

**Ranaz Corporation**  
**Consolidated Financial Statements**  
**December 31, 2009 and 2008**

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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/ Sylvain Picard, Chief Financial Officer

Montréal, March 5, 2010



# Raymond Chabot Grant Thornton

## Auditors' Report

To the Shareholders of  
Ranaz Corporation

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We have audited the consolidated balance sheets of Ranaz Corporation as at December 31, 2009 and 2008 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, 2009 and 2008, and the results of its operation and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Raymond Chabot Grant Thornton LLP<sup>1</sup>*

Montréal, March 5, 2010

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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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
	\$	\$
<b>CONSOLIDATED EARNINGS AND COMPREHENSIVE LOSS</b>		
<b>Sales</b>	19,087,693	20,828,164
Cost of sales	<u>14,124,335</u>	<u>15,634,390</u>
<b>Gross profit</b>	<u>4,963,358</u>	<u>5,193,774</u>
Research expenses	478,775	422,654
Selling expenses	2,099,116	3,208,663
Administrative expenses	2,975,440	3,850,285
Product recall costs (compensation) (Note 6)	(320,000)	793,823
Stock-based compensation expense	188,162	250,959
Amortization of property, plant and equipment, intangible assets and deferred costs	460,907	370,261
Interest expense	344,740	182,042
Gain on disposal of property, plant and equipment and intangible assets		(41,327)
Loss on write-off of advances		69,576
Change in fair value of derivative financial instruments	(113,317)	37,160
Exchange loss (gain)	<u>28,322</u>	<u>(165,982)</u>
	<u>6,142,145</u>	<u>8,978,114</u>
Loss before income taxes	<u>(1,178,787)</u>	<u>(3,784,340)</u>
Income taxes (Note 7)		
Current	16,682	
Future	<u>(422,928)</u>	
	<u>(406,246)</u>	<u>—</u>
<b>Net loss and comprehensive loss</b>	<u>(772,541)</u>	<u>(3,784,340)</u>
Basic and diluted loss per common share (Note 16)	<u>(0.015)</u>	<u>(0.099)</u>
Basic and diluted weighted average number of common shares outstanding	<u>50,057,894</u>	<u>38,169,025</u>
<b>CONSOLIDATED DEFICIT</b>		
Deficit, beginning of year	(9,490,599)	(5,706,259)
Net loss	<u>(772,541)</u>	<u>(3,784,340)</u>
Deficit, end of year	<u>(10,263,140)</u>	<u>(9,490,599)</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, 2009 and 2008

	2009	2008
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss	(772,541)	(3,784,340)
Non-cash items		
Stock-based compensation expense	188,162	250,959
Amortization of property, plant and equipment, intangible assets and deferred costs	479,277	386,591
Gain on disposal of property, plant and equipment and intangible assets		(41,327)
Loss on write-off of advances		69,576
Derivative financial instruments	(37,160)	37,160
Interest on debenture and terms loans	229,973	68,458
Future income taxes	(422,928)	
Changes in working capital items (Note 8)	(801,512)	(545,385)
Cash flows from operating activities	<u>(1,136,729)</u>	<u>(3,558,308)</u>
<b>INVESTING ACTIVITIES</b>		
Note receivable		397,390
Balance of sale relating the disposition of a customer listing	27,182	
Advances to private companies		(15,195)
Business acquisition		(16,092)
Acquisition of property, plant and equipment	(954,294)	(497,403)
Disposal of property, plant and equipment		413,652
Acquisition of intangible assets		(531,085)
Disposal of intangible assets		20,638
Cash flows from investing activities	<u>(927,112)</u>	<u>(228,095)</u>
<b>FINANCING ACTIVITIES</b>		
Bank loan	571	253,726
Convertible debenture		1,426,330
Repayment of long-term debt	(403,259)	(1,099,504)
Long-term debt	105,909	1,396,020
Issuance of equity instruments	1,785,102	2,361,609
Equity instrument issue costs	(125,301)	(359,545)
Cash flows from financing activities	<u>1,363,022</u>	<u>3,978,636</u>
Impact of foreign exchange on cash	<u>(57,828)</u>	<u>67,739</u>
<b>Net increase (decrease) in cash</b>	<u>(758,647)</u>	<u>259,972</u>
Cash, beginning of year	<u>842,991</u>	<u>583,019</u>
Cash, end of year	<u>84,344</u>	<u>842,991</u>

