



MANAGEMENT DISCUSSION AND ANALYSIS

This report dated April 29, 2008, discusses the financial position and operating results of Ranaz Corporation (“Ranaz” or the “Company”) for the years ended December 31, 2007 and 2006. This discussion should be read in conjunction with the Company’s selected consolidated financial information and its audited consolidated financial statements and the notes thereto. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. All amounts in this management discussion and analysis (“MD&A”) are in Canadian dollars unless otherwise indicated. Additional information regarding the Company is available on the SEDAR website at www.sedar.com.

Forward-Looking Statements

This MD&A includes certain “forward-looking statements”, including but not limited to statements regarding strategic plans, future sales and financial results, particularly expected capital expenditures, measures to mitigate operating and financial risks, and, more generally, the Company’s continued access to capital markets and overall outlook. These forward-looking statements express management’s plans, estimates, forecasts, projections, expectations and opinions regarding future events or results as of the date of this MD&A. Forward-looking statements are subject to certain risks and uncertainties, many of which are beyond our control, and there is no guarantee that these statements will be accurate. Accordingly, actual results or future events may differ materially from those anticipated by such forward-looking statements. The risks and uncertainties that may cause the actual results or future events to differ materially from the current expectations expressed or implied by such forward-looking statements include, but are not limited to, the risks described in the “Risks” section of this MD&A. Readers should not rely unduly on such forward-looking statements. We do not undertake to update the forward-looking statements contained in this report.

Management’s Responsibility for Financial Reporting

The audited consolidated financial statements of Ranaz and the financial information presented in the annual report are the responsibility of management and have been approved by the Company’s Board of Directors. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”). They include amounts based on management’s best judgment and estimates. In order to ensure the accuracy and objectivity of the information in the financial statements, management has designed and implemented and maintains internal control systems. Management is of the opinion that these internal controls provide reasonable assurance, at a reasonable cost, regarding the reliability of accounting records necessary for the preparation of financial statements, and that the Company’s assets are properly recognized and safeguarded. The Board of Directors approved the consolidated financial statements and this MD&A on April 29, 2008.

Overview of Operations

Ranaz specializes in the manufacturing and marketing of protein and dietary supplements. Its operations include the design, development, production and sale of nutritional, protein and dietary supplements. All of the Company’s products have common features, including: (i) a flavour, taste and format tailored to market needs; (ii) quick and easy preparation; (iii) scientific formulation; and

(iv) rigorous manufacturing standards. Products are sold under private brands as well as under the Company's own corporate brands. To date, the Company has based its products on two main business concepts: Protidiet and ProtiLife.

The Protidiet line is intended for physicians treating obesity, and comes in ready-to-eat formats consisting of bars, powders, soups, cookies, concentrates, muffins and other high-protein meals and snacks.

The ProtiLife line was launched in the first quarter of 2007. Marketing of a weight loss and weight maintenance program in Canada is based on expertise acquired in manufacturing high-protein diet products over the past two decades. This weight-loss program includes a line of products specially designed to enable quick weight loss while incorporating a healthy weight maintenance program once a healthy weight is reached.

The Company mainly sells its products through Pro-Amino International Inc. ("Pro-Amino"), a wholly-owned subsidiary that holds the various trademarks and is responsible for manufacturing all of the Company's products. Pro-Amino is responsible for distributing the Company's Protidiet products worldwide, with the exception of France and Belgium. In these two countries, product distribution is carried out by a wholly-owned Irish subsidiary, Distridiet Limited. ProtiLife products are distributed by another wholly-owned subsidiary, Distribution ProtiLife Inc.

At December 31, 2007, the Company had 63 employees.

Principle Markets

Protidiet

The principle markets for the Protidiet concept are weight-loss clinics in North America and pharmacies and parapharmacies in Europe.

ProtiLife

The principle markets for the ProtiLife line are pharmacies and major retail distributors in search of readily-available weight-loss programs in North America.

