

Ranaz Corporation
Consolidated Financial Statements
December 31, 2006 and 2005

Auditors' Report	2
Financial Statements	
Consolidated Earnings	3
Consolidated Deficit	4
Consolidated Cash Flows	5
Consolidated Balance Sheets	6
Notes to Consolidated Financial Statements	7 - 21

Auditors' Report

To the Shareholders of
Ranaz Corporation

We have audited the consolidated balance sheets of Ranaz Corporation as at December 31, 2006 and 2005 and the consolidated statements of earnings, deficit and cash flows for 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

/S/ Raymond Chabot Grant Thornton

Chartered Accountants

Montréal
March 2, 2007

Ranaz Corporation

Consolidated Earnings

Years ended December 31, 2006 and 2005

	2006	2005
	\$	\$
Sales	9,550,277	8,141,605
Cost of sales	<u>6,741,039</u>	<u>5,449,044</u>
Gross profit	<u>2,809,238</u>	<u>2,692,561</u>
Research expenses	220,635	179,181
Selling and administrative expenses	2,874,082	2,381,944
Stock-based compensation expense		1,064,000
Interest expenses	68,982	65,919
Gain on settlement of balance of sale	(327,878)	
Write-off of an investment	50,000	
Amortization	234,423	193,676
Exchange loss	<u>66,795</u>	<u>167,951</u>
	<u>3,187,039</u>	<u>4,052,671</u>
Loss before income taxes	<u>(377,801)</u>	<u>(1,360,110)</u>
Income taxes (Note 4)		
Current		50,531
Future	<u>(60,394)</u>	<u>(22,626)</u>
	<u>(60,394)</u>	<u>27,905</u>
Net loss	<u>(317,407)</u>	<u>(1,388,015)</u>
Basic and diluted loss per common share	<u>(0.015)</u>	<u>(0.075)</u>
Basic and diluted weighted average number of common shares outstanding	<u>21,124,592</u>	<u>18,445,900</u>

The accompanying notes are an integral part of the consolidated financial statements and Note 3 provides other information on consolidated earnings.

Ranaz Corporation

Consolidated Deficit

Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
	\$	\$
Retained earnings (deficit), beginning of year	(1,104,941)	283,074
Net loss	<u>(317,407)</u>	<u>(1,388,015)</u>
Deficit, end of year	<u><u>(1,422,348)</u></u>	<u><u>(1,104,941)</u></u>

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

Ranaz Corporation

Consolidated Cash Flows

Years ended December 31, 2006 and 2005

	2006	2005
	\$	\$
OPERATING ACTIVITIES		
Net loss	(317,407)	(1,388,015)
Non-cash items		
Stock-based compensation expense		1,064,000
Amortization	234,423	193,676
Gain on settlement of balance of sale	(327,878)	
Write-off of an investment	50,000	
Write-off of deferred expenses	12,174	
Future income taxes	(60,394)	(22,626)
Changes in working capital items (Note 5)	<u>582,162</u>	<u>(136,062)</u>
Cash flows from operating expenses	<u>173,080</u>	<u>(289,027)</u>
INVESTING ACTIVITIES		
Advances to private companies	39,450	(42,000)
Advances to a director	1,583	
Advances		(1,254)
Property, plant and equipment	(106,038)	(19,649)
Client listing	(347,650)	
Development costs	<u>(164,828)</u>	
Cash flows from investing activities	<u>(577,483)</u>	<u>(62,903)</u>
FINANCING ACTIVITIES		
Bank loan	290,000	200,000
Demand loan	(200,000)	(120,000)
Repayment of debt	(125,871)	(95,631)
Dues to shareholders		197,684
Dues to a director		(14,512)
Issue of common shares	<u>4,029,193</u>	
Cash flows from financing activities	<u>3,993,322</u>	<u>167,541</u>
Net increase (decrease) in cash	<u>3,588,919</u>	<u>(184,389)</u>
Cash (bank overdraft), beginning of year	<u>(53,781)</u>	<u>130,608</u>
Cash (bank overdraft), end of year	<u>3,535,138</u>	<u>(53,781)</u>

Cash includes cash and cash in trust.

