

# **The Skor Food Group Inc.**

**Consolidated Financial Statements**

**August 31, 2008 and 2007**

## 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, 2008** and **2007** 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, 2008** and **2007** and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

*Collins Barrow Toronto LLP*

**Collins Barrow Toronto LLP**  
**Licensed Public Accountants**

November 21, 2008, except for Note 15(i), which is as of December 9, 2008  
Toronto, Ontario

# The Skor Food Group Inc.

## Consolidated Balance Sheets

As at August 31

	Note	2008	2007
<b>Assets</b>			
<b>Current</b>			
Cash		\$ 550,300	\$ 868,354
Accounts receivable		5,963,493	6,274,362
Inventory		9,029,045	9,884,424
Purchase rebates receivable from suppliers		2,152,551	1,668,684
Current portion of loans receivable	4	58,153	96,740
Prepaid expenses and other assets		786,385	1,784,421
Income taxes recoverable		409,590	666,780
Current assets of Galaxie division to be disposed of	18(ii)	28,751	39,312
Current assets of discontinued operations	18(i)	1,432,043	-
		<b>20,410,311</b>	<b>21,283,077</b>
Property, plant and equipment	5	4,493,945	3,917,397
Future income taxes	16	418,099	420,079
Goodwill		3,005,780	2,967,462
Assets of discontinued operations	18(i)	260,787	-
Assets of Galaxie division to be disposed of	18(ii)	286,688	286,688
Intangibles	6	1,726,282	1,179,627
Loans receivable	4	117,557	150,787
		<b>\$ 30,719,449</b>	<b>\$ 30,205,117</b>
<b>Liabilities</b>			
<b>Current</b>			
Bank indebtedness	7	\$ 1,570,000	\$ 1,020,000
Accounts payable and accrued liabilities		9,143,054	8,668,608
Current portion of long-term debt	8	2,391,775	3,713,776
Current liabilities of discontinued operations	18(i)	358,378	-
		<b>13,463,207</b>	<b>13,402,384</b>
<b>Shareholders' Equity</b>			
Capital stock	9	10,766,328	10,766,328
Contributed surplus	10	86,277	72,687
Retained earnings		6,403,637	5,963,718
		<b>17,256,242</b>	<b>16,802,733</b>
		<b>\$ 30,719,449</b>	<b>\$ 30,205,117</b>

### Commitments and Contingencies (Note 15)

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

See accompanying notes.

# The Skor Food Group Inc.

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

	Note	2008	2007
<b>Revenue</b>		<b>\$145,705,135</b>	\$160,252,552
<b>Cost of sales</b>		<b>121,945,219</b>	137,312,720
<b>Gross profit</b>		<b>23,759,916</b>	22,939,832
<b>Expenses</b>			
Operating		20,981,131	21,157,608
Interest on long-term debt		203,519	218,033
Amortization - property, plant and equipment		1,014,786	870,648
Amortization - intangibles		356,511	195,912
		<b>22,555,947</b>	22,442,201
<b>Earnings before undernoted</b>		<b>1,203,969</b>	497,631
Relocation costs		6,448	42,893
Net loss from discontinued operations	18(i)	578,945	584,830
Net loss of Galaxie to be disposed of	18(ii)	880	50,448
<b>Earnings (loss) before income taxes</b>		<b>617,696</b>	(180,540)
<b>Income taxes (recovered)</b>			
Current		150,862	244,831
Future		26,915	(219,789)
		<b>177,777</b>	25,042
<b>Net earnings (loss)</b>		<b>439,919</b>	(205,582)
<b>Retained earnings at beginning of year</b>		<b>5,963,718</b>	6,169,300
<b>Retained earnings at end of year</b>		<b>\$ 6,403,637</b>	\$ 5,963,718
<b>Earnings (loss) per share before discontinued operations</b>			
Basic		\$ 0.046	\$ 0.018
Diluted		\$ 0.046	\$ 0.018
<b>Earnings (loss) per share</b>			
Basic and diluted		\$ 0.017	\$ (0.008)
Diluted		\$ 0.017	\$ (0.008)
<b>Weighted average common shares outstanding</b>			
Basic		26,148,670	25,716,821
Diluted		26,155,301	25,760,201

See accompanying notes.

