method is used to determine the dilutive effect of warrants and stock options. The "if-converted" method is used to determine the dilutive effect of the convertible debenture.

# Ranaz Corporation

## Notes to Consolidated Financial Statements

December 31, 2008 and 2007

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### **4 - ACCOUNTING POLICIES (Continued)**

#### **Foreign currency translation**

Monetary assets and liabilities in foreign currency of Canadian corporations and integrated foreign operations are translated at the exchange rate in effect at the balance sheet date, whereas other assets and liabilities are translated at the exchange rate in effect at the transaction date. Revenue and expenses in foreign currency are translated at the average rate in effect during the year, with the exception of expenses relating to non-monetary assets and liabilities, which are translated at the historical rate. Gains and losses are included in the earnings for the year.

#### **Share issue expenses**

Share issue expenses are applied against the proceeds of share issuances.

#### **Capital stock**

The proceeds of the issuance of units are distributed among the common shares and warrants based on their respective fair values.

#### **Stock-based compensation plan**

The Company grants stock options to eligible directors, officers, employees and consultants of the Company and its subsidiaries in accordance with its stock option plan. This stock option plan is recognized using the fair value method. Compensation costs, evaluated on the grant date according to the fair value of the options and recognized over the service period in question, are expensed on the consolidated statement of earnings and credited to contributed surplus. The consideration paid by employees when the options are exercised and the fair value of the options exercised at the grant date are added to capital stock.

#### **Financial assets and liabilities**

Financial assets and liabilities are recognized initially at fair value and their subsequent remeasurement depends on their classification, as described below. The classification of financial assets and liabilities depends on the Company's objectives when the financial instruments are acquired or issued, their characteristics and their designation by the Company.

The Company classified the financial instruments in the following categories:

- Cash and derivative financial instruments are classified as held-for-trading financial assets or liabilities and are measured at fair value. Gains or losses on the periodic remeasurement are recognized in consolidated earnings;
- Trade accounts receivable, other receivables, the balance of sale, the note receivable, advances and the advances to private companies are classified as loans and receivables. They are recognized at cost less an allowance for doubtful accounts;
- The bank loan, accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities. They are initially recognized at cost and subsequently at amortized cost using the effective interest method.

## Ranaz Corporation

### Notes to Consolidated Financial Statements

December 31, 2008 and 2007

#### 5 - BUSINESS ACQUISITION

On January 11, 2008, the Company acquired all of the outstanding shares of BarTech Manufacturing, Inc. ("BarTech"), a manufacturer of nutritional bars based in Grand Rapids, Michigan in the United States, for a total consideration of \$930,457, as shown in the following table. The consideration includes issuance of 738,673 common shares and 369,337 warrants for a price based on the average market price of the common shares during the two-day period prior and subsequent to the date on which the terms of the acquisition were agreed upon and announced and \$165,302 in cash. These shares and warrants were recognized at fair value, evaluated at \$765,155.

The values attributed to the net assets acquired are detailed as follows:

	<u>\$</u>
Net identifiable assets acquired	
Assets	
Non-cash working capital items	522,818
Property, plant and equipment	924,749
Customer relations	222,499
Goodwill, not deductible for tax purposes	937,417
	<u>2,607,483</u>
Liabilities	
Non-cash working capital items	812,918
Long-term debt	494,231
Future income taxes	436,649
	<u>1,743,798</u>
Cash situation assumed	66,772
Net assets acquired	<u><u>930,457</u></u>
Consideration	
Issue of equity instruments	765,155
Cash	165,302
	<u><u>930,457</u></u>

This acquisition was accounted for using the acquisition method. BarTech's results of operation are included in the consolidated statement of earnings since the acquisition date.

In connection with the acquisition of Bar-Tech, the Company issued a demand note to Bar-Tech on December 31, 2007. This note bears interest at National Bank of Canada's prime rate less 0.50 % (5.50% as at December 31, 2007), and is jointly secured by Bar-Tech and its shareholders. As at December 31, 2007, the balance of the note receivable is \$297,390. The Company also advanced funds to Bar-Tech. This advance is interest-free and unsecured. At December 31, 2007, the balance is \$100,000.

