

THE SKOR FOOD GROUP INC.

MANAGEMENT DISCUSSION AND ANALYSIS

DATE OF PREPARATION: **JANUARY 23, 2006**

PERIOD: **THE FIRST QUARTER ENDED NOVEMBER 30, 2005**

The following discussion and analysis provides a review of the consolidated financial conditions and operating performance of The Skor Food Group Inc. (the “Company” or “SKOR”) and its subsidiaries for the first quarter ended November 30, 2005. This discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes. Any reference herein to 2006 shall mean the three month period ended November 30, 2005 and any reference herein to 2005 shall mean the three month period ended November 30, 2004.

Overview

SKOR, through its operating subsidiary Derry Foods Limited, is a full service, mid sized, wholesale food Distribution Company that distributes more than 7,000 private label and name brand, frozen goods, refrigerated products and dry goods from a 205,000 square foot head office/warehouse facility located in Vaughan, Ontario. SKOR services a wide range of multi location food retailers, Quick Service Restaurant chains, day care facilities, government institutions and independent food service operators in Ontario.

Subsequent to quarter end and in conjunction with the consolidation of the operations at the Vaughan facility, the primary operating divisions, namely Derry Foods and Gorman Distributing have been re-branded under the corporate umbrella of “Skor Food Service”.

Overall Performance

The Industry

The food service industry is characterized as a mature industry growing at a level consistent with the geographical population expansion. There are a limited number of food service distributors providing country-wide service to the restaurant and hospitality industry with the majority of food service firms focused on servicing niche geographic, product or ethnic markets. Successful food distributors compete on high quality service, competitive prices and breadth and depth of product offering. SKOR is considered a mid size regional provider of products focused on the institutional and regional based quick service restaurant chains located throughout Ontario.

Risks

Risks and Uncertainties

Management is focused on maximizing profits and enhancing shareholder value by proactively managing the internal and external risks of the business. Some of these risk factors are summarized below;

- Credit risk associated with selling to independent food service operators;

SKOR manages its accounts receivable diligently, nonetheless, a material component of the business is transacted with independent operators (i.e. family owned and operated). Typically, family owned food service firms are not well capitalized and may experience a higher level of failure in the initial years of operation. The risk of non payment is mitigated by obtaining additional security where appropriate and restricting the terms to industry standards.

- Certain operating costs may not be passed on to customers;

In light of the competitive operating and low-inflationary environment, it is difficult to pass on price increases to offset higher costs for such items as fuel, utilities and property taxes. SKOR manages this risk by reviewing its operations and associated costs on a continual basis.

- Economic reliance on discretionary cash flow of the consumer for a portion of the business;

SKOR services a broad range of customers including government institutions, municipalities, quick service restaurants, retailers and independent food service operators. In tougher economic times, consumers may spend less of their discretionary income on dining out which could cause a contraction in the market size to which SKOR sells. Management believes that SKOR is somewhat sheltered from this market fluctuation, given its solid foundation of institutional business together with its focus on the quick service restaurant market, which tends to be less sensitive to consumer spending.

- Competitive marketplace;

SKOR is a well positioned regional competitor in a marketplace which has three distinct segments; large national, broad-line distributors; the family owned niche providers of product focused on either a geographic or ethnic market; or the mid-tier regional firms which are focused on providing broad-line product coverage to a regional market. SKOR competes in the Ontario regional segment against firms of all sizes.

- Product obsolescence and spoilage;

SKOR is a distributor of a broad range of products and as such does not feel that product obsolescence or spoilage is an issue which could materially impact financial results. Inventory is well managed and as such, products which are extremely sensitive and therefore have a limited shelf life are purchased on a just-in-time basis for specific customer orders.

- Low Margin and Inflation;

Profit levels may be negatively impacted during periods of price deflation as margins remain consistent, however, revenue may decline. During periods of inflation, it is possible that customers may resist paying higher prices for product costs passed on by the manufacturer to the distributor.

Results of Operation- Three Months Ended November 30, 2005

Sales

Consolidated revenue of \$20,514,885 represented less than a 1.00% reduction from the comparable period in fiscal 2005. The small decline in revenue is due to two key factors; the loss of the distribution agreement for the 241 Pizza Chain which was disclosed earlier and the continued culling of customers that are not profitable to work because their average order size does not meet our minimum delivery threshold or the credit risk is deemed unacceptable.

Gross Profit

Gross profit margins are in-line with our expectations at 16.8% of revenue, representing an absolute increase of 1.3% on a year over year basis. Improved buying power and improved management of customer relationship pricing has supported our efforts to maintain and build gross profit margins.

