

Ranaz Corporation

Consolidated Financial Statements
as at December 31, 2007 and 2006

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Management's Report

Management is responsible for the consolidated financial statements 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 comply with generally accepted accounting principles in all material respects.

Management has a system of controls designed to, among other things, provide reasonable assurance that the Company's assets are properly safeguarded and that the financial records form a proper basis for preparing reliable and relevant financial disclosure.

The Audit Committee is made up of outside directors only. This committee meets with the external auditors and management to discuss audit, internal control and financial disclosure matters. The committee also reviews the consolidated quarterly and annual financial statements.

These consolidated financial statements have been audited by Raymond Chabot Grant Thornton LLP, chartered accountants. Their report, presented below, sets forth the scope of their work and their opinion on the consolidated financial statements.

The Board of Directors has approved the Company's financial statements on the recommendation of the Audit Committee.

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

/S/ Martin Vidal, Chief Financial Officer

April 7, 2008

Auditors' Report

To the shareholders of
Ranaz Corporation

We have audited the consolidated balance sheets of Ranaz Corporation as at December 31, 2007 and 2006 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 audit.

We conducted our audit in accordance with Canadian generally accepted accounting principles. These principles require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free from 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 consolidated 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, 2007 and 2006, as well as its results of operation and cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

/S/ Raymond Chabot Grant Thornton, LLP
Chartered accountants

Montreal
April 7, 2008

Ranaz Corporation

Consolidated Earnings and Comprehensive loss

Years ended December 31, 2007 and 2006

	2007	2006
	\$	\$
Sales	12 798 852	9 550 277
Cost of sales	<u>9 047 997</u>	<u>6 129 367</u>
Gross profit	<u>3 750 855</u>	<u>3 420 910</u>
Research expenses	335 519	220 635
Selling and administrative expenses	7 060 500	3 485 754
Stock-based compensation expenses	323 453	
Interest expense	48 962	68 982
Interest income	(45 321)	
Gain on sale of property, plant and equipment	(40 000)	
Gain on settlement of balance of sale		(327 878)
Write-off of an investment		50 000
Amortization of property, plant and equipment, intangible assets and deferred costs	275 403	234 423
Exchange loss	<u>76 250</u>	<u>66 795</u>
	<u>8 034 766</u>	<u>3 798 711</u>
Loss before income taxes	<u>(4 283 911)</u>	<u>(377 801)</u>
Income taxes (Note 5)		
Future		(60 394)
Net loss and comprehensive loss	<u>(4 283 911)</u>	<u>(317 407)</u>
Basic and diluted loss per common share	<u>(0.139)</u>	<u>(0.015)</u>
Basic and diluted weighted average number of common shares outstanding	<u>30 825 853</u>	<u>21 124 592</u>

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

Ranaz Corporation

Consolidated Deficit

Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
	\$	\$
Deficit, beginning of year	(1 422 348)	(1 104 941)
Net loss	<u>(4 283 911)</u>	<u>(317 407)</u>
Deficit, end of year	<u><u>(5 706 259)</u></u>	<u><u>(1 422 348)</u></u>

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

Ranaz Corporation

Consolidated Cash Flows

Years ended December 31, 2007 and 2006

	2007	2006
	\$	\$
OPERATING ACTIVITIES		
Net loss	(4 283 911)	(317 407)
Non-cash items		
Stock-based compensation expenses	323 453	
Amortization of property, plant and equipment, intangible assets and deferred costs	275 403	234 423
Amortization of development costs	81 670	
Gain on sale of property, plant and equipment	(40 000)	
Gain on settlement of balance of sale		(327 878)
Write-off of an investment		50 000
Write-off of deferred costs		12 174
Future income taxes		(60 394)
Changes in working capital items (Note 6)	(2 580 982)	582 162
Cash flows from operating expenses	<u>(6 224 367)</u>	<u>173 080</u>
INVESTING ACTIVITIES		
Note receivable	(397 390)	
Advances to private companies	112 282	39 450
Advances to a shareholder		1 583
Property, plant and equipment	(1 092 043)	(106 038)
Sale of property, plant and equipment	40 000	
Client listing		(347 650)
Development costs		(164 828)
Deferred costs	(82 438)	
Cash flows from investing activities	<u>(1 419 589)</u>	<u>(577 483)</u>
FINANCING ACTIVITIES		
Bank loan	(690 000)	290 000
Demand loan		(200 000)
Repayment of long-term debt	(118 035)	(125 871)
Long-term debt	134 016	
Issuance of equity instruments	6 173 043	4 921 067
Equity instrument issue costs	(807 187)	(891 874)
Cash flows from financing activities	<u>4 691 837</u>	<u>3 993 322</u>
Net increase (decrease) in cash	<u>(2 952 119)</u>	<u>3 588 919</u>
Cash (bank overdraft), beginning of year	<u>3 535 138</u>	<u>(53 781)</u>
Cash, end of year	<u><u>583 019</u></u>	<u><u>3 535 138</u></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