## Ranaz Corporation

### Notes to Consolidated Financial Statements

December 31, 2008 and 2007

#### 6 - INFORMATION INCLUDED IN CONSOLIDATED EARNINGS AND RELATED-PARTY TRANSACTIONS

	2008	2007
	\$	\$
Amortization of property, plant and equipment	301,139	203,985
Amortization of trademark	1,889	1,888
Amortization of customer listing	67,233	69,530
Amortization of development costs	16,330	81,670
Gross amount of research expenses	504,004	424,590
Investment tax credits applied against research expenses	81,350	89,071
Sales to a company controlled by a director's close relative (a)	272,692	348,772
Interest expense		
Interest on bank loan	45,366	30,485
Interest on convertible debenture	68,458	
Interest on long-term debt	68,218	18,477

(a) These transactions were entered into in the normal course of operations and measured at the exchange amount, which is the amount established and accepted by the parties. Trade accounts include an amount of \$30,014 (\$128,467 in 2007) receivable from this company.

Product recall costs, consisting of product write-offs and an estimate of products that will be returned by customers (Note 25).

#### 7 - INCOME TAXES

The Company's effective income tax rate differs from the combined federal and provincial income tax rate in Canada. This difference arises from the following items:

	2008	2007
	\$	\$
Loss before income taxes	<u>(3,784,340)</u>	<u>(4,283,911)</u>
	2008	2007
	\$	\$
Income taxes calculated using the combined federal and provincial income tax rate in Canada of 30.90% (32.02% in 2007)	(1,169,361)	(1,371,708)
Increase (decrease) in income taxes resulting from the following:		
Difference due to different income tax rates in foreign subsidiary	73,620	50,058
Difference in tax rates due to the change in status		
Stock-based compensation expense	77,546	103,570
Non-deductible items	24,519	42,326
Change in valuation allowance	886,334	891,755
Variance due to the change in future income taxes	142,378	271,216
Other items	(35,036)	12,783
	<u>—</u>	<u>—</u>
Effective income tax rate	<u>—</u>	<u>—</u>

## Ranaz Corporation

### Notes to Consolidated Financial Statements

December 31, 2008 and 2007

#### 7 - INCOME TAXES (Continued)

Future income tax assets and liabilities result from differences between the carrying amount and the tax basis of the following:

	2008	2007
	\$	\$
Future income tax asset		
Accounts receivable	136,435	
Inventories	58,526	73,384
Intangible assets	8,718	9,091
Share issue expenses	312,113	330,395
Research and development expenses	63,527	78,469
Non-capital losses	2,228,340	1,219,041
	<u>2,807,659</u>	<u>1,710,380</u>
Future income tax liability		
Accounts receivable	10,632	4,932
Development costs	184,649	4,393
Intangible assets	352,674	
Property, plant and equipment	86,758	88,893
	<u>634,713</u>	<u>98,218</u>
	2,172,946	1,612,162
Less: valuation allowance	<u>(2,609,595)</u>	<u>(1,612,162)</u>
	<u>(436,649)</u>	<u>—</u>

The tax losses of Canadian and American companies available to reduce income taxes in future years aggregate \$7,756,000 for federal purposes and \$7,998,500 for provincial purposes. These tax losses can be carried over the following years:

	Federal	Provincial
	\$	\$
2010		106,500
2014	349,000	728,000
2015	39,000	
2026	322,000	187,000
2027	3,540,000	3,471,000
2028	3,506,000	3,506,000
	<u>7,756,000</u>	<u>7,998,500</u>

The losses of the Irish subsidiary are €979,000 and can be carried over indefinitely.

The Company also has \$54,000 for federal purposes and \$468,000 for provincial purposes in research and development tax expenses that can be carried over indefinitely.

## Ranaz Corporation

### Notes to Consolidated Financial Statements

December 31, 2008 and 2007

#### 8 - INFORMATION ON CONSOLIDATED CASH FLOWS

The changes in working capital items are as follows:

	2008	2007
	\$	\$
Accounts receivable	189,048	(1,093,893)
Inventories	(478,854)	(1,414,651)
Prepaid expenses	(14,132)	(8,667)
Accounts payable and accrued liabilities	(241,447)	(63,771)
	<u>(545,385)</u>	<u>(2,580,982)</u>

Cash flows relating to interest and income taxes on operating activities are detailed as follows:

	2008	2007
	\$	\$
Interest paid	113,584	48,962

#### 9 - ACCOUNTS RECEIVABLE

	2008	2007
	\$	\$
Trade accounts (a)	1,733,130	1,357,525
Investment tax credits	125,000	90,000
Sales taxes	318,601	552,528
Balance of sale	33,965	
Current payments on long-term advances		42,542
Other receivables	31,847	54,559
	<u>2,242,543</u>	<u>2,097,154</u>

(a) The Company has two customers who represented 12% and 15% respectively of its trade accounts as at December 31, 2008 (two customers in 2007 representing 12% and 14%).