Distribution Methods

Protidiet

In Canada and the United States, Protidiet products are sold directly by the Company in clinics with medical supervision through commercial weight-loss chains, as well as in boutiques that specialize in obesity treatment. In Europe, the products are sold over the counter in pharmacies and parapharmacies through the company Eurodep.

ProtiLife

In Canada, the ProtiLife product line is sold by pharmacies and major retail distributors, over the counter, without prescription.

Development Stages

Protidiet

Ranaz plans to continue developing its customer base in North America by introducing new products and continually improving its level of service. During the year, the Company launched its new website www.protidiet.com, which allows European consumers to buy the products directly and access extensive information on the high-protein Protidiet program.

ProtiLife

The Company initially targeted the Canadian market for deployment of the ProtiLife product line. In 2007, it achieved its objective of deploying its ProtiLife line in over 4,000 sales outlets in Canada.

Stage two consists of introducing ProtiLife to the American and French markets.

Competition

Protidiet

Few companies in North America specialize in the manufacturing of high-protein and weight-loss nutritional products. Most of the companies in the nutritional food industry have their products manufactured under subcontract by manufacturing companies like Ranaz. By making its own products, Ranaz has the advantage of lower production costs than its competitors, and better control over the contents of the products it sells.

The Company sets itself apart from the competition by adapting its strategies to the various market segments, such as pharmacies or the medical industry. It should be noted that competition is greater at the design level.

Unlike North America, high-protein diets are well-known in France, Belgium and Italy. Just as meal substitutes are well known in North America, high-protein diet products are readily available in superstores, pharmacies and specialized clinic boutiques.

ProtiLife

There is currently no direct competitor to ProtiLife. A nutritional supplement rather than a meal substitute, ProtiLife is in fact the first such product available in major retail distributors in North America. It is therefore important that Ranaz differentiate its products clearly from those of its competitors.

Key Performance Indicators

Key performance indicators are as follows:

1. Sales
2. Operating earnings
3. Number of sales outlets

Non-GAAP Measures

Management believes that operating earnings is an important measure in evaluating the Company's performance. However, operating earnings is not a recognized earnings measure under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, operating earnings may not be comparable to similar measures presented by other issuers. Investors are cautioned that operating earnings should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of the Company's performance, or to cash flows from operating, investing and financing activities or as a measure of the Company's liquidity and cash flows.

Highlights for the Year

- Launch of the new ProtiLife line in over 4,000 sales outlets
- Closing of a private placement of 2,944,100 units for gross proceeds of \$3,827,330
- Closing of a public offering of 927,464 units for gross proceeds of \$1,205,705

Subsequent Events

- Closing of the transaction to acquire all the common shares of BarTech Manufacturing, Inc., a manufacturer of nutritional bars
- Exercise of 1,428,571 warrants at \$0.35 for proceeds of \$500,000
- Creation of Galaxy Fitness, a wholly-owned American subsidiary specialized in the design and marketing of nutritional supplements for the sports world

Selected Consolidated Financial Information

<i>(dollars)</i>	2007	2006	2005
Sales	12,798,852	9,550,277	8,141,605
Gross profit	3,750,855	3,420,910	2,692,561
Net loss	(4,283,911)	(317,407)	(1,388,015)
Basic and diluted loss per share	(0.139)	(0.015)	(0.075)
Operating earnings	(3,636,093)	(74,396)	(1,100,515)
Basic and diluted operating earnings	(0.118)	(0.004)	(0.060)

Reconciliation of Operating Earnings

The following table reconciles operating earnings to net loss, based on the Company's financial statements for the periods indicated.

<i>(thousands of dollars)</i>	2007	2006	2005
Net loss	(4,284)	(317)	(1,388)
Stock-based compensation expense	324	-	-
Interest	49	69	65
Income tax expense	-	(60)	28
Amortization of property, plant and equipment, intangible assets and deferred costs	275	234	194
Operating earnings	(3,636)	(74)	(1,101)

Comparison of Years ended December 31, 2007 and 2006

Distribution Agreements

During the year ended December 31, 2007, the Company entered into distribution agreements for the ProtiLife line with the following retailers: Groupe Jean Coutu, Shoppers Drug Mart/Pharmaprix, Uniprix, Kohl & Frisch, Familiprix, Proxim, McMahon/Brunet, Loblaws, A&P Canada Co, AmerisourceBergen Canada, Lawton's Wholesale/Sobeys, Walmart, Zellers and others.

