

THE SKOR FOOD GROUP INC.

MANAGEMENT DISCUSSION AND ANALYSIS

DATE OF PREPARATION: **JANUARY 24, 2008**

PERIOD: **THE FIRST QUARTER ENDED NOVEMBER 30, 2007**

General

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 three month period ended November 30, 2007. This discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes. Any reference herein to 2008 shall mean the three month period ended November 30, 2007 and any reference herein to 2007 shall mean the three month period ended November 30, 2006.

Compliance with General Accepted Accounting Principles

Unless otherwise indicated, the financial information presented is expressed in Canadian dollars and prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). SKOR utilizes earnings before interest and taxes, depreciation and amortization (“EBITDA”) as a measurement tool. This measure is a widely accepted financial indicator but it is not a measurement determined in accordance with GAAP.

Overview

SKOR is a vertically integrated regional based food Company that manufactures and distributes products through its two operating divisions.

The Skor Food Service Ltd. operating division is a full service, wholesale food distributor to the food service industry, offering more than 7,000 items from its 200,000 square foot warehouse in Vaughan, Ontario. Skor Wholesale Cash and Carry is a wholesaler to the independent retail grocer, convenience store and food service industry with 12 locations throughout Southern Ontario selling more than 10,000 private label and name brand, frozen goods, refrigerated products and dry goods including confectionary and tobacco. SKOR services a wide range of multi location food retailers, Quick Service Restaurant chains, day care facilities, government institutions, independent food service operators as well as vending operators and convenience stores in Ontario from these two divisions.

Skor Culinary Concepts Inc. is in the business of manufacturing and distributing ready to eat sandwiches and meals for the catering, vending and institutional market.

Skor Franchise Inc., a subsidiary of SKOR, is in the process of reversing the core components of the asset purchase of Galaxie Diner in cooperation with the Vendor. SKOR expects to fully recoup its investment in Galaxie Diner. In the interim, the operations will be treated as “discontinued operations” until such time as the disposal is completed and as such, our discussions with respect to the operation will be limited.

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.

The wholesale cash and carry business in Ontario is also a mature industry. The marketplace is dominated by large firms such as National Grocers (Loblaws) and Sam's Club (Wal-Mart) and Costco, who supply both retailers and consumers from the same locations. Skor Cash and Carry is positioned as the largest independent cash and carry operator servicing the independent retail market. SKOR competes with numerous smaller geographic and ethnic focused competitors with single locations offering a limited breadth of products. Customers are price sensitive on certain key product lines (tobacco, confectionary and name brand beverages) where margins are historically very competitive.

The food manufacturing industry is also a mature business, growing at rates consistent with geographical population expansion. Specifically focusing on manufactured product for the vending and catering industry in the Greater Toronto Area, the business is mature but is extremely fragmented with no dominant, industry leader. The market offers considerable opportunity for consolidation in the GTA market over the next few years as existing operators seek out viable and attractive exit strategies.

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 and convenience store retailers;

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 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. As an additional tool to reduce overall credit risk, third party accounts receivable insurance through Euler Hermes was instituted in the first quarter of fiscal 2007.

- 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. Given the market dominance of three large well capitalized firms (Loblaws, Wal-Mart and Costco), SKOR does not attempt to compete head on with these firms, however, certain product lines must be kept competitive to maintain traffic flow and customer loyalty. As such, certain product lines such as tobacco operate on extremely low gross margins; however, SKOR is attempting to reduce the reliance on these product categories by focusing its energies on expanding its higher margin product lines.

- 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.

- Changes to distribution channels initiated by Suppliers

During the course of normal business operations, suppliers may attempt to reduce, eliminate or change the distribution channels or pricing to those channels. These distribution channel changes may result in a reduction in business through SKOR which could have a material effect on revenue and gross margin.

- Seasonality and weather

The business may experience fluctuations resulting from a number of factors such as economic conditions, effects of severe weather and seasonality at certain locations due to their proximity to traditional vacation destinations.