During the year ended December 31, 2008, sales with a customer represented 12% of the Company's sales (11% in 2007) with one customer.

#### 10 - INVENTORIES

	2008	2007
	\$	\$
Finished goods	1,500,681	1,541,727
Work in process	162,816	136,712
Raw materials	1,471,564	572,415
Packaging	692,207	709,689
	<u>3,827,268</u>	<u>2,960,543</u>

## Ranaz Corporation

### Notes to Consolidated Financial Statements

December 31, 2008 and 2007

#### 10 - INVENTORIES (Continued)

The amount of inventory recognized as an expense during the period corresponds to the cost of sales on the earnings statement. This amount includes \$90,339 (\$135,565 in 2007) from the write-down of inventories. There was no reversal of a previous write-down applied against the amount of inventory recognized as an expense during the years 2008 and 2007.

#### 11 - ADVANCES TO PRIVATE COMPANIES

	2008	2007
	\$	\$
Advances to a private company, 2%, receivable in quarterly instalments of €4,339		41,575
Advances to a private company, 6%, receivable in quarterly instalments of €2,426		28,001
		69,576
Current payments		42,542
		27,034

#### 12 - PROPERTY, PLANT AND EQUIPMENT

	2008		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Office furniture	197,094	128,723	68,371
Manufacturing equipment	2,539,295	795,997	1,743,298
Automotive equipment	10,758	6,105	4,653
Website	90,769	26,326	64,443
Computer equipment	541,845	355,527	186,318
Leasehold improvements	417,175	365,327	51,848
Computer equipment under capital leases	28,122	25,947	2,175
	<u>3,825,058</u>	<u>1,703,952</u>	<u>2,121,106</u>
	2007		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Land	411,841		411,841
Office furniture	170,285	109,406	60,879
Manufacturing equipment	1,314,585	642,590	671,995
Automotive equipment	5,211	5,211	
Website	85,238	8,524	76,714
Computer equipment	456,267	263,861	192,406
Leasehold improvements	355,008	355,008	
Computer equipment under capital leases	28,123	18,213	9,910
	<u>2,826,558</u>	<u>1,402,813</u>	<u>1,423,745</u>

## Ranaz Corporation

### Notes to Consolidated Financial Statements

December 31, 2008 and 2007

#### 13 - INTANGIBLE ASSETS

	2008		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Trademark	18,876	12,424	6,452
Customer listing	222,499	32,468	190,031
	<u>241,375</u>	<u>44,892</u>	<u>196,483</u>
	2007		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Trademark	18,876	10,535	8,341
Customer listing	347,650	133,265	214,385
	<u>366,526</u>	<u>143,800</u>	<u>222,726</u>

During the year, the Company disposed of a customer listing for €225,000.

#### 14 - DEVELOPMENT EXPENSES

During the year ended December 31, 2008, the Company capitalized \$565,875 in development costs. These costs primarily consist of salaries, consulting fees, raw material utilisation and other costs. The Company also applied investment tax credits of \$56,108 against these costs.

During the year ended December 31, 2006, the Company capitalized \$164,828 in development costs. These expenses primarily consist of salaries, consulting fees and other costs. The Company also applied investment tax credits of \$66,828 against these costs.

#### 15 - BANK LOAN

The Company has a bank loan for a maximum authorized amount of \$2,000,000 secured by a first ranking movable hypothec of \$3,250,000 on all of the Company's property. This loan bears interest at the bank's base rate plus 1.50% (5.00% as at December 31, 2008; 7.50% as at December 31, 2007) and is renewable in April 2009. The bank loan is unused as at December 31, 2008 and 2007.

The Company also has a bank loan in the form of a credit facility for a maximum authorized amount of US\$247,000, secured by a first ranking movable hypothec of US\$1,700,000 on all of the Company's property. This loan bears interest at the bank's U.S. base rate plus 1.00% (4.25% as at December 31, 2008) and is renewable in April 2009. The loan balance is C\$291,711 (US\$239,000) as at December 31, 2008 (nil as at December 31, 2007).

Under the terms of the credit agreement, the Company is required to comply with certain financial ratio requirements (Note 21).

