

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This Management's Discussion and Analysis ("MD&A"), dated August 28, 2007, provides a review of the financial condition and the results of operations of Ranaz Corporation ("Ranaz" or the "Corporation") for the three-month periods ended June 30, 2007 and 2006. It should be read in conjunction with the Corporation's selected consolidated financial information and our unaudited interim consolidated financial statements and accompanying notes. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. All additional information regarding the Corporation is available on the SEDAR Web site at [www.sedar.com](http://www.sedar.com).

### **Notice regarding forward-looking statements**

This MD&A contains certain "forward-looking statements," which include, but are not limited to, statements regarding strategic plans, sales and future financial results, in particular expected capital expenditures, measures to mitigate operating and financial risks, and, more generally, continued access to capital markets and the overall outlook of the Corporation. These forward-looking statements express, at the date of this MD&A, our plans, estimates, forecasts, projections, expectations or opinions regarding future events or results. The forward-looking statements include certain risks and uncertainties, many of which are beyond our control, and there is no guarantee that these statements will be accurate. Accordingly, the actual results or future events may differ substantially from these forward-looking statements. The risks and uncertainties that may cause the actual results or future events to differ substantially from the current expectations expressly or implicitly expressed in these forward-looking statements include, but are not limited to, the risks described in the "Risks" section of the annual MD&A available at [www.sedar.com](http://www.sedar.com). Readers should not place undue reliance on these forward-looking statements. We do not undertake to update the forward-looking statements included in this MD&A.

### **Management's responsibility for financial reporting**

The unaudited interim consolidated financial statements of Ranaz and the financial information presented in this interim report are the responsibility of management and have been approved by the Corporation'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 information included in the financial statements, management has designed, implemented and maintains internal control systems. Management is of the opinion that these internal controls provide reasonable assurance, at a reasonable cost, that the accounting records are reliable and form a proper basis for preparing the financial statements, and that the Corporation's assets are properly accounted for and safeguarded. In compliance with Multilateral Instrument 52-109, the Corporation's Chief Executive Officer and Chief Financial Officer have provided to the Canadian securities administrators a certification related to the Corporation's interim disclosure documents, including the unaudited interim consolidated financial statements and MD&A.

The Board of Directors approved the interim consolidated financial statements and this MD&A on August 28, 2007.

### **Summary of operations**

Ranaz is a corporation specialized in manufacturing and marketing protein and dietary supplements related to weight loss and obesity treatments. Its operations include the design, development, manufacturing and marketing of nutritional, protein and dietary supplements. All of the Corporation's products have certain common features, including: (i) flavours, tastes and formats tailored to market needs; (ii) quick and easy preparation; (iii) scientific design; and (iv) rigorous manufacturing standards. The Corporation markets its products under its own corporate brands and concepts, and private labels. To date, the Corporation has based its products on two main business concepts: *Protidiet* and *ProtiLife*.

The Protidiet line has been developed for the needs of a special niche: health specialists. Its products come in ready-to-eat formats consisting of bars, powders, soups, cookies, concentrates, muffins, and other high-protein meals and snacks. The principal markets for Protidiet are North American weight loss clinics and European pharmacies and parapharmacies.

The ProtiLife line was launched in the first quarter of 2007. The Corporation's launch of this weight-loss and weight-maintenance program in Canada draws on two decades of manufacturing expertise in high-protein diet products. This weight loss program includes a line of products specially designed for quick weight loss, complete with a maintenance program to follow once a healthy weight has been reached. In Canada, the product line is distributed through independent pharmacy networks and major retail distributors.

The Corporation markets products mainly through its wholly owned subsidiaries Pro-Amino International Inc. (Pro-Amino) for the Protidiet line and Distribution ProtiLife Inc. for the ProtiLife line. Pro-Amino is responsible for manufacturing all of the Corporation's products. Pro-Amino and Distribution ProtiLife Inc. are responsible for product distribution worldwide, with the exception of France and Belgium. In these two countries, product distribution is carried out by our wholly owned Irish subsidiary, Distridiet Limited (Distridiet).