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

Ranaz Corporation

Consolidated Balance Sheets

December 31, 2006 and 2005

	2006	2005
	\$	\$
ASSETS		
Current assets		
Cash	2,344,298	
Cash in trust	1,190,840	
Accounts receivable (Note 6)	835,544	998,204
Income taxes receivable		13,716
Advances (Note 7)	118,107	222,891
Inventories	1,545,892	951,653
Prepaid expenses	37,371	44,012
	<u>6,072,052</u>	<u>2,230,476</u>
Investment in private company, at cost		50,000
Long-term advances (Note 8)	63,751	
Property, plant and equipment (Note 9)	535,687	594,393
Goodwill	61,919	61,919
Intangible assets (Note 10)	294,144	12,117
Development costs (Note 11)	98,000	
Deferred charges		16,230
	<u>7,125,553</u>	<u>2,965,135</u>
LIABILITIES		
Current liabilities		
Bank overdraft		53,781
Bank loan (Note 12)	690,000	400,000
Demand loan, prime rate plus 3% (8% as at December 31, 2005)		200,000
Accounts payable and accrued liabilities	1,686,642	760,086
Balance of sale, without interest		327,878
Instalments on long-term debt	118,335	137,704
Future income taxes		13,930
	<u>2,494,977</u>	<u>1,893,379</u>
Long-term debt (Note 13)	255,930	362,432
Future income taxes		46,464
	<u>2,750,907</u>	<u>2,302,275</u>
SHAREHOLDERS' EQUITY		
Capital stock and warrants (Note 15)	5,796,994	1,767,801
Deficit	<u>(1,422,348)</u>	<u>(1,104,941)</u>
	<u>4,374,646</u>	<u>662,860</u>
	<u>7,125,553</u>	<u>2,965,135</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, 2006 and 2005

1 - GOVERNING STATUTES AND NATURE OF OPERATIONS

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

2 - ACCOUNTING POLICIES

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 notes to 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.

Principles of consolidation

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

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.

Inventory valuation

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.

Raw materials and packaging are valued at the lower of cost and replacement cost. Cost is determined by the first in, first out method.

Ranaz Corporation

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

2 - ACCOUNTING POLICIES (Continued)

Amortization

Property, plant and equipment, the trademark and client listing are amortized over their estimated useful lives according to the following methods and annual rates:

	<u>Methods</u>	<u>Rates</u>
Office furniture and manufacturing equipment	Diminishing balance	20%
Automotive equipment and computer equipment	Diminishing balance	30%
Leasehold improvements and client 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 a 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, the development costs are deferred when they respect the generally accepted criteria to the extent that their recovery can reasonably be regarded as assured. As at December 31, 2006, the Company reported \$98,000 in development costs. These costs will be amortized over a 12-month period starting from the commercial production of these products. No amortization was recorded for 2006.

Investment tax credits are accounted for as a reduction of the research and development costs during the year in which the costs are incurred, provided that the Company is reasonably certain that the credits will be received. The investment tax credits must be examined and approved by the tax authorities and it is possible that the amounts granted will differ from the amounts recorded.

Ranaz Corporation

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

2 - ACCOUNTING POLICIES (Continued)

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.

Loss per share

Basic loss per common share is computed by dividing the net loss available to common shares by the weighted average number of outstanding common shares during the year. Diluted loss per share is calculated giving effect to the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to such shares at the later of the beginning of the year or the issuance date. The treasury stock method is used to determine the dilutive effect of warrants and share purchase options.

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. Gains and losses are included in the earnings for the year.

Share issue expenses

Share issue expenses are applied against share issue revenue.

Stock-based compensation plan

The Company grants stock options to eligible directors, managers, employees and consultants eligible from 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. The options granted before the shares can be bought or sold on the market, i.e. on December 29, 2006, were recorded at the minimum value method.

Ranaz Corporation

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

3 - INFORMATION INCLUDED IN CONSOLIDATED EARNINGS

	2006	2005
	\$	\$
Interest on bank loan and demand loan	32,642	31,639
Interest on long-term debt	36,340	34,280
Amortization of property, plant and equipment	164,744	187,732
Amortization of trademark	1,888	1,888
Amortization of deferred charges	4,056	4,056
Amortization of client listing	63,735	-
Write-off of deferred expenses	12,174	-
Research expenses	307,030	315,028
Investment tax credits recorded in earnings	86,395	135,847
Federal government subsidy	-	33,068
Interests due to shareholders (a)	-	47,683
Sales to a company controlled by a director's close relative (a)	356,520	103,282

(a) These transactions were concluded in the normal course of operations and measured at the exchange amount, which is the amount established and accepted by the parties.

