The Skor Food Group Inc.

Consolidated Financial Statements

August 31, 2007 and 2006

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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, 2007** and **2006** and the consolidated statements of operations 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, 2007** and **2006** 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 7, 2007

The Skor Food Group Inc.

Consolidated Balance Sheets
As at August 31

	Note	2007	2006
Assets			
Current			
Cash		$ 868,354	$ 3,275,156
Accounts receivable		6,313,674	6,386,264
Inventory		9,884,424	14,724,633
Purchase rebates receivable from suppliers		1,668,685	1,566,945
Current portion of loans receivable	4	96,740	-
Prepaid expenses and other assets		1,784,420	1,781,048
Income taxes recoverable		666,780	-
		21,283,077	27,734,046
Property, plant and equipment	5	3,917,397	3,867,272
Future income taxes	18	420,079	75,857
Goodwill		2,967,462	1,222,948
Intangibles	6	1,466,315	321,929
Loans receivable	4	150,787	-
		$ 30,205,117	$ 33,222,052
Liabilities			
Current			
Bank indebtedness	7	$ 1,020,000	$ -
Accounts payable and accrued liabilities		8,668,608	14,358,469
Income taxes payable		-	38,170
Current portion of long-term debt	8	3,713,776	1,837,573
		13,402,384	16,234,212
Redeemable preferred shares	10	-	200,000
		13,402,384	16,434,212
Shareholders' Equity			
Capital stock	11	10,766,328	10,515,516
Contributed surplus	12	72,687	103,024
Retained earnings		5,963,718	6,169,300
		16,802,733	16,787,840
		$ 30,205,117	$ 33,222,052

Commitments and Contingencies (Note 17)

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

See accompanying notes.

The Skor Food Group Inc.

Consolidated Statements of Operations and Retained Earnings
For the Years Ended August 31

	Note	2007	2006
Revenue		**$180,160,588**	$154,054,467
Cost of sales		**156,494,875**	134,975,727
Gross profit		**23,665,713**	19,078,740
Expenses			
Operating		**22,366,884**	15,257,888
Interest on long-term debt		**218,033**	130,788
Amortization - property, plant and equipment		**972,083**	602,149
Amortization - intangibles		**195,912**	-
		23,752,912	15,990,825
Earnings (loss) before undernoted		**(87,199)**	3,087,915
Relocation costs		**42,893**	348,181
Net loss (income) of Galaxie to be disposed of	21	**50,448**	(1,365)
Earnings (loss) before income taxes		**(180,540)**	2,741,099
Income taxes (recovered)			
Current		**244,831**	1,069,224
Future		**(219,789)**	(57,072)
		25,042	1,012,152
Net earnings (loss)		**(205,582)**	1,728,947
Retained earnings at beginning of year		**6,169,300**	4,440,353
Retained earnings at end of year		**$ 5,963,718**	$ 6,169,300

Earnings (loss) per share			
Basic		**$ (0.008)**	$ 0.080
Diluted		**$ (0.008)**	$ 0.078

Weighted average common shares outstanding			
Basic		**25,716,821**	21,614,286
Diluted		**25,760,201**	22,064,134

See accompanying notes.

The Skor Food Group Inc.