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

# Ranaz Corporation

## Consolidated Balance Sheets

December 31, 2009 and 2008

	2009	2008
	\$	\$
<b>ASSETS</b>		
Current assets		
Cash	84,344	842,991
Accounts receivable (Note 9)	2,218,056	2,242,543
Inventories (Note 10)	3,843,640	3,827,268
Prepaid expenses	63,864	60,973
	<u>6,209,904</u>	<u>6,973,775</u>
Balance of sale, receivable in monthly instalments of €1,875 (\$2,813) until May 2018 (effective rate of 7.75%)	170,480	197,662
Property, plant and equipment (Note 11)	2,648,847	2,121,106
Goodwill	999,336	999,336
Intangible assets (Note 12)	653,526	706,250
	<u>10,682,093</u>	<u>10,998,129</u>
<b>LIABILITIES</b>		
Current liabilities		
Bank loan (Note 13)	252,240	291,711
Derivative financial instruments		37,160
Accounts payable and accrued liabilities	1,704,283	2,466,289
Instalments on long-term debt	805,119	1,021,503
	<u>2,761,642</u>	<u>3,816,663</u>
Long-term debt (Note 14)	1,670,716	1,584,225
Future income taxes (Note 7)	13,721	436,649
	<u>4,446,079</u>	<u>5,837,537</u>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 16)	13,144,295	11,846,424
Warrants (Note 17)	860,033	1,381,202
Equity component of convertible debenture	146,710	146,710
Contributed surplus (Note 18)	2,348,116	1,276,855
Deficit	<u>(10,263,140)</u>	<u>(9,490,599)</u>
	<u>6,236,014</u>	<u>5,160,592</u>
	<u>10,682,093</u>	<u>10,998,129</u>

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

On behalf of the Board of Directors,

/S/ Jean Bourassa-Marineau  
Director

/S/ Edward E. March  
Director

# Ranaz Corporation

## Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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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' Handbook*. Adoption of these new standards has not had a material effect on the Company's earnings, financial position or cash flows.

#### **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 has applied it as of January 1, 2009 in accordance with the applicable transitional provisions. The impact of the adoption of this standard resulted in a reclassification of the development costs in the balance sheet under intangible assets..

In June 2009, the Canadian Institute of Chartered Accountants improved disclosures about financial instruments in the amendments to Section 3862, "Financial Instruments – Disclosures".

The improved disclosures relate to fair value measurements of financial instruments, including the relative reliability of the inputs used in those measurements (three-levels hierarchy) and liquidity risk.

The amendments to Section 3862 apply to annual financial statements relating to fiscal years ending after September 30, 2009. The Company applied it during the year in accordance with the applicable transitional provision. The adoption of this standard had no impact on the financial statements.

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

Certain new primary sources of Canadian generally accepted accounting principles (standards) 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.

# Ranaz Corporation

## Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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### **3 - IMPACT OF NEW ACCOUNTING STANDARDS NOT YET APPLIED (Continued)**

#### **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.

### **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.

#### **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.

# Ranaz Corporation

## Notes to Consolidated Financial Statements

December 31, 2009 and 2008

### 4 - ACCOUNTING POLICIES (Continued)

#### 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	30% and 3 years
	Straight-line	
Leasehold improvements and customer listing	Straight-line	20%
Trademark	Straight-line	10%

#### 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 and recorded in intangible assets 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.

# Ranaz Corporation

## Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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

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.

#### **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 revenue and expenses relating to non-monetary assets and liabilities, which are translated at the historical rate. Exchange 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.