Pursuant to these distribution agreements, the Company's products are now distributed across a Canadian retail network that includes more than 4,000 sales outlets in Canada.

Financings

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

On September 26, 2007, the Company closed a public offering of 2,944,100 units at \$1.30 per unit 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 for \$1.65 until September 26, 2009. Share issue costs totalled \$714,886 in cash and 117,764 warrants valued at \$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 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 consists of one common share and half a common share purchase warrant. Each warrant entitles its holder to purchase one common share for \$0.70 on or before January 26, 2009. This private placement followed the initial public offering (IPO) that closed on December 29, 2006.

The 333,333 warrants issued to the broker pursuant to the IPO were fully exercised in 2007, generating proceeds of \$200,000.

In fiscal 2007, 716,680 warrants were exercised for cash proceeds of \$430,008.

Sales and Gross Margin

Sales for the year ended December 31, 2007 totalled \$12.8 million, \$3.2 million or 34% higher than sales for the previous year. The increase was mainly due to the launch of the new ProtiLife line and growth in sales of Protidiet products to customers in North America and Spain, somewhat offset by the higher Canadian dollar.

Management expects to increase sales in future periods with the launch of new ProtiLife products in Canada and Protidiet products in Canada and the United States, as well as the January 2008 acquisition of BarTech Manufacturing, Inc. and its expansion, and the launch of Galaxy Fitness in February 2008.

Gross profit rose from \$3.42 million for the year ended December 31, 2006 to \$3.75 million for fiscal 2007, representing 35.8% and 29.3% of sales for the respective fiscal years (gross margin). The decline in gross margin was attributable to 1) changes in sales mix resulting in additional sales in the United States, 2) the appreciation of the Canadian dollar against the US currency, 3) higher protein prices, 4) refunds to ProtiLife customers pursuant to the terms of sale of the product, and 5) the sale of ProtiLife displays at a lower margin as part of the product launch. Shipping costs included in the cost of sales in previous years are now included in selling costs on a comparative basis, in accordance with the new presentation for fiscal 2007.

Operating Costs and Other Charges

Research expenses increased by \$114,884 or 52.1% during the year ended December 31, 2007, to stand at \$335,519 compared to \$220,635 the previous year. This increase is due to work on new Protidiet and ProtiLife products and the development of nutritional bars.

Selling and administrative expenses grew by 102.6% or \$3,574,746 to \$7.1 million for the year ended December 31, 2007, up from \$3.5 million in 2006. The increase was mainly due to advertising, publicity and promotion charges related to the launch of the ProtiLife line, the addition of management personnel to support future growth, and new responsibilities related to being a public company, as well as sales commissions, which grew proportionately with the increase in sales, and higher shipping costs due to the rise in US sales.

Stock-based compensation amounted to \$323,453 in 2007 due to options granted during the year. There was no such expense in 2006.

Interest expense totalled \$48,962 in fiscal 2007, compared to \$68,982 the previous year. The \$20,020 decrease was due to a declining balance on the bank loan, which was repaid in 2007.

Depreciation and amortization grew by \$40,980 to \$275,403 for the year ended December 31, 2007, compared to \$234,423 for fiscal 2006. The increase was mainly due to capital expenditures made in 2007 to support sales growth.

The *exchange loss* amounted to \$76,250 for the year ended December 31, 2007, compared to \$66,795 for fiscal 2006. The higher loss was mainly attributable to the higher value of the Canadian dollar against foreign currencies in 2007 relative to 2006.

The net loss for the year ended December 31, 2007 was \$4,283,911 or \$0.139 per share, compared to a net loss of \$317,407 or \$0.015 per share for fiscal 2006.