# The Skor Food Group Inc.

## Consolidated Statements of Cash Flows For the Years Ended August 31

	Note	2008	2007
<b>Cash flows from operating activities</b>			
Net earnings (loss) for year		\$ 439,919	\$ (205,582)
Add (deduct) items not affecting cash			
Amortization		1,457,581	1,203,236
Gain on disposal of property, plant and equipment		-	(14,908)
Future income taxes		26,915	(219,789)
Stock-based compensation		13,590	9,850
		<b>1,938,005</b>	<b>772,807</b>
Changes in non-cash working capital items, excluding effects of acquisitions			
Accounts receivable		606,797	391,152
Inventory		(501,649)	5,163,450
Prepaid expenses and other assets		998,035	70,925
Income taxes payable		257,190	(700,403)
Purchase rebates receivable from suppliers		(544,069)	(101,740)
Accounts payable and accrued liabilities		(45,196)	(6,855,291)
		<b>2,709,113</b>	<b>(1,259,100)</b>
Cash flows from operating activities of continuing operations			
Cash flows from operating activities of discontinued operations		68,448	-
		<b>2,777,561</b>	<b>(1,259,100)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(871,843)	(904,658)
Proceeds from disposal of property, plant and equipment		-	34,070
Acquisitions - cash paid and bank indebtedness assumed	3	(1,510,805)	(3,176,996)
Loans receivable		71,817	42,668
		<b>(2,310,831)</b>	<b>(4,004,916)</b>
Cash flows used in investing activities of continuing operations			
Cash flows used in investing activities of discontinued operations		(12,783)	-
		<b>(2,323,614)</b>	<b>(4,004,916)</b>
<b>Cash flows from financing activities</b>			
Bank indebtedness		550,000	1,020,000
Proceeds of long-term debt		-	2,437,228
Repayment of long-term debt		(1,322,001)	(610,639)
Redeemable preference shares redeemed		-	(200,000)
Issuance of capital stock		-	210,625
		<b>(772,001)</b>	<b>2,857,214</b>
<b>Decrease in cash during the year</b>		<b>(318,054)</b>	<b>(2,406,802)</b>
<b>Cash at beginning of year</b>		<b>868,354</b>	<b>3,275,156</b>
<b>Cash at end of year</b>		<b>\$ 550,300</b>	<b>\$ 868,354</b>

### Supplemental Disclosure

		2008	2007
Cash paid for income taxes	\$	(44,206)	\$ 1,071,569
Cash paid for interest	\$	316,573	\$ 294,786

See accompanying notes.

# The Skor Food Group Inc.

## Notes to Consolidated Financial Statements

August 31, 2008 and 2007

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### 1. NATURE OF OPERATIONS

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.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated

#### Inventory

Inventory, which consists primarily of finished goods, 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

#### Acquisitions

Acquisitions are accounted for using the purchase method. These consolidated financial statements reflect the results of operations of the acquired companies from the date of acquisition.

#### Intangibles

Intangibles are recorded at cost and are amortized over their estimated useful lives as follows:

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 the term of the agreements, which is five years. Franchise rights include franchise rights and a master franchise agreement.

# The Skor Food Group Inc.

Notes to Consolidated Financial Statements

August 31, 2008 and 2007

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## 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 years ended August 31, 2008 and 2007.

### Disposal of Long-Lived Assets and Discontinued Operations

Long-lived assets are classified as held for sale when specific criteria are met, in accordance with CICA 3475, "Disposal of Long-Lived Assets and Discontinued Operations". Assets held for sale are measured at the lower of their carrying amounts and fair values less costs to dispose and are no longer amortized. Assets and liabilities classified as held for sale are reported separately on the balance sheet. A component of the Company that is held for sale is reported as a discontinued operation if the operations and cash flows of the component will be eliminated from the ongoing operations as a result of the disposal transaction and the Company will not have a significant continuing involvement in the operations of the component after the disposal transaction.

# The Skor Food Group Inc.

Notes to Consolidated Financial Statements

August 31, 2008 and 2007

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## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 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.

### 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, 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.

# The Skor Food Group Inc.

Notes to Consolidated Financial Statements

August 31, 2008 and 2007

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## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Adoption of new accounting policies

Effective September 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855, Financial Instruments - Recognition and Measurement, Section 3861, Financial Instruments - Disclosure and Presentation and Section 3251, Equity. These changes in accounting policy are not applied retroactively and accordingly, comparative amounts for prior periods, if any, have not been restated.

