

THE SKOR FOOD GROUP INC.

MANAGEMENT DISCUSSION AND ANALYSIS

DATE OF PREPARATION: JANUARY 23, 2009

PERIOD: THE FIRST QUARTER ENDED NOVEMBER 30, 2008

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, 2008. This discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes. Any reference herein to 2009 shall mean the three month period ended November 30, 2008 and any reference herein to 2008 shall mean the three month period ended November 30, 2008.

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 defined within GAAP.

Overview

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

The Skor Food Service Ltd. operating division is a full service, wholesale food distributor to the food service industry, offering more than 8,000 items from its 200,000 square foot warehouse in Vaughan, Ontario. Skor Food Service Ltd. 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 retail stores in Ontario.

Skor Wholesale Cash and Carry is a wholesaler to the independent retail grocer, convenience store and food service industry with 9 locations throughout Southern Ontario selling more than 14,000 private label and name brand, frozen goods, refrigerated products and dry goods including confectionary and tobacco.

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.

On December 3, 2008 Skor Franchise Inc., completed the sale of the core operating assets related to the Galaxie Diner chain back to the original owner.

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 growth in the food service and retail industries.

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.

- 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 in certain market areas due to their proximity to traditional vacation destinations.

Results of Operation- First Quarter Ended November 30, 2008

Revenue

Revenue for the first quarter, net of discontinued operations, was \$37,497,162 compared to \$38,866,572 in the comparable period the prior year, representing a \$1,369,410 (3.5%) decline on a year over year basis. Weakness at the cash and carry operations was the contributing factor for the decrease in year over year revenue as Skor Food Service revenue was virtually unchanged and Skor Culinary achieved a revenue increase of 28.7%. Three cash and carry locations were treated as discontinued operations in the current quarter which reduced revenue by \$3,024,376 and \$3,829,565 in the comparable prior year period.

Gross Profit

Gross profit in the quarter, excluding results from discontinued operations, was \$6,073,451 or the equivalent of 16.2% of revenue. Gross profit in the comparable prior year period was \$6,404,102 (16.4%) of revenue. Gross profit margins appear to be stabilizing at the upper range of management expectations, a function of less reliance on low margin tobacco revenue combined with a greater impact from increasing revenue at the higher margin Skor Culinary operations.

Expenses

Total expenses in the current quarter, excluding the costs associated with the discontinued operations, were \$5,643,032 which represents a 0.8% increase on a year over basis. Amortization costs, which are a non cash item, represented the largest component of the expense increase as the amortization of assets acquired in fiscal 2008 increased costs from \$276,219 to \$348,497 (26.1%) on a year over year basis. Actual operating expenses increased by less than 0.2% on a year over year basis, a function of management initiatives focused on carefully managing its variable and discretionary costs.

Stock Based Compensation ("SBC")

A total of \$3,683 was expensed during the quarter for stock based compensation, which is a non cash item, related to the issuance of 75,000 options to senior management of a SKOR subsidiary.

EBITDA

EBITDA, which is a non GAAP measure that the Company utilizes to measure its cash flow, was \$605,907 for the quarter (\$0.023/share) compared with \$971,515 (\$0.037) in the prior year's comparable period. The decline in EBITDA was due to the general weakening in the local economy which gathered momentum downward in the later stages of the first quarter and is continuing on into the second quarter.

Net Earnings

Earnings, before taking into account the results from discontinued operations, were \$430,419 in the quarter which is down from \$811,320 achieved in the prior year's comparable period. During the current quarter, the discontinued operations produced a loss of \$227,040 compared with a loss in the prior year of \$209,249. As a result of these losses from discontinued operations and after taking into account the provision for taxes, SKOR earned \$153,359 (\$0.006) in the current period compared to \$446,012 (\$0.017) in the prior year.