# Ranaz Corporation

## Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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

#### **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 according to the fair value of the options based on the stock price and valid assumptions and recognized following:

- Compensation cost of options granted to directors, officers and employees is measured at grant date and recognized over the period of service.
- Compensation cost of options granted to consultants is recognized over the period of service covered and evaluated on the basis of the fair value of options at each balance sheet date until the options vest, or the date on which the other party has fully performed its obligation by delivering the services, if such date is earlier than the vesting of options by the consultants. The options that vested immediately are valued at fair value at the grant date.
- Compensation cost is recognized as an expense in the earnings statement and credited to contributed surplus. Consideration paid upon the exercise of options and the fair value of options exercised 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 and other receivables are classified as loans and receivables. They are recognized at cost less an allowance for doubtful accounts;
- Balance of sale is classified as loans and receivables and is recognized at cost and subsequently at amortized cost using the effective interest method;
- 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, 2009 and 2008

### 4 - ACCOUNTING POLICIES (Continued)

#### Derivative financial instruments

The Company uses derivative financial instruments to manage its currency risk. The Company does not use hedge accounting; accordingly, the derivative financial instruments are recognized at their fair value on the balance sheet and changes in fair value are recognized in earnings for the year.

### 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:

	\$
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	<u>66,772</u>
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.

# Ranaz Corporation

## Notes to Consolidated Financial Statements

December 31, 2009 and 2008

### 6 - INFORMATION INCLUDED IN CONSOLIDATED EARNINGS

	2009	2008
	\$	\$
Amortization of property, plant and equipment	426,553	301,139
Amortization of trademark	1,889	1,889
Amortization of customer listing	32,465	67,233
Amortization of development costs	18,370	16,330
Gross amount of research expenses	590,405	504,004
Investment tax credits applied against research expenses	130,000	81,350
Government grant applied against cost of sales	63,414	
Government grant applied against administrative expenses	35,805	
Interest expense		
Interest on bank loan	48,191	45,366
Interest on long-term debt		
Interest on convertible debenture	245,528	68,458
Interest on long-term debt	51,021	68,218
	<u>296,549</u>	<u>136,676</u>

Product recall costs for year 2008, consisting of product write-offs and an estimate of products that will be returned by customers. Product recall compensation for year 2009, consisting of refund from the subcontractor related to the recall.

### 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:

	2009	2008
	\$	\$
Loss before income taxes	<u>(1,178,787)</u>	<u>(3,784,340)</u>
	2009	2008
	\$	\$
Income taxes calculated using the combined federal and provincial income tax rate in Canada of 30.90%	(364,245)	(1,169,361)
Increase (decrease) in income taxes resulting from the following:		
Difference due to different income tax rates in foreign subsidiary	(58,423)	73,620
Stock-based compensation expense	58,142	77,546
Non-deductible items	11,903	24,519
Change in valuation allowance	3,283	886,334
Variance due to the change in future income taxes		142,378
Other items	(56,906)	(35,036)
	<u>(406,246)</u>	<u>-</u>

# Ranaz Corporation

## Notes to Consolidated Financial Statements

December 31, 2009 and 2008

### 7 - INCOME TAXES (Continued)

	2009	2008
	%	%
Effective income tax rate	34	–

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

	2009	2008
	\$	\$
Future income tax asset		
Accounts receivable		136,435
Inventories	3,830	58,526
Intangible assets	8,366	8,718
Share issue expenses	224,079	312,113
Property, plant and equipment	66,035	
Research and development expenses	124,845	63,527
Non-capital losses	2,550,375	2,375,732
	<u>2,977,530</u>	<u>2,955,051</u>
Future income tax liability		
Accounts receivable	12,808	10,632
Development costs	132,186	184,649
Intangible assets	47,269	352,674
Property, plant and equipment		86,758
	<u>192,263</u>	<u>634,713</u>
	2,785,267	2,320,338
Less: valuation allowance	<u>(2,798,988)</u>	<u>(2,756,987)</u>
	<u>(13,721)</u>	<u>(436,649)</u>