Section 3855 establishes standards for recognizing and measuring financial instruments, which include financial assets, financial liabilities, derivatives and embedded derivatives. Under these recommendations, all financial instruments are to be recorded initially at fair value. In subsequent periods, all financial instruments are re-measured based on the classification adopted for the financial instrument: held-to-maturity, loans and receivables, held for trading, available-for-sale or other liability.

#### Financial assets

##### Held for trading

Financial assets that are held with the intention of generating profits in the near term and derivative contracts that are financial assets, except for a derivative that is a designated and effective hedging instrument, are classified as held for trading. In addition, any other financial assets can be designated by the Company upon initial recognition as held for trading. These instruments are subsequently re-measured at fair value with the change in the fair value recognized in net income during the period.

##### Held-to-maturity

Financial assets that have a fixed maturity date and which the Company has a positive intention and the ability to hold to maturity are classified as held-to-maturity, which are subsequently re-measured at amortized cost using the effective interest rate method.

##### Loans and receivables

Loans and receivables are non-derivative financial assets resulting from the delivery of cash or other assets in return for a promise to repay on a specified date, or on demand, usually with interest. Loans and receivables are subsequently re-measured at amortized cost using the effective interest rate method.

##### Available-for-sale

Available-for-sale assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Financial assets classified as available-for-sale are subsequently re-measured at fair value with the changes in fair value recorded in other comprehensive income.

# The Skor Food Group Inc.

Notes to Consolidated Financial Statements

August 31, 2008 and 2007

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## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Financial liabilities

#### Held for trading

Financial liabilities that are held with the intention of generating profits in the near term and derivative contracts that are financial liabilities, except for a derivative that is a designated and effective hedging instrument, are classified as held for trading. In addition, any other financial liabilities can be designated by the Company upon initial recognition as held for trading. These instruments are subsequently re-measured at fair value with the change in the fair value recognized in net income during the period.

#### Other liabilities

Non-derivative financial liabilities that have not been designated as held for trading are classified as other liabilities, which are subsequently re-measured at amortized cost using the effective interest rate method.

The Company has classified its financial instruments as follows:

<u>Financial Instrument</u>	<u>Classification</u>	<u>Accounting Treatment</u>
Cash	Held for trading	Fair value
Accounts and rebates receivable	Loans and receivable	Amortized cost
Loans receivable	Loans and receivable	Amortized cost
Bank Indebtedness	Held for trading	Fair value
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Long Term Debt	Other liabilities	Amortized cost

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.

The Company determined that the impact of the implementation of these new standards on its financial statements was not material.

# The Skor Food Group Inc.

## Notes to Consolidated Financial Statements

August 31, 2008 and 2007

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Accounting Changes

Effective September 1, 2007, the Company adopted the new recommendations of the CICA Handbook Section 1506, Accounting Changes. Under these new recommendations, voluntary changes in accounting policy are permitted only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impractical, requires prior period errors to be corrected retrospectively and requires enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. These recommendations also require the disclosure of new primary sources of generally accepted accounting principles that have been issued but not yet effective. The impact that the adoption of this section will have on the Company's financial statements will depend on the nature of future accounting changes and the required additional disclosure on Recent Accounting Pronouncements is disclosed below.

#### Recent Accounting Pronouncements Issued and Not Yet Applied

- (i) In 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets ("CICA 3064"). CICA 3064, which replaces Section 3062, Goodwill and Intangible Assets, and Section 3450, Research and Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company's interim and annual financial statements for periods commencing September 1, 2009. The Company is in the process of assessing the impact of the new standard on its consolidated financial statements.
- (ii) In 2007, the CICA issued Handbook Section 1535, Capital Disclosures ("CICA 1535"). The new standard requires an entity to disclose information to enable users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital. This new standard is effective for the Company's interim and annual financial statements for periods commencing September 1, 2008. The Company is in the process of assessing the impact of the new standard on its consolidated financial statements.