The Company makes purchases from a major supplier representing 45% of the Company's purchases (31% in 2005). At the balance sheet date, 38% of accounts payable are to be paid to this supplier (12% in 2005).

4 - 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:

	2006	2005
	\$	\$
Loss before income taxes	<u>(377,801)</u>	<u>(1,360,110)</u>
Income taxes calculated using the combined federal and provincial income tax rate in Canada of 32.02% (22.02% in 2005)	(120,972)	(299,496)
Increase (decrease) in income taxes resulting from the following:		
Difference due to different income tax rates in foreign subsidiary company	92,012	26,458
Difference in tax rates due to the change in status	(25,304)	
Stock-based compensation expense		234,293
Non-taxable elements	20,525	4,985
Unrecognized tax savings	22,183	12,992
Variance of prior period loss carry-forward rates		50,525
Non-taxable portion of the gain on settlement of balance of sale	(42,311)	
Other items	<u>(6,527)</u>	<u>(1,852)</u>
	<u>(60,394)</u>	<u>27,905</u>

Ranaz Corporation

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

4 - INCOME TAXES (Continued)

	2006	2005
	\$	\$
Effective income tax rate	15.99%	(2.05%)

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

	2006	2005
	\$	\$
Short-term future income tax asset (liability)		
Tax losses	39,060	
Investment tax credits	(35,360)	(9,135)
Grant	(3,700)	(4,795)
	-	(13,930)
Long-term future income tax asset (liability)		
Tax losses	71,752	
Property, plant and equipment	(62,081)	(51,973)
Intangible assets	11,324	5,509
Development costs	(20,995)	
	-	(46,464)

The tax losses, which are available to reduce income taxes in future years, aggregate \$735,000 for federal purposes and \$1,043,000 for provincial purposes. An amount of \$110,812 was recognized as future income tax assets throughout the year. These tax losses can be carried over the following years:

	Federal	Provincial
	\$	\$
2010		106,500
2014	349,000	728,000
2015	39,000	
2026	347,000	208,500
	735,000	1,043,000

The losses of the foreign subsidiary are €662,600 and can be carried over indefinitely.

The Company also has \$64,500 for federal purposes and \$216,000 for provincial purposes in research and development tax expenses that can be carried over indefinitely.

Ranaz Corporation

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

5 - INFORMATION ON CONSOLIDATED CASH FLOWS

The changes in working capital items are detailed as follows:

	2006	2005
	\$	\$
Accounts receivable	229,488	(31,000)
Income taxes receivable	13,716	146,576
Inventories	(594,239)	291,413
Prepaid expenses	6,641	52,684
Accounts payable and accrued liabilities	926,556	(595,735)
	<u>582,162</u>	<u>(136,062)</u>

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

	2006	2005
	\$	\$
Interest paid	68,982	116,381
Income taxes received	13,716	96,045

6 - ACCOUNTS RECEIVABLE

	2006	2005
	\$	\$
Trade accounts	488,603	768,538
Investment tax credits	170,394	175,382
Other	176,547	54,284
	<u>835,544</u>	<u>998,204</u>

7 - ADVANCES

	2006	2005
	\$	\$
Advances to private company, 2%	99,455	167,723
Advances to private company, 6%	18,652	53,585
Advances to a director, without interest		1,583
	<u>118,107</u>	<u>222,891</u>

8 - LONG-TERM ADVANCES

	2006	2005
	\$	\$
Advances to private company, 2%, payable in monthly instalments of €14,000 until April 2007 and in quarterly instalments of €4,339, maturing in April 2009	37,638	
Advances to private company, 6%, payable in quarterly instalments of €2,426, maturing in September 2009	26,113	
	<u>63,751</u>	<u>—</u>

Ranaz Corporation

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

9 - PROPERTY, PLANT AND EQUIPMENT

	2006		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Office furniture	143,556	97,639	45,917
Manufacturing equipment	922,492	570,525	351,967
Automotive equipment	5,211	4,148	1,063
Computer equipment	334,647	216,584	118,063
Leasehold improvements	340,486	339,453	1,033
Computer equipment under capital leases	28,123	10,479	17,644
	<u>1,774,515</u>	<u>1,238,828</u>	<u>535,687</u>
			2005
	Cost	Accumulated amortization	Net
	\$	\$	\$
Office furniture	134,518	87,290	47,228
Manufacturing equipment	908,863	484,238	424,625
Automotive equipment	5,211	3,691	1,520
Computer equipment	275,265	189,365	85,900
Leasehold improvements	333,340	304,932	28,408
Computer equipment under capital leases	11,280	4,568	6,712
	<u>1,668,477</u>	<u>1,074,084</u>	<u>594,393</u>