The tax losses of Canadian and American companies available to reduce income taxes in future years aggregate \$8,522,683 for federal purposes and \$8,678,533 for provincial purposes. These tax losses can be carried over the following years:

	Federal	Provincial
	\$	\$
2026	18,072	18,072
2027	2,677,652	2,674,566
2028	2,959,261	3,118,197
2029	2,867,698	2,867,698
	<u>8,522,683</u>	<u>8,678,533</u>

The losses of the Irish subsidiary are €1,140,000 (\$1,700,000) and can be carried over indefinitely.

The Company also has \$194,000 for federal purposes and \$804,000 for provincial purposes in research and development tax expenses that can be carried over indefinitely.

# Ranaz Corporation

## Notes to Consolidated Financial Statements

December 31, 2009 and 2008

### 8 - INFORMATION ON CONSOLIDATED CASH FLOWS

The changes in working capital items are as follows:

	2009	2008
	\$	\$
Accounts receivable	(142,957)	189,048
Inventories	(16,372)	(478,854)
Prepaid expenses	(2,891)	(14,132)
Accounts payable and accrued liabilities	(639,292)	(241,447)
	<u>(801,512)</u>	<u>(545,385)</u>

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

	2009	2008
	\$	\$
Interest paid	114,767	113,584

### 9 - ACCOUNTS RECEIVABLE

	2009	2008
	\$	\$
Trade accounts (a)	1,783,945	1,733,130
Investment tax credits	255,000	125,000
Sales taxes	97,123	318,601
Balance of sale	30,840	33,965
Other receivables	51,148	31,847
	<u>2,218,056</u>	<u>2,242,543</u>

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

During the year ended December 31, 2009, sales with a customer represented 20% of the Company's sales (12% in 2008).

### 10 - INVENTORIES

	2009	2008
	\$	\$
Finished goods	1,676,352	1,500,681
Work in process	115,450	162,816
Raw materials	1,274,203	1,471,564
Packaging	777,635	692,207
	<u>3,843,640</u>	<u>3,827,268</u>

During the year ended December 31, 2009, inventories in the amount of \$14,124,335 (\$16,067,580 in 2008) were recognized as an expense, including provisions for write-downs to net realizable value of \$47,387 (\$523,529 in 2008).

# Ranaz Corporation

## Notes to Consolidated Financial Statements

December 31, 2009 and 2008

### 11 - PROPERTY, PLANT AND EQUIPMENT

	2009		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Office furniture	202,307	156,087	46,220
Manufacturing equipment	3,063,034	979,622	2,083,412
Automotive equipment	22,355	11,584	10,771
Website	90,769	44,479	46,290
Computer equipment	580,808	469,459	111,349
Leasehold improvements	791,957	441,152	350,805
Computer equipment under capital leases	28,122	28,122	
	<u>4,779,352</u>	<u>2,130,505</u>	<u>2,648,847</u>
			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>

The Company received a grant for the acquisitions of manufacturing equipment of \$130,371 in 2009 and recognized this grant in the equipment. Also, the Company received a grant totalling \$32,090 from Canada Economic Development as an interest free loan. This grant is recognized in the manufacturing equipment and the liability portion is recorded in long-term debt.

### 12 - INTANGIBLE ASSETS

	2009		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Trademark	18,876	14,313	4,563
Customer listing	222,499	64,933	157,566
Development costs (a)	509,767	18,370	491,397
	<u>751,142</u>	<u>97,616</u>	<u>653,526</u>

## Ranaz Corporation

### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

#### 12 - INTANGIBLE ASSETS (Continued)

	2008		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Trademark	18,876	12,424	6,452
Customer listing (b)	222,499	32,468	190,031
Development costs (a)	509,767		509,767
	<u>751,142</u>	<u>44,892</u>	<u>706,250</u>

(a) These costs primarily consist of salaries, consulting fees, raw material utilisation and other costs. In 2008, the Company applied investment tax credits of \$56,108 against these costs.

