

# **The Skor Food Group Inc.**

**Interim Consolidated Financial Statements**

**May 31, 2007**

**(unaudited)**

## **Notice to Reader**

The accompanying unaudited interim consolidated financial statements have been prepared by the Company's management and the Company's independent auditor has not performed a review of these financial statements.

# The Skor Food Group Inc.

## Interim Consolidated Balance Sheets

	Note	May 31 2007	August 31 2006 (audited)
<b>Assets</b>			
<b>Current</b>			
Cash		\$ -	\$ 3,275,156
Accounts receivable		7,890,253	6,386,264
Income tax receivable		391,258	-
Inventory		12,852,393	14,724,633
Rebates receivable		2,852,640	1,566,945
Prepaid expenses and other assets		2,261,308	2,373,274
		<b>26,247,852</b>	<b>28,326,272</b>
Property, plant and equipment		3,990,738	3,867,272
Future income taxes		134,888	75,857
Goodwill		4,103,549	1,222,948
Distribution rights		307,165	328,596
Investments		12,600	12,600
		<b>\$ 34,796,792</b>	<b>\$ 33,833,545</b>
<b>Liabilities</b>			
<b>Current</b>			
Bank indebtedness		2,331,593	-
Accounts payable and accrued liabilities		10,710,750	14,969,962
Income taxes payable		-	38,170
Current portion of long-term debt	2	2,028,384	1,837,573
		<b>15,070,727</b>	<b>16,845,705</b>
Long-term debt	2	1,910,324	-
Redeemable preferred shares	3	200,000	200,000
		<b>17,181,051</b>	<b>17,045,705</b>
<b>Shareholders' Equity</b>			
Capital stock	4	10,574,729	10,515,516
Contributed surplus	5	104,286	103,024
Retained earnings		6,936,726	6,169,300
		<b>17,615,741</b>	<b>16,787,840</b>
		<b>\$ 34,796,792</b>	<b>\$ 33,833,545</b>

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

See accompanying notes.

# The Skor Food Group Inc.

## Interim Consolidated Statements of Earnings and Retained Earnings (unaudited)

	Nine Months Ended May 31		Three Months Ended May 31	
	2007	2006	2007	2006
<b>Revenue</b>	<b>\$133,336,879</b>	\$ 88,803,398	<b>\$ 47,824,362</b>	\$ 49,934,439
<b>Cost of sales</b>	<b>116,175,811</b>	76,860,165	<b>41,756,330</b>	44,944,201
<b>Gross profit</b>	<b>17,161,068</b>	11,943,233	<b>6,068,032</b>	4,990,238
<b>Expenses</b>				
Operating	<b>15,154,922</b>	9,190,593	<b>5,435,512</b>	3,881,509
Amortization	<b>757,685</b>	383,853	<b>253,082</b>	230,526
Interest	<b>201,066</b>	87,510	<b>106,606</b>	32,750
	<b>16,113,673</b>	9,661,956	<b>5,795,200</b>	4,144,785
<b>Earnings before relocation costs and income taxes</b>	<b>1,047,395</b>	2,281,277	<b>272,832</b>	845,453
<b>Relocation Costs</b>	<b>31,484</b>	333,314	-	11,400
<b>Earnings before income taxes</b>	<b>1,015,911</b>	1,947,963	<b>272,832</b>	834,053
<b>Income taxes</b>				
Current	<b>202,601</b>	699,362	<b>517</b>	301,779
Future	<b>45,884</b>	13,508	<b>14,469</b>	335
	<b>248,485</b>	712,870	<b>14,986</b>	302,114
<b>Net earnings</b>	<b>767,426</b>	1,235,093	<b>257,846</b>	531,939
<b>Retained earnings at beginning of period</b>	<b>6,169,300</b>	4,440,353	<b>6,678,880</b>	5,143,507
<b>Retained earnings at end of period</b>	<b>\$ 6,936,726</b>	\$ 5,675,446	<b>\$ 6,936,726</b>	\$ 5,675,446
<b>Earnings per share</b>				
Basic	<b>\$0.03</b>	\$0.06	<b>\$0.01</b>	\$0.02
Diluted	<b>\$0.03</b>	\$0.06	<b>\$0.01</b>	\$0.02
<b>Weighted average common shares outstanding</b>				
Basic	<b>25,733,560</b>	20,307,901	<b>25,748,670</b>	24,969,105
Diluted	<b>25,812,587</b>	20,782,368	<b>25,672,633</b>	25,651,237

See accompanying notes.