10 - INTANGIBLE ASSETS

	2006	2005
	\$	\$
Trademark, for \$18,876 net of an accumulated amortization of \$8,647 (\$6,759 in 2005)	10,229	12,117
Client listing, at a cost of \$347,650 net of an accumulated amortization of \$63,735	<u>283,915</u>	
	<u>294,144</u>	<u>12,117</u>

11 - DEVELOPMENT COSTS

Throughout the year, the Company capitalized \$164,828 in development costs. Furthermore, it applied \$66,828 in investment tax credits against these costs.

12 - BANK LOAN

The Company has an ongoing operating credit and a specialized revolving credit of a maximum authorized amount of \$500,000 each, which are both secured by a first ranking movable hypothec on the universality of the Company's property. These loans bear interest at the prime rate plus 2% (8%; 7% as at December 31, 2005) and are renewable in May 2007.

Ranaz Corporation

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

12 - BANK LOAN (Continued)

Under the terms of the credit agreement, the Company is required to comply with certain financial ratio requirements. As at December 31, 2006, the Company does not comply with these requirements (Note 13 (a)).

13 - LONG-TERM DEBT

	<u>Current portion</u>	<u>2006</u>	<u>2005</u>
	\$	\$	\$
Term loan, secured by property, plant and equipment, prime rate plus 1.25% (1.25% to 2% in 2005) (7.25%; 6.25% to 7% in 2005), payable in monthly instalments, maturing in April 2010 (a)	85,854	286,179	395,123
Term loan from Canada Economic Development without interest, principal payments commencing in April 2006, maturing in October 2009	25,000	75,000	100,000
Obligations under capital leases, 5.49% and 7.69%, payable in monthly instalments of \$390 and \$467, maturing in May 2009	<u>7,481</u>	<u>13,086</u>	<u>5,013</u>
		374,265	500,136
Instalments due within one year	118,335	<u>118,335</u>	<u>137,704</u>
		<u>255,930</u>	<u>362,432</u>

(a) Under the terms of these loans, the Company is committed to complying with certain ratios. As at December 31, 2006, the Company does not comply with these ratios. As a result of such non-compliance of these financial ratios, the loans are payable on demand. However, the financial institution has agreed to waive its demand rights for a period longer than one year starting December 31, 2006.

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

	<u>Obligations under capital leases</u>	<u>Other loans</u>
	\$	\$
2007	9,416	110,854
2008	7,080	110,854
2009		110,854
2010		<u>28,617</u>
Total minimum lease payments	<u>16,496</u>	
Interest included in minimum lease payments	<u>3,410</u>	
	<u>13,086</u>	

Ranaz Corporation

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

14 - STOCK-BASED COMPENSATION

On December 29, 2006, the Board of Directors adopted a new common share purchase plan. Under this plan, the Company may grant eligible directors, managers, employees and consultants of the Company and its subsidiaries a maximum of 2,952,381 share purchase options. The options granted expire five years after the grant date. The 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 issue under the plan with regard to any purchase option granted to an option holder at any time, cannot exceed 5% of outstanding common shares during a 12-month period;
- The maximum number of options that can be granted to consultants must not exceed 2% of outstanding common shares during any 12-month period;
- The maximum number of options that can be granted to people fostering relationships with investors must not exceed 2% of outstanding common shares during a 12-month period and must gradually vest during this 12-month period, on the basis of no more than a quarter of the prescribed shares throughout a same quarter.

Stock options granted on December 29, 2006 are as follows:

Exercise price	Number	Options outstanding		Exercisable options	
		Weighted average residual exercise period	Weighted average exercise price	Number	Weighted average exercise price
\$0.35	574,884	5 years	\$0.35		
\$0.60	45,000	5 years	\$0.60		
Outstanding, end of year	619,884	5 years	\$0.37	–	–
Weighted average fair value of options granted during the year			\$0.36		

Ranaz Corporation

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

14 - 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 assumptions:

	<u>2006</u>
Annual risk-free interest rate	3.99%
Volatility	80.00%
Dividend	-
Estimated term	5 years

As at December 31, 2005, the Company had a stock-based compensation plan under which it can grant options to one of its officers for the acquisition of 2,939,840 class "A" common shares for a cash consideration of \$1. These options vest from the time they are granted to the officer. The compensation cost that has been charged against income for this plan is \$1,064,000 for 2005. All options were granted and exercised in 2005.