Consolidated Cash Flows

Operating Activities

Operating activities used cash flow of \$6,324,367 for the year ended December 31, 2007, having generated cash flow of \$173,080 in fiscal 2006.

Changes in working capital items reduced cash flow by \$2,580,982 in 2007, having contributed \$582,162 in 2006. Changes in working capital items for 2007 consisted primarily of increases in accounts receivable and inventories. The growth in accounts receivable was mainly attributable to higher sales, while inventories rose in preparation for growing demand for ProtiLife products.

Investing Activities

Our *investing activities* consist primarily of the acquisition of property, plant and equipment to manufacture the products sold.

During the year ended December 31, 2007, the Company used \$1,092,403 for the purchase of property, plant and equipment in the normal course of business and land for the construction of a plant and \$297,390 (US \$300,000) to advance funds to a private company (BarTech Manufacturing, Inc.), and received \$112,282 in advances from private companies.

Financing Activities

During the year ended December 31, 2007, the Company repaid \$690,000 on a bank loan and \$118,035 in long-term debt. It also received \$134,016 in long-term loan payments from Canada Economic Development. These payments are the first of an approved amount of \$323,000 regarding a financing request related to the acquisition of property, plant and equipment already paid for. The loan is repayable in ten equal, consecutive semi-annual payments beginning 24 months after the end of the project. Finally, equity instruments were issued for consideration of \$6,173,043, with equity instrument issue costs amounting to \$807,187.

Sources of Financing and Balance Sheet

Consolidated Balance Sheet Data

<i>(dollars)</i>	December 31, 2007	December 31, 2006
Cash	583,019	2,344,298
Cash in trust	-	1,190,840
Current assets	5,786,754	6,072,052
Working capital	3,921,949	3,577,075
Total assets	7,918,336	7,125,553
Current liabilities	1,864,805	2,494,977
Long-term debt (including current portion)	390,246	374,265
Total liabilities	2,138,292	2,750,907
Total shareholders' equity	5,780,044	4,374,646

Management believes that the Company's cash assets, the \$1,500,000 available under bank credit agreements and anticipated cash flows from operations will be sufficient to meet working capital needs, contractual obligations and capital expenditure requirements in the foreseeable future. The Company presently has a high inventory level, which allows it to assure prompt delivery to its customers despite rapid growth in sales, particularly for the ProtiLife line. Inventory levels will be reviewed once the distribution network is well established.

The Company is presently in discussions with its financial institution to finance the purchase of property, plant and equipment in fiscal 2007. Furthermore, two other financing requests for a total of \$107,484 were made subsequent to year-end under the agreement with Canada Economic Development.

Following the acquisition of BarTech Manufacturing, Inc, the Company closed a financing with its financial institution on January 30, 2008 for a US \$600,000 term loan and a US \$250,000 credit facility.

Changes in Long-Term Balance Sheet Items

The increase of \$1,078,081 or 102.3% in long-term assets between December 31, 2006 and December 31, 2007 was mainly due to the following items:

- The acquisition of property, plant and equipment in the amount of \$1,092,043 to support sales growth, less depreciation of \$203,985 for fiscal 2007;
- Recognition of \$82,438 in deferred expenditures related to the acquisition of BarTech Manufacturing, Inc., completed on January 11, 2008;
- An amount of \$297,390 advanced to BarTech Manufacturing, Inc. in the form of a note receivable;
- The items that contributed to the increase were partially offset by amortization of \$81,670 for development costs and \$71,418 for intangible assets in fiscal 2007.

During the year, long-term debt also increased by \$15,981 or 4.3% to stand at \$390,246 at December 31, 2007. The increase was attributable to the new \$134,016 Canada Economic Development loan, net of repayments of \$118,035 in fiscal 2007.

Shareholders' equity increased by \$1,405,398 or 32.1% to \$5.8 million at December 31, 2007, due to increases of \$4,671,579 and \$694,277 in capital stock and warrants respectively during the year, being the proceeds of share issuances net of issue costs from the various equity offerings closed

during the year. The increase was also due to the \$323,453 increase in contributed surplus in fiscal 2007 in relation to the stock-based compensation expense for the year. This increase was partially offset by the net loss of \$4,283,911 recorded for the year ended December 31, 2007, which was charged to the deficit for the year.