# The Skor Food Group Inc.

Notes to Consolidated Financial Statements

August 31, 2008 and 2007

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## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Recent Accounting Pronouncements Issued and Not Yet Applied (Cont'd)

- (iii) In February 2007, the CICA issued two new standards, Section 3862, "Financial Instruments Disclosures", and Section 3863, "Financial Instruments Presentation". These sections will replace the existing Section 3861, "Financial Instruments Disclosure and Presentation". Section 3862 provides users with information to evaluate the significance of the financial instruments on the entity's financial position and performances, nature and extent of risks arising from financial instruments, and how the entity manages those risks. Section 3863 deals with the classification of financial instruments, related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. The new standards are effective for the Company's interim and annual financial statements for periods commencing September 1, 2008. The Company is in the process of assessing the impact of these new sections on its consolidated financial statements.
- (iv) In March, 2007, the CICA issued Section 3031 on Inventories, which has replaced Section 3030 with the same title. Section 3031 prescribes the measurement of inventories at the lower of cost and net realizable value, with guidance on the determination of cost including allocation of overheads and other costs to inventory. Reversals of previous write-downs to net realizable value are permitted when there is a subsequent increase in the value of inventories. The new standard is effective for the Company's interim and annual financial statements for periods commencing September 1, 2008. The adoption of this new standard is not expected to have a significant impact on the Company's consolidated financial statements.
- (v) The CICA plans to converge Canadian Generally Accepted Accounting Principles with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011, when IFRS will be fully adopted. The impact of the transition to IFRS on the Company's consolidated financial statements is not yet determinable.

# The Skor Food Group Inc.

## Notes to Consolidated Financial Statements

August 31, 2008 and 2007

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### 3. ACQUISITIONS

(a) Acquisition of 888930 Ontario Inc.

On January 19, 2008, the Company acquired all of the issued and outstanding shares of 888930 Ontario Inc., operating as City Wide Catering, a private Canadian Corporation.

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

Current assets (including cash of \$122,954)	\$ 446,244
Equipment	661,312
Liabilities (including bank indebtedness of \$215,000)	(928,661)
Customer relationships	279,665
Non-compete agreements	219,692
<b>Fair value of net assets acquired</b>	<b>\$ 678,252</b>

Consideration:

Cash	\$ 618,048
Cost of acquisition	60,204
	<b>\$ 678,252</b>

(b) Acquisition of J.W. Food Services Inc.

On August 1, 2008, the Company acquired all of the issued and outstanding shares of J. W. Food Services Inc., a private Canadian Corporation.

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

Assets (including cash of \$4,152)	\$ 72,048
Liabilities	(201,799)
Customer relationships	129,752
<b>Fair value of net assets acquired</b>	<b>\$ 1</b>

Consideration:

Cash	\$ 1
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# The Skor Food Group Inc.

## Notes to Consolidated Financial Statements

August 31, 2008 and 2007

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### 3. ACQUISITIONS (Cont'd)

#### (c) Jerry's Canteen Service

On August 1, 2008, the Company acquired certain assets relating to the operations of Jerry's Canteen Service ("Jerry's").

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

Inventory	\$ 39,814
Vehicle	269,284
Catering routes	274,059
Equipment	123,183
<b>Fair value of assets acquired</b>	<b>\$ 706,340</b>
<b>Consideration:</b>	
Cash	\$ 696,702
Acquisition costs	9,638
	<b>\$ 706,340</b>

#### (d) 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 following is a summary of the assets acquired and the consideration paid:

Asset	\$ 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
<b>Fair value of assets acquired</b>	<b>\$ 2,663,656</b>
<b>Consideration:</b>	
Cash	<b>\$ 2,663,656</b>

As per acquisition agreements, additional amounts may be owing on acquisition, subject to various adjustments, as described in Note 15 (iii).

During the year ended August 31, 2008, additional acquisition costs of \$38,318 were paid relating to this acquisition. Accordingly, the amount has been reflected as additional goodwill.

# The Skor Food Group Inc.

## Notes to Consolidated Financial Statements

August 31, 2008 and 2007

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### 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 September 5, 2008 and March 28, 2014.

### 5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at August 31, 2008 is as follows:

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	Cost	Accumulated Amortization	Net
Warehouse equipment	\$5,257,558	\$2,287,526	\$2,970,032
Furniture and fixtures	257,546	206,133	51,413
Vehicles	732,505	359,391	373,114
Computer equipment	1,067,901	595,392	472,509
Leasehold improvements	1,020,484	393,607	626,877
	<b>\$8,335,994</b>	<b>\$3,842,049</b>	<b>\$4,493,945</b>

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

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	Cost	Accumulated Amortization	Net
Warehouse equipment	\$4,762,224	\$1,785,094	\$2,977,130
Furniture and fixtures	240,465	165,932	74,533
Vehicles	445,240	321,237	124,003
Computer equipment	978,578	470,232	508,346
Leasehold improvements	537,850	304,465	233,385
	<b>\$6,964,357</b>	<b>\$3,046,960</b>	<b>\$3,917,397</b>

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### 6. INTANGIBLES

Intangibles at August 31, 2008 are as follows:

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	Cost	Accumulated Amortization	Net
Catering routes	\$ 332,445	\$ 6,941	\$ 325,504
Non-compete agreements	1,285,853	369,169	916,684
Customer relationships	654,604	170,510	484,094
	<b>\$2,272,902</b>	<b>\$ 546,620</b>	<b>\$1,726,282</b>

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# The Skor Food Group Inc.