# The Skor Food Group Inc.

## Interim Consolidated Statements of Cash Flows (unaudited)

	Nine Months Ended May 31		Three Months Ended May 31	
	2007	2006	2007	2006
<b>Cash flows from operating activities</b>				
Net earnings for period	\$ 767,426	\$ 1,235,093	\$ 257,846	\$ 531,939
Add (deduct) items not affecting cash				
Amortization	757,685	383,853	253,082	230,526
Loss on disposal of equipment	-	36,430	-	-
Future income taxes	45,884	13,508	14,469	335
Stock based compensation	9,850	56,517	-	33,012
	<b>1,580,845</b>	<b>1,725,431</b>	<b>525,397</b>	<b>795,812</b>
Changes in non-cash working capital items				
Accounts receivable	(1,503,989)	(2,300,079)	(536,080)	(1,866,877)
Rebates receivable	(1,285,695)	(1,037,776)	(596,962)	(422,219)
Inventory	1,872,240	(11,788,640)	(658,449)	(11,537,963)
Prepaid expenses and other assets	111,966	(207,628)	(171,145)	(319,249)
Income taxes	(429,428)	(194,449)	(227,698)	210,634
Accounts payable and accrued liabilities	(4,259,212)	9,754,735	781,775	10,193,044
	<b>(3,913,273)</b>	<b>(4,048,406)</b>	<b>(883,162)</b>	<b>(2,946,819)</b>
<b>Cash flows from investing activity</b>				
Property plant and equipment	(629,959)	(3,602,180)	(318,456)	(2,579,477)
Acquisitions	(3,195,277)	-	(44,785)	-
Proceeds from disposal of property, plant and equipment	-	222,000	-	-
Proceeds from sale (purchase) of marketable securities	-	600,000	-	-
Distribution rights	(20,000)	(20,000)	-	-
	<b>(3,845,236)</b>	<b>(2,800,180)</b>	<b>(363,241)</b>	<b>(2,579,477)</b>
<b>Cash flows from financing activity</b>				
Issuance (Repayment) of long-term debt-net	2,101,135	(449,651)	(134,668)	(144,866)
Issuance of capital stock	50,625	8,358,424	-	8,358,424
	<b>2,151,760</b>	<b>7,908,773</b>	<b>(134,668)</b>	<b>8,213,558</b>
<b>Increase/ (Decrease) in cash during the period</b>	<b>(5,606,749)</b>	<b>1,060,187</b>	<b>(1,381,071)</b>	<b>2,687,262</b>
<b>Cash (Bank indebtedness) at beginning of period</b>	<b>3,275,156</b>	<b>1,216,988</b>	<b>(950,522)</b>	<b>(410,087)</b>
<b>Cash (Bank indebtedness) at end of period</b>	<b>\$ (2,331,593)</b>	<b>\$ 2,277,175</b>	<b>\$ (2,331,593)</b>	<b>\$ 2,277,175</b>

See accompanying notes.

# The Skor Food Group Inc.

Notes to Interim Consolidated Financial Statements  
May 31, 2007  
(unaudited)

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## 1. BASIS OF PRESENTATION

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles. The disclosures contained in these unaudited interim consolidated financial statements do not include all requirements of Canadian generally accepted accounting principles for annual financial statements. The unaudited consolidated interim financial statements follow the same accounting policies and methods of application as the audited consolidated financial statements for the period ended August 31, 2006. The unaudited interim financial statements should be read in conjunction with the audited financial statements of the Company for the year ended August 31, 2006.

Accounting measurements at interim dates inherently involve greater reliance on estimates than at year end. In the opinion of management, the accompanying un-audited interim financial statements include all adjustments of a normal recurring nature to present fairly the position of the Company as at May 31, 2007. These financial statements reflect the results of operation for the three and nine month periods ended May 31, 2007.