(b) During the year 2008, the Company disposed of a customer listing for €225,000 (\$351,068).

#### 13 - BANK LOAN

The Company has a bank loan for a maximum authorized amount of \$500,000 ( \$2,000,000 as at December 31, 2008) secured by a first ranking movable hypothec of \$3,250,000 on the Company's tangible and intangible assets. This loan bears interest at the bank's base rate plus 2.50% (4.75% as at December 31, 2009); bank's base rate plus 1,50% (5.00% as at December 31, 2008) and is renewable in January 2010. The bank loan is unused as at December 31, 2009 and 2008.

On February 9, 2010, the financial institution renewed the bank loan for a maximum authorized amount of \$750,000. This agreement is renewable in May 2010.

The Company also has a bank loan in the form of a credit facility for a maximum authorized amount of US\$247,000 (\$259,597), secured by a first ranking movable hypothec of US\$1,700,000 (\$1,786,700) on all of the Company's property, plant and equipment. This loan bears interest at the bank's U.S. base rate plus 1.00% (3.75% as at December 31, 2009; 4.25% as at December 31, 2008) and is renewable in June 2010. The loan balance is \$252,240 (US\$240,000) as at December 31, 2009 (\$291,711 (US\$240,000) as at December 31, 2008).

Under the terms of the credit agreement, the Company is required to comply with certain financial ratio requirements (Note 19).

# Ranaz Corporation

## Notes to Consolidated Financial Statements

December 31, 2009 and 2008

### 14 - LONG-TERM DEBT

	Current portion \$	2009 \$	2008 \$
Unsecured convertible debenture, principal amount of \$1,500,000, monthly principal payments of \$46,667 commencing in September 2010, convertible into common shares, bearing interest of 12%, maturing in September 2013 (b)	186,668	1,540,583	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% (4.75% in 2009; 4.50% in 2008), payable in monthly instalments of US\$16,667 (\$17,517), maturing in May 2011, balance of US\$283,327(a)	297,777	297,777	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% (3.75% in 2009; 5.00% in 2008), payable in monthly instalments of \$5,334, maturing in July 2013 (a)	229,333	229,333	293,333
Term loan secured by certain property, plant and equipment, prime rate plus 1.25% (3.50% in 2009; 4.75% in 2008), payable in monthly instalments of \$7,154, maturing in April 2010 (a)	28,618	28,618	114,473
Term loan from Canada Economic Development, interest-free, effective interest rate of 6.75%, semestrial principal payments of \$31,361 commencing in April 2010, maturing in October 2014	62,723	273,124	236,147
Term loan from Canada Economic Development, interest-free, effective interest rate of 5.91%, monthly principal payments of \$2,875 commencing in June 2012, maturing in May 2016		106,400	
Term loan from Canada Economic Development interest-free, repaid.			25,000
		2,475,835	2,605,728
Instalments due within one year	805,119	805,119	1,021,503
		1,670,716	1,584,225

(a) Under the credit agreement, the Company is required to comply with certain financial ratios (Note 19).

# Ranaz Corporation

## Notes to Consolidated Financial Statements

December 31, 2009 and 2008

### 14 - 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 five years are as follows:

	<u>\$</u>
2010	805,119
2011	622,727
2012	642,852
2013	470,547
2014	97,223

### 15 - 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, 2009 and 2008

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

Changes in the number of options outstanding are as follows:

	2009		2008	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance, beginning of year	2,589,884	\$0.78	2,214,884	\$0.75
Options granted	350,000	\$0.24	425,000	\$0.95
Options expired	1,529,942	\$0.79	50,000	\$0.70
Balance, end of year	<u>1,409,942</u>	<u>\$0.64</u>	<u>2,589,884</u>	<u>\$0.78</u>
Options exercisable, end of year	<u>698,275</u>	<u>\$0.57</u>	<u>1,618,246</u>	<u>\$0.73</u>

