

Ranaz Corporation
Interim Consolidated Financial
Statements
for the Quarters ended
June 30, 2009 and 2008

Financial Statements

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Ranaz Corporation
Consolidated Earnings and Comprehensive income
Consolidated Deficit
(unaudited)

CONSOLIDATED EARNINGS AND COMPREHENSIVE INCOME

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Sales	5,689,424	6,723,024	9,996,809	11,078,440
Cost of sales	<u>3,970,509</u>	<u>4,708,251</u>	<u>7,171,635</u>	<u>7,876,828</u>
Gross profit	<u>1,718,915</u>	<u>2,014,773</u>	<u>2,825,174</u>	<u>3,201,612</u>
Research expenses	140,366	83,411	269,038	215,187
Selling expenses	595,909	1,097,091	1,039,370	2,083,317
Administrative expenses	770,789	980,396	1,547,260	2,076,498
Product recall compensation (Note 6)			(320,000)	
Stock-based compensation expense	35,376	102,390	107,531	203,473
Interest expense	76,504	29,004	148,704	46,443
Amortization of property, plant and equipment and intangibles assets	118,764	99,733	211,465	190,824
Change in fair value of derivative financial instruments	(112,343)		(96,658)	
Exchange loss (gain)	<u>(29,558)</u>	<u>31,667</u>	<u>(14,398)</u>	<u>(18,465)</u>
	<u>1,595,807</u>	<u>2,423,692</u>	<u>2,892,312</u>	<u>4,797,277</u>
Earnings (loss) before future income taxes	<u>123,108</u>	<u>(408,919)</u>	<u>(67,138)</u>	<u>(1,595,665)</u>
Future income taxes	<u>(245,000)</u>		<u>(245,000)</u>	
Net earnings (loss) and comprehensive income (loss)	<u>368,108</u>	<u>(408,919)</u>	<u>177,862</u>	<u>(1,595,665)</u>
Basic and diluted earnings (loss) per common share	<u>0.008</u>	<u>(0.011)</u>	<u>0.004</u>	<u>(0.043)</u>
Basic weighted average number of common shares outstanding	<u>45,485,571</u>	<u>37,544,472</u>	<u>44,697,242</u>	<u>37,032,120</u>
Diluted weighted average number of common shares outstanding	<u>45,830,302</u>	<u>37,544,472</u>	<u>45,107,264</u>	<u>37,032,120</u>
CONSOLIDATED DEFICIT				
Deficit, beginning of period	(9,680,845)	(6,893,005)	(9,490,599)	(5,706,259)
Net earnings (loss)	<u>368,108</u>	<u>(408,919)</u>	<u>177,862</u>	<u>(1,595,665)</u>
Deficit, end of period	<u>(9,312,737)</u>	<u>(7,301,924)</u>	<u>(9,312,737)</u>	<u>(7,301,924)</u>

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

Ranaz Corporation
Consolidated Cash Flows
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net earnings (loss)	368,108	(408,919)	177,862	(1,595,665)
Non-cash items				
Stock-based compensation expense	35,376	102,390	107,531	203,473
Amortization of property, plant and equipment and intangibles assets	118,764	99,733	211,465	190,824
Amortization of development costs	2,756		3,674	16,330
Change in fair value of derivative financial instruments	(112,343)		(96,658)	
Future income taxes	(245,000)		(245,000)	
Changes in working capital items (Note 7)	20,170	(703,140)	(1,087,605)	(1,166,974)
Cash flow from operating expenses	187,831	(909,936)	(928,731)	(2,352,012)
INVESTING ACTIVITIES				
Advances to private companies	8,389	979	16,979	389,610
Business acquisition				(16,092)
Property, plant and equipment	(360,179)	(74,141)	(796,957)	(227,801)
Acquisition of intangible assets		(27,548)		(27,548)
Cash flow from investing activities	(351,790)	(100,710)	(779,978)	118,169
FINANCING ACTIVITIES				
Bank loan	295,000	1,214,350	295,000	1,214,350
Long-term debt		683,456		683,456
Repayment of long-term debt	(48,985)	(46,608)	(87,885)	(552,464)
Issuance of equity instruments		20,210	664,235	561,611
Equity instrument issue costs	(240)		(49,878)	
Cash flow from financing activities	245,775	1,871,408	821,472	1,906,953
Impact of foreign exchange on cash	(19,995)		10,468	
Net increase (decrease) in cash	61,821	860,762	(876,769)	(326,890)
Cash (bank overdraft), beginning of period	(95,599)	(604,633)	842,991	583,019
Cash (bank overdraft), end of period	(33,778)	256,129	(33,778)	256,129

