

THE SKOR FOOD GROUP INC.

MANAGEMENT DISCUSSION AND ANALYSIS

DATE OF PREPARATION: **APRIL 22, 2005**

PERIOD: **THE SECOND QUARTER ENDED FEBRUARY 28, 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 three month period ended February 28, 2005. This discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes. Any reference herein to 2005 shall mean the three month period ended February 28, 2005 any reference herein to 2004 shall mean the three month period ended February 29, 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 65,000 square foot head office/warehouse located in Mississauga, Ontario and a 38,000 square foot office/warehouse in Newmarket, 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.

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.

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;
- Certain operating cost increases such as fuel, utilities and property taxes which may not be passed on to customers in certain circumstances, given the low-inflationary and competitive environment; and
- Economic reliance on discretionary cash flow of the consumer for a portion of the business.

Results of Operation- Second Quarter Ended February 28, 2005

Sales

On a year over year basis, fiscal 2005 second quarter sales increased by 101% to \$17,832,822 from \$8,870,233 and six month sales increased by 108% to \$38,477,979 from \$17,832,822. The dramatic revenue increase is attributed primarily to a combination of organic growth and the acquisition of Gorman Distributing Ltd. The second quarter and the year to date revenue run rate is not indicative of the full year, given that the Gorman business is seasonally stronger in the third and fourth quarter of the fiscal year.

Gross Profit Margins

Gross profit margins improved on a year over year basis from \$1,472,652 (16.6%) to \$3,248,341 (18.1%) of sales in the second quarter and from \$2,874,893 (15.6%) to \$6,439,642 (16.7%) in the six month period. During the second quarter, we benefited from an improved mix of higher margin products together with some reduced supply costs, as we were able to better leverage our increasing product purchases to improve our purchasing power. For the fiscal year ended August 31, 2005 and for the reasons mentioned earlier, we expect gross profit margins to be in the range of 16.5%-17.0% compared to 15.9% for the previous fiscal year end, subject to no change in the existing business structure.

Expenses

Second quarter operating expenses increased to \$2,612,312 from \$1,241,385 the prior year. On a year to date basis, operating expenses as a percentage of revenue were consistent at approximately 13%. The acquisition of Gorman contributed to the monetary increase from \$2,403,767 to \$5,069,377 in the comparable six month period. Operating costs increased for the quarter due primarily to seasonally higher labour costs, as a percentage of revenue, at Gorman. In order to retain an experienced labour force, Gorman has historically retained staff during the seasonally slower winter months which ensure employment stability in the busier summer season

Amortization costs increased in the year over year quarter by 55.7% to \$71,422 from \$45,883 and the year to date by 92.5% to \$179,330 from \$93,147 in the prior year. The increase in amortization is a function of the fixed assets acquired in the two acquisitions completed in the second half of fiscal 2004

Due to the new \$3 million term debt funded to complete the Gorman acquisition in the 3rd quarter of fiscal 2004, quarterly interest costs increased to \$35,120 from \$774 the prior year. Year to date interest expense increased to \$62,170 from \$1,629 for reasons mentioned above.

Management continues to review opportunities for expense consolidation in advance of a merger of the two operating facilities into one modern, centralized and efficient operation.

Stock Based Compensation (“SBC”)

The company adopts a fair value based method of accounting to all stock-based payments. In the most recent quarter, there were no new options issued, however, there was an expense of \$3,435 (2004-\$0) related to the issuance of options to Linear Capital Corp. in fiscal 2004. On a year to date basis \$6,870 (2004-\$0) has been expensed. The options issued to Linear Capital have now been fully expensed.

Net Earnings

Net earnings after tax increased on a year over year basis by 252 % to \$325,633, a function of the sales increase, improving gross margins and attentive expense control. On a year to date basis, net earnings increased by 230% to \$702,676 from \$212,945 in the prior comparable period.

Summary of Quarterly Results

	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004	Q4 2003	Q3 2003
Revenue	17,832,822	20,645,157	23,088,903	19,623,126	8,870,233	9,600,127	9,217,905	7,957,554
Net Earnings	325,633	377,043	311,293	389,862	92,401	120,544	24,593	(132,903)
EPS-Basic	0.02	.03	.02	.03	.01	.01	.00	(.01)
EPS-Diluted	0.02	.02	.02	.02	.01	.01	.00	(.01)

All amounts are in CDN Dollars.

Capital Investments and Acquisitions

There were no new corporate acquisitions in the second quarter. In the normal course of business, the firm made investments in Property Plant & Equipment (PP&E) of \$13,184 in the quarter and \$29,915 for the year to date. An amount of \$10,000 was invested in the second quarter for a small participation interest in an insurance program associated with a wholesale buying group for which SKOR is currently a member and a shareholder. As the securities for both investments constitute only a small fraction of the common stock of the investee companies, SKOR utilizes the cost method to account for the investments.

The firm is well within its objective to maintain on-going annual capital upgrades to less than \$125,000.