Consolidated Statements of Cash Flows
For the Years Ended August 31

	Note	2007	2006
Cash flows from operating activities			
Net earnings (loss) for year		**$ (205,582)**	$ 1,728,947
Add (deduct) items not affecting cash			
Amortization		**1,203,236**	582,149
(Gain) loss on disposal of property, plant and equipment		**(14,908)**	77,764
Future income taxes		**(219,789)**	(57,071)
Stock-based compensation		**9,850**	56,516
		772,807	2,388,305
Changes in non-cash working capital items, excluding effects of acquisitions			
Accounts receivable		**391,152**	(849,073)
Inventory		**5,163,450**	(343,883)
Prepaid expenses and other assets		**70,925**	(1,197,922)
Income taxes payable		**(700,403)**	(147,783)
Purchase rebates receivable from suppliers		**(101,740)**	(891,268)
Accounts payable and accrued liabilities		**(6,855,291)**	9,655,606
		(1,259,100)	8,613,982
Cash flows from investing activities			
Purchase of property, plant and equipment		**(904,658)**	(1,400,713)
Short-term investment		**-**	600,000
Proceeds from disposal of property, plant and equipment		**34,070**	222,000
Acquisitions - cash paid and bank indebtedness assumed	3	**(3,176,996)**	(13,729,784)
Loans receivable		**42,668**	-
		(4,004,916)	(14,308,497)
Cash flows from financing activities			
Bank indebtedness		**1,020,000**	-
Proceeds of long-term debt		**2,437,228**	-
Repayment of long-term debt		**(610,639)**	(605,741)
Redeemable preference shares redeemed		**(200,000)**	-
Issuance of capital stock		**210,625**	8,358,424
		2,857,214	7,752,683
Increase (decrease) in cash during the year		**(2,406,802)**	2,058,168
Cash at beginning of year		**3,275,156**	1,216,988
Cash at end of year		**$ 868,354**	$ 3,275,156

Supplemental Disclosure

	2007	2006
Cash paid for income taxes	**$ 1,071,569**	$ 1,385,374
Cash paid for interest	**$ 294,786**	$ 130,788

See accompanying notes.

1. BASIS OF PRESENTATION

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles. The Corporation is a full service wholesale food distributor to the food service and retail industry in Ontario.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Skor Food Service Ltd., 2096935 Ontario Limited, Skor Franchise Services Limited, Skor Franchise Inc. and Skor Culinary Concepts Inc. which was incorporated on January 9, 2007. Derry Foods Limited and Gorman Distributing Ltd. were amalgamated during the year to form Skor Food Service Ltd. All intercompany accounts and transactions have been eliminated.

2. SIGNIFICANT ACCOUNTING POLICIES

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:

Warehouse 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

Intangibles

Catering routes are amortized on a straight-line basis over ten years. Customer relationships are amortized on a straight-line basis over one to seven years. Non-compete agreements are amortized on a straight-line basis over a term of five years. Franchise rights include franchise rights and a master franchise agreement. The franchise rights are amortized on a straight-line basis over their expected useful life.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Goodwill

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. Impairment would be recognized when the estimated fair value of the goodwill is lower than the carrying value.

Income Taxes

The Company follows the 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 enacted or substantially 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.

Impairment of Long-Lived Assets

Long-lived assets comprise property, plant and equipment and intangible assets with finite lives. The Company recognizes an impairment loss for a long lived asset when events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability is assessed by comparing the carrying amount to the projected future net cash flows the long-lived assets are expected to generate. Long-lived assets determined to be impaired are written down to fair value. The Company did not record any impairment charges for the year ended August 31, 2007.

Revenue Recognition

The Company recognizes revenue from the sale of a product when it is delivered to the customer. Product may not be returned for credit once it has been delivered and accepted by the customer. Certain rebates and discounts are occasionally offered to customers and are recorded as a reduction to sales.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Stock-Based compensation and Other Stock-Based Payments

The Company applies a fair value based method of accounting to all 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. Stock-based compensation is charged to operations over the vesting period with the offset 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.

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 be issued upon exercise of dilutive options assuming the proceeds would be used to repurchase shares at average market prices for the period.

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.

Significant areas requiring the use of management estimates relate to the useful lives of property, plant and equipment and intangibles for amortization purposes, valuation of stock-based payments, fair value of long-term debt and loans receivable, determination of the valuation of goodwill and intangible assets, amounts recorded as accrued liabilities, valuation allowance on future tax assets and the fair values of financial instruments.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Adoption of New Accounting Policies

The Accounting Standard Board of the Institute of Chartered Accountants of Canada issued Handbook Sections 3855 - Financial Instruments - Recognition and Measurement, 3861 - Financial Instruments - Disclosure and Presentation, 3251 - Equity, and 1530 - Comprehensive Income, which will be applied by the Company for its interim and annual consolidated financial statements for fiscal period beginning on September 1, 2007.