The Corporation's operating earnings are derived from the sales of its products, net of cost of sales and operating expenses.

Cost of sales includes all expenses incurred in the manufacturing of products for sale, such as the use of manufacturing equipment (including salaries and other related costs) and the cost of raw materials used to develop finished products, as well as the costs of shipping the finished products to customers, markets and intermediaries covered by the marketing strategy.

Operating expenses include: (i) *Research expenses*, consisting mainly of expenses related to the product development work and all the testing to control quality, nutritional content and microbiology and to carry out sensory analyses; (ii) *Selling and administrative expenses*, which include the costs related to the sales and marketing teams and efforts, as well as administrative functions and support; and (iii) *Amortization expense*, which includes property, plant and equipment, trademarks and the client list.

### **Highlights for the second quarter of 2007**

- Strong sales growth fuelled by the inroads of our ProtiLife line
- Increase in gross profit: 31.3% for the period, compared with 24.7% for the first quarter of 2007
- 309,805 warrants exercised totalling \$185,878
- Net loss of \$1,149,919
- Loss per common share – basic and diluted: \$0.037

## Selected consolidated financial information

	Three-month periods ended June 30		Six-month periods ended June 30	
	2007	2006	2007	2006
	(\$)	(\$)	(\$)	(\$)
Sales	3,471,695	2,555,828	6,384,587	5,365,421
Gross profit	1,085,727	906,313	1,805,645	1,732,175
Net loss	1,149,919	75,427	1,977,770	82,960
Loss per common share – basic and diluted	0.037	0.003	0.071	0.0004
Earnings (loss) before interest, taxes, depreciation and amortization (EBITDA)	(1,079,000)	43,000	(1,849,000)	108,000
Basic earnings (loss) before interest, taxes, depreciation and amortization (EBITDA) per common share	(0.035)	0.002	(0.066)	0.005

### Reconciliation of EBITDA

Management believes that EBITDA is an important measure in evaluating the performance of the Corporation. However, EBITDA is not a recognized earnings measure under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, EBITDA may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of the Corporation's performance or to cash flows from operating, investing and financing activities or as a measure of the Corporation's liquidity and cash flows. The Corporation defines and has computed EBITDA as described under "Definition of Non-GAAP Measures." The following table reconciles EBITDA to net loss, based on the Company's historical financial statements for the periods indicated.

(In thousands of dollars)	Three-month period ended June 30		Six-month period ended June 30	
	2007	2006	2007	2006
	<b>Net loss</b>	(1,150)	(75)	(1,978)
<b>Interest</b>	11	19	21	36
<b>Income tax expense</b>	—	27	—	42
<b>Amortization</b>	60	72	108	113
<b>EBITDA</b>	<b>(1,079)</b>	<b>43</b>	<b>(1,849)</b>	<b>108</b>

## Comparison between the three- and six-month periods ended June 30, 2007 and 2006

During the first quarter of 2007, we entered into marketing agreements with the following chains:

Jean Coutu Group  
Shoppers Drug Mart/Pharmaprix  
Uniprix  
Kohl & Frisch  
Famiprix  
Proxim  
McMahon/Brunet  
Loblaws  
A&P Canada Co.  
AmerisourceBergen Canada  
Lawton's Wholesale/Sobeys

On January 25, 2007, the Corporation concluded a private placement of 850,000 units at \$0.60 per unit for a total of \$510,000 in cash. Each unit comprises one common share and one-half of one common share warrant. Each warrant entitles its holder to purchase one common share at an exercise price of \$0.70 in cash until January 26, 2009. This private investment follows our initial public offering ("IPO") that closed on December 29, 2006. For more information on our IPO, please refer to our final prospectus dated November 28, 2006, available on the SEDAR Web site at [www.sedar.com](http://www.sedar.com).

The broker exercised all its 333,333 warrants in 2007, which generated a cash inflow of \$200,000.

During the second quarter of 2007, 309,805 warrants were exercised for \$185,878 in cash.