## Ranaz Corporation

### Notes to Consolidated Financial Statements

December 31, 2008 and 2007

#### 16 - LONG-TERM DEBT

	Current portion \$	2008 \$	2007 \$
Unsecured convertible debenture, principal amount of \$1,500,000, convertible into common shares, bearing interest of 12%, maturing in September 2013 (b)		1,348,078	
Term loan, secured by a \$1,700,000 first ranking movable hypothec on the universality of property, plant and equipment, National Bank of Canada's U.S. prime rate plus 1% (4.50% in 2008), payable in monthly instalments of US\$16,667, maturing in May 2011. Balance of US\$483,331(a)	588,697	588,697	
Term loan, secured by a \$3,250,000 first ranking movable hypothec on the universality of tangible and intangible assets, National Bank of Canada's prime rate plus 1.50% (5.00% in 2008), payable in monthly instalments of \$5,334, maturing in July 2013 (a)	293,333	293,333	
Term loan secured by certain property, plant and equipment, prime rate plus 1.25% (4.75% in 2008; 7.25% in 2007), payable in monthly instalments of \$7,154, maturing in April 2010 (a)	114,473	114,473	200,325
Term loan from Canada Economic Development, interest-free, effective interest rate of 6.75%, principal payments commencing in April 2010, maturing in October 2014		236,147	134,016
Term loan from Canada Economic Development interest-free, principal payments commencing in April 2006, maturing in October 2009	25,000	25,000	50,000
Obligations under capital leases, 5.49% and 7.69%, payable in monthly instalments of \$390 and \$467, maturing in December 2008			5,905
		2,605,728	390,246
Instalments due within one year	1,021,503	1,021,503	116,759
		1,584,225	273,487

(a) Under the credit agreement, the Company is required to comply with certain financial ratios (Note 21).

## Ranaz Corporation

### Notes to Consolidated Financial Statements

December 31, 2008 and 2007

#### 16 - LONG-TERM DEBT (Continued)

(b) On August 26, 2008, the Company issued a \$1,500,000 unsecured convertible debenture at 12% maturing in September 2013. The debenture is convertible into common shares of the Company at \$0.96 per share for the first 24 months. The conversion price will then rise by 10% in each of the following years. Interest will be capitalized for the first year, and there is a capital repayment holiday for the first two years. The debenture was recognized at its fair value, with the debt and equity components separated out, along with the issue costs, which were allocated between and charged against the two components. The debt component of \$1,345,712, net of issue costs of \$66,092, is measured at amortized cost using the effective interest method (16.61%). The equity component of \$154,288 net of issue costs of \$7,578 is shown under shareholders' equity as the equity component of the convertible debenture.

The instalments on long-term debt for the next years are as follows:

	\$
2009	1,021,503
2010	385,474
2011	755,591
2012	688,666
2013	437,316
2014	94,462

#### 17 - STOCK-BASED COMPENSATION

Effective December 29, 2006, the Board of Directors adopted a stock option plan. Under this plan, 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.

## Ranaz Corporation

### Notes to Consolidated Financial Statements

December 31, 2008 and 2007

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

Changes in the number of options outstanding are as follows:

	2008		2007	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance, beginning of year	2,214,884	0.75 \$	619,884	0.37 \$
Options granted	425,000	0.95 \$	1,655,000	0.87 \$
Options expired	50,000	0.70 \$	60,000	1.00 \$
Balance, end of year	<u>2,589,884</u>	<u>0.78 \$</u>	<u>2,214,884</u>	<u>0.75 \$</u>
Options exercisable, end of year	<u>1,618,246</u>	<u>0.73 \$</u>	<u>192,464</u>	<u>0.37 \$</u>

Stock options granted on December 31, 2008 are as follows:

Exercise price	Number	Options outstanding		Options exercisable	
		Weighted average remaining term	Weighted average exercise price	Number	Weighted average exercise price
\$0.35	574,884	2.38 years	0.35 \$	422,413	0.35 \$
\$0.60	45,000	3 years	0.60 \$	30,000	0.60 \$
\$0.70	635,000	1.37 years	0.70 \$	442,500	0.70 \$
\$0.72	200,000	4.67 years	0.72 \$		
\$0.95	650,000	0.04 years	0.95 \$	650,000	0.95 \$
\$1.15	160,000	3.19 years	1.15 \$	48,333	1.15 \$
\$1.16	100,000	3.08 years	1.16 \$	25,000	1.16 \$
\$1.30	175,000	4 years	1.30 \$		
\$1.35	20,000	4 years	1.35 \$		
\$1.40	30,000	4.67 years	1.40 \$		
Outstanding, end of year	<u>2,589,884</u>	<u>1.96 years</u>	<u>0.78 \$</u>	<u>1,618,246</u>	<u>0.73 \$</u>