On a forward looking basis, gross profit margins are expected to be consistent with historical averages of between 16% and 18%. It is also anticipated that margins may fluctuate in the future dependent upon the mix of products sold to customers.

Expenses

On a consolidated basis, expenses for the period, excluding relocation costs and the provision for income taxes, decreased by 0.5% to \$2,581,506 from \$2,592,023 in 2005.

One time costs associated with setting-up of the new facility and moving the Gorman operation into the facility was \$122,065. This one time cost is in-line with management expectations.

Stock Based Compensation (“SBC”)

The company applies a fair value based method of accounting to all stock-based payments. For the first quarter, stock based compensation was \$23,505 for 145,000 options issued to Senior Management. The expense associated with the option issuance is reflected in selling, general and administrative.

Net Earnings

Net earnings after tax increased on a year over year basis by 25% to \$473,939 from \$377,043 the prior year. Earnings before relocation costs and income taxes increased by 42% to \$853,252 from \$599,278 the prior year.

Summary of Quarterly Results

	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004
Revenue(\$)	20,514,885	22,335,456	20,701,165	17,832,822	20,645,157	23,088,903	19,623,126	8,870,233
Earnings before tax and extraordinary items(\$)	853,252	815,262	747,906	529,487	599,278	492,278	570,867	184,610
Net Earnings(\$)	473,939	518,630	487,983	325,633	377,043	311,293	389,862	92,401
EPS-Basic	.03	0.03	.03	.02	.03	.02	.03	.01
EPS-Diluted	.03	0.03	.03	.02	.02	.02	.02	.01
Outstanding Shares-Basic	17,938,757	17,938,757	17,822,614	15,048,187	13,443,170	13,443,170	13,443,170	13,443,170

All amounts are in CDN Dollars.

Capital Investments and Acquisitions

Capital Investments for the quarter were \$795,835 which is in-line with management’s expectations. The investment represents the costs associated with the acquisition of equipment and the construction of leasehold improvements at the Vaughan facility.

There were no acquisitions completed in the most recent reporting period.

Liquidity and Capital Resources

Working Capital

Working capital consists primarily of inventory and accounts receivable. As at November 30, 2005, SKOR had a working capital ratio of 2.0, and working capital of \$5,944,016. Working capital decreased by \$377,321 in the quarter, a function of capital expenditures for the period exceeding the cash-flow generated by the operations. We fully anticipate that working capital should continue to strengthen as capital expenditures return to more normalized levels and earnings are retained in the business.

SKOR has adequate working capital to support projected near term growth.

Days sales outstanding (DSO) are at 27 days and this is marginally higher than our corporate objective of maintaining collections within 25 days of sales outstanding. Management continually reviews credit policies and collection procedures with an objective to maintain its DSOs to 25 days or less.

SKOR maintained approximately 16 days worth of inventory at period end, an amount which is considered adequate to effectively service its customers and in-line with prior year’s history. Tighter inventory controls and consolidation of the

2 locations into a centralized single location should result in a more efficient operation with reduced inventory levels and an improved cash conversion cycle.

Based upon the level of business being transacted by SKOR, the strict management of inventory and the closer scrutiny of accounts receivable, working capital are deemed adequate to support near term organic growth. As income is retained in the business and recognizing that capital expenditures are expected to be minimal in the short term, working capital should continue to strengthen. The firm manages its working capital and draws on its bank operating facility to maximize supplier early payment discounts, where deemed appropriate.

Bank Debt

At year end, SKOR had an operating line of credit of \$3,500,000 with a Schedule A Canadian Chartered Bank, (secured by a charge on the assets of the company), which was deemed sufficient to meet the near term operating requirements of the business. The company was not utilizing the operating facility at period end.

Skor has total term leasing debt of \$51,620 at period end with same amortizing at the rate of approximately \$5,500 per month. Bank debt outstanding at the end of the quarter was \$2,237,817 and which is reducing by \$44,833 per month. All payments with respect to the leases and bank debt are current and the Company is in compliance with its borrowing covenants.

The existing credit facilities are deemed adequate to support the organic growth of the consolidated group, providing additional flexibility to fund future acquisitions.

Capital Expenditure Commitments

Skor has no capital expenditure commitments.

Capital Resources

SKOR's conservative long term debt to equity ratio of 0.33:1 provides flexibility to add additional leverage to the balance sheet to complete further acquisitions. Furthermore, the strong operating cash-flow together with the shortened repayment schedule of the term acquisition facilities should result in a long term debt to equity ratio of reducing to 0.25:1 or less within the next 12 months.