Capital Stock

	Authorized	Issued as at December 31, 2007	Issued as at April 29, 2008
Common shares	Unlimited	35,295,387	37,544,132
Warrants	7,122,686	6,572,673	4,173,868
Broker's warrants	117,764	117,764	117,764
Common stock options	2,952,381	2,214,884	2,409,884

Contractual Obligations and Commitments

Contractual obligations consist of commitments to repay certain loans as well as to pay amounts under operating lease agreements and obligations under capital leases. As at December 31, 2007, the Company was a party to long-term lease agreements maturing until 2012, which call for lease payments of \$285,406 for the rental of a building and materials and service contracts. The minimum payments for the next five years under these agreements and the loan terms are as follows:

Year	Loans (\$)	Obligations under capital leases (\$)	Operating leases (\$)
2008	110,854	7,380	202,316
2009	110,854	-	36,652
2010	55,420	-	25,786
2011	26,803	-	18,343
2012	26,803	-	2,309
Total	330,734	7,380	285,406

Under the terms of these loans, the Company has undertaken to comply with certain requirements. The Company did not meet the fixed charge coverage ratio as at December 31, 2007, and the loans are consequently payable on demand. However, the financial institution agreed to waive its demand rights for a term of more than one year from December 31, 2007.

Quarterly Review

The operating results for each of the last eight quarters are shown in the table below. The Company considers that the information for these quarters was prepared in the same manner as the audited financial statements for the year ended December 31, 2007. Only the unaudited quarterly financial statements to June 30, 2007 and 2006 and March 31, 2007 and 2006 were reviewed by the Company's external auditors.

	2007			
	Q4	Q3	Q2	Q1
(thousands of dollars)				
Sales	3,033	3,381	3,472	2,913
Gross profit	928	1,017	1,086	720
Net loss	(1,635)	(671)	(1,150)	(828)
Basic and diluted loss per share	(0.046)	(0.021)	(0.037)	(0.03)

	2006			
	Q4	Q3	Q2	Q1
(thousands of dollars)				
Sales	2,094	2,091	2,556	2,810
Gross profit	492	586	906	826
Net loss	(342)	107	(75)	(8)
Basic and diluted loss per share	(0.017)	0.005	(0.003)	(0.00)

In the fourth quarter of 2007, the Company restated shipping costs, previously included in cost of sales, to selling and administrative expenses. This change did not affect the net loss or the basic and diluted loss per share. The quarterly results have not been restated.

Sales amounted to \$3.1 million in the fourth quarter of 2007, \$939,000 higher than in the same quarter of 2006 due to ProtiLife sales and higher US sales overall.

Gross profit rose from \$492,000 in the fourth quarter of 2006 to \$928,000 in the fourth quarter of 2007, representing 23.5% and 30.6% of the respective sales figures for these periods (gross margin). With the restatement of \$805,288 in shipping expenses, gross profit would have been \$123,000. The decline in gross margin was primarily due to: 1) a change in sales mix resulting in additional sales to the United States; 2) the appreciation of the Canadian dollar against the US currency; 3) higher protein prices; and 4) refunds paid to ProtiLife customers under the terms of sale, charged against sale proceeds.

Operating Costs and Other Charges

Research expenses increased by \$101,900 or 191.9% during the quarter ended December 31, 2007, to \$155,000 from \$53,100 for the same quarter last year. This increase was due to work on new Protidiet and ProtiLife products and the development of nutritional bars.

Selling and administrative expenses grew by 148.5% or \$1,325,000 to \$2,217,000 for the fourth quarter ended December 31, 2007, compared to \$892,000 for the same quarter of 2006. The increase was mainly due to the restatement of \$805,288 in shipping expenses in the last quarter of 2007, but also resulted from advertising and promotional expenses related to the ProtiLife line, the addition of management personnel to support future growth, and new responsibilities stemming from being a public company.