Stock options granted on December 31, 2009 are 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	4 years	\$0.24	87,500	\$0.24
\$0.35	304,942	2 years	\$0.35	296,192	\$0.35
\$0.60	30,000	2 years	\$0.60	30,000	\$0.60
\$0.70	200,000	2 years	\$0.70	128,333	\$0.70
\$0.72	200,000	3.67 years	\$0.72	50,000	\$0.72
\$1.16	100,000	2.08 years	\$1.16	50,000	\$1.16
\$1.30	175,000	3 years	\$1.30	43,750	\$1.30
\$1.35	20,000	3 years	\$1.35	5,000	\$1.35
\$1.40	30,000	3.17 years	\$1.40	7,500	\$1.40
Outstanding, end of year	<u>1,409,942</u>	<u>2.90 years</u>	<u>\$0.64</u>	<u>698,275</u>	<u>\$0.57</u>

Weighted average fair value of options granted during the year 2009

\$0.12

Weighted average fair value of options granted during the year 2008

\$0.76

# Ranaz Corporation

## Notes to Consolidated Financial Statements

December 31, 2009 and 2008

### 15 - 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:

	<u>2009</u>	<u>2008</u>
Annual risk-free interest rate	1.69%	3.27%
Volatility	104.00%	86.00%
Dividend	—	—
Estimated term	5 years	5 years

### 16 - CAPITAL STOCK

#### Authorized

Unlimited number of shares without par value

Common shares, voting and participating

Class "A" preferred shares, non-voting, non-participating, 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

	<u>2009</u>	<u>2008</u>
<b>Issued and fully paid</b>	<u>\$</u>	<u>\$</u>
60,080,314 common shares (40,565,313 in 2008)	<u>13,144,295</u>	<u>11,846,424</u>

#### Share issues

##### 2009

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. The Company attributed a value of \$550,228 to the common shares and \$114,007 to the warrants. The unit issue costs for the placement totalled \$49,878 in cash.

On August 10, 2009, a shareholder exercised 2,460,129 warrants for a cash consideration of \$332,117.

On August 28, 2009, the Company closed a private placement of 10,384,614 units at \$0.065 per unit for total cash proceeds of \$675,000. Each unit consisted of one common share of the Company and a common share purchase warrant. Each common share purchase warrant entitles its holder to purchase one common share for \$0.10 until August 28, 2014. The Company attributed a value of \$365,625 to the common shares and \$309,375 to the warrants. The unit issue costs for the placement totalled \$65,270 in cash.

# Ranaz Corporation

## Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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

On October 2, 2009, the Company closed a private placement of 1,750,000 units at \$0.065 per unit for total cash proceeds of \$113,750. Each unit consisted of one common share of the Company and a common share purchase warrant. Each common share purchase warrant entitles its holder to purchase one common share for \$0.10 until October 2, 2014. The Company attributed a value of \$61,195 to the common shares and \$52,555 to the warrants. The unit issue costs for the placement totalled \$10,153 in cash.

#### *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 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.

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

#### **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.

# Ranaz Corporation

## Notes to Consolidated Financial Statements

December 31, 2009 and 2008

### 16 - CAPITAL STOCK (Continued)

#### 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.

### 17 - WARRANTS

	2009	2008
	\$	\$
14,003,951 warrants (4,230,119 in 2008)	772,763	1,224,452
300,000 broker warrants (417,764 in 2008)	87,270	156,750
	<u>860,033</u>	<u>1,381,202</u>

Changes in the number of warrants outstanding are as follows:

	2009	2008
Balance, beginning of year	4,230,119	6,572,673
Warrants granted	14,594,743	1,869,337
Warrants exercised	2,460,129	1,531,253
Warrants expired	<u>2,360,782</u>	<u>2,680,638</u>
Balance, end of year	<u>14,003,951</u>	<u>4,230,119</u>

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, 2009	Number exercisable as at December 31, 2008
January 26, 2009	\$0.70	425,000		425,000
September 27, 2009	\$1.65	1,472,050		1,472,050
October 1, 2009	\$1.65	463,732		463,732
January 11, 2010	\$1.30	369,337	369,337	369,337
September 17, 2010	\$0.75	1,500,000	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	<u>1,750,000</u>	
			<u>14,003,951</u>	<u>4,230,119</u>

During the year, 2,360,782 warrants with a carrying amount of \$813,619 expired (2,680,638 warrants with a carrying amount of \$702,443 expired in 2008).