Section 3855 prescribes the timing of when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and the measurement of such amount. Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. Section 3251 establishes standards for the presentation of equity and changes in equity.

Section 1530 introduces new standards for the presentation and disclosure of components of comprehensive income. Comprehensive income is defined as the change in net assets of an enterprise during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in net assets during a period except those resulting from investments by owners and distributions to owners.

The Company determined that the impact of the implementation of these new standards on its 2008 consolidated financial statements would not be material.

3. ACQUISITIONS

(a) Acquisition of Undernoted Corporations

On January 19, 2007, the Company acquired all of the issued and outstanding shares of Peel Halton Kitchens Inc., Pat Deluca Holdings Inc., Royal Town Foods Inc., 1054125 Ontario Limited, Festive Food Catering Ltd., and 1599934 Ontario Inc., all private Canadian corporations. Subsequent to the acquisition, these companies were amalgamated with Skor Culinary Concepts Inc. The acquisition was accounted for using the purchase method. These consolidated financial statements reflect the results of operations of these companies from the date of acquisition.

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

Assets	$ 1,583,639
Liabilities (including bank indebtedness of $513,340)	(1,981,651)
Customer relationships	245,187
Non-compete agreements	1,071,966
Goodwill	1,744,515
Fair value of net assets acquired	**$ 2,663,656**
Consideration:	
Cash	**$ 2,663,656**

As per acquisition agreements, additional amounts may be owing on acquisition, subject to various adjustments, as described in Note 17(iii).

(b) 2096935 Ontario Limited (operating as Skor Cash and Carry)

On March 31, 2006, the Company acquired all of the issued and outstanding shares of 2096935 Ontario Limited. ("Skor Cash and Carry"), a private Canadian company. The acquisition was accounted for using the purchase method.

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

Assets	$13,759,295
Liabilities	(163,801)
Goodwill	141,146
Fair value of net assets acquired	**$13,736,640**
Consideration:	
Cash	$13,622,140
Due to vendor	114,500
	$13,736,640

3. ACQUISITIONS (Cont'd)

(c) Galaxie Diner Inc.

On August 24, 2006, the Company acquired certain assets relating to the franchise business of Galaxie Diner Inc ("Galaxie"). The aggregate purchase price was $365,345.

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

Rebates receivable	$ 42,500
Computer equipment	916
Franchise rights	321,929
Fair value of assets acquired	**$ 365,345**
Consideration:	
Cash	$ 165,345
Common shares issued	200,000
	$ 365,345

Subsequent to the year ended August 31, 2007, the Company and the vendor have mutually agreed that the assets which were acquired be transferred back to the vendor, as described in Note 21.

4. LOANS RECEIVABLE

Amounts due to the Company bear interest of 5.5%-10%, are secured by equipment purchased with the loan proceeds, and due between March 14, 2008 and March 28, 2014.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at August 31, 2007 is as follows:

	Cost	Accumulated Amortization	Net
Warehouse equipment	**$ 3,093,430**	**$ 1,318,875**	**$ 1,774,555**
Furniture and fixtures	**1,909,259**	**632,151**	**1,277,108**
Vehicles	**445,240**	**321,237**	**124,003**
Computer equipment	**978,578**	**470,232**	**508,346**
Leasehold improvements	**537,850**	**304,465**	**233,385**
	$ 6,964,357	**$ 3,046,960**	**$ 3,917,397**

Property, plant and equipment at August 31, 2006 is as follows:

	Cost	Accumulated Amortization	Net
Warehouse equipment	$ 2,225,982	$ 707,208	$ 1,518,774
Furniture and fixtures	1,863,530	293,135	1,570,395
Vehicles	260,489	193,598	66,891
Computer equipment	697,613	245,083	452,530
Leasehold improvements	430,845	172,163	258,682
	$ 5,478,459	$ 1,611,187	$ 3,867,272

Included in property, plant and equipment as at August 31, 2006 are items under capital leases with a cost of $158,767 and accumulated amortization of $107,951.

