

THE SKOR FOOD GROUP INC.

MANAGEMENT DISCUSSION AND ANALYSIS

DATE OF PREPARATION: July 25, 2008

PERIOD: THE THREE AND NINE MONTHS ENDED MAY 31, 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 and nine month period ended May 31, 2008. 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 and nine month period ended May 31, 2008 and any reference herein to 2007 shall mean the three and nine month period ended May 31, 2007.

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 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 7,000 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 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 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 final stages 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. In this regard, our discussions with respect to the franchise 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- Three and Nine Months Ended May 31, 2008

Revenue

Consolidated revenue for the quarter declined by 16.0% on a year over year basis from \$47,801,840 to \$40,159,426. On a year to date basis, consolidated revenue decreased by 9.2% from \$133,219,409 to \$120,966,580.

In spite of reduced consumer discretionary spending, and the softening Ontario economy in general (that has affected many of our customers in the leisure, entertainment and restaurant industries, especially in cottage country), Skor Food Service has been able to maintain its revenue base consistent with prior years.

The Wholesale Cash and Carry segment continues to feel the pressure from a competitive retailing environment and the ongoing challenges to obtain new high value customer relationships. Total revenue declined on a year over year basis by approximately 25%. The significant portion of the revenue decline was in low margin tobacco products. Nonetheless, management continues to investigate and develop opportunities to differentiate the business model from that of the competition.

Skor Culinary revenue increased on a year over year basis; however, the results are not meaningful in light of the City Wide acquisition which was completed in the second quarter of the current fiscal year.

Cost of Sales and Gross Profit

Quarterly gross profit margins increased on an absolute basis by 3.5% from 12.7% to 16.2%. On a year to date basis, margins increased by 3.4% to 16.2% from 12.8% the prior year. An improvement in margins in both periods was due to the inclusion of the higher margin Skor Culinary business together with an improved sales mix of products with a lower exposure to tobacco sales.

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 quarter and year to date, excluding the provision for income taxes, interest, amortization and costs associated with relocation and discontinued operations increased by 11.6% and 17.0% to \$6,027,967 and \$17,587,825 respectively. For the quarter and the year to date, total operating expenses, excluding costs associated with discontinued operations and relocating certain operations, increased by 12.8% to \$6,489,603 and 18.1% to \$18,857,408 respectively.

Total operating expenses at both Skor Food Service and Cash and Carry were virtually unchanged on a year over year basis in the most recent quarter. Higher amortization costs associated with the increased investment in fixed assets in the past year and increasing costs associated with occupancy and fuel were offset by cost improvements in salaries and wages across most areas including the largest impact from efficiency improvements at the warehouse operations.

The largest component of the overall expense increase for the period and year to date is due to the inclusion of the operating expenses from Skor Culinary Concepts Inc. Skor Culinary results are included for the full nine month period this year compared to four months the prior year. Furthermore, the acquisition of City Wide Catering, which was completed in January 2008, also increased operating costs in the most recent quarter due to increased labour and overhead costs. Over the next two quarters, we expect to generate significant cost savings once the consolidation of City Wide Catering and Skor Culinary Concepts Inc. operations are completed.

Stock Based Compensation (“SBC”)

The company applies a fair value based method of accounting to all stock-based payments. No options were issued in the current quarter.

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

For the quarter, earnings, before the inclusion of non recurring income, relocation costs, interest, taxes and amortization decreased by \$174,676 to \$469,812 (\$0.02/share) from \$644,488 (\$0.03/share) in the comparable period of fiscal 2007.

For the nine month period, earnings, before non recurring income, relocation costs, interest, taxes and amortization decreased by \$56,958 to \$1,953,485 (\$0.07/share) from \$2,010,443 (\$0.07/share) in the comparable period of fiscal 2007.

Net Earnings

In the quarter, earnings decreased to \$39,872 (\$0.00/share) from \$257,846 (\$0.01/share) the prior year.

For the year to date period, net earnings, after tax and relocation costs, decreased to \$517,147 (\$0.02) from \$767,426 (\$0.03/share) the prior year.

Summary of Quarterly Results

	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006
Revenue(\$)	40,159,426	38,111,017	42,696,137	46,823,709	47,801,840	40,536,162	44,976,355	64,581,997
Earnings before tax and non recurring items(\$)	8,176	75,476	600,250	(1,134,594)	293,679	86,522	688,041	808,003
Net Earnings(\$)	39,872	31,263	446,012	(973,008)	257,846	30,119	479,461	493,854
EPS-Basic	.00	.00	.02	(.04)	.01	.00	.02	.02
EPS-Diluted	.00	.00	.02	(.04)	.01	.00	.02	.02
Outstanding Shares-Basic	26,148,670	26,148,670	26,148,670	25,792,148	25,748,670	25,748,670	25,703,340	25,491,279

All amounts are in CDN Dollars.

Capital Investments and Acquisitions

An amount of \$67,884 was invested during the quarter in capital equipment required in the normal course of operations. A further investment of \$29,117 was made in warehouse equipment and leasehold improvements required for the completion of the repositioning of the Barrie location at Skor Wholesale Cash and Carry.

