The Skor Food Group Inc.

Consolidated Financial Statements

August 31, 2005 and 2004

D M C T LLP
Chartered Accountants
20 Eglinton Avenue West
Suite 2100, P.O. Box 2014
Toronto, ON M4R 1K8
Tel: 416-480-0160
Fax: 416-480-2646
Website: www.dmct.com

AUDITORS' REPORT

To the Shareholders of
The Skor Food Group Inc.

We have audited the consolidated balance sheets of **The Skor Food Group Inc.** as at **August 31, 2005** and **2004** and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at **August 31, 2005** and **2004** and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

DMCT, LLP

DMCT, LLP

Toronto, Ontario

November 2, 2005

The Skor Food Group Inc.

Consolidated Balance Sheets
As at August 31

	Note	2005	2004
Assets			
Current			
Cash		**$ 1,216,988**	$ -
Short-term investment		**600,000**	-
Accounts receivable		**5,537,191**	5,577,029
Inventory		**3,072,081**	3,219,076
Rebates receivable		**675,677**	628,226
Prepaid expenses and other assets		**418,433**	455,572
		11,520,370	9,879,903
Property, plant and equipment	3	**1,057,557**	1,166,960
Future income taxes	15	**18,786**	32,856
Goodwill	4	**1,081,802**	1,077,068
Distribution rights	4	**6,667**	254,942
Investments		**12,600**	2,600
		$ 13,697,782	$ 12,414,329
Liabilities			
Current			
Bank indebtedness	5	**$ -**	$ 5,766
Accounts payable and accrued liabilities		**4,424,562**	5,183,492
Income taxes payable		**185,953**	335,320
Current portion of long-term debt	6	**594,518**	683,443
Future income taxes	15	**-**	32,875
		5,205,033	6,240,896
Long-term debt	6	**1,848,796**	2,630,165
Redeemable preferred shares	8	**200,000**	200,000
		7,253,829	9,071,061
Shareholders' Equity			
Capital stock	9	**1,953,932**	542,134
Contributed surplus	10	**49,668**	70,070
Retained earnings		**4,440,353**	2,731,064
		6,443,953	3,343,268
		$ 13,697,782	$ 12,414,329

Commitments (Note 14)

Approved by the Board **"Vince Capobianco"** Director **"G. Michael Newman"** Director
(Signed) **(Signed)**

See accompanying notes.

The Skor Food Group Inc.

Consolidated Statement of Earnings and Retained Earnings
For the Years Ended August 31

	2005	2004
Revenue	**$ 81,514,600**	$ 61,182,389
Cost of sales	**67,624,093**	51,474,263
Gross profit	**13,890,507**	9,708,126
Expenses		
Operating	**10,707,627**	7,931,806
Interest on long-term debt	**131,270**	61,746
Amortization	**359,677**	275,079
	11,198,574	8,268,631
Earnings before income taxes	**2,691,933**	1,439,495
Income taxes (recovered)		
Current	**1,001,448**	327,539
Future	**(18,804)**	197,856
	982,644	525,395
Net earnings	**1,709,289**	914,100
Retained earnings at beginning of year	**2,731,064**	1,816,964
Retained earnings at end of year	**$ 4,440,353**	$ 2,731,064

Earnings per share		
Basic	**$ 0.11**	$ 0.07
Diluted	**$ 0.10**	$ 0.06

Weighted average common shares outstanding		
Basic	**16,073,536**	13,443,170
Diluted	**16,450,637**	16,289,004

See accompanying notes.

The Skor Food Group Inc.