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

Ranaz Corporation

Consolidated Balance Sheets

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	Unaudited 2009-06-30	Audited 2008-12-31
	\$	\$
ASSETS		
Current assets		
Cash		842,991
Accounts receivable	2,966,383	2,242,543
Fair value of derivative financial instruments	59,498	
Inventories	4,710,749	3,827,268
Prepaid expenses	164,104	60,973
	<u>7,900,734</u>	<u>6,973,775</u>
Balance of sale, receivable in monthly instalments of €1,875 until May 2018 (effective rate of 7.75%)	180,683	197,662
Property, plant and equipment	2,723,776	2,121,106
Goodwill	999,336	999,336
Intangible assets	179,305	196,483
Development costs	506,093	509,767
	<u>12,489,927</u>	<u>10,998,129</u>
LIABILITIES		
Current liabilities		
Bank overdraft	33,778	
Bank loan (note 8)	573,539	291,711
Fair value of derivative financial instruments		37,160
Accounts payable and accrued liabilities	3,115,707	2,466,289
Instalments on long-term debt	834,189	1,021,503
	<u>4,557,213</u>	<u>3,816,663</u>
Long-term debt	1,680,723	1,584,225
Future income taxes	191,649	436,649
	<u>6,429,585</u>	<u>5,837,537</u>
SHAREHOLDERS' EQUITY		
Capital stock (Note 10)	12,346,774	11,846,424
Warrants (Note 11)	1,417,189	1,381,202
Equity component of convertible debenture	146,710	146,710
Contributed surplus (Note 12)	1,462,406	1,276,855
Deficit	(9,312,737)	(9,490,599)
	<u>6,060,342</u>	<u>5,160,592</u>
	<u>12,489,927</u>	<u>10,998,129</u>

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

On behalf of the Board of Directors,

/S/ Jean Bourassa-Marineau
Director

/S/ Edward E. March
Director

Ranaz Corporation

Notes to the Consolidated Financial Statements

(Figures to June 30, 2009 and for the three and six-month periods ended June 30, 2009 and 2008 are unaudited.)

1 - GOVERNING STATUTES AND NATURE OF OPERATIONS

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

2 - BASIS OF PRESENTATION

The unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and the accounting policies used in the preparation of the audited annual consolidated financial statements. These interim financial statements do not include all the disclosures required by GAAP and applicable to the annual financial statements and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2008.

The interim consolidated financial statements for the three and six-months ended June 30, 2009 and 2008 have not been subject to a review by the Company's external auditors.

3 - CHANGE IN ACCOUNTING POLICY

The Company has adopted the following new section of the Canadian Institute of Chartered Accountants ("CICA") handbook. Adoption of this new standard 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 apply it as of January 1, 2009. The impact of the adoption of this standard is not significant.

4 – IMPACT OF NEW ACCOUNTING STANDARDS NOT YET APPLIED

Certain new primary sources of generally accepted accounting principles have been published but are not yet in effect. The Company has not early adopted any of these standards. The new standards which could potentially impact the Company's financial statements are detailed as follows:

International Financial Reporting Standards (IFRS)

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

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Notes to the Consolidated Financial Statements

(Figures to June 30, 2009 and for the three and six-month periods ended June 30, 2009 and 2008 are unaudited.)

4 – IMPACT OF NEW ACCOUNTING STANDARDS NOT YET APPLIED (continued)

Business combination

Section 1582, *Business combination*, 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 October 1, 2011. Earlier application is permitted. The Company is evaluating the impact of the adoption of this new Section on the consolidated financial statements.

Consolidated financial statements and non-controlling interest

Section 1601, and Section 1602, 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 statement relating to fiscal years beginning in October 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.

5 - BUSINESS ACQUISITION

During the six months ended June 30, 2009, there were no business acquisition. For the fiscal year ended December 2008, the Company completed business acquisition that were recorded using the purchase method. Result of this acquisition have been included in the statement of earnings from the date of 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.

Ranaz Corporation

Notes to the Consolidated Financial Statements

(Figures to June 30, 2009 and for the three and six-month periods ended June 30, 2009 and 2008 are unaudited.)