During the first six months of 2007, 523,121 warrants were exercised for \$313,868 in cash.

### *Sales and gross margin*

*Sales* totalled \$3,471,695 for the three-month period ended June 30, 2007, up \$915,867 or 35.8% compared with the corresponding period of 2006. This improvement was driven mainly by ProtiLife sales and a sharp increase in our U.S. Protidiet sales.

*Sales* totalled \$6,384,587 for the six-month period ended June 30, 2007, up \$1,019,166 or 19.0 % compared with the corresponding period of 2006. This improvement was driven mainly by ProtiLife sales and a sharp increase in our U.S. Protidiet sales.

Management expects the Company's sales to grow in most of its geographic segments. Sales of our ProtiLife product line are continuing to develop. Already offered in 1,660 sales outlets at the end of the second quarter, the ProtiLife product line will be introduced into 400 additional Loblaws stores and 700 other Pharmaprix/Shoppers Drug Mart stores in the third quarter. ProtiLife will also make its debut in almost 300 Pharmaprix, Rexall and Herbies chain pharmacies belonging to the Katz Group, and about 200 Zellers stores and 70 MetroPlus stores, thus doubling the number of sales points to over 3,300 across Canada in the third quarter. The Protidiet line also continues to post sales growth, particularly in the United States and Spain following the addition of large new customers. Sales for July jumped by \$491,700 or 67.5% to \$1,219,700 compared to \$728,000 for the same month in 2006, and the trend is continuing to date.

From a longer-term perspective, we are currently studying a project to manufacture ready-to-eat products. Subsequent to quarter-end, we completed the acquisition of a lot in St-Eustache, Québec to build a new plant with construction slated to begin in October 2007 and wind down in the first quarter of 2008.

*Gross profit* improved over the three-month period ended June 30, 2007, amounting to \$1,085,727 or 31.3% of sales (gross margin), compared with \$906,313 and 35.5%, respectively, for the corresponding period of 2006. The narrowing in our gross margin stemmed mainly from strong growth in sales to a U.S. client with more competitive gross margins, higher production and U.S. shipping costs, and the Canadian dollar's rise against the euro, which was offset however by a number of price increases and higher margins on our new products.

*Gross profit* amounted to \$1,805,645 with a gross margin of 28.3% for the first six months of 2007, compared with \$1,732,175 and 32.3%, respectively, for the corresponding period of 2006. The narrowing in our gross margin stemmed mainly from strong growth in sales to a U.S. client with more competitive gross margins, higher production and U.S. shipping costs, the development and start-up costs of the new ProtiLife line launched in 2007, and the Canadian dollar's rise against the euro. This decrease was offset however by a number of price increases and higher margins on our new products.

*Gross margin* was pushed higher, particularly by ProtiLife sales in the second quarter of 2007, reaching 31.3%, compared with 24.7% for the previous quarter. In the coming quarters, the Company expects its gross earnings to continue to rise as ProtiLife product sales increase, and gross margin as a percentage of sales to remain stable at current levels..

#### *Operating and other expenses*

*Research expenses* held relatively steady, totalling \$61,241 and \$119,571 for the three- and six-month periods ended June 30, 2007, respectively, compared with \$51,818 and \$109,917, respectively, for the corresponding periods of 2006.

*Selling and administrative expenses* totalled \$1,995,192 (57.5% of sales) for the three-month period ended June 30, 2007, up \$1,268,115 or 174.4% from \$727,077 (28.4% of sales) for the same period in 2006. This increase resulted mainly from promotional and launch expenses related to the ProtiLife product line and administrative expenses linked to new management hires to meet our new responsibilities as a public company, as well as our future growth targets.

*Selling and administrative expenses* amounted to \$3,375,631 for the six-month period ended June 30, 2007, up 138.2% from \$1,417,207 for the corresponding period of 2006. This increase resulted mainly from promotional and launch expenses related to the ProtiLife product line and administrative expenses linked to new management hires to meet our new responsibilities as a public company, as well as our future growth targets. The Company expects the current level of sales and administrative expenses to decline in the next two quarters, as development and pre-launch investments for the new ProtiLife line were absorbed during the first half of the year.