Consolidated Statement of Cash Flows
For the Years Ended August 31

	Note	2005	2004
Cash flows from operating activities			
Net earnings for year		**$ 1,709,289**	$ 914,100
Add (deduct) items not affecting cash			
Amortization		**359,677**	275,079
Loss (gain) on disposal of property, plant and equipment		**34,200**	(55,575)
Future income taxes		**(18,804)**	197,856
Stock based compensation		**6,870**	70,070
		2,091,232	1,401,530
Changes in non-cash working capital items			
Accounts receivable		**39,838**	27,162
Inventory		**146,995**	(137,917)
Prepaid expenses and other assets		**37,139**	12,472
Income taxes payable		**(149,367)**	62,510
Rebates receivable		**(47,451)**	391,366
Accounts payable and accrued liabilities		**(758,930)**	(383,331)
		1,359,456	1,373,792
Cash flows from investing activities			
Purchase of property, plant and equipment		**(293,700)**	(68,460)
Distribution rights		**(20,000)**	-
Short-term investment		**(600,000)**	-
Proceeds from disposal of property, plant and equipment		**27,500**	85,000
Acquisitions - cash paid, net of cash acquired	4	**(4,734)**	(3,621,604)
Investments		**(10,000)**	-
		(900,934)	(3,605,064)
Cash flows from financing activities			
(Repayment of) advances in long-term debt		**(620,294)**	2,853,385
Issuance of capital stock		**1,384,526**	-
		764,232	2,853,385
Increase in cash during the year		**1,222,754**	622,113
Bank indebtedness at beginning of year		**(5,766)**	(627,879)
Cash (bank indebtedness) at end of year		**$ 1,216,988**	$ (5,766)

Supplemental Disclosure

	2005	2004
Cash paid for income taxes	**$ 1,103,518**	$ 266,825
Cash paid for interest	**$ 137,378**	$ 57,239

See accompanying notes.

1. BASIS OF PRESENTATION

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Derry Foods Limited and Gorman Distributing Ltd. (from the date of acquisition, March 5, 2004). All intercompany accounts and transactions have been eliminated.

2. SIGNIFICANT ACCOUNTING POLICIES

Short-Term Investment

Short-term investments include investments and deposits that are all highly liquid marketable securities that have a term to maturity of 90 days to 1 year when acquired. Investments and deposits are recorded at the lower of cost plus accrued interest and market value.

Inventory

Inventory is valued at the lower of cost and net realizable value, with cost determined on a first-in, first-out basis.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and are amortized over their estimated useful lives at the following annual rates:

Production equipment	- 20%, declining balance basis
Furniture and fixtures	- 20%, declining balance basis
Vehicles	- 30%, declining balance basis
Computer equipment	- 30%, declining balance basis
Leasehold improvements	- straight-line over the term of the lease

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Distribution Rights

Distribution rights are amortized on a straight-line basis over the term of the underlying agreements.

On an ongoing basis, management reviews the valuation of distribution rights, including any events and circumstances which may have impaired the carrying value. The impairment, if any, is determined by comparing its carrying value to the net cash flow from ongoing use of the assets.

Goodwill

Impairment would be recognized when the estimated fair value of the goodwill is lower than the carrying value. The carrying value of goodwill is assessed annually for possible impairment or more frequently if events or changes in circumstances indicated that it might be impaired. This assessment is based on the estimated fair value of the reporting unit to which goodwill relates.

Investments

Investments are accounted for at cost. Declines in values below cost are recorded when such declines are considered to be other than temporary.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets and liabilities are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

Share Issuance Costs

Costs incurred in connection with the issuance of capital stock are netted against the proceeds received.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue Recognition

The Company recognizes revenue from the sale of a product when it is considered to be realized or realizable and earned. The Company determines these requirements to be met at the point at which the product is delivered to the customer. Product may not be returned for credit once it has been delivered and accepted by the customer. List price discounts and volume rebates are routinely offered to customers and recorded as a reduction to sales.

Financial Instruments

(i) Fair Value

The carrying values of short-term investments, accounts receivable, rebates receivable and accounts payable and accrued liabilities approximate fair values due to the relatively short term maturities of these instruments. The fair value of the long term debt approximates the carrying value as it carries a floating rate. The fair value of the redeemable preferred shares, included in liabilities, was approximately $190,200 at year-end, determined by discounting the face value using an appropriate current interest rate and a term of one year, being the earliest redemption date available to the holders.