Depreciation and amortization grew by \$34,100 to \$98,000 for the quarter ended December 31, 2007, from \$63,900 for the same quarter of 2006. The increase was primarily attributable to depreciation of property, plant and equipment acquired in 2007.

Interest expense was \$8,000 in the fourth quarter compared to interest income of \$1,000 in the same quarter of 2007. The change was primarily due to the restatement of 2006 bank charges in the last quarter.

The *exchange loss* was \$11,710 for the quarter ended December 31, 2007, compared to a gain of \$56,000 for the same quarter of 2006. The change was primarily due to the year-over-year rise in the Canadian dollar against foreign currencies.

The net loss for the quarter ended December 31, 2007 was \$1,635,000 or \$0.046 per share, compared to a net loss of \$341,500 or \$0.017 per share for the same quarter of 2006.

Dividends

The Company currently intends to reinvest future earnings to finance growth. Consequently, it does not intend to pay dividends in the foreseeable future. Any decision to pay cash dividends is left to the judgment of the Board of Directors and will depend on financial position, results of operations, capital requirements and such other factors as the Board of Directors shall deem relevant.

Significant Accounting Policies

Please see Note 2, "Accounting Policies", to the Company's consolidated financial statements for the list of significant accounting policies.

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 closing date, 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 a new earnings measure, comprehensive income, which 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 classes 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.

Adoption of these sections does not have impact on the consolidated financial statements.

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

Accounting Changes

On January 1, 2007, in accordance with applicable transitional provisions, the Company adopted the new recommendations of CICA Handbook, Section 1506 - *Accounting Changes*. This section establishes 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.

Critical Accounting Estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes thereto. Significant accounting estimates include goodwill valuation and the valuation of certain expenses payable. 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 but, in our opinion, would not result in significant variances in the amounts recorded in the financial statements. Goodwill is tested for impairment annually or more frequently if changes in circumstances indicate that it may be impaired. As at December 31, 2007, no write-down was required.

Financial Instruments

See Note 19, "Financial Instruments", to the Company's consolidated financial statements for information on the methods and assumptions used to determine the estimated fair value of each class of the Company's financial instruments.

Risks

Inability to Implement the Company's Business Strategy

The growth and expansion of the business are heavily dependent upon the successful implementation of its business strategy. There can be no assurance that the Company will be successful in the implementation of its business strategy.

Labour Relations

While labour relations with the Company employees have been stable to date, the maintenance of a productive and efficient labour environment cannot be assured.

Sourcing of Suitable Distributors

Revenue and earnings stability and growth are directly dependent on the effectiveness of advertising, marketing and promotional programs, as well as effective distribution. The Company currently sells its products through specialized obesity treatment centres in North America, pharmacies and parapharmacies in Europe and pharmacies and major retail distributors in Canada. Its financial success is dependent on its ability to continue to secure effective channels of distribution on favourable terms with suitable distributors.

Product Liability

The sale and use of the products developed solely by the Company or under collaborative arrangements carry the risk of legal proceedings based on product liability. The Company maintains liability insurance coverage in the aggregate amount of \$10 million for issues of safety as well as for errors and omissions. While it believes such insurance coverage to be adequate, there can be no assurance that future claims based on product liability will not exceed such amounts. The Company's obligation to pay indemnities or to withdraw a product following complaints could seriously affect its financial position as well as its future.

Dependence on new products

Success will depend in part upon the Company's ability to offer new products that meet evolving customer requirements. There can be no assurance that the Company will be able to develop and bring to market new products in a timely manner or that there will be widespread customer acceptance or demand for products such as those it offers.

Adverse publicity

Adverse publicity associated with the Company's products or those of similar companies or concerning any actual or purported failure by the Company to comply with applicable laws and regulations could harm its financial position and operating results. The results of the Company's operations may be significantly affected by the public's perception of the Company and similar companies. This perception is dependent upon opinions concerning: (i) the safety and quality of the Company's products or of similar products distributed by other companies; and (ii) the Company's distributors, manufacturers and customers.