*Stock-based compensation expense* amounted to \$82,892 and \$151,007 for the three- and six-month periods ended June 30, 2007, respectively. No options were granted in the corresponding periods of 2006.

*Amortization expense* amounted to \$60,237 for the three-month period ended June 30, 2007, down \$11,570 from \$71,807 for the corresponding period in 2006. This decline resulted mainly from the delivery and commissioning of several additions to property, plant and equipment late in the quarter.

For the six-month period ended June 30, 2007, amortization expense held relatively steady, amounting to \$107,743, compared with \$113,303 for the corresponding period of 2006.

*Interest expense* decreased by \$8,484 or 44.2% during the three-month month period ended June 30, 2007. This decrease was due to the full repayment of the bank loan in the first quarter of 2007. For the six-month period ended June 30, 2007, this decrease amounted to \$14,776 or 41.5%, also a result of the first-quarter repayment of the bank loan.

*Exchange loss* amounted to \$45,376 for the three-month period ended June 30, 2007, compared with \$84,903 for the corresponding period in 2006. This reduced loss was primarily attributable to the Canadian dollar's appreciation against the euro since December 31, 2006.

For the six-month period ended June 30, 2007, exchange loss stood at \$48,614 compared with \$97,546 for the corresponding period in 2006. This reduced loss was primarily attributable to the Canadian dollar's appreciation since December 31, 2006.

*Net loss* for the three-month period ended June 30, 2007 stood at \$1,149,919, compared with \$75,427 for the corresponding period in 2006. Net loss for the six-month period ended June 30, 2007 amounted to \$1,977,770, compared with \$82,960 for the corresponding period in 2006. While investment in the marketing of ProtiLife in Canada will be maintained, the Company's net loss should decrease substantially in the coming quarters due to growth in product sales.

## **Consolidated cash flows**

### **Liquidity and capital resources**

Since its inception, the Corporation has financed its business with cash flows from operating activities, borrowings and proceeds from equity issues. On January 25, 2007, we issued 850,000 units for a cash consideration of \$510,000, exercised broker warrants for a cash consideration of \$200,000 and exercised 309,805 warrants for a cash consideration of \$185,878 during the second quarter of 2007 and exercised 523,121 warrants for a cash consideration of \$313,868 in the first six months of 2007.

#### *Cash flows from operating activities*

Cash flows from *operating activities* for the three-month period ended June 30, 2007 amounted to \$1,414,945 and \$3,588,851 for the six-month period then ended, compared with cash flows used amounting to \$597,074 for the three-month period ended June 30, 2006 and \$316,412 for the six-month period then ended.

For the three-month periods ended June 30, 2007 and 2006, cash outflows of \$412,656 and \$620,397, respectively, were attributed to changes in working capital items. For the three-month period ended June 30, 2007, the cash outflow related to a change in working capital items is mainly attributable to an increase in inventories and prepaid expenses, although partially offset by decrease in accounts payable and accrued liabilities for the same period. The increase in inventories resulted mainly from entering into a contract with a new client, whereas the increase in prepaid charges was primarily related to various listing costs in respect of ProtiLife products.

For the six-month periods ended June 30, 2007 and 2006, cash outflows of \$1,862,499 and \$378,286, respectively, were attributed to changes in working capital items. For the six-month period ended June 30, 2007, the cash outflow related to changes in working capital items was mainly attributable to an increase in accounts receivable, inventories and prepaid expenses during the six-month period, although partially offset by an increase in accounts payable and accrued liabilities for the same period. Accounts receivable and inventories related to the new ProtiLife product line increased \$95,642 and \$1,463,694, respectively, in light of the growing demand resulting from the marketing agreements entered into during the quarter. The increase in accounts receivable resulted from the stronger sales recorded in the month of June 2007 compared with the month of December 2006. The increase in prepaid expenses is mainly related to various ProtiLife product listing costs, whereas the increase in accounts payable stems primarily from a variety of promotional costs incurred for the ProtiLife line.