(ii) Credit Risk

Credit risk arises from the possibility that the entities to which the Company sells products may experience financial difficulties and be unable to fulfil their contractual obligations. The Company mitigates its credit risk by setting credit policies and by proactively managing the credit exposure to individual accounts. Furthermore, the Company is not exposed to significant credit risk to any one customer.

(iii) Interest Rate Risk

Interest rate risk is the risk that the value of financial instruments might be adversely affected by changes in the interest rates. The Company is exposed to interest rate risk on long-term debt due to the floating rate nature of the instrument, however, such risk is mitigated by the ability to convert the long-term debt to a fixed rate instrument at any time. Accordingly, exposure to significant interest rate risk can be minimized.

Pension Plan

The Company's subsidiary has a defined contribution pension plan. The Company expenses its funding obligations under the plan in the year in which they are incurred. Pension expense for the year ended August 31, 2005 of $31,873 (2004 - $16,302) has been reflected in salaries and wages.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Stock-Based compensation

The Company applies a fair value based method of accounting to all stock-based payments, as set out in the CICA Handbook section 3870 "Stock-Based Compensation and Other Stock-Based Payments".

Accordingly, stock-based payments are measured at the fair value of the consideration received or the fair value of the equity instruments issued or liabilities incurred, whichever is more reliably measurable and are charged to operations over the vesting period. The offset is credited to contributed surplus. Consideration received upon the exercise of stock options is credited to share capital and the related contributed surplus is transferred to share capital.

Foreign Currency

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at rates of exchange at each transaction date. Revenue and expenses are translated at the rate of exchange at each transaction date. Gains or losses on translation are included in income.

Guarantees

A guarantee is a contract or an indemnification agreement that contingently requires the Company to make payments to the other party to the contract or agreement based on a third party failure to perform under an obligating agreement. A liability will be recorded when the Company considers probable that a payment relating to a guarantee will have to be made to the other party of the contract or agreement, not considering recourse against any third party.

Earnings Per Share

Basic per share amounts are calculated using the weighted average common shares outstanding during the year. The Company uses the treasury stock method to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury stock method, only in the money dilutive instruments impact the diluted calculations in computing diluted earnings per share. Diluted calculations reflect the weighted average incremental common shares that would reflect the weighted average incremental common shares that would be issued upon exercise of dilutive options assuming the proceeds would be used to repurchase shares at average market prices for the period.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Use of Estimates

In preparing the Company's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and reported amounts of revenue and expenses. Actual results could differ from these estimates.

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at August 31, 2005 is as follows:

	Cost	Accumulated Amortization	Net
Production equipment	**$ 1,477,889**	**$ 710,369**	**$ 767,520**
Furniture and fixtures	**159,152**	**113,583**	**45,569**
Vehicles	**265,607**	**200,518**	**65,089**
Computer equipment	**289,172**	**136,666**	**152,506**
Leasehold improvements	**208,962**	**182,089**	**26,873**
	$ 2,400,782	**$ 1,343,225**	**$ 1,057,557**

Property, plant and equipment at August 31, 2004 is as follows:

	Cost	Accumulated Amortization	Net
Production equipment	$ 1,325,485	$ 596,395	$ 729,090
Furniture and fixtures	153,104	102,947	50,157
Vehicles	293,222	200,785	92,437
Computer equipment	266,006	73,114	192,892
Leasehold improvements	169,331	66,947	102,384
	$ 2,207,148	$ 1,040,188	$ 1,166,960

Included in property, plant and equipment are items under capital leases with a cost of $158,767 (2004 - $120,967) and accumulated amortization of $86,174 (2004 - $73,188).

4. ACQUISITIONS

(a) Gorman Distributing Ltd.

On March 5, 2004, the Company acquired all of the issued and outstanding shares of Gorman Distributing Ltd. ("Gorman"), a private Canadian company. The acquisition was accounted for using the purchase method.