Weighted average fair value of options granted during the year 2008

0.76 \$

Weighted average fair value of options granted during the year 2007

0.60 \$

## Ranaz Corporation

### Notes to Consolidated Financial Statements

December 31, 2008 and 2007

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

The fair value of options granted was estimated based on the Black-Scholes option pricing model taking into account the following weighted average assumptions:

	2008	2007
Annual risk-free interest rate	3.27 %	4.10 %
Volatility	86.00 %	80.00 %
Dividend	—	—
Estimated term	5 years	5 years

#### 18 - 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

	2008	2007
<b>Issued and fully paid</b>	<b>\$</b>	<b>\$</b>
40,565,313 common shares (35,295,387 in 2007)	11,846,424	9,556,926

##### Share issues

##### 2008

Pursuant to the acquisition of BarTech on January 11, 2008 described in Note 5, the Company issued 738,673 common shares and 369,337 warrants. Each warrant entitles its holder to purchase one common share for \$1.30 for a 24-month period. The Company attributed a value of \$639,839 to the common shares and \$125,316 to the warrants.

On February 28, 2008, FIER Ville-Marie exercised its 1,428,571 warrants for a cash consideration of \$500,000.

On September 17, 2008, the Company closed a private placement of 3,000,000 units at \$0.60 per unit for total cash proceeds of \$1,800,000. Each unit consists of one common share of the Company and half a common share purchase warrant. Each whole warrant entitles its holder to purchase one common share at \$0.75 until September 17, 2010. The share issue costs for the placement totalled \$359,545 in cash and 300,000 warrants worth \$87,270 issued to the broker for the purchase of units. These broker warrants are exercisable for an 18-month period beginning on September 17, 2008. The share issue costs were charged against share capital and are presented net of future income taxes of \$111,099 (\$258,461 in 2007) which have been fully written down. The Company attributed a value of \$1,514,483 to the common shares and \$285,517 to the warrants.

# Ranaz Corporation

## Notes to Consolidated Financial Statements

December 31, 2008 and 2007

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### **18 - CAPITAL STOCK (Continued)**

Additionally, during fiscal 2008, 102,682 warrants with a value \$20,382 of were exercised for cash proceeds of \$61 609.

#### *2007*

On January 25, 2007, the Company closed a private placement of 850,000 units at \$0.60 per unit for total cash proceeds of \$510,000. Each unit consisted of one common share of the Company and half a common share purchase warrant. Each whole common share purchase warrant entitles its holder to purchase one common share for \$0.70 until January 26, 2009. Issue costs of \$40,376 were charged against capital stock.

On February 20, 2007, the holders of 9,523,811 Class "A" preferred shares converted all of these shares into common shares, as at least 20% of the outstanding shares, after conversion, are held by "public shareholders" as defined in the policies of the TSX Venture Exchange.

In the first quarter of 2007, the broker exercised its 333,333 warrants, resulting in the issuance of 333,333 units and proceeds of \$200,000. Each unit consisted of one common share of the Company and half a common share purchase warrant. Each whole common share purchase warrant entitles its holder to purchase one common share for \$0.60 until December 29, 2008.

During the year ended December 31, 2007, 716,680 warrants were also exercised for cash proceeds of \$430,008.

On September 26, 2007, the Company closed a public offering of 2,944,100 units priced at \$1.30 each, for gross proceeds of \$3,827,330. Each unit consisted of one common share of the Company and half a common share purchase warrant. Each whole common share purchase warrant entitles its holder to purchase one common share at an exercise price of \$1.65 until September 26, 2009. Issue costs totalled \$714,886 in cash and 117,764 warrants worth \$69,480 issued to the broker for the purchase of units. These broker warrants are exercisable for a 24-month period beginning on September 26, 2007. Issue costs were charged against capital stock.

On October 1, 2007, the Company closed a non-brokered private placement of 927,464 units at \$1.30 per unit on the same terms as the public offering closed on September 26, 2007. The private placement was completed with five subscribers residing in the United States, for gross proceeds of \$1,205,705. Issue costs of \$51,925 in cash were charged against capital stock.

Each unit consisted of one common share and half a common share purchase warrant. Each warrant entitles its holder to purchase one common share at \$1.65 until October 1, 2009.

During the year ended December 31, 2007, the Company attributed a value of \$4,729,416 to the shares and \$813,619 to the warrants.