#### *Investing activities*

Our *investing activities* consist mainly of additions to property, plant and equipment to manufacture the products we market, as well as cash advances to private companies.

During the three-month period ended June 30, 2007, additions to property, plant and equipment in the normal course of business totalled \$158,615, proceeds on the disposal of property, plant and equipment amounted to \$20,000 and repayments of cash advances to private companies stood at \$31,307. We received a first disbursement under a Canada Economic Development financing application in respect of a number of additions to property, plant and equipment.

During the six-month period ended June 30, 2007, additions to property, plant and equipment in the normal course of business totalled \$426,538, proceeds on the disposal of property, plant and equipment amounted to \$40,000 and repayments of cash advances to private companies stood at \$99,318.

#### *Financing activities*

During the three-month period ended June 30, 2007, we received \$93,947 under a new bank borrowing and repaid \$35,993 in long-term debt. Finally, we issued 309,805 warrants for a cash consideration of \$185,878.

During the six-month period ended June 30, 2007, we made bank borrowing repayments totalling \$690,000, repaid \$59,800 in long-term debt and received \$93,947 under a new bank borrowing. This \$93,947 disbursement was the first in a series with a maximum authorized amount of \$323,000 under a Canada Economic Development financing application in respect of a number of additions to property, plant and equipment that have already been paid for. This interest-free borrowing is repayable in ten equal and consecutive semi-annual instalments starting 24 months after the project completion date. Finally, on January 25, 2007, we issued 850,000 units in consideration for \$469,624 (net of share issuance costs of \$40,376) and 333,333 broker warrants were exercised during the quarter as well as 523,121 warrants for a cash consideration of \$513,868.

### **Capital resources and balance sheet**

#### **Consolidated balance sheet data**

	(unaudited) June 30, 2007	December 31, 2006
	\$	\$
Cash (bank overdraft)	(13,294)	2,344,298
Cash held in trust	—	1,190,840
Current assets	5,405,526	6,072,052
Working capital	2,501,064	3,577,075
Total assets	6,727,790	7,125,553
Current liabilities	2,904,462	2,494,977
Long-term debt	291,953	255,930
Total liabilities	3,196,415	2,750,907
Total shareholders' equity	3,531,375	4,374,646

Management believes that the Corporation's liquidities, funds available under bank credit agreements and anticipated cash flows from operating activities will be sufficient to meet working capital needs, contractual obligations and capital expenditure requirements in the foreseeable future. We renewed our line of credit to obtain a credit limit of \$1,500,000 and are currently in negotiations with our financial institution to secure long-term financing of existing additions to property, plant and equipment. As a result, our liquidity should amount to \$2,000,000.

### *Change in long-term balance sheet items*

Long-term assets increased by \$268,763 or 25.5% between December 31, 2006 and June 30, 2007 mainly due to the following:

- With respect to long- and short term advances to private companies as at December 31, 2006, amounting to \$63,751 and \$118,107, respectively, repayments for the three- and six-month periods ended June 30, 2007, totalled \$31,307 and \$99,318, respectively.
- During the second quarter of 2007, additions to property, plant and equipment totalling \$158,615 resulted in an increase in long-term debt. However, this increase was partially offset by the depreciation of property, plant and equipment and proceeds on the disposal of property, plant and equipment amounting to \$20,000 during the three-month period ended June 30, 2007. During the first six months of 2007, additions to property, plant and equipment amounted to \$426,538. However, the resulting increase in long-term assets was partially offset by the depreciation of property, plant and equipment and proceeds on the disposal of property, plant and equipment amounting to \$40,000 during the six-month period ended June 30, 2007. As at June 30, 2007, property, plant and equipment in the balance sheet (at unamortized cost) increased to \$890,192, from \$354,505 or 66.2%.