Liquidity and Capital Resources

Working Capital

Working capital consists primarily of inventory and accounts receivable. As at February 28, 2005, SKOR had a working capital ratio of 2.26:1, and working capital of \$5,493,264. In the second quarter, the firm increased its working capital by \$1,524,323 as earnings, net of capital investments in the second quarter, were retained in the business. Additionally, the firm issued 4,240,500 shares from treasury, for net proceeds of \$1,282,150, to satisfy the exercise of options (100,000) and warrants (4,140,500), respectively. The firm's strong working capital position combined with its existing credit facilities provides adequate funding to support the projected near term growth.

Day's sales outstanding (accounts receivable) is well managed at approximately 25 days and is within our corporate objectives.

SKOR maintained approximately 18 days worth of inventory at quarter end, an amount which is considered adequate to effectively service its customers. Longer term, 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 is 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 near 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 quarter 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 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 \$112,742 at quarter end with the principal balance amortizing at the rate of approximately \$5,813 per month. All obligations are current.

The term financing facility funded in the third quarter of fiscal 2004 continues to amortize at a rate of \$44,833 per month. All payments are current, the firm is in compliance with all its financing covenants with its lender and the balance outstanding at quarter end was \$2,641,326.

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 obligations as at quarter end.

Capital Resources

The recent exercise of stock options and warrants combined with the retention of earnings in the business, served to strengthen SKOR's long-term debt to equity ratio to 0.56:1 at the end of the second quarter, down from 0.85:1 at the end of the first quarter. The conservative capital structure 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 debt facilities should continue to reduce the debt to equity ratio to even more conservative levels in the near term.

The Company does not expect to require additional equity in the short term to fund its day-to-day operation; however, a combination of debt/equity funding may be required to assist in the financing of a large strategic acquisition. In the event that such an acquisition opportunity is presented, Senior Management and Directors have 635,000 in-the-money options, which could be exercised to provide \$254,000 of the required funding. At the time of writing, no such equity issue is planned.

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

Nil

Interest Rate Risk

At quarter end, SKOR is exposed to interest rate risk as it relates to its operating credit, however, nominal usage is projected in the next quarter and therefore the potential interest rate risk is deemed to be 0.

Equipment financing is set with fixed interest rates and will amortize to \$0 in due course and is therefore not subject to interest rate risk.

The \$ 3,000,000 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 \$1,650, based upon projected average utilization of \$2,640,000 for the current fiscal year.

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

Off Balance Sheet Arrangements

SKOR has one off-balance sheet commitment, namely a \$10,000 letter of guarantee to a government agency, which was entered into in the normal course of business. The letter of guarantee is for a one-year renewable term. SKOR does not anticipate entering into other off-balance sheet contracts other than letters of guarantee and operating leases for equipment and premises as may be required in the normal course of business.

Transactions with Related Parties

In the most recent three-month period, SKOR purchased approximately \$168,786 worth of product and sold \$7,846 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

There are no changes or updates from those previously disclosed.

Management Changes

Nil.

New Accounting Pronouncements

Nil

Capital Stock

	<u>August 31, 2004</u>	<u>April 22, 2005</u>
Issued and Outstanding	13,443,170	17,823,670
Warrants released from escrow	3,253,250	expired
Options expiring January 8, 2009	800,000	635,000
Options expiring September 1, 2006	200,000	125,000

Significant Events during the Quarter

On November 23rd, 2004, 2000300 Ontario Inc. (controlling shareholder) and 2000301 Ontario Inc. (controlling shareholder) filed Form 45-102F1, which announced their intention to dispose of up to 1 million shares each via a private placement or through the TSX Venture Exchange. On December 10, 2004, a total of 2 million shares were sold through the facilities of the TSX Venture Exchange. On January 25th, 2005, each of the controlling shareholders exercised 2,070,250 warrants at \$0.30 per share for total proceeds of \$1,242,150. Warrants remaining in escrow as at January 31, 2005 were cancelled and therefore no longer appear in the diluted share calculations.

Subsequent Events

Nil

Outlook

SKOR continues to seek out opportunities to grow its business through strategic acquisitions and new sales initiatives with existing clients acquired in the last year. The business climate continues to improve as the foodservice and hospitality industry in Ontario recovers from the affects of SARS and the general travel slowdown experienced over the last few years.

SKOR remains committed in its focus to enhance its profitability by:

- Streamlining and consolidating all plant and delivery operations to enhance operating efficiencies;
- Integrating acquisitions into SKOR's existing business and adjust product offerings to improve margins; and
- Acquiring niche food service and related product distributors in Ontario.

Management has spent a tremendous amount of time and energy on plant consolidation in the past 6 months. However, due to the limited supply of affordable and suitable commercial real estate facilities in our targeted geographic area, we have been unable to enter into a suitable lease arrangement at this time. Nonetheless, we remain committed to resolve this consolidation issue by the end of 2005.

Management has also been very proactive in identifying suitable acquisition targets in distribution, manufacturing and retail distribution. In the past three months, we have reviewed a number of acquisition opportunities; all have which have failed to meet either our stringent acquisition criteria or

synergistic opportunities. Nonetheless, we will continue to aggressively solicit and review new business opportunities in the short term.

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 6811 Goreway Drive, Mississauga, Ontario L4V 1L9 or (ii) fax to (905) 677-0200.

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.