# Ranaz Corporation

## Notes to Consolidated Financial Statements

December 31, 2009 and 2008

### 17 - WARRANTS (Continued)

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, 2009	Number exercisable as at December 31, 2008
September 26, 2009	\$1.30	117,764		117,764
March 17, 2010	\$0.75	300,000	300,000	300,000
			300,000	417,764

During the year, 117,764 broker warrants with a carrying amount of \$69,480 expired.

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

	2009	2008	2008
	Warrants	Warrants	Broker warrants
Annual risk-free interest rate	2.37%	2.69%	2.56%
Volatility	124.00%	82.00%	80.00%
Dividend	—	—	—
Estimated term	4.49 years	2 years	1.5 years

### 18 - CONTRIBUTED SURPLUS

	2009	2008
	\$	\$
Balance, beginning of year	1,276,855	323,453
Stock-based compensation expense	188,162	250,959
Warrants expired	883,099	702,443
	2,348,116	1,276,855

# Ranaz Corporation

## Notes to Consolidated Financial Statements

December 31, 2009 and 2008

### 19 - 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 includes shareholders' equity, the bank loan and the long-term debt less cash. The Company's capital includes the following:

	2009	2008
	\$	\$
Shareholders' equity	6,236,014	5,160,592
Bank loan	252,240	291,711
Instalments on long-term debt	805,119	1,021,503
Long-term debt	1,670,716	1,584,225
Less: cash	(84,344)	(842,991)
	<u>8,879,745</u>	<u>7,215,040</u>

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.

	2009	2008
	\$	\$
Bank loan	252,240	291,711
Instalments on long-term debt	805,119	1,021,503
Long-term debt	1,670,716	1,584,225
Cash	(84,344)	(842,991)
Net debt	<u>2,643,731</u>	<u>2,054,448</u>
Shareholders' Equity	6,236,014	5,160,592
Net debt to equity	0.44:1	0.40:1

# Ranaz Corporation

## Notes to Consolidated Financial Statements

December 31, 2009 and 2008

### 19 - 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 13 and 14(a) which must be reviewed each quarter. The Company is not in compliance with the following ratios as at December 31, 2009 and 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, 2009 and 2008 and has therefore presented the debt in current liabilities.

### 20 - 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 entered 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, 2009, the Company no longer has any forward exchange contracts.

	2009		2008	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Derivative financial instruments	–	–	37,160	37,160

# Ranaz Corporation

## Notes to Consolidated Financial Statements

December 31, 2009 and 2008

### 20 - 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	(11,180)	(52,272)

The Company is exposed to foreign exchange risk due to cash, accounts receivable, balance of sale, the bank loan, accounts payable and accrued liabilities and long-term debt denominated in U.S. dollars and euros. As at December 31, 2009 and 2008, financial instruments denominated in U.S. dollars and euros are as follows:

	Total CAN\$	U.S. dollar	Euro
As at December 31, 2009			
Assets	1,513,261	949,916	333,489
Liabilities	1,020,100	903,000	47,834
As at December 31, 2008			
Assets	2,043,472	1,299,301	278,886
Liabilities	1,969,501	1,494,778	87,329

#### Interest rate risk

A portion of the long-term debt bears 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 earnings.

# Ranaz Corporation

## Notes to Consolidated Financial Statements

December 31, 2009 and 2008

### 20 - FINANCIAL INSTRUMENTS (Continued)

#### Credit risk

Financial instruments that could expose the Company to credit risk are primarily cash, trade accounts and balance of sale. 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. Trade accounts and balance of sale receivable are managed and evaluated quarterly to determine any loss in value. At December 31, 2009, 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.