5 - BUSINESS ACQUISITION (continued)

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	66,772
Net assets acquired	<u><u>930,457</u></u>
Consideration	
Issue of equity instruments	765,155
Cash	165,302
	<u><u>930,457</u></u>

6 - INFORMATION INCLUDED IN CONSOLIDATED EARNINGS

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Amortization of property, plant and equipment	110,175	73,761	194,287	138,880
Amortization of trademark	472	472	944	944
Amortization of client listings	8,117	25,500	16,234	51,000
Gross amount of research expenses	170,366	140,911	339,038	295,187
Investment tax credits applied against research expenses	30,000	57,500	70,000	80,000
Sales to a company controlled by a director's close relative (a)	80,853	75,817	140,543	176,711
Interest expense				
Interest on bank loan	8,202	17,076	13,031	26,761
Interest on convertible debenture	59,318		120,113	
Interest on long-term debt	8,984	11,928	15,560	19,682

(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.

Product recall compensation, consisting of refund from the subcontractor related to the recall.

Ranaz Corporation

Notes to the Consolidated Financial Statements

(Figures to June 30, 2009 and for the three and six-month periods ended June 30, 2009 and 2008 are unaudited.)

7 - INFORMATION INCLUDED IN CONSOLIDATED CASH FLOWS

Changes in working capital items were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Accounts receivable	(574,162)	(598,965)	(800,208)	(697,174)
Inventories	(53,052)	(415,553)	(883,481)	(1,036,532)
Prepaid expenses	(29,347)	(151,703)	(103,131)	(233,487)
Accounts payable and accrued liabilities	676,731	463,081	699,215	800,219
	<u>20,170</u>	<u>(703,140)</u>	<u>(1,087,605)</u>	<u>(1,166,974)</u>

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

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Interest paid	17,186	29,004	28,591	46,443

8 - BANK LOAN

The Company has a bank loan for a maximum authorized amount of \$1,000,000 secured by a first ranking movable hypothec of \$3,250,000 on all of the Company's property. This loan bears interest at the bank's base rate plus 2.50% (4.75% as at June 30, 2009) and is renewable in May 2010.

The Company also has a bank loan, with the same bank, in the form of a credit facility for a maximum authorized amount of US\$247,000, secured by a first ranking movable hypothec of US\$1,700,000 on all of the Company's property. This loan bears interest at the bank's U.S. base rate plus 1.00% (4.25% as at June 30, 2009) and is renewable in May 2010. The loan balance is C\$278,539 (US\$239,500) as at June 30, 2009.

9 - STOCK-BASED COMPENSATION

The Company may grant eligible directors, officers, employees and consultants of the Company and its subsidiaries up to 2,952,381 stock options. The options granted expire five years after the grant date. Options granted to directors vest in thirds (33.3%) starting on the first anniversary following the grant and the other options vest in quarters (25%) starting on the first anniversary. Options are granted at an exercise price that cannot be less than the closing price of the common shares on the day preceding the grant date, to which a discount may however be applied in accordance with TSX Venture Exchange rules.

Ranaz Corporation

Notes to the Consolidated Financial Statements

(Figures to June 30, 2009 and for the three and six-month periods ended June 30, 2009 and 2008 are unaudited.)

9 - STOCK-BASED COMPENSATION (Continued)

The plan includes the following restrictions relating to the number of options:

- The number of common shares reserved for issuance to directors, officers and employees under the plan may not exceed 5% of the outstanding common shares in any given 12-month period;
- The maximum number of options that can be granted to consultants must not exceed 2% of the outstanding common shares in any given 12-month period;
- The maximum number of options that can be granted to people in a business relationship with investors may not exceed 2% of outstanding common shares during a 12-month period and must gradually vest over this 12-month period, on the basis of no more than a quarter of the prescribed shares in a given quarter.

Changes in the number of options outstanding are as follows:

	Three months ended June 30, 2009		Six months ended June 30, 2009	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance, beginning of period	1,804,913	\$0.67	2,589,884	\$0.78
Options granted			350,000	\$0.24
Options expired	160,000	\$1.05	1,294,971	\$0.83
Balance, end of period	<u>1,644,913</u>	<u>\$0.63</u>	<u>1,644,913</u>	<u>\$0.63</u>
Options exercisable, end of period	<u>642,025</u>	<u>\$0.65</u>	<u>642,025</u>	<u>\$0.65</u>

Ranaz Corporation

Notes to the Consolidated Financial Statements

(Figures to June 30, 2009 and for the three and six-month periods ended June 30, 2009 and 2008 are unaudited.)

