

# **The Skor Food Group Inc.**

**Interim Consolidated Financial Statements**

**November 30, 2008**

**(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  
(unaudited)

	Note	November 30 2008	August 31 2008 (audited)
<b>Assets</b>			
<b>Current</b>			
Cash		\$ -	\$ 550,300
Accounts receivable		6,461,233	5,963,493
Inventory		10,026,291	9,029,045
Purchase rebates receivable from suppliers		1,855,708	2,152,551
Current portion of loans receivable		88,506	58,153
Prepaid expenses and other assets		635,523	786,385
Income taxes recoverable		388,358	409,590
Current assets of Galaxie to be disposed of		21,326	28,751
Current assets of discontinued operations		1,239,800	1,432,043
		<b>20,716,745</b>	<b>20,410,311</b>
Property, plant and equipment		4,293,189	4,493,945
Future income taxes		389,311	418,099
Goodwill		3,005,780	3,005,780
Assets of discontinued operations		262,441	260,787
Assets of Galaxie division to be disposed of		286,688	286,688
Intangibles		1,628,673	1,726,282
Loans receivable		96,636	117,557
		<b>\$ 30,679,463</b>	<b>\$ 30,719,449</b>
<b>Liabilities</b>			
<b>Current</b>			
Bank indebtedness		2,138,548	1,570,000
Accounts payable and accrued liabilities		8,744,357	9,143,054
Current portion of long-term debt	3	1,488,660	2,391,775
Current liabilities of discontinued operations		363,664	358,378
		<b>12,735,229</b>	<b>13,463,207</b>
Long-term debt	3	530,950	-
		<b>13,266,179</b>	<b>13,463,207</b>
<b>Shareholders' Equity</b>			
Capital stock	4	10,766,328	10,766,328
Contributed surplus	5	89,960	86,277
Retained earnings		6,556,996	6,403,637
		<b>17,413,284</b>	<b>17,256,242</b>
		<b>\$ 30,679,463</b>	<b>\$ 30,719,449</b>

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

See accompanying notes.

# The Skor Food Group Inc.

Interim Consolidated Statement of Earnings and Retained Earnings  
For the Three Months Ended November 30  
(unaudited)

	2008	2007
<b>Revenue</b>	<b>\$ 37,497,162</b>	\$ 38,866,572
<b>Cost of sales</b>	<b>31,423,711</b>	32,462,470
<b>Gross profit</b>	<b>6,073,451</b>	6,404,102
<b>Expenses</b>		
Operating	<b>5,264,843</b>	5,254,475
Interest on long-term debt	<b>29,692</b>	64,088
Amortization	<b>348,497</b>	276,219
	<b>5,643,032</b>	5,592,782
<b>Earnings before undernoted and income taxes</b>	<b>430,419</b>	811,320
Net loss of discontinued operations	<b>(227,040)</b>	(209,249)
<b>Earnings before income taxes</b>	<b>203,379</b>	602,071
<b>Income taxes</b>		
Current	<b>21,232</b>	154,716
Future	<b>28,788</b>	1,343
	<b>50,020</b>	156,059
<b>Net earnings</b>	<b>153,359</b>	446,012
<b>Retained earnings at beginning of period</b>	<b>6,403,637</b>	5,963,718
<b>Retained earnings at end of period</b>	<b>\$ 6,556,996</b>	\$ 6,409,730
<b>Earnings per share</b>		
Basic	<b>\$ 0.01</b>	\$ 0.02
Diluted	<b>\$ 0.01</b>	\$ 0.02
<b>Weighted average common shares outstanding</b>		
Basic	<b>26,148,670</b>	26,148,670
Diluted	<b>26,148,670</b>	26,167,132

See accompanying notes.

# The Skor Food Group Inc.

Interim Consolidated Statement of Cash Flows  
For the Three Months Ended November 30  
(unaudited)