## Notes to Consolidated Financial Statements

August 31, 2008 and 2007

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### 6. INTANGIBLES (Cont'd)

Intangibles at August 31, 2007 are as follows:

	Cost	Accumulated Amortization	Net
Catering routes	\$ 58,386	\$ 5,102	\$ 53,284
Non-compete agreements	1,071,966	133,996	937,970
Customer relationships	245,187	56,814	188,373
	<u>\$1,375,539</u>	<u>\$ 195,912</u>	<u>\$1,179,627</u>

### 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% (2007 - 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. \$1,570,000 is outstanding under this facility at August 31, 2008 (2007 - \$1,020,000).

The Company has a revolving lease line of credit with a Canadian chartered bank of \$500,000 to finance the acquisition of equipment. An amount of \$29,322 was outstanding under this facility at August 31, 2008 (2007 - \$NIL) and included with accounts payable and accrued liabilities.

Subsequent to year-end, the Company and the Canadian chartered bank agreed to cancel the remaining availability under the revolving lease facility.

# The Skor Food Group Inc.

Notes to Consolidated Financial Statements

August 31, 2008 and 2007

## 8. LONG-TERM DEBT

	2008	2007
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, 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.	<b>\$1,738,266</b>	\$ 2,726,934
Canadian chartered bank, bearing interest at the bank's prime lending rate plus 0.75% per annum, repayable at \$41,666 per month plus interest, due on December 19, 2009, 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.	<b>653,509</b>	986,842
	<b>2,391,775</b>	3,713,776
Less: Current portion (i)	<b>2,391,775</b>	3,713,776
	<b>\$ -</b>	\$ -

(i) The Company was in technical breach on its term debt service covenant at year end and accordingly has classified its term loans as current. The Company has presented a proposal to the bank to rectify the situation by February 28, 2009.

(ii) Scheduled future principal payments are as follows:

2009	\$ 1,488,660
2010	903,115
	<b>\$ 2,391,775</b>

# The Skor Food Group Inc.

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## 9. CAPITAL STOCK

Authorized  
unlimited common shares

Issued

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	Number	Value
Balance at August 31, 2006	25,623,670	<b>\$10,515,516</b>
Issued on exercise of options	525,000	<b>250,812</b>
Balance at August 31, 2007 and 2008	26,148,670	<b>\$10,766,328</b>

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## 10. CONTRIBUTED SURPLUS

The following summarizes the change in contributed surplus:

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	2008	2007
Beginning balance	\$ 72,687	\$ 103,024
Stock options granted	13,590	9,850
Stock options exercised	-	(40,187)
Ending balance	\$ 86,277	\$ 72,687

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# The Skor Food Group Inc.

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### 11. 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 granted under the Plan generally vest immediately, may be exercised during a period of up to five years from the date of grant 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:

	2008		2007	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Beginning balance	465,000	\$ 0.97	890,000	\$ 0.64
Granted	400,000	0.45	100,000	0.90
Exercised	-	-	(525,000)	0.40
Outstanding, end of year	865,000	\$ 0.73	465,000	\$ 0.97
Exercisable	815,000		465,000	

The Company had the following stock options outstanding at August 31, 2008:

Number of Options	Exercisable	Exercise Price	Expiry Date
145,000	145,000	\$ 0.95	October 27, 2008 <sup>(i)</sup>
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
300,000	300,000	\$ 0.45	December 27, 2010
100,000	50,000	\$ 0.45	July 28, 2010
865,000	815,000		

(i) Subsequent to year-end, these options expired unexercised.

# The Skor Food Group Inc.

## Notes to Consolidated Financial Statements

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### 12. STOCK BASED COMPENSATION

The total compensation expense for the year ended August 31, 2008 relating to grants issued in the year was \$13,590 (2007 - \$9,850) and is included in operating expenses. The total amount credited to contributed surplus for the year ended August 31, 2008 was \$13,590 (2007 - \$9,850), as disclosed in Note 10.