6. INTANGIBLES

Intangibles at August 31, 2007 are as follows:

	Cost	Accumulated Amortization	Net
Franchise rights	**$ 321,929**	**$ 35,241**	**$ 286,688**
Catering routes	**58,386**	**5,102**	**53,284**
Customer relationships	**245,187**	**56,814**	**188,373**
Non-compete agreements	**1,071,966**	**133,996**	**937,970**
	$ 1,697,468	**$ 231,153**	**$ 1,466,315**

Intangibles at August 31, 2006 are as follows:

	Cost	Accumulated Amortization	Net
Franchise rights	**$ 321,929**	**$ -**	**$ 321,929**

7. CREDIT FACILITY

The Company has a revolving demand facility with a Canadian chartered bank of $6,000,000, bearing interest at the bank's prime lending rate plus 0.30% (2006 - Bank's prime lending rate plus 0.30%), with interest payable monthly, secured by a general security agreement constituting a first ranking security interest in all personal property of Skor Food Service Ltd., and guarantees and postponements of claim signed by the Company, 2096935 Ontario Limited, Skor Franchise Services Limited, Skor Franchise Inc. and Skor Culinary Concepts Inc. $1,020,000 is outstanding under this facility at August 31, 2007.

The Company has a revolving lease line of credit with a Canadian chartered bank of $500,000 to finance the acquisition of equipment. No amount was outstanding under this facility at August 31, 2007.

8. LONG-TERM DEBT

	2007	2006
Canadian chartered bank, bearing interest at the bank's prime rate plus .75% per annum, repayable at $44,833 per month plus interest, due March 5, 2007, secured by a general security agreement over all assets	**$ -**	$ 1,834,308
Canadian chartered bank, bearing interest at the bank's prime lending rate plus 0.75% per annum, repayable at $82,389 per month plus interest with payments commencing on June 1, 2007, due on June 1, 2010, secured by a general security agreement constituting a first ranking security interest in all personal property of Skor Food Service Ltd., and guarantees and postponements of claim signed by the Company, 2096935 Ontario Limited, Skor Franchise Services Limited, Skor Franchise Inc. and Skor Culinary Concepts Inc.	**2,726,934**	-
Canadian chartered bank, bearing interest at the bank's prime lending rate plus 0.75% per annum, repayable as follows; i) interest only payments until January 19, 2008 ii) monthly principal payments of $27,412 commencing on January 19, 2008, due on January 19, 2011, secured by a general security agreement constituting a first ranking security interest in all personal property of Skor Culinary Concepts Inc., and guarantees and postponements of claim signed by the Company and all subsidiaries.	**986,842**	-
Other	**-**	3,265
	3,713,776	1,837,573
Less: Current portion (i)	**3,713,776**	1,837,573
	$ -	$ -

8. LONG-TERM DEBT (Cont'd)

(i) The Company was in technical breach on one of its debt service covenants at year end and accordingly has classified its term loans as current. The bank has agreed to tolerate the breach until such time that more appropriate covenants are established.

(ii) Future principal payments under original terms are as follows:

2008	$ 988,668
2009	1,322,001
2010	1,249,598
2011	153,509
	$ 3,713,776

9. 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 to guarantee payment of certain obligations. The issuing bank requires that the Company provide it an indemnity to ensure repayment of amounts paid out under the letters, if drawn. As at August 31, 2007, the Company had issued indemnities in respect of such letters totaling $20,000 (2006 - $170,000), expiring between March 2, 2008 and June 6, 2008.

10. REDEEMABLE PREFERRED SHARES

	2007	2006
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 $1,000 per share. (i)	**$ -**	$ 200,000

(i) During the year, the preference shares were redeemed.