Adverse publicity, whether accurate or not or resulting from customers' use or misuse of products, that associates consumption of products or any similar products with illness or other adverse effects, questions the benefits of the Company's or similar products or claims that any such products are ineffective, inappropriately labelled or have inaccurate instructions as to their use, could negatively impact the Company's reputation or the market demand for its products.

Competitive market for the Company's products and services

The health and nutrition industries are highly competitive. Overall, most of the Company's competitors in the health and nutrition industries are larger than it and might have greater financial and other resources, which could enable them to invest significant amounts of capital and other resources in their businesses, including expenditures for research and development. If one of the Company's current or future competitors develops innovative proprietary products, some of the Company's products could be rendered obsolete.

Protection of intellectual property

The success of the Company's products depends to a significant extent upon its intellectual property and the goodwill associated with its business. The Company's intellectual property is subject to the following risks: (i) while some of its intellectual property is protected by registered trademarks in certain jurisdictions in North America and Europe and in certain other countries in which it operates, the Company may not be successful in asserting these rights; (ii) the Company's proprietary knowledge is generally based on manufacturing procedures and technological know-how, which do not afford the same level of protection as patents or other forms of registered intellectual property; and (iii) the laws of certain foreign countries may not protect its intellectual property rights to the same extent as laws in North America and Europe.

Regulation

In both domestic and foreign markets, the formulation, manufacturing, packaging, labelling, handling, distribution, import, export, licensing, sale and storage of the Company's products are affected by a body of laws, governmental regulations, administrative determinations, including those by the Canada Food Inspection Agency, court decisions and similar constraints. Such laws, regulations and other constraints can exist at the federal, provincial or local levels in Canada and at all levels of government in foreign jurisdictions. There can be no assurance that the Company will be in compliance with all of these laws, regulations and other constraints. Failure by the Company to comply with these laws, regulations and other constraints or new laws, regulations or constraints could lead to the imposition of significant penalties or claims and could negatively impact the Company's business. In addition, the adoption of new laws, regulations or other constraints or changes in the interpretations of such requirements might result in significant compliance costs or lead the Company to discontinue product sales and could have an adverse effect on the marketing of the Company's products, resulting in significant loss of sales.

Risk of fluctuation in foreign exchange rates

The value of the investment in each operating subsidiary is partially a function of the currency exchange rate between the Canadian dollar and the applicable local currency. In general, the Company does not execute hedging transactions to reduce its exposure to foreign currency exchange rate risks. Accordingly, the Company may experience economic loss and a negative impact on earnings solely as a result of foreign exchange rate fluctuations, which include foreign currency devaluations against the Canadian dollar. The Company does not typically carry currency convertibility risk insurance.

Organizational structure; potential for changes in local laws

The Company holds interests in an operating subsidiary that was incorporated in a foreign jurisdiction. There can be no assurance that the laws or administrative practices relating taxation, foreign exchange or otherwise in such jurisdiction will not change, and any such change could materially adversely affect the Company's financial position and its ability to receive funds from these operating subsidiaries.

Changing market conditions

The obesity treatment market is constantly evolving, and there can be no assurance that such change will not affect the market for obesity treatment products. There can be no assurance that the Company will be able to enter into and/or sustain contractual or other marketing or distribution arrangements on a satisfactory commercial basis with its customers.

Research and development risk

A principal component of the Company's business strategy is to expand its product offering to better serve the needs of emerging markets. Accordingly, the Company's organic growth and long-term success is dependent on its ability to successfully develop and market new products. As a result, the Company is committed to significant research and development expenditures. However, there is no certainty that this investment in research and development will yield technically feasible or commercially viable products.

International Sales

The Company's international sales operations expose it and its representatives and distributors to risks inherent to operating in foreign jurisdictions, which could materially adversely affect its operations and financial position. These risks include:

- Changes in tariffs and other trade restrictions;
- Country-specific taxation policies;
- Imposition of additional foreign governmental controls or regulations;
- Export license requirements;
- Changes in tariffs and other trade restrictions; and
- Complexity of collecting receivables in a foreign jurisdiction.