Results of Operation- Quarter Ended November 30, 2007

Revenue

Consolidated revenue decreased by 5.0% on a year over year basis from \$44,922,571 to \$42,696,137. Revenue in the current period was positively impacted by growth in Food Service and the inclusion of revenue from Skor Culinary. However, Cash and Carry experienced a 27% decline in revenue, primarily due to the change in a major tobacco supplier's distribution channel which occurred in September 2006.

Cost of Sales and Gross Profit

Gross profit margins increased on an absolute basis by 3.6% from 11.8% in the first quarter of fiscal 2007 to 15.4% in the first quarter of fiscal 2008. An improvement in margins was due to the inclusion of the Skor Culinary business together with an improved sales mix of products with less of a focus on tobacco revenue.

On a forward looking basis, gross profit margins are expected to be in the 12-16% range as tobacco margins continue to negatively impact the overall returns. Margins may also fluctuate dependent upon the mix of products sold to customers throughout the year.

Expenses

On a consolidated basis, operating expenses for the first quarter of fiscal 2008, excluding the provision for income taxes, interest and amortization increased by 30.03% to \$5,622,177 from \$4,313,163 in the comparable prior year period.

Total operating expenses, including interest and amortization increased by 31.0% to \$5,983,411 from \$4,568,135. Negatively impacting expenses were higher amortization costs, which is reflective on the increased investment in fixed assets attributable to the acquisition of the Cash and Carry operations and the amortization of intangibles acquired in conjunction with Skor Culinary. The increased operating costs are due primarily to additional employees and overhead expenses incurred in conjunction with completed acquisitions.

Stock Based Compensation (“SBC”)

The company applies a fair value based method of accounting to all stock-based payments. In the current quarter, no options were issued and as a result, there was no stock based compensation expense.

Earnings before Interest, Taxes, Depreciation and Amortization (“EBITDA”)

Earnings, before the inclusion of income from Skor Franchise (Galaxie), interest, taxes and amortization increased by \$5,812 to \$971,515 from \$965,703 in the comparable period of fiscal 2007. EBITDA in the first quarter of fiscal 2007 and in the first quarter of fiscal 2008 was \$0.04 per share.

Net Earnings

Net earnings, after tax, decreased by \$33,449 to \$446,012 from \$479,461 the prior year.

Summary of Quarterly Results

| | Q1 2008 | Q4 2007 | Q3 2007 | Q2 2007 | Q1 2007 | Q4 2006 | Q3 2006 | Q2 2006 |
|---|------------|-------------|------------|------------|------------|------------|------------|------------|
| Revenue(\$) | 42,696,137 | 46,823,709 | 47,824,362 | 40,536,162 | 44,976,355 | 64,581,997 | 49,934,439 | 18,354,074 |
| Earnings before tax and extraordinary items(\$) | 600,250 | (1,134,594) | 272,832 | 86,522 | 688,041 | 808,003 | 845,453 | 626,049 |
| Net Earnings(\$) | 446,012 | (973,008) | 257,846 | 30,119 | 479,461 | 493,854 | 531,939 | 229,215 |
| EPS-Basic | .02 | (.04) | .01 | .00 | .02 | .02 | .02 | .01 |
| EPS-Diluted | .02 | (.04) | .01 | .00 | .02 | .02 | .02 | .01 |
| Outstanding Shares-Basic | 26,148,670 | 25,792,148 | 25,748,670 | 25,748,670 | 25,703,340 | 25,491,279 | 24,969,105 | 17,938,757 |

All amounts are in CDN Dollars.

Capital Investments and Acquisitions

An amount of \$260,318 was invested during the quarter in the normal course of operations. The largest component of the capital investment was for the build out of the new format food service focused wholesale marketplace operation in St. Catherines. Capital investments, excluding the build out of St. Catherines, were approximately \$53,000 in the quarter.

There were no acquisitions in the first quarter.