The minimum value of the options granted during the year is \$1,064,000. The compensation cost of \$1,064,000 has been expensed on the consolidated statement of earnings and credited to contributed surplus.

15 - CAPITAL STOCK AND WARRANTS

Authorized

Before October 23, 2006, authorized capital stock was as follows:

Unlimited number of shares without par value

Class "A", "B" and "C" voting and participating common shares

Class "A" preferred shares, non-voting, monthly non-cumulative dividend of 0.75% of the redemption value, retractable at the fair market value of the consideration received on issuance

Class "B" preferred shares, non-voting, monthly non-cumulative dividend of 0.67% of the redemption value, retractable at the fair market value of the consideration received on issuance

Class "C" preferred shares, non-voting, non-cumulative dividend of 10% of the redemption value, retractable at the fair market value of the consideration received on issuance

Class "D" preferred shares, non-voting, maximum dividend of \$10 per share for the duration of the issue, retractable or redeemable five years after issuance at the paid-up capital amount plus a maximum premium of \$10 per share

Class "E" preferred shares, non-voting, participating, retractable at the fair market value of the consideration received on issuance

Class "F" preferred shares, voting, monthly non-cumulative dividend of 10% of the redemption value, retractable at the fair market value of the consideration received on issuance

Class "G" preferred shares, voting, participating, retractable at the fair market value of the consideration received on issuance

Ranaz Corporation

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

15 - CAPITAL STOCK AND WARRANTS (Continued)

Class "H" preferred shares, non-voting, participating, redeemable at the paid-up capital amount

Since November 27, 2006, authorized capital stock was changed as follows:

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, are 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.

	2006	2005
Issued and fully paid	\$	\$
19,999,999 common shares	3,732,096	
4,761,904 warrants	832,714	
9,523,811 class "A" preferred shares	1,153,251	
333,333 warrants to broker	78,933	
20,000,000 class "A" common shares		1,767,801
	<u>5,796,994</u>	<u>1,767,801</u>

Issue of securities

2006

On April 26, 2006, the Company issued 2,857,143 class "A" common shares and 1,428,571 warrants for a cash consideration of \$1,000,000. The warrants give the holder the right to buy 1,428,571 class "A" common shares for \$0.35 per unit. The warrants can be converted until April 26, 2008. The share issue expenses of \$72,336 were applied against capital stock.

On October 23, 2006, the Company converted 22,857,143 class "A" common shares into 22,857,143 common shares. On November 27, 2006, the Company converted 9,523,811 common shares into 9,523,811 class "A" preferred shares as required by the TSX Venture Exchange in order to meet a "public distribution" requirement, according to which 20% of outstanding common shares, once converted, are held by "public shareholders" as defined in the policies of the TSX Venture Exchange.

On December 29, 2006, the Company made an initial public offering of common shares. The offering included the sale of 6,666,667 units for \$0.60 per unit for a total of \$4,000,000. Each unit is composed of one common share of the Company and a half warrant to purchase common shares. Each full common share purchase warrant will entitle the holder to purchase a common share at the exercise price of \$0.60, until December 29, 2008. Share issue expenses relating to the offering total \$898,471 in cash and 333,333 warrants with a value of \$78,933 issued to the broker for the purchase of units. The broker warrants are exercisable for a period of 18 months after December 29, 2006. The share issue expenses were applied against capital stock.

Ranaz Corporation

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

15 - CAPITAL STOCK AND WARRANTS (Continued)

2005

During the year ended December 31, 2005, the Company issued 15,501,780 class "A" common shares in exchange for a reduction in the amounts due to shareholders of \$1. The Company then converted the \$703,701 of the amounts due to shareholders into 1,558,370 class "A" common shares. Following the exercise of an officer's stock options, the Company issued 2,939,840 class "A" common shares in exchange for a reduction in the amounts due to shareholders of \$1. Contributed surplus of \$1,064,000 relating to these options was transferred to capital stock.