Also as at June 30, 2007, long-term liabilities amounted to \$291,953, up \$36,023 or 14.1% compared with December 31, 2006. This increase resulted from the new borrowing arrangement entered into in the second quarter, which was offset by the repayment of \$59,800 in long-term debt.

As at June 30, 2007, shareholders' equity amounted to \$3.5 million, down \$843,271 or 19.3%, compared with December 31, 2006. This decrease stemmed from the net loss for the six-month period ended June 30, 2007, which was charged to deficit, but was partially offset by an \$983,492 increase in share capital during the same six-month period representing the share issue proceeds, net of issuance costs, from the private placement of 850,000 units on January 25, 2007, the exercise of 333,333 broker warrants, the exercise of 523,121 warrants and the recognition of a stock-based compensation expense reflected in contributed surplus in respect of options granted in 2006 and 2007.

### *Capital stock information*

	<b>Authorized</b>	<b>Issued as at June 30, 2007</b>	<b>Issued as at August 29, 2007</b>
Common	Unlimited	31,230,264	31,341,966
Warrants	5,353,571	4,830,450	4,718,747
Class "A" preferred shares	Unlimited	—	—
Common share options	2,952,381	2,054,884	2,054,884

## **Changes in accounting policies**

### **Financial instruments**

On January 1, 2007, the Corporation adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) included in 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 sections apply to the fiscal years beginning on or after October 1, 2006, and establish standards for the recognition, measurement, disclosure and presentation of financial assets and liabilities, non-financial derivative instruments, and the use and application of hedge accounting. Section 1530 provides standards for the reporting and presentation of comprehensive income, which represents the change in shareholders' equity from transactions, and events and circumstances from sources other than shareholders. Other comprehensive income includes items that would not normally be included in net earnings, such as revenues, expenses, gains and losses, in accordance with GAAP.

Under these new standards, all financial assets are classified as held for trading, held-to-maturity investments, loans and receivables or available-for-sale. Also, all financial liabilities must be classified as held for trading or other financial liabilities. All financial assets and liabilities are recorded initially on the balance sheet at fair value. After initial recognition, the financial instruments should be measured at their fair values, except for held-to-maturity investments, loans and receivables and the other financial liabilities, which should be measured at amortized cost. The effective interest related to the financial assets and certain financial liabilities and the gain or loss arising from a change in the fair value of a financial asset or financial liability classified as held for trading are included in net earnings for the period in which they arise. If a financial asset is classified as available-for-sale, the change in fair value should be recognized in other comprehensive income until the financial asset is derecognized or written down, at which time the gain or loss is recognized in net earnings.

The Corporation has classified its cash and cash held in trust as held for trading. Trade accounts receivable included in accounts receivable and advances to private companies are classified as loans and receivables. Bank overdraft, accounts payable and accrued liabilities, the bank loan and long-term-debt have been classified as other financial liabilities.

Transaction costs, related to financial assets and liabilities, are recognized in net earnings under administrative expenses.

### **Accounting changes**

On January 1, 2007, pursuant to the applicable transitional provisions, the Corporation adopted the new *Handbook* recommendations in Section 1506, "Accounting Changes." This section describes the criteria for changing accounting policies, along with the accounting and disclosure for changes in accounting policies, changes in accounting estimates and corrections of errors.

### **Disclosure controls and procedures**

The Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining reporting controls and procedures for the Corporation. These reporting controls and procedures have been designed to provide reasonable assurance that the material information relating to the Corporation was known to management during the period in which the annual filings are made. The Corporation's management, including the Chief Executive Officer and Chief Financial Officer, have evaluated whether there were changes to internal control over financial reporting during the interim period ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. No such changes were identified through their evaluation.

During management's evaluation of the design of disclosure controls and procedures, it was determined that increased management oversight over its controls and procedures should offset the lack of segregation of duties owing to the size of the Corporation. The Corporation intends to conduct a thorough assessment of its internal control over financial reporting during fiscal 2007.

The Corporation's auditors have reviewed the interim consolidated financial statements for the three-month periods ended June 30, 2007 and 2006.