	Note	2008	2007
<b>Cash flows from operating activities</b>			
Net earnings for period		\$ 153,359	\$ 446,012
Add (deduct) items not affecting cash			
Amortization		348,497	297,146
Future income taxes		28,788	1,343
Stock-based compensation		3,683	-
		<b>534,327</b>	<b>744,501</b>
Changes in non-cash working capital items			
Accounts receivable		(497,740)	914,388
Inventory		(997,246)	(927,670)
Prepaid expenses and other assets		150,862	481,893
Income taxes recoverable		21,232	2,078
Purchase rebates receivable from suppliers		296,843	(648,779)
Accounts payable and accrued liabilities		(398,697)	(1,555,975)
Cash flows from operating activities of continuing operations		<b>(890,419)</b>	<b>(989,564)</b>
Cash flows from operating activities of discontinued operations		<b>204,954</b>	<b>(349,674)</b>
		<b>(685,465)</b>	<b>(1,339,238)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(50,132)	(260,318)
Loans Receivable		(9,432)	27,619
Cash flows used in investing activities of continuing operations		<b>(59,564)</b>	<b>(232,699)</b>
Cash flows used in investing activities of discontinued operations		<b>(1,654)</b>	<b>-</b>
		<b>(61,218)</b>	<b>(232,699)</b>
<b>Cash flows from financing activities</b>			
Bank Indebtedness		568,548	950,750
Repayment of long-term debt		(372,165)	(247,167)
		<b>196,383</b>	<b>703,583</b>
<b>Decrease in cash during the period</b>		<b>(550,300)</b>	<b>(868,354)</b>
<b>Cash at beginning of period</b>		<b>550,300</b>	<b>868,354</b>
<b>Cash/ (bank indebtedness) at end of period</b>		<b>\$ ( - )</b>	<b>\$ ( - )</b>

# The Skor Food Group Inc.

## Notes to Interim Consolidated Financial Statements

November 30, 2008

(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, 2008, except as disclosed in Note 2. The unaudited interim financial statements should be read in conjunction with the audited financial statements of the Company for the year ended August 31, 2008.

Accounting measurements at interim dates inherently involve greater reliance on estimates than at year end. In the opinion of management, the accompanying unaudited interim financial statements include all adjustments of a normal recurring nature to present fairly the position of the Company as at November 30, 2008. These financial statements reflect the results of operation for the three month period ended November 30, 2008.

### 2. CHANGES IN ACCOUNTING POLICIES

- (i) Effective September 1, 2008, the Company adopted the recommendations of The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 1535, Capital Disclosures ("Section 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. Disclosure requirements pertaining to Section 1535 are contained in Note 10.
- (ii) Effective September 1, 2008, the Company adopted the recommendations of CICA Handbook Section 3862, Financial Instruments - Disclosures ("Section 3862"). Section 3862 provides standards for disclosures about financial instruments, including disclosures about fair value and the credit, liquidity and market risks associated with the financial instruments. Disclosure requirements pertaining to Section 3862 are contained in Note 11.
- (iii) Effective September 1, 2008, the Company adopted the recommendations of CICA Handbook Section 3863, Financial Instruments - Presentation ("Section 3863"). Section 3863 provides standards for presentation of financial instruments and non-financial derivatives. Adoption of this standard had no impact on the Company's financial instrument related presentation disclosures.
- (iv) Effective September 1, 2008, the Company adopted the recommendations of CICA Handbook Section 1400, General Standards of Financial Statement Presentation, to change the guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. Management is required to make an assessment of an entity's ability to continue as a going concern and should take into account all available information about the future, which is at least, but is not limited to, 12 months from the balance sheet dates. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.

#### 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

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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 financial statements.

- (ii) 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 financial statements is not yet determinable.

### 3. LONG-TERM DEBT

	November 30 2008	August 31 2008 (audited)
Canadian chartered bank, bearing interest at the bank's prime rate plus .75% per annum, repayable at \$82,389 per month plus interest, due June 1, 2010, secured by a general security agreement over all assets	\$ 1,491,099	\$ 1,738,266
Canadian chartered bank, bearing interest at the bank's prime rate plus .75% per annum, repayable at \$41,666 per month plus interest, due December 19, 2009, secured by a general security agreement over all assets	528,511	653,509
	<b>2,019,610</b>	2,391,775
Less: Current portion	<b>1,488,660</b>	2,391,775
	<b>\$ 530,950</b>	\$ -

### 4. CAPITAL STOCK

Authorized  
unlimited common shares

Issued

	Number	Value
Balance at August 31, 2008(audited) and November 30, 2008	26,148,670	<b>\$10,766,328</b>

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## Notes to Interim Consolidated Financial Statements

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### 5. CONTRIBUTED SURPLUS

The following summarizes the change in contributed surplus:

	November 30 2008	August 31 2008 (audited)
Beginning balance	\$ 86,277	\$ 72,687
Stock options granted	3,683	13,590
Stock options exercised	-	-
Ending balance	\$ 89,960	\$ 86,277

### 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. 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 following summarizes the stock option activities for the three month period ended November 30:

	2008		2007	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Beginning balance	865,000	\$ 0.97	465,000	\$ 0.97
Granted	75,000	\$ 0.45		
Exercised	-			
Expired	(145,000)	\$ 0.95		
Outstanding, end of period	795,000	\$ 0.66	465,000	\$ 0.97