The following table sets forth details of the age of trade accounts:

	2009	2008
	\$	\$
Currents accounts	1,304,249	1,130,714
31 to 60 days	463,946	429,563
61 to 90 days	62,864	139,386
91 to 120 days	9,052	7,686
Over 120 days	(56,166)	25,781
	<u>1,783,945</u>	<u>1,733,130</u>

#### Liquidity risk

The Company is exposed to liquidity risk. Liquidity risk is the exposure of the Company to the risk of not being able to meet its financial obligations as they fall due.

As mentioned in Note 19, the Company is not in compliance with certain bank covenants as at December 31, 2009 for which the Company has not obtained a waiver and as a result, the entire amounts due for the related debts were classified as current liabilities. The Company has refined its cash flow forecasting process and has taken internal actions to reduce costs.

The Company manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as forecast cash inflows and outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as liquidity for the next year.

The Company's future liquidity is dependent on factors such as the ability to generate cash from operations and internal actions taken to reduce costs. Based on management's forecasts for 2010 fiscal year, cash flows from operations are expected to be greater than the original contractual maturities of the Company's financial liabilities for the year and capital expenditures.

# Ranaz Corporation

## Notes to Consolidated Financial Statements

December 31, 2009 and 2008

### 20 - FINANCIAL INSTRUMENTS (Continued)

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

	2009		2008	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Loans and receivables				
Accounts receivable	1,835,093	1,835,093	1,764,977	1,764,977
Balance of sale	201,320	201,320	231,627	231,627
Financial liabilities				
Bank loan	252,240	252,240	291,711	291,711
Accounts payable and accrued liabilities	1,704,283	1,704,283	2,466,289	2,466,289
Long-term debt	2,475,835	2,475,835	2,605,728	2,624,581

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 was calculated based on the discounted value of future payments using interest rates that the Company could have obtained on December 31, 2009 and 2008 for the balance of sale 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, 2009.

### 21 - COMMITMENTS

At December 31, 2009, the Company's commitments under operating leases and consulting contracts maturing at various dates until June 2015 and primarily regarding the rental of space and materials and services contracts totalled \$1,976,873. The minimum payments required over the next five financial years are as follows:

	\$
2010	550,248
2011	542,312
2012	528,474
2013	282,873
2014	71,897

# Ranaz Corporation

## Notes to Consolidated Financial Statements

December 31, 2009 and 2008

### 22 - RELATED PARTIES TRANSACTIONS

The Company have transactions with related parties. These transactions were entered into in the normal course of business and measured at the exchange amount, which is the amount established and accepted by the parties.

	<u>2009</u>	<u>2008</u>
	\$	\$
Sales to a company controlled by a director's close relative (a)	275,924	272,692
Sales to a company controlled by a director (b)	3,809,315	-
Consulting fees by directors	20,806	-

(a) Trade accounts include an amount of \$46,866 (\$30,014 in 2008) receivable from this company.

(b) Trade accounts include an amount of US\$358,532 (CAN\$376,817) receivable from this company.

### 23 - 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>2009</u>	<u>2008</u>
	\$	\$
Revenue by geographic location based on customer location		
Canada	6,821,852	6,349,701
United States	10,198,208	12,114,569
France	569,797	1,255,540
International	1,497,836	1,108,354
	<u>19,087,693</u>	<u>20,828,164</u>
Property, plant and equipment by geographic location		
Canada	2,648,847	1,054,247
United States	<u>                    </u>	<u>1,066,859</u>
	<u>2,648,847</u>	<u>2,121,106</u>
Goodwill by geographic location		
Canada	61,919	61,919
United States	<u>937,417</u>	<u>937,417</u>
	<u>999,336</u>	<u>999,336</u>

### 24 - COMPARATIVE FIGURES

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