as at December 31, 2007 and 2006

	2007	2006
	\$	\$
ASSETS		
Current assets		
Cash	583 019	2 344 298
Cash in trust		1 190 840
Accounts receivable (Note 7)	2 097 154	953 651
Inventories	2 960 543	1 545 892
Prepaid expenses	46 038	37 371
	<u>5 686 754</u>	<u>6 072 052</u>
Note receivable and advances (Note 8)	397 390	
Long-term advances (Note 9)	27 034	63 751
Property, plant and equipment (Note 10)	1 423 745	535 687
Goodwill	61 919	61 919
Intangible assets (Note 11)	222 726	294 144
Development costs (Note 12)	16 330	98 000
Deferred costs (Note 13)	82 438	
	<u>7 918 336</u>	<u>7 125 553</u>
LIABILITIES		
Current liabilities		
Bank loan (Note 14)		690 000
Accounts payable and accrued liabilities	1 748 046	1 686 642
Instalments on long-term debt	116 759	118 335
	<u>1 864 805</u>	<u>2 494 977</u>
Long-term debt (Note 15)	273 487	255 930
	<u>2 138 292</u>	<u>2 750 907</u>
SHAREHOLDERS' EQUITY		
Capital stock (Note 17)	9 556 926	4 885 347
Warrants (Note 18)	1 605 924	911 647
Contributed surplus	323 453	
Deficit	<u>(5 706 259)</u>	<u>(1 422 348)</u>
	<u>5 780 044</u>	<u>4 374 646</u>
	<u>7 918 336</u>	<u>7 125 553</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/ Valier Boivin
Director

Ranaz Corporation

Notes to Consolidated Financial Statements

as at December 31, 2007 and 2006

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 POLICY

Financial instruments

On January 1, 2007, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530, *Comprehensive Income*, Section 3855, *Financial Instruments - Recognition and Measurement*, Section 3861, *Financial Instruments - Disclosure and Presentation*, Section 3865, *Hedges*, and Section 3251, *Equity*. These new sections of the CICA handbook contain, among other things, complete standards for the recognition, measurement, disclosure and presentation of financial instruments, and describe when and how hedge accounting may be applied.

In summary, these new standards:

- Require that an entity recognize its financial assets and liabilities at fair value at each year-end, with some exceptions;
- Establish rules for when a financial asset or liability must be recognized to the balance sheet;
- Establish precise standards for the recognition and presentation of transaction costs related to financial assets and liabilities, as well as their subsequent expensing;
- Establish hedge accounting rules; and
- Introduce comprehensive income, a new earnings measure that corresponds to changes in equity or net assets of an entity within a period arising from non-owner operations.

Application of these rules requires classification of all of the Company's financial assets and liabilities into categories for which the applicable standards are dictated by well-defined rules. The Company has made the following classifications:

- Cash and cash in trust is classified as financial assets or liabilities held for trading. They are measured at fair value, and gains/losses arising from remeasurement at the end of each period are recognized in consolidated earnings;
- Trade accounts, other receivables, the note receivable, advances and advances to private companies are classified as loans and receivables. They are recognized at cost less allowances for bad debt;
- Accounts payable and accrued liabilities, the bank loan and long-term debt are classified as other financial liabilities. They are initially recognized at cost and subsequently at cost less amortization using the effective interest method.