9 - STOCK-BASED COMPENSATION (Continued)

Stock options granted as of June 30, 2009, were as follows:

Exercise price	Number	Options outstanding		Options exercisable	
		Weighted average remaining term	Weighted average exercise price	Number	Weighted average exercise price
\$0.24	350,000	4.75 years	\$0.24		
\$0.35	439,913	2.50 years	\$0.35	287,442	\$0.35
\$0.60	40,000	1.94 years	\$0.60	30,000	\$0.60
\$0.70	256,667	2.00 years	\$0.70	185,000	\$0.70
\$0.72	200,000	4.17 years	\$0.72		
\$1.15	33,333	0.25 years	\$1.15	33,333	\$1.15
\$1.16	100,000	2.58 years	\$1.16	50,000	\$1.16
\$1.30	175,000	3.50 years	\$1.30	43,750	\$1.30
\$1.35	20,000	3.70 years	\$1.35	5,000	\$1.35
\$1.40	30,000	4.17 years	\$1.40	7,500	\$1.40
Ousting at the end of the period	<u>1,644,913</u>	<u>3.20 years</u>	<u>\$0.63</u>	<u>642,025</u>	<u>\$0.65</u>
Weighted average fair value of options granted during the period				<u>\$0.12</u>	

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

	<u>2009</u>
Annual risk-free interest rate	1.69%
Volatility	80.00%
Dividend	—
Estimated term	5 years

Ranaz Corporation

Notes to the Consolidated Financial Statements

(Figures to June 30, 2009 and for the three and six-month periods ended June 30, 2009 and 2008 are unaudited.)

10 - CAPITAL STOCK

Authorized

Unlimited number of shares without par value
Common shares, voting and participating

Class "A" preferred shares, non-voting, convertible into common shares to the extent that at least 20% of outstanding common shares, once converted, must be held by "public shareholders" as defined in the policies of the TSX Venture Exchange and, at the time of an offer to purchase, redeem or exchange relating to more than 50% of the outstanding common shares

	Unaudited 2009-06-30	Audited 2008-12-31
	\$	\$
	<u>12,346,774</u>	<u>11,846,424</u>

Issued and fully paid

45,485,571 common shares (40,565,313 in 2008)

Share issuances

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 share issue costs for the placement totalled \$49,878 in cash.

2008

Pursuant to the acquisition of BarTech on January 11, 2008, 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.

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

An additional 102,682 warrants were also exercised in the first six months of 2008 for cash consideration of \$61,607.

Ranaz Corporation

Notes to the Consolidated Financial Statements

(Figures to June 30, 2009 and for the three and six-month periods ended June 30, 2009 and 2008 are unaudited.)

10 - CAPITAL STOCK (Continued)

Earnings (loss) per share

The following table summarizes the reconciliation of the basic weighted average number of common shares outstanding and the diluted weighted average number of common shares outstanding used in the diluted net earnings per share calculation:

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Basic weighted average number of common shares outstanding	45,485,571	37,544,472	44,697,242	37,032,120
Dilutive effect of warrants	344,731		410,022	
Diluted weighted average number of common shares outstanding	<u>45,830,302</u>	<u>37,544,472</u>	<u>45,107,264</u>	<u>37,032,120</u>

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

11 - WARRANTS

	Unaudited 2009-06-30	Audited 2008-12-31
	\$	\$
6,265,248 warrants (4,230,119 in 2008)	1,260,439	1,224,452
417,764 broker warrants (417,764 in 2008)	156,750	156,750
	<u>1,417,189</u>	<u>1,381,202</u>

During the six months period, 425,000 warrants with a carrying amount of \$78,020 expired.

As at June 30, 2009, the number of outstanding warrants exercisable for common shares was as follows:

Expiry	Exercise price	Number issued	Number exercisable as at June 30, 2009
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
September 17, 2010	\$0.75	1,500,000	1,500,000
January 30, 2011	\$0.135	2,460,129	2,460,129
			<u>6,265,248</u>

Ranaz Corporation

Notes to the Consolidated Financial Statements

(Figures to June 30, 2009 and for the three and six-month periods ended June 30, 2009 and 2008 are unaudited.)

11 - WARRANTS (continued)

The fair value of the warrants granted in 2009 was determined using the Black-Scholes warrant pricing method based on the following assumptions:

Annual risk-free interest rate	1.41%
Volatility	80.00%
Dividend	–
Estimated term	2 years

As at June 30, 2009, the number of outstanding warrants issued to brokers exercisable into units was as follows:

Expiry	Exercise price	Number issued	Number exercisable as at June 30, 2009
September 26, 2009	\$1.30	117,764	117,764
March 17, 2010	\$0.75	300,000	300,000
			417,764

12 - CONTRIBUTED SURPLUS

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

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Balance, beginning of period	1,427,030	424,536	1,276,855	323,453
Stock-based compensation expense	35,376	102,390	107,531	203,473
Warrants expired			78,020	
Balance, end of period	1,462,406	526,926	1,462,406	526,926

13 - CAPITAL MANAGEMENT

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

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

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

Ranaz Corporation

Notes to the Consolidated Financial Statements

(Figures to June 30, 2009 and for the three and six-month periods ended June 30, 2009 and 2008 are unaudited.)