## 2. LONG-TERM DEBT

	<b>May 31, 2007</b>	August 31 2006
	(unaudited)	(audited)
Canadian chartered bank, bearing interest at the bank's prime rate plus .75% per annum. One term loan is repayable at \$82,389 per month plus interest, due January 19, 2010 and the second term loan is interest only until January 19, 2008. Both loan facilities are secured by a general security agreement over all assets	<b>\$ 3,938,708</b>	\$ 1,834,308
Leases payable, requiring monthly payments of \$653 and bearing interest at 0% due January 7, 2007	-	3,265
	<b>3,938,708</b>	1,837,573
Less: Current portion	<b>2,028,384</b>	1,837,573
	<b>\$ 1,910,324</b>	\$ -

Future principal payments are as follows:

<b>2008</b>	<b>\$ 2,028,384</b>
<b>2009</b>	<b>988,668</b>
<b>2010</b>	<b>921,656</b>
	<b>\$ 3,938,708</b>

# The Skor Food Group Inc.

Notes to Interim Consolidated Financial Statements  
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## 3. REDEEMABLE PREFERRED SHARES

	<b>May 31 2007</b>	August 31 2006 (audited)
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 May 31, 2008.	<b>\$ 200,000</b>	\$ 200,000

## 4. CAPITAL STOCK

Authorized unlimited common shares		
Issued		
	<b>Number</b>	<b>Value</b>
Balance at August 31, 2006	25,623,670	\$10,515,516
Issued on exercise of options	125,000	59,213
<b>Balance as at May 31, 2007</b>	<b>25,748,670</b>	<b>\$10,574,729</b>

## 5. CONTRIBUTED SURPLUS

The following summarizes the change in contributed surplus:

	<b>May 31 2007</b>	August 31 2006
Beginning balance	<b>\$ 103,024</b>	\$ 49,688
Stock options granted	<b>9,850</b>	56,516
Stock options exercised	<b>(8,588)</b>	(3,160)
Ending balance	<b>\$ 104,286</b>	\$ 103,024

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## 6. STOCK OPTIONS AND WARRANTS

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 for the nine month periods ended May 31:

	2007		2006	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Beginning balance	890,000	\$ 0.40	645,000	\$ 0.40
Granted	100,000	\$ 0.90	285,000	\$ 1.15
Exercised	(125,000)	\$ 0.405	(40,000)	\$ 0.40
Outstanding, end of period	865,000	\$ 0.70	890,000	\$ 0.50
Exercisable	865,000			

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

Number of Options	Exercisable	Exercise Price	Expiry Date
480,000	480,000	\$ 0.40	January 8, 2009
145,000	145,000	\$ 0.95	October 27, 2008
140,000	140,000	\$ 1.36	March 22, 2009
100,000	100,000	\$ 0.90	December 27, 2009
865,000	865,000		

As at May 31, 2007, the Company had 450,000 warrants issued and outstanding. Each warrant entitles the holder to purchase one common share at \$1.20 up to September 7, 2007.

## 7. STOCK BASED COMPENSATION

The total compensation expense for the nine month period was \$9,850 and is included in operating expenses. The total amount charged to contributed surplus was \$9,850. The fair value of these options has been estimated at the date of the grant using the Black-Scholes option pricing model with the following assumptions: (i) dividend yield of \$Nil; (ii) expected volatility of 30%; (iii) risk free interest rate of 3.99% and (iv) expected life of 18 months. The Company has assumed no forfeiture rate as adjustments for actual forfeitures are made as they occur. The weighted-average grant date fair value of options was \$0.0985.

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## 8. RELATED PARTY TRANSACTIONS

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

The Company purchased \$645,259 (2006 - \$585,691) worth of inventory at or below market rates and sold \$20,455 (2006 - \$36,010) of product at similar rates from/to a company in which certain officers and directors have a financial interest.

## 9. ACQUISITIONS

On January 19, 2007, the Company, through its newly formed subsidiary Skor Culinary Concepts Inc., acquired all of the issued and outstanding shares of Royal Town Foods Inc., Peel Halton Kitchens Inc. and Festive Food Catering Ltd., all private Canadian Companies involved in the manufacturing and distribution of ready to eat sandwiches and meals for the catering, vending and institutional markets. The total purchase price of the three entities was \$3,150,000 plus adjustments for working capital and traditional closing costs. The final purchase price is still subject to adjustments. The acquisitions were funded with a combination of existing working capital and a term financing facility of \$2,487,000.