# Ranaz Corporation

## Notes to Consolidated Financial Statements

December 31, 2008 and 2007

### 18 - CAPITAL STOCK (Continued)

#### Escrowed shares

In accordance with stock exchange regulations, all common shares issued prior to the initial public offering at a price lower than the issue price and all the common shares that can be acquired by persons dealing on a non-arm's length basis with the Company have been escrowed in accordance with the escrow agreement. All common shares acquired pursuant to the exercise of stock options whose exercise price is lower than the selling price of the common shares issued under the offering must also be escrowed in accordance with the escrow agreement.

Under the terms of the escrow agreement, 10% of the escrowed common shares will be released from escrow upon issuance of the TSX Venture Exchange bulletin listing the common shares on the exchange, and an additional 15% of the common shares will be released every six months thereafter, i.e. on the 6th, 12th, 18th, 24th, 30th, and 36th month following the initial release. As at December 31, 2008, 7,285,714 common shares and 161,965 stock options were still escrowed.

#### Loss per share

As a result of the net loss in the years 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.

### 19 - WARRANTS

	<u>2008</u>	<u>2007</u>
	\$	\$
4,230,119 warrants (6,572,673 in 2007)	1,224,452	1,536,444
417,764 broker warrants (117,764 in 2007)	156,750	69,480
	<u>1,381,202</u>	<u>1,605,924</u>

Changes in the number of warrants outstanding are as follows:

	<u>2008</u>	<u>2007</u>
Balance, beginning of year	6,572,673	4,761,904
Warrants granted	1,869,337	2,527,449
Warrants exercised	1,531,253	716,680
Warrants expired	2,680,638	
Balance, end of year	<u>4,230,119</u>	<u>6,572,673</u>

# Ranaz Corporation

## Notes to Consolidated Financial Statements

December 31, 2008 and 2007

### 19 - WARRANTS (Continued)

As at December 31, the number of outstanding warrants exercisable into common shares was as follows:

Expiry	Exercise price	Number issued	Number exercisable as at December 31, 2008	Number exercisable as at December 31, 2007
April 26, 2008	0.35 \$	1,428,571		1,428,571
December 29, 2008	0.60 \$	3,333,333		2,783,320
January 26, 2009	0.70 \$	425,000	425,000	425,000
September 27, 2009	1.65 \$	1,472,050	1,472,050	1,472,050
October 1, 2009	1.65 \$	463,732	463,732	463,732
January 11, 2010	1.30 \$	369,337	369,337	
September 17, 2010	0.75 \$	1,500,000	1,500,000	
			<u>4,230,119</u>	<u>6,572,673</u>

During the year, 2,680,638 warrants with a carrying amount of \$702,443 expired.

As at December 31, the number of outstanding warrants issued to brokers exercisable into common shares was as follows:

Expiry	Exercise price	Number issued	Number exercisable as at December 31, 2008	Number exercisable as at December 31, 2007
September 26, 2009	1.30 \$	117,764	117,764	117,764
March 17, 2010	0.75 \$	300,000	300,000	
			<u>417,764</u>	<u>117,764</u>

The fair value of these warrants was determined using the Black-Scholes warrant pricing method based on the following weighted average assumptions:

	2008		2007	
	Warrants	Broker warrants	Warrants	Broker warrants
Annual risk-free interest rate	2.69 %	2.56 %	4.20 %	4.22 %
Volatility	82.00 %	80.00 %	80.00 %	80.00 %
Dividend	—	—	—	—
Estimated term	2 years	1.5 years	2 years	2 years

## Ranaz Corporation

### Notes to Consolidated Financial Statements

December 31, 2008 and 2007

#### 20 - CONTRIBUTED SURPLUS

	2008	2007
	\$	\$
Balance, beginning of year	323,453	
Stock-based compensation expense	250,959	323,453
Warrants expired	702,443	
	<u>1,276,855</u>	<u>323,453</u>

#### 21 - CAPITAL MANAGEMENT

The Company's capital management objective is to protect its assets and its capacity to continue as a going concern while maximizing the growth of its operations. The Company's capital consists of long-term debt, the bank loan, cash and equity instruments.

The Company's capital management objectives include maintaining a sufficient debt-equity ratio to ensure access to the necessary financing sources for the pursuit of the Company's growth.

The Company manages its capital structure and adjusts it as necessary for changes in the economic climate and the risk characteristics of the underlying assets. To preserve or modify its capital, the Company may issue new shares, refinance current debt or contract new debt.