Liquidity and Capital Resources

Working Capital

Working capital consists primarily of inventory and accounts receivable. As at November 30, 2007, SKOR had a working capital ratio of 2.04:1, and working capital of \$10,539,562. On a per share basis, working capital is \$0.40. Excluding the current portion of long term debt, which has been included in current liabilities, working capital is \$11,857,174 (\$0.45/share). SKOR has adequate working capital and available lines of credit to support projected near term growth.

SKOR maintained approximately 27 days worth of inventory at quarter end, an amount which is considered adequate to effectively service its customers. Inventory increased since year end as the Cash and Carry Division added one new location this current quarter.

Based upon the level of business being transacted by SKOR, working capital is deemed adequate to support near term organic growth. As income is retained in the business and recognizing that capital expenditures are expected to return to historical levels, working capital is expected to strengthen. The firm manages its working capital and draws on its bank operating facility to maximize supplier early payment discounts and special pricing opportunities where deemed appropriate.

Bank Debt

At year end, SKOR had an operating line of credit of \$6,000,000 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 operating facility was less than 35% drawn at period end.

In conjunction with the acquisition of the Manufacturing Division in January 2007, SKOR entered into a new \$3.0 million term financing facility with a Schedule "A" Chartered Bank. All payments are current and the firm is in compliance with its banking covenants. Approximately \$1,000,000 of the new term facility is interest only until January 2008 at which time the remaining principal balance at that time is to be amortized over a three year period.

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

Capital Expenditure Commitments

Skor has no capital commitments outstanding as at period end.

Capital Resources

SKOR is underleveraged with a long term debt to equity ratio of 0.20:1. The shortened amortization period of the term debt will result in a strengthening balance sheet as earnings are retained in the Company and debt is repaid.

At the present time, the Company has approved lease facilities with its lenders that are less than 20% funded. These available credit facilities are deemed sufficient to support SKOR's near term lease requirements.

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.

At quarter end, SKOR is exposed to interest rate risk as it relates to its operating credit. Based upon expected usage of \$2,000,000, each 25 basis point change in borrowing costs impacts quarterly interest expense by \$1,250.

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 \$1,719, based upon projected average utilization of \$2,750,000 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 30, 2007, there was \$20,000 worth of letters of credit issued and outstanding.

Transactions with Related Parties

In the most recent year to date period and in the normal course of business, SKOR purchased approximately \$ 171,567 and sold \$4,025 worth of product at or below market rates, from/to a Company, which certain officers and directors of SKOR have a financial interest in.

SKOR has no other contractual obligations with respect to inter-company transactions.

Legal Proceedings

There has been no activity on the outstanding claims reported at year end. The amount of any potential loss is indeterminable at this time and accordingly, no provision has been made in these financial statements.

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, 2007, 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 24, 2008

| | |
|--|----------------|
| Issued and Outstanding (August 31, 2007) | 26,148,670 |
| Add: | |
| Options (Expiry March 22, 2009) | 140,000 |
| Options (Expiry October 27, 2008) | 145,000 |
| Options (Expiry January 2009) | 80,000 |
| Options (Expiry December 2009) | 100,000 |
| Options (Expiry December 27, 2010) | <u>300,000</u> |
| Diluted | 26,913,670 |

Significant Events during the Quarter

Skor Cash and Carry opened a new format wholesale marketplace store in St. Catherines, Ontario. The new style food service focused store occupies a smaller footprint in a more retail oriented environment.

Subsequent Events

On January 18, 2008, SKOR, through its 100% owned subsidiary, acquired 100% of the issued and outstanding common shares of 888930 Ontario Inc. operating as City Wide Catering. On January 19th, the administrative and production operations of Skor Culinary were consolidated at the City Wide facility in Mississauga.

Outlook

While the second quarter is typically our weakest quarter of the fiscal year, we are confident that operational changes already made within the organization will begin to show immediate results. A review of certain aspects of our operations has already produced cost saving initiatives and the challenge going forward will be to grow the business by more aggressively building profitable long term relationships with both our suppliers and our customers.

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) 532-3627.

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.