Ranaz Corporation

Notes to Consolidated Financial Statements

as at December 31, 2007 and 2006

2 - CHANGES IN ACCOUNTING POLICIES (Continued)

Adoption of these standards did not have any impact on the consolidated financial statements.

Any applicable transaction costs related to financial assets and liabilities are recognized as administrative expenses under net earnings.

Accounting changes

On January 1, 2007, in accordance with the applicable transitional provisions, the Company adopted the new recommendations of CICA Handbook, Section 1506 - *Accounting Changes*. This new section prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors.

3 - 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 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. Key elements requiring estimations include, but are not limited to, stock-based compensation, investment tax credits, valuation of long-term assets and their depreciation, and provisions.

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.

Ranaz Corporation

Notes to Consolidated Financial Statements

as at December 31, 2007 and 2006

3 - ACCOUNTING POLICIES (Continued)

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

Amortization

Property, plant and equipment, the trademark and the client listing are 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
Rolling stock and computer equipment	Declining balance and Straight line	30% and 3 years
Leashold improvements and client listing	Straight line	20%
Trademark	Straight line	10%

Prior to January 1, 2007, office furniture, manufacturing equipment and the website were amortized using the declining balance method at an annual rate of 20%. This prospectively-applied change did not have a significant effect on the consolidated financial statements.

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.

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Notes to Consolidated Financial Statements

as at December 31, 2007 and 2006

3 - ACCOUNTING POLICIES (Continued)

Research and development costs and investment tax credits

Research and development costs are expensed as they are incurred. However, development costs are deferred when they meet generally accepted criteria, to the extent that their recovery can reasonably be regarded as assured. These costs are then amortized over a 12-month period starting from the commercial production of these products.

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

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined according to differences between the carrying amounts and tax bases of assets and liabilities. They are measured by applying enacted or substantively enacted tax rates and laws at the date of the financial statements for the years in which the temporary differences are expected to reverse.

Basic and diluted loss per share

The 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. The treasury stock method is used to determine the dilutive effect of warrants and stock 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 expenses relating to non-monetary assets and liabilities, which are translated at the historical rate. Gains and losses are included in the earnings for the year.

Share issue expenses

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

Capital stock

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

Ranaz Corporation

Notes to Consolidated Financial Statements

as at December 31, 2007 and 2006

3 - 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 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. Options granted before the shares could be bought or sold on the market, i.e. on December 29, 2006, were recognized using the minimum value method.

4 - INFORMATION INCLUDED IN CONSOLIDATED EARNINGS AND RELATED-PARTY TRANSACTIONS

	2007	2006
	\$	\$
Interest on bank loan and demand loan	30 485	32 642
Interest on long-term debt	18 477	36 340
Amortization of property, plant and equipment	203 985	164 744
Amortization of trademark	1 888	1 888
Amortization of deferred costs		4 056
Amortization of client listing	69 530	63 735
Write-off of deferred costs		12 174
Research expenses	424 590	307 030
Investment tax credits recognized in earnings	89 071	86 395
Sales to a company controlled by a director's close relative (a)	348 772	356 520

(a) 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. Trade accounts include an amount of \$128,467 (\$15,310 in 2006) receivable from this company.

5 - 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:

	2007	2006
	\$	\$
Loss before income taxes	<u>(4 283 911)</u>	<u>(377 801)</u>

Ranaz Corporation

Notes to Consolidated Financial Statements

as at December 31, 2007 and 2006

5 - INCOME TAXES (Continued)

	2007	2006
	\$	\$
Income taxes calculated using the combined federal and provincial income tax rate in Canada of 32.02% (32.02% in 2006)	(1 371 708)	(120 972)
Increase (decrease) in income taxes resulting from the following:		
Difference due to different income tax rates in foreign subsidiary	50 058	92 012
Difference in tax rates due to the change in status		(25 304)
Stock-based compensation expense	103 570	
Non-deductible items	42 326	20 525
Change in valuation allowance	1 150 216	333 035
Unrecognized tax savings	(258 461)	(310 852)
Variance due to the change in future income taxes	271 216	
Non-taxable portion of the gain on settlement of balance of sale		(42 311)
Other items	12 783	(6 527)
	<u> -</u>	<u> (60 394)</u>
Effective income tax rate	<u> -</u>	<u> 15.99 %</u>