The following is a summary of the assets acquired and consideration paid:

Assets	$ 5,221,846
Liabilities	(2,935,821)
Goodwill	1,077,068
Future taxes	(63,999)
Fair value of net assets acquired	**$ 3,299,094**
Consideration:	
Cash	$ 3,002,722
Holdback (included in accounts payable)	296,372
	$ 3,299,094

Cash outlay on purchase, including cash paid to settle Gorman bank indebtedness, was $3,305,647.

During the year ended August 31, 2005, $4,734 in additional legal fees relating to the Gorman purchase were added to goodwill.

4. ACQUISITIONS (Cont'd)

(b) Pizza Professionals Inc.

On June 22, 2004, the Company acquired certain assets relating to the distribution business of the Pizza Professionals Inc. which service franchisees and other independent retail pizza operators in Ontario. The aggregate purchase price was $565,957. The Company has the option of satisfying up to $150,000 of the purchase price by the issue of its common shares.

In the event that the Franchisor or its Parent Company become subject to any bankruptcy or insolvency proceedings or the contract is terminated by the Franchisor, its Parent Company or is amended so that the gross margin earned by the Company is below certain minimum thresholds, the Company shall have no obligation to make further payments on the Vendor take-back notes.

The following is a summary of the assets acquired and the consideration paid:

Inventory	$	201,015
Distribution rights		254,942
Equipment		110,000
Fair value of assets acquired	**$**	**565,957**
Consideration:		
Cash	$	315,957
Vendor take-back note #1 (Note 6)		100,000
Vendor take-back note #2 (Note 6)		150,000
	$	**565,957**

During the year ended August 31, 2005, the Franchisor became subject to court protection and accordingly, distribution rights were written off and the related debt extinguished in accordance with the agreement. A net charge of $34,199 was taken by the Company, representing the write-off of the related net assets.

5. CREDIT FACILITY

The Company has a demand operating line of credit with a Canadian chartered bank of $3,500,000, bearing interest at the bank's prime lending rate plus 0.40% (2004 - 0.50%), with interest payable monthly, secured by a general security agreement over all assets, and guarantees and postponements of claim signed by the subsidiaries.

The Company has a revolving lease agreement line of credit with a Canadian chartered bank for $500,000 to finance the acquisition of equipment. No amount was utilized at year end.

6. LONG-TERM DEBT

	2005	2004
Canadian chartered bank, bearing interest at the bank's prime rate plus .75% per annum, repayable at $44,833 per month plus interest, due March 5, 2007, secured by a general security agreement over all assets	**$2,372,319**	$2,910,331
Leases payable, requiring blended monthly payments in aggregate of $5,813, one lease without interest and others bearing interest at 10.14%, due from January 1, 2006 to January 7, 2007	**70,995**	153,277
Vendor take-back notes, requiring four annual payments of $62,500 (Note 4 (b))	**-**	250,000
	2,443,314	3,313,608
Less: Current portion	**594,518**	683,443
	$1,848,796	$2,630,165

Future principal payments are as follows:

2006	$ 594,518
2007	1,848,796
	$ 2,443,314

7. LETTERS OF GUARANTEE

The Company from time to time requests that its bank issue letters of credit or letters of guarantee ("letters") in favour of suppliers and customers to guarantee payment of certain obligations. The issuing bank require that the Company provide its indemnity to ensure repayment of amounts paid out under the letters, if drawn. As at August 31, 2005, the Company had issued indemnities in respect of such letters totaling $310,000, expiring between March 2, 2006 and August 23, 2006.

Subsequent to year-end, a letter of guarantee issued on behalf of the Company in the amount of $250,000 was cancelled by the beneficiary.