Liquidity and Capital Resources

Working Capital

Working capital consists primarily of inventory and accounts receivable. As at May 31, 2008, SKOR had a working capital ratio of 1.65:1, and working capital of \$8,769,931. On a per share basis, working capital is \$0.34. Excluding the current portion of long term debt, which has been included in current liabilities, working capital is \$10,258,592 (\$0.39/share). SKOR has adequate working capital and available lines of credit to support projected near term growth.

SKOR maintained approximately 30 day's worth of inventory at quarter end, an amount which is considered adequate to effectively service its customers.

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 32% drawn at period end.

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 less than 0.16:1. The three year amortization period of the existing term debt combined with the expectation that future earnings will be retained in the business to further strengthen the balance sheet will positively impact the debt to equity ratio going forward.

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 \$1,250, based upon projected average utilization of \$2,000,000 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 May 31, 2008, 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 \$ 480,467 and sold \$ 19,541 worth of product at or below market rates, from/to Companies, 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

Effective September 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530, Comprehensive Income, Section 3855, Financial Instruments, and Section 3865, Hedges. These changes in accounting policy are not applied retroactively and accordingly, comparative amounts for prior periods, if any, have not been restated.

These recommendations establish standards for recognizing and measuring financial instruments, which include financial assets, financial liabilities, derivatives and embedded derivatives. Under these recommendations, all financial instruments are to be recorded initially at fair value. In subsequent periods, all financial instruments are re-measured based on the classification adopted for the financial instrument: held-to-maturity, loans and receivables, held for trading, available-for-sale or other liability.

Financial assets

Held for trading

Financial assets that are held with the intention of generating profits in the near term and derivative contracts that are financial assets, except for a derivative that is a designated and effective hedging instrument, are classified as held for trading. In addition, any other financial assets can be designated by the Company upon initial recognition as held for trading. These instruments are subsequently re-measured at fair value with the change in the fair value recognized in net income during the period.

Held-to-maturity

Financial assets that have a fixed maturity date and which the Company has a positive intention and the ability to hold to maturity are classified as held-to-maturity, which are subsequently re-measured at amortized cost using the effective interest rate method.

Loans and receivables

Loans and receivables are non-derivative financial assets resulting from the delivery of cash or other assets in return for a promise to repay on a specified date, or on demand, usually with interest. Loans and receivables are subsequently re-measured at amortized cost using the effective interest rate method.

Available-for-sale

Available-for-sale assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Financial assets classified as available-for-sale are subsequently re-measured at fair value with the changes in fair value recorded in other comprehensive income.

Financial liabilities

Held for trading

Financial liabilities that are held with the intention of generating profits in the near term and derivative contracts that are financial liabilities, except for a derivative that is a designated and effective hedging instrument, are classified as held for trading. In addition, any other financial liabilities can be designated by the Company upon initial recognition as held for trading. These instruments are subsequently re-measured at fair value with the change in the fair value recognized in net income during the period.

Other liabilities

Non-derivative financial liabilities that have not been designated as held for trading are classified as other liabilities, which are subsequently re-measured at amortized cost using the effective interest rate method.

The Company has classified its financial instruments as follows:

<u>Financial Instrument</u>	<u>Classification</u>	<u>Accounting Treatment</u>
Cash	Held for trading	Fair value
Accounts and rebates receivable	Loans and receivable	Amortized cost
Loans receivable	Loans and receivable	Amortized cost
Bank Indebtedness	Held for trading	Fair value
Accounts payable	Other liabilities	Amortized cost
Long Term Debt	Other liabilities	Amortized cost

The Company determined that the impact of the implementation of these new standards on its financial statements was not material.

Recent Accounting Pronouncements Issued and Not Yet Applied

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 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.

In 2007, the CICA issued Handbook Section 1535, Capital Disclosures (“CICA 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. This new standard is effective for the Company’s interim and annual financial statements for periods commencing September 1, 2008. The Company is in the process of assessing the impact of the new standard on its financial statements.

In February 2007, the CICA issued two new standards, Section 3862, “Financial Instruments Disclosures”, and Section 3863, “Financial Instruments Presentation”. These sections will replace the existing Section 3861, “Financial Instruments Disclosure and Presentation”. Section 3862 provides users with information to evaluate the significance of the financial instruments on the entity’s financial position and performances, nature and extent of risks arising from financial instruments, and how the entity manages those risks. Section 3863 deals with the classification of financial instruments, related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. The new standards are effective for the Company’s interim and annual financial statements for periods commencing September 1, 2008. The Company is in the process of assessing the impact of these new sections on its financial statements.

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.

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 May 31, 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 July 25, 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 July 28, 2010)	100,000
Options (Expiry December 27, 2010)	<u>300,000</u>
Diluted	27,013,670

Significant Events during the Quarter

Skor received exchange approval to commence a normal course issuer bid to acquire up to 4.65% of the issued and outstanding shares of the Company. No shares have been acquired under the normal course issuer bid.

Subsequent Events

Skor Culinary Concepts Inc., a wholly owned subsidiary of the Skor Food Group Inc., has entered into a binding letter of intent to acquire certain assets of a privately held firm which produces and distributes ready to eat products for the mobile catering and institutional marketplace.

Outlook

A difficult operating environment caused by higher fuels costs, reduction in consumer discretionary spending and decreasing consumer confidence impacted all operating segments in the current quarter. We are trying to combat these difficult operating conditions by better managing our costs, tightening controls on credit where necessary and trying to cultivate strong new business relationships. We are confident that Skor will manage 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 current 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.