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

	2007	2006
	\$	\$
Future income tax asset		
Inventories	73 384	15 154
Intangible assets	9 091	11 324
Share issue expenses	330 395	248 682
Research and development expense	78 469	42 195
Losses other than capital losses	1 219 041	256 326
	<u>1 710 380</u>	<u>573 681</u>
Future income tax liability		
Accounts receivable	4 932	3 683
Development costs	4 393	20 995
Investment tax credit		24 976
Property, plant and equipment	88 893	62 081
	<u>98 218</u>	<u>111 735</u>
	1 612 162	461 946
Less: provision for valuation allowance	<u>(1 612 162)</u>	<u>(461 946)</u>
	<u> -</u>	<u> -</u>

Ranaz Corporation

Notes to Consolidated Financial Statements

as at December 31, 2007 and 2006

5 - INCOME TAXES (Continued)

The tax losses available to reduce income taxes in future years aggregate to \$4,275,000 for federal purposes and \$4,522,500 for provincial purposes. These tax losses can be carried over the following years:

	Federal	Provincial
	\$	\$
2010		106 500
2014	349 000	728 000
2015	39 000	
2026	322 000	187 000
2027	3 565 000	3 501 000
	<u>4 275 000</u>	<u>4 522 500</u>

The losses of the foreign subsidiary are €839,000 and can be carried over indefinitely.

The Company also has \$175,000 for federal purposes and \$439,000 for provincial purposes in research and development tax expenses that can be carried over indefinitely.

6 - INFORMATION ON CONSOLIDATED CASH FLOWS

The changes in working capital items are detailed as follows:

	2007	2006
	\$	\$
Accounts receivable	(1 093 893)	229 488
Income taxes receivable		13 716
Inventories	(1 414 651)	(594 239)
Prepaid expenses	(8 667)	6 641
Accounts payable and accrued liabilities	(63 771)	926 556
	<u>(2 580 982)</u>	<u>582 162</u>

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

	2007	2006
	\$	\$
Interest paid	48 962	68 982
Income taxes received		13 716

Ranaz Corporation

Notes to Consolidated Financial Statements

as at December 31, 2007 and 2006

7 - ACCOUNTS RECEIVABLE

	2007	2006
	\$	\$
Trade accounts (a)	1 357 525	488 603
Investment tax credits	90 000	170 394
Sales taxes	552 528	106 443
Current payments on long-term advances	42 542	118 107
Other receivables	54 559	70 104
	<u>2 097 154</u>	<u>953 651</u>

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

8 - NOTE RECEIVABLE AND ADVANCES

As part of the acquisition of Bar-Tech Manufacturing Inc. ("Bar-Tech") described in Note 22, the Company issued a demand note to Bar-Tech on December 31, 2007. This note bears interest at National Bank of Canada's preferential rate, less 0.50 % (5.50% as at December 31, 2007), and is jointly secured by Bar-Tech and its shareholders. As at December 31, 2007, the balance of the note receivable is \$297,390. The Company also advanced funds to Bar-Tech. This advance is interest-free and unsecured. At December 31, 2007, the balance is \$100,000.

9 - LONG-TERM ADVANCES

	Current	2007	2006
	\$	\$	\$
Advances to a private company, 2%, payable in quarterly instalments of €4,339 and maturing in April 2009	25 041	41 575	137 093
Advances to a private company, 6%, payable in quarterly instalments of €2,426 and maturing in September 2009	<u>17 501</u>	<u>28 001</u>	<u>44 765</u>
		69 576	181 858
Current payments	42 542	<u>42 542</u>	<u>118 107</u>
		<u>27 034</u>	<u>63 751</u>