Warrants

As at December 31, 2006, the number of outstanding warrants exercisable into common shares is as follows:

Expiration date	Exercise price	Number issued	Number exercisable
April 26, 2008	\$0.35	1,428,571	1,428,571
December 29, 2008	\$0.60	3,333,333	3,333,333
			4,761,904

The 333,333 broker warrants to purchase 333,333 units at a price of \$0.60 per unit are also outstanding as at December 31, 2006. These warrants expire on June 29, 2008 and are all exercisable.

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

	2006-04-06 warrants	2006-12-29 warrants	Broker warrants
Risk free interest rate	4.19%	4.02%	4.02%
Volatility	80.00%	80.00%	80.00%
Dividend	—	—	—
Estimated term	2 years	2 years	1.5 years

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 following exercise of the stock options whose exercise price is lower than the offering price of the common shares issued under the offering must also be escrowed in accordance with the escrow agreement.

Ranaz Corporation

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

15 - CAPITAL STOCK AND WARRANTS (Continued)

Under the terms of the escrow agreement, 10% of the escrowed common shares will be released from escrow upon issuance of the Bulletin of the TSX Venture Exchange 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, 2006, 11,999,999 common shares, 8,571,430 class "A" preferred shares, 485,896 warrants and 1,285,714 warrants are still escrowed.

Loss per share

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

16 - FINANCIAL INSTRUMENTS

Exchange risk

The Company is exposed to foreign exchange risk due to cash, accounts receivable, the short-term portion of the advances to private companies, accounts payable and the balance of sale denominated in U.S. dollars and euros. As at December 31, 2006, assets denominated in U.S. dollars and euros totalled US\$186,856 (US\$122,996 as at December 31, 2005) and €317,313 (€508,021 as at December 31, 2005) and liabilities resulting from the translation of amounts in U.S. dollars and euros represent US\$79,852 (\$US39,263 as at December 31, 2005) and €444,554 (€298,733 as at December 31, 2005). The Company does not enter into contracts to hedge its exchange risk exposure.

Fair value of financial instruments

The following methods and assumptions were used to determine the estimated fair value of each class of financial instruments.

Short-term financial instruments

The fair value of the short-term financial assets and liabilities approximates their carrying amount given that they will mature shortly.

Investment and advances to private companies

The fair value of the investment in a private company and the advances to private companies could not be determined because it is not practicable within constraints of timeliness or cost to reliably measure it, in particular since these companies' securities are not publicly traded.

Advances to shareholders

The fair value of the advances to shareholders could not be determined since it is practically impossible to find financial instruments on the market having substantially the same economic characteristics.

Ranaz Corporation

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

16 - FINANCIAL INSTRUMENTS (Continued)

Variable-rate long-term debt

The fair value of the long-term debt is equivalent to the carrying amount given that it bears interest at a rate which varies according to the market rate.

Non-interest bearing long-term debt

The fair value of the loan from Canada Economic Development could not be determined because constraints of timeliness or cost do not allow the fair value to be determined with sufficient reliability because there are conditions attached to it that represent a type of government assistance and it is practically impossible to find a financial instrument on the market having substantially the same economic characteristics.

17 - COMMITMENTS

As at December 31, 2006, the Company has entered into long-term lease agreements expiring in 2012 which call for lease payments of \$123,590 for the rental of a building and \$18,408 for the rental of automotive and office equipment in 2007 and \$12,800 in 2008 to 2011.

18 - SEGMENTED INFORMATION

The Company operates in a single reportable operating segment. The following information provides the required enterprise-wide disclosures:

	2006	2005
	\$	\$
Revenue by geographic location according to client's location		
Canada	5,023,935	3,938,855
United States	2,227,420	1,699,951
France	1,580,881	1,948,120
International	718,041	554,679
	9,550,277	8,141,605
Property and equipment by geographic location		
Canada	535,687	594,393
Goodwill by geographic location		
Canada	61,919	61,919

19 - SUBSEQUENT EVENTS

On January 25, 2007, the Company concluded a private placement of 850,000 units at a price of \$0.60 per unit for a total of \$510,000 in cash. Each unit is comprised of one common share of the Company and a half common share warrant. Each full common share warrant entitles the holder to purchase on common share at an exercise price of \$0.70 until January 26, 2009.

Ranaz Corporation

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

19 - SUBSEQUENT EVENTS (Continued)

On January 12, 2007 and February 1, 2007, the Company granted 605,000 and 650,000 stock options to officers under its stock option plan at an exercise price of \$0.70 and \$0.95 per share for five years.

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

As of March 2, 2007, the broker has exercised 200,000 warrants which generated cash inflows of \$120,000.