13 - CAPITAL MANAGEMENT (Continued)

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
	<u> </u>
	\$
Bank loan	573,539
Instalments on long-term debt	834,189
Long-term debt	1,680,723
Bank overdraft	<u>33,778</u>
Net debt	3,122,229
Equity	6,060,342
Net debt to equity	0.54:1

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 which must be reviewed each quarter. The Company is not in compliance with the following ratios as at December 31, 2008.

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

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

Ranaz Corporation

Notes to the Consolidated Financial Statements

(Figures to June 30, 2009 and for the three and six-month periods ended June 30, 2009 and 2008 are unaudited.)

14 - FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

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

Financial risks

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

Fair value of derivative financial instruments

The Company enters into forward exchange contracts to sell foreign currencies in the future at predetermined exchange rates. These forward exchange contracts are intended to hedge the Company's exposure to the risk of fluctuations in exchange rates in the future. As at June 30, 2009, the fair value of these derivative financial instruments was calculated using rates obtained from the Company's financial institution for identical financial instruments. The following table summarizes the amounts of currency sale commitments, the average exchange rate and the favourable (unfavourable) exchange rate of forward contracts as at June 30, 2009, based on their remaining term.

	<u>Contract amount</u>	<u>Average rate</u>	<u>Fair value</u>
Remaining term			
Less than 12 months			
U.S. dollar forward contract	750,000	1.2412	59,498

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 earnings (loss) and comprehensive income (loss) to a 10% increase in the U.S. dollar and the euro against the Canadian dollar. An equivalent, opposite impact on net earnings (loss) and comprehensive income (loss) would arise from a 10% decrease in the U.S. dollar and the euro against the Canadian dollar.

	<u>Impact of U.S. dollar</u>	<u>Impact of euro</u>
Net earnings (loss) and comprehensive income (loss)	(17,006)	(68,261)

Ranaz Corporation

Notes to the Consolidated Financial Statements

(Figures to June 30, 2009 and for the three and six-month periods ended June 30, 2009 and 2008 are unaudited.)

14 - FINANCIAL INSTRUMENTS (Continued)

Interest rate risk

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

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

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

Credit risk

Financial instruments that could expose the Company to credit risk are primarily cash, trade accounts and 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. Balance of sale is managed and evaluated quarterly to determine any loss in value. At June 30, 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.

Liquidity risk

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

Ranaz Corporation

Notes to the Consolidated Financial Statements

(Figures to June 30, 2009 and for the three and six-month periods ended June 30, 2009 and 2008 are unaudited.)

15 - SEGMENTED INFORMATION

The Company has reviewed its activities and determined that it operates in a single reportable operating segment. The following information provides the required Company-wide disclosures:

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Revenue by geographic location based on customer location				
Canada	1,861,949	2,136,389	3,559,085	3,634,594
United States	3,150,450	3,781,879	5,459,328	6,146,942
France	325,692	619,345	570,005	962,616
International	351,333	185,411	408,391	334,288
	<u>5,689,424</u>	<u>6,723,024</u>	<u>9,996,809</u>	<u>11,078,440</u>
			Unaudited	Audited
			2009-06-30	2008-12-31
			\$	\$
Property, plant and equipment by geographic location				
Canada			2,694,557	1,054,247
United States			29,219	1,066,859
			<u>2,723,776</u>	<u>2,121,106</u>
Goodwill by geographic location				
Canada			61,919	61,919
United States			937,417	937,417
			<u>999,336</u>	<u>999,336</u>

16 - SUBSEQUENT EVENTS

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

On August 14, 2009, the Company announces that it intends to raise \$675,000 through the non-brokered private placement of convertible debentures and up to 4,500,000 warrants. The debentures will have a five years term, bear interest at an annual rate of 5% and be convertible into common shares of Ranaz at a price of \$0.075 per share for twelve months after their issuance and \$0.10 per share for the four subsequent years. The exercise price of the warrants, which will expire five years after their issuance, will be equal to the conversion price of the debentures.

17 - COMPARATIVE FIGURES

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