The Company is actively seeking potential acquisitions and in this regard, the successful conclusion of a material transaction may require the Company to raise additional capital in the equity markets. While it is premature to specifically identify the capital requirements in the next twelve months, Skor may be required to raise a substantial amount of capital through a combination of a prospectus offering, private placement, special warrant or a rights offering to existing shareholders.

Financial Instruments and Other Instruments

The company is exposed to certain interest rate risks, which have been identified earlier under the bank debt section and are summarized below.

Foreign Exchange Risk

Skor purchases and sells more than 99.5% of its products in local currency and is therefore exposed to minimal foreign exchange risk.

Interest Rate Risk

At quarter end, SKOR is exposed to interest rate risk as it relates to its operating credit. Based upon expected usage of \$1,000,000.00, each 25 basis point change in borrowing costs impacts quarterly interest expense by \$625.00. Equipment financing is set with fixed interest rates and will amortize to \$0 in due course.

The floating rate term facilities provided by a Schedule "A" Bank exposes SKOR to interest rate risk; however, the facility offers the ability for SKOR to convert to a fixed rate option at any time. At this time, a 25 basis point change in

floating rate borrowing costs impacts quarterly interest expense by \$1,250.00, based upon projected average utilization of \$2,000,000.00 for the next twelve month period.

SKOR has not utilized derivatives to hedge or speculate on interest rate changes.

Off Balance Sheet Arrangements

Skor has issued indemnities in respect to letters of credit issued by its bank for letters of credit in favour of certain customers for future performance under specific contracts. As at November 30th, 2005, there was \$10,000 worth of letters of credit issued and outstanding to various government beneficiaries.

Transactions with Related Parties

In the most recent quarter, SKOR purchased approximately \$168,309 worth of product and sold \$6,839 worth of product at or below market rates from/to a Company, which certain officers and directors of SKOR have a financial interest in.

Legal Proceedings

SKOR is the defendant, in small claims court, in a \$10,000 claim from a former employee dating back to 2003. No appropriation has been set-aside on the financial statements to account for any potential future losses as Management believes the claim is without merit.

Management Changes

Nil.

New Accounting Pronouncements

Nil

Disclosure Controls

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Company's disclosure controls and procedures, including adherence to the Disclosure Policy adopted by the Company.

The Chief Executive Officer and the Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures as of November 30, 2005, have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its subsidiaries would have been known to them.

Capital Stock – Common Shares as at January 23, 2006

Issued and Outstanding (August 31, 2005)	17,938,757
Add:	
Options (Expiry January 19, 2009)	100,000
Options (Expiry October 27, 2008)	145,000
Options (Expiry January 2009)	520,000
Options (Expiry March 31, 2006)	<u>125,000</u>
Diluted	18,828,757

Significant Events during the Quarter

In the first quarter, the Company successfully completed the transfer of the Gorman operations into the new head office facility located in Vaughan. The transfer of operations was completed on time and with minimal disruption to the customers and staff of the operation.

Subsequent Events

Subsequent to quarter end, the Derry Foods facility located in Mississauga was successfully transferred in to the new head office facility in Vaughan. The previous facility was vacated, the lease was terminated without penalty by the landlord and the surplus equipment and fixtures was sold to the new tenant for gross proceeds of \$215,000.

Each board member received 25,000 options for services provided in the past year.

Outlook

SKOR will focus on consolidating and streamlining the consolidated Gorman and Derry operations in the next two quarters. At the same time, Management will continue to seek out opportunities to grow its distribution business through strategic acquisitions and sales initiatives with new and existing client relationships. Leveraging on its success and operating experience in the food distribution business, SKOR aims to become a vertically integrated large-scale operation that spans the entire value chain, from manufacturing to wholesale distribution to controlling targeted retailing channels.

Additional Information

Additional information relating to the Corporation is available under the Corporation's profile on the SEDAR website at www.sedar.com. Shareholders may contact the Corporation to request copies of the financial statements and MD&A by: (i) mail to 10 Ronrose Drive, Vaughan Ontario L4K 4R3 or (ii) fax to (905) 660-4848.

Forward-Looking Information

The Company and its representatives periodically make written and oral forward-looking statements, including those contained in this document and all documents and reports disseminated to shareholders and the public. Forward-looking statements involve significant risk, uncertainties and assumptions that could result in actual results being different from anticipated performance. SKOR cautions readers to the risks, uncertainties and assumptions of forward-looking statements. Although the forward-looking statements the Company makes are based on what management believes to be reasonable assumptions at the time the statements are made, the Company cannot guarantee or assure prospective investors that actual results will be consistent with SKOR's forward looking statements.