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Notes to Consolidated Financial Statements

as at December 31, 2007 and 2006

10 - PROPERTY, PLANT AND EQUIPMENT

	2007		
	Cost	Accumulated amortization	net
	\$	\$	\$
Land	411 841		411 841
Office furniture	170 285	109 406	60 879
Manufacturing equipment	1 314 585	642 590	671 995
Rolling stock	5 211	5 211	
Website	85 238	8 524	76 714
Computer equipment	456 267	263 861	192 406
Leasehold improvements	355 008	355 008	
Computer equipment under capital leases	28 123	18 213	9 910
	<u>2 826 558</u>	<u>1 402 813</u>	<u>1 423 745</u>
			2006
	Cost	Accumulated amortization	net
	\$	\$	\$
Office furniture	143 556	97 639	45 917
Manufacturing equipment	922 492	570 525	351 967
Rolling stock	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>

11 - INTANGIBLE ASSETS

	2007	2006
	\$	\$
Trademark, for \$18,876 net of an accumulated amortization of \$10,535 (\$8,647 in 2006)	8 341	10 229
Client listing, for \$347,650 net of an accumulated amortization of \$133,265 (\$63,735 in 2006)	214 385	283 915
	<u>222 726</u>	<u>294 144</u>

Ranaz Corporation

Notes to Consolidated Financial Statements

as at December 31, 2007 and 2006

12 - DEVELOPMENT COSTS

During the year ended December 31, 2006, the Company capitalized \$164,828 in development costs consisting primarily of salaries, consulting fees and other expenses. Furthermore, it applied \$66,828 in investment tax credits against these costs. An amortization expense of \$81,670 was recognized for the year ended December 31, 2007.

13 - DEFERRED COSTS

Deferred costs consist of expenses incurred to acquire Bar-Tech, as described in Note 22.

14 - BANK LOAN

The Company has a bank loan in the form of a credit facility for a maximum authorized amount of \$1,500,000 secured by a first ranking movable hypothec of \$2,365,000 on all of the Company's property. This loan bears interest at the prime rate plus 1.50% (7.50%; 8% as at December 31, 2006) and is renewable in April 2008.

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

15 - LONG-TERM DEBT

	<u>Current</u> \$	<u>2007</u> \$	<u>2006</u> \$
Term loan, secured by certain property, plant and equipment, prime rate plus 1.25% (1.25% in 2006) (7.25%; 7.25% in 2006), payable in monthly instalments, maturing in April 2010 (a)	85 854	200 325	286 179
Term loan from Canada Economic Development, interest-free, principal payments commencing in April 2010, maturing in October 2014		134 016	
Term loan from Canada Economic Development interest-free, principal payments commencing in April 2006, maturing in October 2009	25 000	50 000	75 000

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Notes to Consolidated Financial Statements

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15 - LONG-TERM DEBT (Continued)

	Current	2007	2006
	\$	\$	\$
Obligations under capital leases, 5.49% and 7.69%, payable in monthly instalments of \$390 and \$467, maturing in December 2008	5 905	5 905	13 086
		390 246	374 265
Instalments due within one year	116 759	116 759	118 335
		273 487	255 930

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

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

	Obligations under capital leases	Other loans
	\$	\$
2008	7 380	110 854
2009		110 854
2010		55 420
2011		26 803
2012		26 803
Total minimum lease payments	7 380	
Interest included in minimum lease payments	1 475	
	5 905	

16 - STOCK-BASED COMPENSATION

Effective December 29, 2006, the Board of Directors adopted a new 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;

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16 - STOCK-BASED COMPENSATION (Continued)

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

Changes in the number of options outstanding are as follows:

	December 31, 2007		December 31, 2006	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance, beginning of year	619 884	\$0.37	–	–
Options granted	1 655 000	\$0.87	619 884	\$0.37
Options expired	60 000	\$1.00	–	–
Balance, end of year	<u>2 214 884</u>	<u>\$0.75</u>	<u>619 884</u>	<u>\$0.37</u>
Options exercisable, end of year	<u>192 464</u>	<u>\$0.37</u>	<u>–</u>	<u>–</u>

Stock options granted on December 31, 2007 are as follows:

Exercise price	Options outstanding			Options exercisable	
	Number	Weighted average remaining term	Weighted average exercise price	Number	Weighted average exercise price
\$0.35	574 884	4 years	\$0.35	177 464	\$0.35
\$0.60	45 000	4 years	\$0.60	15 000	\$0.60
\$0.70	685 000	4 years	\$0.70		
\$0.95	650 000	4.08 years	\$0.95		
\$1.15	160 000	4.19 years	\$1.15		
\$1.55	100 000	4.17 years	\$1.55		
Outstanding at year-end	<u>2 214 884</u>	<u>4.04 years</u>	<u>\$0.75</u>	<u>192 464</u>	<u>\$0.37</u>

Weighted average fair value of options granted during the year

\$0.60

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16 - 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:

	2007	2006
Annual risk-free interest rate	4.10%	3.99%
Volatility	80.00%	80.00%
Dividend	—	—
Estimated term	5 years	5 years

17 - CAPITAL STOCK

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

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

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17 - CAPITAL STOCK (Continued)

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, 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

	2007	2006
Issued and fully paid	<u>\$</u>	<u>\$</u>
35,295,387 common shares (19,999,999 in 2006)	9 556 926	3 732 096
9,523,811 Class "A" preferred shares in 2006	<u> </u>	<u>1 153 251</u>
	<u>9 556 926</u>	<u>4 885 347</u>

Issue of securities

2007

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

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

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

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

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17 - CAPITAL STOCK (Continued)

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

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

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

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

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 entitle the holder to purchase 1,428,571 Class "A" common shares for \$0.35 each. The warrants are exercisable 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, must be held by "public shareholders" as defined in the policies of the TSX Venture Exchange.

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Notes to Consolidated Financial Statements

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17 - CAPITAL STOCK (Continued)

On December 29, 2006, the Company closed an initial public offering of common shares. The offering consisted of the sale of 6,666,667 units for \$0.60 per unit for a total of \$4,000,000. Each unit consisted of one common share of the Company and a half a common share purchase warrant. Each common share purchase warrant entitles 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 totalled \$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.

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, 2007, 13,714,286 common shares, 323,930 stock options and 857,143 warrants were still escrowed.

Loss per share

As a result of the net 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 common share, since inclusion of such securities would be anti-dilutive.

18 - WARRANTS

	2007	2006
	\$	\$
6,572,673 warrants (4,761,904 in 2006)	1 536 444	832 714
117,764 broker warrants (333,333 in 2006)	69 480	78 933
	<u>1 605 924</u>	<u>911 647</u>

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as at December 31, 2007 and 2006

18 - WARRANTS (Continued)

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

Expiry	Exercise price	Number issued	Number exercisable as at December 31, 2007	Number exercisable as at December 31, 2006
April 26, 2008	\$0.35	1 428 571	1 428 571	1 428 571
December 29, 2008	\$0.60	3 333 333	2 783 320	3 333 333
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	
			6 572 673	4 761 904

The 117,764 broker warrants granted to purchase 117,764 units at a price of \$1.30 per unit were also outstanding as at December 31, 2007. These warrants expire on September 26, 2009, and are all exercisable.

At December 31, 2006, the 333,333 broker warrants granted to purchase 333,333 units at a price of \$0.60 per unit were also outstanding. These warrants expired on June 29, 2008 and were all exercised in 2007.

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

2007

	Warrants	Broker warrants
Risk-free interest rate	4.20%	4.22%
Volatility	80.00%	80.00%
Dividend	—	—
Estimated term	2 years	2 years

2006

	2006-04-26 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

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19 - FINANCIAL INSTRUMENTS

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

Exchange risk

The Company is exposed to foreign exchange risk due to cash, accounts receivable, advances to private companies and accounts payable and accrued liabilities denominated in US dollars and euros. As at December 31, 2007, assets denominated in US dollars and euros totalled US \$836,201 (US \$186,856 at December 31, 2006) and €184,152 (€317,313 at December 31, 2006); liabilities arising from the conversion of amounts in US dollars and euros represented US \$69,144 (US \$79,852 at December 31, 2006) and €54,077 (€444,554 at December 31, 2006). The Company does not enter into contracts to hedge its exchange risk exposure.