11. CAPITAL STOCK

Authorized
unlimited common shares

Issued

	Number	Value
Balance at August 31, 2005	17,938,670	**$ 1,953,932**
Issued on exercise of options	40,000	**19,160**
Issued pursuant to a private placement	7,500,000	**8,342,424**
Issued pursuant to the acquisition of Galaxie (Note 3(c))	145,000	**200,000**
Balance at August 31, 2006	25,623,670	**$10,515,516**
Issued on exercise of options	525,000	**250,812**
Balance at August 31, 2007	26,148,670	**$10,766,328**

12. CONTRIBUTED SURPLUS

The following summarizes the change in contributed surplus:

	2007	2006
Beginning balance	**$ 103,024**	$ 49,668
Stock options granted	**9,850**	56,516
Stock options exercised	**(40,187)**	(3,160)
Ending balance	**$ 72,687**	$ 103,024

13. STOCK OPTIONS AND WARRANTS

(i) Stock Options

The Corporation has in place a stock option plan (the "Plan"). The Plan has not been amended since its adoption by shareholders of the Corporation on June 26, 2002. The Plan restricts eligibility for participation to directors, officers, employees and consultants of the Corporation. The number of shares subject to options granted under the Plan (and under all other management options and employee stock purchase plans) is limited to 20% in the aggregate (in any 12-month period), of the number of issued and outstanding shares of the Corporation at the date of the grant of the option. Notwithstanding the foregoing the maximum aggregate number of shares issued or subject to options granted under the Plan or reserved and set aside for issue under the Plan and under all other management option plans outstanding and employee stock purchase plans shall not exceed 2,600,000 shares. The exercise price of any option granted under the Plan may be fixed by the board of directors of the Corporation but may not be less than the fair market value (e.g., the prevailing market price) of the shares at the time the option is granted. Options issued under the Plan may be exercised during a period of up to five years from the date of the issuance of the options and are subject to earlier termination upon the termination of the optionee's employment, upon the optionee ceasing to be a director and/or officer or upon the termination of a specified contract of the Corporation, or upon the retirement, permanent disability or death of an optionee. The options are not transferable.

The following summarizes the stock option activities:

	2007		2006	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Beginning balance	**890,000**	**$ 0.64**	645,000	$ 0.40
Granted	**100,000**	**0.90**	285,000	1.19
Exercised	**(525,000)**	**0.40**	(40,000)	0.40
Outstanding, end of year	**465,000**	**$ 0.97**	890,000	$ 0.64
Exercisable	**465,000**		890,000	

The Company had the following stock options outstanding at August 31, 2007:

Number of Options	**Exercisable**	**Exercise Price**	**Expiry Date**
145,000	145,000	$ 0.95	October 27, 2008
80,000	80,000	$ 0.40	January 8, 2009
140,000	140,000	$ 1.36	March 22, 2009
100,000	100,000	$ 0.90	December 30, 2009
465,000	465,000		

13. STOCK OPTIONS AND WARRANTS (Cont'd)

(ii) Warrants

All of the outstanding warrants were issued in conjunction with the issuance of common shares. Net proceeds received for the issuance of units comprising shares and warrants is reflected in capital stock.

The Company had the following warrants outstanding at August 31, 2007:

Number of Warrants	Exercise Price	Expiry Date
450,000	$ 1.20	September 7, 2007 (i)

(i) These warrants expired unexercised subsequent to the year-end.

14. STOCK BASED COMPENSATION

The total compensation expense for the year ended August 31, 2007 relating to grants issued in the year was $9,850 (2006 - $56,516) and is included in operating expenses. The total amount charged to contributed surplus for the year ended August 31, 2007 was $9,850 (2006 - $56,516), as disclosed in Note 12.

The fair value of each option granted in the year ended August 31, 2007 has been estimated at the date of grant or the date when it became measurable using the Black-Scholes option pricing model with the following weighted-average assumptions: (i) dividend yield of 0% (2006 - 0%); (ii) the expected volatility of 30% (2006 - 30%); (iii) the risk free interest rate of 3.99% (2006 - 3.82%) and (iv) expected lives of 1.5 years (2006 - 3 years). The Company has assumed no forfeiture rate as adjustments for actual forfeitures are made in the year they occur. The weighted-average grant date fair value of options issued in the year ended August 31, 2007 was $0.10 (2006 - $0.20).