The Company's capital structure objectives and management described above have remained essentially unchanged in the past two fiscal years. The objectives are reviewed annually.

The covenants relating to the bank loan and term loans are the following:

- The current ratio, that is current assets to current liabilities, cannot be less than a stated minimum.
- The EBITDA ratio cannot be less than a stated percentage.
- The total debt to equity ratio must be equal to or less than a stated limit.
- The debt service ratio, which is EBITDA less unfinanced capital expenditures over interest paid plus any current portion of long-term debt.

	2008
	\$
Bank loan	291,711
Instalments on long-term debt	1,021,503
Long-term debt	1,584,225
Cash	(842,991)
Net debt	<u>2,054,448</u>
Equity	5,160,592
Net debt to equity	0.40:1

# Ranaz Corporation

## Notes to Consolidated Financial Statements

December 31, 2008 and 2007

### 21 - CAPITAL MANAGEMENT (Continued)

The Company believes that the internal current ratio is consistent with management's capital management objectives.

The Company has credit facilities in the form of bank loans and term loans as described in Notes 15 and 16(a) which must be reviewed each quarter. The Company is not in compliance with the following ratios as at December 31, 2008:

- The EBITDA ratio which cannot be less than a stated percentage.
- The debt service ratio, which is EBITDA less unfinanced capital expenditures over interest paid plus any current portion of long-term debt.

The Company has not obtained a waiver from its financial institution regarding these defaults as at December 31, 2008 and has therefore presented the debt in current liabilities.

### 22 - FINANCIAL INSTRUMENTS

#### Financial risk management objectives and policies

The Company is subject to various financial risks arising from both its operating and investing activities that could have an effect on its ability to achieve its strategic and growth objectives. Company management is responsible for managing financial risk.

#### Financial risks

The main financial risks to which the Company is exposed, as well as its financial risk management policies, are described below.

#### Fair value of derivative financial instruments

The Company enters into forward exchange contracts to sell foreign currencies in the future at predetermined exchange rates. These forward exchange contracts are intended to hedge the Company's exposure to the risk of fluctuations in exchange rates in the future. As at December 31, 2008, the fair value of these derivative financial instruments was calculated using rates obtained from the Company's financial institution for identical financial instruments. The following table summarizes the amounts of currency sale commitments, the average exchange rate and the favourable (unfavourable) exchange rate of forward contracts as at December 31, 2008, based on their remaining term.

	Contract amount	Average rate	Fair value
Remaining term			
Less than 6 months			
U.S. dollar forward contract	1,800,000	1.1916	(38,443)
Euro forward contract	100,000	1.7105	1,283

# Ranaz Corporation

## Notes to Consolidated Financial Statements

December 31, 2008 and 2007

### 22 - FINANCIAL INSTRUMENTS (Continued)

#### Exchange risk

Because of its operations in the United States and Europe, the Company is subject to an exchange risk associated with fluctuations in the U.S. dollar and the euro. The table below shows the sensitivity of the Company's net loss and comprehensive loss to a 10% increase in the U.S. dollar and the euro against the Canadian dollar. An equivalent, opposite impact on net loss and comprehensive loss would arise from a 10% decrease in the U.S. dollar and the euro against the Canadian dollar.

	Impact of U.S. dollar	Impact of euro
Net loss and comprehensive loss	(109,583)	38,064

The Company is exposed to foreign exchange risk due to cash, accounts receivable, advances to private companies, the bank loan, accounts payable and accrued liabilities and long-term debt denominated in U.S. dollars and euros. As at December 31, 2008, assets denominated in U.S. dollars and euros totalled US\$1,299,301 (US\$836,201 as at December 31, 2007) and €278,886 (€184,152 as at December 31, 2007); liabilities arising from the conversion of amounts in U.S. dollars and euros represented US\$ 1,494,778 (US\$69,144 as at December 31, 2007) and €87,329 (€54,077 as at December 31, 2007).

#### Interest rate risk

Advances receivable and the long-term debt bear interest at a fixed rate and therefore expose the Company to a risk related to changes in fair value arising from changing interest rates.

A portion of the long-term debt and the bank loan bear interest at a variable rate and therefore expose the Company to a cash flow risk arising from changing interest rates.

The Company does not use financial derivatives to hedge its exposure to interest rates. A 1% fluctuation of the interest rates will not have a material impact on the current level of the loans.