Credit risk

Financial instruments that could expose the Company to credit risk are primarily cash, trade accounts and advances. The Company has deposited its cash in financial institutions with good reputations, and management considers the risk of losses to be negligible. The Company assesses the solvency of its customers and generally does not obtain security from them. Advances receivable are managed and evaluated quarterly to determine any loss in value. At December 31, 2007, management considered the Company's credit risk in relation to such financial assets to be low.

Liquidity risk

The Company manages its liquidity risk by maintaining a sufficient level of cash and cash equivalents and ensuring that the Company has sufficient sources of financing in the form of bank loans with sufficient authorized amounts. The Company establishes budget and cash forecasts to ensure that it has sufficient funds to meet its commitments.

Fair value of financial instruments

The fair value of trade accounts, other receivables and accounts payable and accrued liabilities approximate their carrying amount given that they will mature shortly.

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

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

Ranaz Corporation

Notes to Consolidated Financial Statements

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19 - FINANCIAL INSTRUMENTS (Continued)

The fair value of the term loan from Canada Economic Development was calculated based on the discounted value of future payments using the interest rate that the Company could have obtained on December 31, 2007 for loans with similar terms and maturities. The fair value of these debts is \$174,039.

20 - COMMITMENTS

At December 31, 2007, the Company's commitments under capital leases and consulting contracts maturing at various dates and primarily regarding the rental of space and materials and services contracted \$285,406. The minimum payments required over the next five financial years are as follows:

	\$
2008	202 316
2009	36 652
2010	25 786
2011	18 343
2012	2 309

21 - 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:

	2007	2006
	\$	\$
Revenue by geographic location based on customer location		
Canada	6 562 936	5 023 935
United States	3 407 810	2 227 420
France	1 806 041	1 580 881
International	1 022 065	718 041
	<u>12 798 852</u>	<u>9 550 277</u>
	2007	2006
	\$	\$
Property, plant and equipment by geographic location		
Canada	<u>1 423 745</u>	<u>535 687</u>
Goodwill by geographic location		
Canada	<u>61 919</u>	<u>61 919</u>

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22 - SUBSEQUENT EVENTS

Corporate acquisition

Bar-Tech Manufacturing Inc.

On January 11, 2008, the Company closed a transaction to acquire all of the common shares of Bar-Tech Manufacturing Inc., a manufacturer of nutritional bars, for consideration of 738,673 common shares and 369,337 warrants. Each warrant entitles its holder to purchase one common share at \$1.30 for a 24-month period. Pursuant to this acquisition, the Company will not require reimbursement of the note receivable in the short-term (Note 8).

Exercise of warrants

On February 28, 2008, the holder of 1,428,571 warrants exercisable at \$0.35 exercised all of its warrants resulting in proceeds of \$500,000.

23 - COMPARATIVE FIGURES

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

24 - FUTURE CHANGES IN ACCOUNTING POLICY

The CICA has issued the following new recommendation applicable to the coming years. In the coming quarters, the Company will assess the effect of adoption of these new standards on its consolidated financial statements.

Financial instruments - disclosure

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

Financial instruments - presentation

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

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24 - FUTURE CHANGES IN ACCOUNTING POLICY (Continued)

Capital disclosure

Section 1535, *Capital Disclosure*, applicable to interim periods for years beginning on or after October 1, 2007, establishes disclosure standards for the entity's capital and how it is managed, to enable users of the financial statements to assess the Company's capital management procedures, objectives and policies.

Inventories

Section 3031, *Inventories*, applicable to interim periods for years beginning on or after January 1, 2008, establishes standards for the determination of cost and its later expensing, including any depreciation, to net realizable value. It also provides commentary on the cost determination method used to charge against inventories.

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 is presently assessing the effects of this new standard.

General standards of financial statement presentation

In June 2007, the CICA amended Section 1400, *General Standards of Financial Statement Presentation* to require that management assess the Company's ability to continue as a going concern for a period of at least, but not limited to, 12 months from year-end. These new requirements are applicable to financial years beginning on or after January 1, 2008. The new standards only cover disclosure, and do not effect the Company's financial results.