Summary of Quarterly Results

	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007
Revenue(\$)	37,497,162	39,127,341	40,159,426	38,111,017	42,696,137	46,823,709	47,801,840	40,536,162
EBITDA-excluding discontinued operations	832,947	928,323	469,812	522,189	971,515	(630,564)	632,250	304,174
EBITDA-including discontinued operations	605,907	433,494	468,534	513,323	973,336	(630,564)	632,250	304,174
Earnings/(loss) before discontinued operations, relocation costs and taxes(\$)	430,419	520,067	8,176	75,476	600,250	(1,134,594)	272,832	86,522
Earnings/(Loss) including discontinued operations, relocation costs and before taxes	203,379	(57,883)	6,898	66,610	602,071	(1,134,594)	272,832	55,038
Net Earnings/(Loss) including discontinued operations	153,359	(77,228)	39,872	31,263	446,012	(973,008)	257,846	30,119
EPS-Basic	0.01	(.00)	.00	.00	.02	(.04)	.01	.00
EPS-Diluted	0.01	(.00)	.00	.00	.02	(.04)	.01	.00
Outstanding Shares-Basic	26,148,670	26,148,670	26,148,670	26,148,670	26,148,670	25,792,148	25,748,670	25,748,670

All amounts are in CDN Dollars. Commencing in the fourth quarter of fiscal 2008, revenue does not include the discontinued operations of the three closed cash and carry stores. As we have not retroactively adjusted the earnings before discontinued operations, relocation costs and taxes for the periods prior to the fourth quarter of fiscal 2008, earnings during the period reflect twelve months worth of discontinued operation losses from the cash and carry stores.

Capital Investments and Acquisitions

During the quarter, \$51,786 was invested in fixed assets, primarily attributable to the consolidation and transfer of the assets acquired with the Jerry's Canteen acquisition which was completed in August 2008. Capital investments in the quarter were in-line with management's expectations and are tracking on an annual basis to be within the annual budget of \$250,000.

There were no business acquisitions in the quarter.

Liquidity and Capital Resources

Working Capital

Working capital consists primarily of inventory and accounts receivable. As at November 30, 2008, SKOR had a working capital ratio of 1.63:1, and working capital of \$7,981,516 (\$0.30 per share). During the quarter, SKOR generated \$534,327 in cash flow which was utilized to repay bank term indebtedness (\$372,165) and fund capital expenditures (\$51,786), with the residual amount of \$110,376 being utilized to strengthen working capital.

SKOR maintained approximately 29 days worth of inventory at quarter end, an amount which is considered adequate to effectively service its customers. Inventory increased by approximately \$1.0 million from year end, however, future inventory levels are expected to reduce by more than \$2 million as the inventory from the closure of the three cash and carry locations is sold through the system and tighter controls on inventory management is introduced at Skor Food Service.

Accounts receivable and accounts payable are in line with historical results as there has been no major changes to internal company policy in these areas with the exception of stricter controls on the extension of customer credit. As at quarter end, there were 16 days of sales outstanding in the form of accounts receivable and 25 days of purchases outstanding in the form of accounts payable.

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 trending downward toward more historical levels, working capital is expected to strengthen in the near term. 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 quarter 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 36% drawn at period end, well within the credit limit and the coverage conditions established by the Chartered Bank.

The existing operating credit facility is deemed adequate to support the projected organic growth of the consolidated group in the near term.

The existing term debt facility of \$2,019,610 requires the company to meet a certain debt service covenant as measured on a quarterly basis. Unfunded acquisitions and capital expenditures to build out two Wholesale Marketplace locations combined with continued operating challenges at the Cash and Carry operations impacted SKOR's ability to meet the Bank's debt service covenant in the final three quarters of fiscal 2008. In this regard, the term indebtedness was treated as a current liability on the financial statements as at year end. At the end of the current quarter, SKOR was back in compliance with its debt service covenant and as such, the term debt liability has been separated into a short term and long term component.

Capital Resources

The Company's objective when managing capital is to maintain its ability to provide returns to shareholders and benefits for other stakeholders.

The Company includes equity, comprised of issued capital stock, contributed surplus and retained earnings in the definition of capital. Total capital at the end of the quarter was \$17,413,284 (\$0.67 per share).

The Company has an operating line of credit of \$6,000,000 (less than 36% utilized at quarter end) together with a term debt facility of \$2,019,610 which is reducing by \$124,055 on a monthly basis. 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 its growth target, the Company may be required to issue equity in the future or acquire new third party term debt.