#### Credit risk

Financial instruments that could expose the Company to credit risk are primarily cash, trade accounts and advances. The Company has deposited its cash in financial institutions with good reputations, and management considers the risk of losses to be negligible. The Company assesses the solvency of its customers and generally does not obtain security from them. Advances receivable are managed and evaluated quarterly to determine any loss in value. At December 31, 2008, management considered the Company's credit risk in relation to such financial assets to be low and accordingly no allowance for loss has been recorded.

Generally, the carrying amount on the balance sheet of the Company's financial assets exposed to credit risk, net of any applicable provisions for losses, represents the maximum amount exposed to credit risk.

## Ranaz Corporation

### Notes to Consolidated Financial Statements

December 31, 2008 and 2007

#### 22 - FINANCIAL INSTRUMENTS (Continued)

##### Liquidity risk

Liquidity risk management serves to maintain a sufficient amount of cash and cash equivalents and to ensure that the Company has financing sources such as bank loans for a sufficient authorized amount. The Company establishes budgets and cash estimates to ensure it has the necessary funds to fulfil its obligations.

##### Fair value of financial instruments other than derivative instruments

	2008		2007	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Held-for trading financial assets				
Cash	842,991	842,991	583,019	583,019
Loans and receivables				
Accounts receivable	1,764,977	1,764,977	1,412,084	1,412,084
Balance of sale	231,627	231,627		
Note receivable			297,390	297,390
Advances			100,000	100,000
Advances to private companies			69,576	69,576
Financial liabilities				
Bank loan	291,711	291,711		
Accounts payable and accrued liabilities	2,466,289	2,466,289	1,748,046	1,748,046
Long-term debt	2,605,728	2,624,581	390,246	380,269
Derivative financial instruments	37,160	37,160		

The fair value of cash, trade accounts, other receivables, the bank loan and accounts payable and accrued liabilities approximates their carrying amount given that they will mature shortly.

The fair value of the balance of sale, note receivable, advances and advances to private companies was calculated based on the discounted value of future payments using interest rates that the Company could have obtained on December 31, 2008 and 2007 for advances with similar terms and maturities. Their fair value approximates their carrying amount.

The fair value of long-term debt was calculated based on the discounted value of future payments using the estimated interest rates that the Company could have obtained on December 31, 2008.

# Ranaz Corporation

## Notes to Consolidated Financial Statements

December 31, 2008 and 2007

### 23 - COMMITMENTS

At December 31, 2008, the Company's commitments under capital leases and consulting contracts maturing at various dates and primarily regarding the rental of space and materials and services contracts totalled \$490,510. The minimum payments required over the next financial years are as follows:

	<u>\$</u>
2009	281,167
2010	105,738
2011	88,463
2012	15,142

### 24 - 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:

	<u>2008</u>	<u>2007</u>
	\$	\$
Revenue by geographic location based on customer location		
Canada	6,349,701	6,562,936
United States	12,114,569	3,407,810
France	1,255,540	1,806,041
International	1,108,354	1,022,065
	<u>20,828,164</u>	<u>12,798,852</u>
Property, plant and equipment by geographic location		
Canada	1,054,247	1,423,745
United States	1,066,859	
	<u>2,121,106</u>	<u>1,423,745</u>
Goodwill by geographic location		
Canada	61,919	61,919
United States	937,417	
	<u>999,336</u>	<u>61,919</u>

# Ranaz Corporation

## Notes to Consolidated Financial Statements

December 31, 2008 and 2007

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### **25 - SUBSEQUENT EVENTS**

#### **Private placement**

On January 30, 2009, the Company closed a private placement of 4,920,258 units at \$0.135 per unit for total cash proceeds of \$664,235. Each unit consisted of one common share of the Company and half a common share purchase warrant. Each whole common share purchase warrant entitles its holder to purchase one common share for \$0.135 until January 30, 2011.

#### **Derivative financial instruments**

Subsequent to December 31, 2008, the Company entered into forward contracts to sell US\$125,000 per month from July 2009 to December 2009 at rates varying from 1.2397 to 1.2440.

#### **Product recall**

On January 30, 2009, Ranaz announced the voluntary recall of six bars due to possible Peanut Corporation of America ("PCA") ingredient contamination and potential health risks. These bars have been recalled because the product contains peanut ingredients which were manufactured by PCA, which is the focus of an ongoing salmonella investigation by the Canadian Food Inspection Agency (CFIA) and the United States Food & Drug Administration. PCA is one of the suppliers of peanut ingredients to the Company's subcontractor for those bars. Ranaz's subcontractor for those bars is no longer using PCA as a supplier.

### **26 - COMPARATIVE FIGURES**

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