The fair value of each option granted in the year ended August 31, 2008 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% (2007 - 0%); (ii) the expected volatility of 32% (2007 - 30%); (iii) the risk free interest rate of 3.72% (2007 - 3.99%) and (iv) expected life of 1.6 years (2007 - 1.5 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, 2008 was \$0.03 (2006 - \$0.10).

### 13. 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 fair values of cash, accounts receivable, purchase rebates receivable from suppliers, accounts payable and accrued liabilities, 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

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.

# The Skor Food Group Inc.

Notes to Consolidated Financial Statements

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## 14. 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 \$623,076 (2007 - \$912,763) worth of inventory at or below market rates and sold \$22,880 (2007 - \$21,161) of product at similar rates from/to a company in which certain officers and directors have a financial interest.

## 15. COMMITMENTS AND CONTINGENCIES

- (i) A legal claim has been made against the Company during the year ended August 31, 2006 for \$4,760,000 relating to a terminated acquisition.

Subsequent to the year-end, the claim was settled and the Company expects to receive \$12,500 according to the settlement agreement.

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

2009	\$3,040,488
2010	2,303,233
2011	1,029,404
2012	913,799
2013	689,438
Subsequent	446,716
	<b>\$8,423,078</b>

- (iii) With respect to the acquisitions described in Note 3(d) the vendor claims that the Company owes an additional \$125,000 in purchase consideration. Management is of the belief that the vendor owes the Company approximately \$195,000 relating to consideration paid. 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. No provisions have been made with respect to these matters in the financial statements.

# The Skor Food Group Inc.

## Notes to Consolidated Financial Statements

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### 16. 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:

	2008	2007
Earnings (loss) before income taxes	\$ 617,696	\$ (180,540)
Statutory rate	34.4 %	36.1 %
Expected income tax expense (recovery)	212,487	(65,175)
Non-deductible expenses and other	(9,144)	142,110
Change in tax rates	(25,566)	(51,893)
Income tax expense	\$ 177,777	\$ 25,042

#### Future Income Taxes

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

	2008	2007
Future tax assets		
Amounts related to tax loss carryforwards	\$ 324,606	\$ 206,234
Amounts relating to temporary difference between accounting and tax purposes on property, plant and equipment and intangibles	93,493	213,845
Balance at end of year	\$ 418,099	\$ 420,079

As at August 31, 2008, the Company has capital loss carryforwards of \$104,185 that do not expire and non-capital tax loss carryforwards of \$1,046,293, expiring as follows:

2012	\$ 9,200
2013	5,635
2024	20,493
2025	180,648
2026	739,087
2027	39,550
2028	51,680
	\$ 1,046,293

# The Skor Food Group Inc.

## Notes to Consolidated Financial Statements

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### 17. SIGNIFICANT CUSTOMER AND SUPPLIER

At August 31, 2008, one supplier represents 12% (2007 - 15%) of the Company's purchases during the year. At August 31, 2007, one customer represented 6% of sales and 10% of accounts receivable balance.

### 18. DISCONTINUED OPERATIONS

- (i) During the fourth quarter, management, having the authority to proceed, committed to a plan to dispose of three under-performing locations of its wholesale cash and carry operation. Therefore, the operating results and cash flows of the three locations for the current fiscal year and the comparative period have been presented under "Discontinued Operations". The assets and liabilities of the locations have also been presented separately as discontinued operations in the balance sheets. Subsequent to year end, the Company ceased operations at these locations.

Selected financial information:

	2008	2007
Revenue	\$ 14,388,786	\$ 19,908,036
Cost of sales	(13,665,340)	(18,969,154)
Operating expenses	(1,219,270)	(1,422,277)
Amortization	(83,121)	(101,435)
Net loss from discontinued operations	\$ (578,945)	\$ (584,830)

- (ii) During the year ended August 31, 2007, the Company and the vendor of Galaxie Diner Inc. ("Galaxie"), which was acquired by the Company on August 24, 2006, agreed to unwind the transaction. During the year ended August 31, 2008, the Company and the vendor of Galaxie have mutually agreed to sell back to the vendor the assets acquired on August 24, 2006, 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 were treated as a discontinued operation in the statement of operations in the prior year.

The transaction was completed subsequent to the year-end.

### 19. COMPARATIVE FIGURES

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