8. REDEEMABLE PREFERRED SHARES

	2005	2004
Authorized		
200 non-voting preference shares		
Issued		
200 non-voting preferred shares, eligible to participate in dividends at the discretion of the directors on a non-cumulative basis, redeemable at the option of the corporation or shareholder at $1,000 per share. The holders have agreed not to demand redemption until after August 31, 2006.	**$ 200,000**	$ 200,000

9. CAPITAL STOCK

Authorized
unlimited common shares

Issued

	Number	Value
Balance at August 31, 2003 and 2004	13,443,170	**$ 542,134**
Issued on exercise of warrants	4,140,500	**1,242,150**
Issued on exercise of options	355,000	**169,648**
Balance at August 31, 2005	17,938,670	**$1,953,932**

10. CONTRIBUTED SURPLUS

The following summarizes the change in contributed surplus:

	2005	2004
Beginning balance	**$ 70,070**	$ -
Stock options granted (i)	**6,870**	70,070
Stock options exercised	**(27,272)**	-
Ending balance	**$ 49,668**	$ 70,070

(i) Relates to options granted in prior year as described in Note 12.

11. STOCK OPTIONS

The Company maintains a stock option plan for the benefit of directors, officers, employees and other persons providing services to the Company. The maximum number of options reserved under the plan cannot exceed 20% of the total number of issued and outstanding common shares.

The following summarizes the stock option activities:

	2005		2004	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Beginning balance	**1,000,000**	**$ 0.40**	-	$ -
Granted	**-**	**-**	1,000,000	0.40
Exercised [(i)]	**(355,000)**	**0.40**	-	-
Outstanding, end of year	**645,000**	**$ 0.40**	1,000,000	$ 0.40
Exercisable	**645,000**			

(i) Upon exercise of these options, $27,272 was transferred from contributed surplus to share capital.

The Company had the following stock options outstanding at August 31, 2005:

Number of Options	**Exercisable**	**Exercise Price**	**Expiry Date**
125,000	125,000	$ 0.405	March 31, 2006
520,000	520,000	$ 0.400	January 8, 2009
645,000	645,000		

12. STOCK BASED COMPENSATION

The total compensation expense for the year ended August 31, 2005 relating to grants issued in the prior year was $6,870 (2004 - $6,870) and is included in selling, general and administrative. The total amount charged to contributed surplus for the year ended August 31, 2005 was $6,870 (2004 - $6,870), as disclosed in Note 10.

13. RELATED PARTY TRANSACTIONS

During the year, the Company had the following related party transactions that have not been disclosed elsewhere in these financial statements:

- The Company purchased $617,367 (2004 - $586,436) worth of inventory at or below market rates and sold $38,327 (2004 - $35,329) of product at similar rates from/to a company in which certain officers and directors have a financial interest.

14. COMMITMENTS

(a) The Company is committed to the following minimum lease payments for its current premises, equipment, and vehicles as follows:

2006	$ 1,676,200
2007	1,732,200
2008	1,538,700
2009	1,455,500
2010	1,168,000
	$ 7,570,600

(b) The Company is also committed to aggregate lease payments of $310,319 (2004 - $606,609) on its former premises. The Company has subleased the premises and expects to receive $266,000 (2004 - $517,000) in total rent payments. The net amount has been reflected as a liability on the balance sheet.

15. INCOME TAXES

Income Tax Expense

The following table reconciles income taxes calculated at combined Canadian federal/ provincial tax rates with the income tax expense in the consolidated financial statements:

	2005	2004
Earnings before income taxes	**$2,691,933**	$1,439,495
Statutory rate	**36.1 %**	36.3 %
Expected income tax expense	**971,788**	522,537
Effect on income taxes of unrecognized future income tax assets relating to:		
Deductible temporary differences on property, plant and equipment	**19,940**	(18,497)
Non-deductible expenses	**9,701**	27,705
Other differences	**(18,785)**	(6,350)
Income tax expense	**$ 982,644**	$ 525,395

Future Income Taxes

The temporary differences that give rise to future income tax assets and future income tax liabilities are presented below:

	2005	2004
Future tax assets		
Amounts relating to temporary difference between accounting and tax purposes	**$ 18,786**	$ 32,856
Future tax liabilities		
Amounts relating to differences in values of other assets for accounting and tax purposes	**$ -**	$ (32,875)