The Company had the following stock options outstanding at November 30, 2008:

Number of Options	Exercisable	Exercise Price	Expiry Date
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	75,000	\$ 0.45	July 28, 2010
75,000	75,000	\$ 0.45	September 17, 2011
795,000	770,000		

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### 7. STOCK BASED COMPENSATION

The total compensation expense for the three month period was \$3,683 and is included in operating expenses. The total amount charged to contributed surplus was \$3,683. 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 40%; (iii) risk free rate of 2.77% and (iv) expected life of 36 months. The Company has assumed no forfeiture rate as adjustments for actual forfeitures are made as they occur. The weighted-average grant fair values of options were \$0.0491.

### 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 \$150,287 (2007 - \$171,567) worth of inventory at or below market rates and sold \$5,475 (2007 - \$4,025) of product at similar rates from/to a company in which certain officers and directors have a financial interest.

### 9. DISCONTINUED OPERATIONS

During fiscal 2008, management, having the authority to proceed, committed to a plan to dispose of three underperforming locations of its wholesale cash and carry operations. Therefore, the operating results and cash flows of these locations 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.

Selected Financial Information

	2009	2008
Revenue	3,024,376	3,829,565
Cost of sales	2,936,764	3,650,006
Operating Expenses	307,268	369,702
Amortization	0	20,927
Net loss from discontinued operations	219,656	211,070

### 10. CAPITAL RISK MANAGEMENT

The Company's capital consists of debt and share capital. The Company's objective when managing its capital is to maintain its ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders.

The Company includes equity, which is comprised of issued capital stock, contributed surplus and retained earnings in the definition of capital.

The Company has a revolving operating credit of \$6,000,000 together with a term debt facility of \$2,019,610 which is reducing by \$124,055 monthly. The Company believes it has sufficient capital to fund its current operations, however, the Company may require additional capital to support its long term growth targets. To secure additional capital to achieve the growth target, the Company may issue equity or acquire new third party term debt.

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The Company is subject to margining requirements under its bank operating credit facility which limits its borrowings to the lesser of its credit limit and its available borrowing base that is determined by a combination of accounts receivable and inventory on hand. As at November 30, 2008, the Company was in compliance with these margining requirements.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the most recent three month period.

### 11. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Financial risk management is carried out by the management of the Company. The Company's main financial risk exposure, as well as its risk management policy, is detailed as follows;

#### **Interest Rate Risk:**

The Company is exposed to fluctuations in interest rates on its short term and long term bank debt. The Company has the flexibility in an increasing interest rate environment to fix the interest rate on its long term debt only. Based on the Company's expectation of bank borrowings over the next twelve months, a 1.0% fluctuation in the average prime rate would have a \$2,047 effect on pre tax income per quarter.

#### **Credit Risk:**

Accounts receivable are with customers in the food service industry and are subject to normal industry credit risks and terms. The Company generally extends unsecured credit to these customers and therefore, the collection of accounts receivable may be affected by changes in economic and other conditions. The maximum exposure to credit risk is best represented by the carrying amount of the accounts receivable on the balance sheet.

#### **Liquidity Risk:**

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due.

The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of planned expenditures.

As at November 30, 2008, the Company had working capital of \$ 7,981,516 which when combined with the unutilized component of its \$6,000,000 operating credit facility is deemed sufficient to support the business operations in the near term.

#### **Foreign Currency Risk:**

The Company is exposed to risk of changes in the Canadian/U.S. dollar exchange rate on purchases that are denominated in U.S. dollars. The Company has not hedged its risk given the annual U.S. dollar purchases represent less than 0.50% of annual product purchases.

#### **Financing Risk:**

The Company is required to maintain certain financial covenants to maintain its credit facilities in good standing. Subject to certain coverage conditions, the bank may effectively decrease the borrowing limit and funding availability.

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## **Fair Value:**

Financial instruments are defined as a contractual right to receive or deliver cash or another financial asset. As at November 30, 2008, the carrying value of loans and receivables and other financial liabilities approximated their fair values due to their short-term nature. The carrying value of the long term debt approximates its fair value due to the floating interest rate on the facility.

## **12. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with the current period's financial statement presentation reflecting discontinued operations.

## **13. SUBSEQUENT EVENTS**

On December 3, 2008 the assets of Galaxie Diner were sold which included the return of 145,000 shares to the Company.

On December 8, 2008, Skor Cash and Carry closed three of its underperforming locations.

On December 22, 2008, a total of 100,000 options were approved for issuance to Directors of the Corporation at \$0.25 per share.