At the present time, SKOR is underleveraged with a long term debt to equity ratio of 0.12:1. At the present rate of amortization and in the absence of refinancing the existing term debt facility, the term debt facilities are expected to be repaid in full within the next 18 months. The rapid repayment of the term debt will improve the debt/equity ratio going forward, subject to continued profitability and no new debt being acquired.

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.

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 the present time, a 25 basis point change in floating rate borrowing costs impacts quarterly interest expense by \$797, based upon projected average utilization of \$1,275,000 for the next twelve month period.

SKOR has not utilized derivatives to hedge or speculate on interest rate changes. SKOR has no exposure to commodity based derivative products.

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, 2008, there was \$20,000 worth of letters of credit issued and outstanding.

Capital Expenditure Commitments

SKOR has no capital commitments outstanding as at quarter end.

Transactions with Related Parties

In the most recent quarter and in the normal course of business, SKOR purchased approximately \$150,287 (2008-\$171,567) and sold \$5,474 (2008-\$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.

Management Changes

Nil

New Accounting Pronouncements

Please refer the Financial Statements for a full disclosure of the accounting pronouncements.

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, 2008, 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, 2009

Issued and Outstanding (August 31, 2008)	26,148,670
Add:	
Options (Expiry March 22, 2009)	140,000
Options (Expiry December 30, 2009)	100,000
Options (Expiry July 28, 2010)	100,000
Options (Expiry December 27, 2010)	300,000
Options (Expiry September 17, 2011)	75,000
Options (Expiry December 21, 2011)	50,000
Less:	
Normal Course Issuer Bid Purchases (To be cancelled)	(91,500)
Return of shares issued on acquisition of Galaxie assets (To be cancelled)	<u>(145,000)</u>
Diluted	26,677,170

The company has acquired 91,500 shares under its normal course issuer bid and a further 145,000 were returned to the Company in conjunction with the sale of the Galaxie Diner assets. The shares are expected to be returned to treasury and cancelled by the end of the second quarter of the current fiscal year.

Significant Events during the Quarter

Skor Culinary completed the amalgamation of the Jerry's Canteen operations which were acquired in August 2008 by relocating same to a nearby Skor Cash and Carry facility.

In order to expand its target market and to further build upon its reputation of producing a high quality food product, Skor Culinary began the process of obtaining its HACCP certification, which it fully expects to successfully obtain by the end of the current fiscal year.

Subsequent Events

On December 3, 2008, Skor Franchise completed the sale of the assets related to the Galaxie Diner chain back to its original owner as outlined in previous management discussions and analysis. SKOR has no near term plans to focus its growth strategy in the franchising area.

On December 8, 2008, Skor Cash and Carry closed three of its underperforming locations in Tillsonburg, Mississauga and Scarborough. The Company was actively trying to sell these assets beginning in August 2008 and accordingly, the operations were treated as discontinued operations as at August 31, 2008 and at the end of the current quarter. The assets (primarily inventory) associated with the three locations were either moved to existing locations or are being held for resale. The majority of full time staff was provided with employment opportunities within SKOR and the three facilities, which have leases at/or below market rates are being aggressively marketed to sub-let in an attempt to minimize future payment obligations to SKOR. At the present time, SKOR has successfully sub-let one facility and is presently negotiating with a potential third party tenant on a second location.

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

Outlook

The business environment has changed dramatically since the beginning of the first quarter caused by the speed and severity of the oncoming recession, which has resulted in lower employment levels in the manufacturing sector (direct impact on Skor Culinary's customer base) and a reduction in consumer discretionary spending and consumer confidence (direct impact on Skor Food Service and Skor Cash and Carry). Nonetheless, SKOR is trying to combat these difficult operating conditions by better managing its variable costs, tightening controls on credit where necessary and trying to cultivate strong new business relationships. We are confident that SKOR will manage its operations through the current business environment and will exit a much stronger and more efficient organization.

We will continue to assess each individual operating division's performance and should the present management be unable to deliver the returns expected by the executive and our shareholders, we will seek out alternatives to improve the overall performance, which may include the sale or closure of such units.

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.