15. FINANCIAL INSTRUMENTS

(i) Fair Value

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect estimates.

The carrying values of cash, accounts receivable, purchase rebates receivable from suppliers and accounts payable and accrued liabilities approximate fair values due to the relatively short term maturities of these instruments. The fair values of long term loans receivable and long term debt approximate carrying value.

(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.

(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 cash flow interest rate risk on bank indebtedness and long-term debt due to the floating rate nature of these instruments.

16. RELATED PARTY TRANSACTIONS

Transactions with related parties are incurred in the normal course of business and are measured at the exchange amount, which is the consideration established and agreed to by the respective parties. During the year, the Company had the following related party transactions that have not been disclosed elsewhere in these financial statements:

The Company purchased $912,763 (2006 - $987,369) worth of inventory at or below market rates and sold $21,161 (2006 - $36,226) of product at similar rates from/to a company in which certain officers and directors have a financial interest.

The Company paid $Nil (2006 - $45,000) in consulting fees to a director relating to the acquisition of Skor Cash and Carry disclosed in note 3(b).

17. COMMITMENTS AND CONTINGENCIES

i) A legal claim has been made against the Company for $4,760,000 relating to a terminated acquisition. The Company believes the claim is without merit and has filed a defence to vigorously contest the action. The amount of any potential loss is indeterminable at this time and accordingly, no provision has been made in the financial statements. The Company has also issued a counter claim for damages.

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

2008	$2,605,005
2009	2,516,357
2010	2,015,524
2011	262,842
2012	232,905
Subsequent	89,976
	$7,722,609

iii) The Company may owe an additional amount of $125,000 on the acquisitions described in Note 3(a). As per the acquisition agreements, the Company has 60 days from the date of acquisition to settle any adjustments that may be allowed per agreement. The Company and the vendor have not reached an agreement at year end and are currently in negotiations. It is expected that the amount will be settled by an arbitrator appointed by the Company and the vendor in accordance with the agreement.

18. 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:

	2007	2006
Earnings (loss) before income taxes	$ (180,540)	$ 2,741,099
Statutory rate	36.1 %	36.1 %
Expected income tax expense (recovery)	(65,175)	989,537
Effect on income taxes of unrecognized future income tax assets relating to:		
Unutilized tax losses	84,603	17,924
Deductible temporary differences on property, plant and equipment and intangibles	(8,010)	(9,240)
Non-deductible expenses	13,624	29,118
Other	-	(15,187)
Income tax expense	$ 25,042	$ 1,012,152

Future Income Taxes

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

	2007	2006
Future tax assets		
Amounts related to tax loss carryforwards	$ 206,234	$ 17,924
Amounts relating to temporary difference between accounting and tax purposes on property, plant and equipment and intangibles	213,845	57,933
Balance at end of year	$ 420,079	$ 75,857

As at August 31, 2007, the Company has non-capital tax loss carryforwards of $671,665 expiring as follows:

2010	$ 205,769
2014	10,839
2015	5,635
2026	32,326
2027	417,096
	$ 671,665

19. SIGNIFICANT CUSTOMER AND SUPPLIER

At August 31, 2007, one customer represents 6% of sales and 10% of accounts receivable balance and one supplier represents 15% of the Company's purchases during the year.

20. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

21. SUBSEQUENT EVENT

During the year ended August 31, 2007, the Company and the vendor of Galaxie (acquisition described in Note 3(c)) agreed to unwind the transaction. Subsequent to the year end, the Company and the vendor of Galaxie have mutually agreed to transfer back to the vendor the assets acquired on August 24, 2006, described in Note 3(c), relating to the franchise business of Galaxie in exchange for cash consideration paid on acquisition, and the transfer back of share consideration issued to the vendor on acquisition.

The operations of the Galaxie have been treated as a discontinued operation in the statement of operations. The net assets of Galaxie as at August 31, 2007 are comprised of the following:

Net current assets	$39,354
Intangibles	$286,688