

Unaudited interim consolidated financial statements of

MERCATOR TRANSPORT GROUP CORPORATION

Three-month and Six-month periods ended October 31, 2008 and 2007

MERCATOR TRANSPORT GROUP CORPORATION

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MERCATOR TRANSPORT GROUP CORPORATION
Consolidated statement of earnings, deficit and comprehensive income
(unaudited)

For the three-month and six-month periods ended October 31, 2008 and 2007

	For the three-month periods ended October 31		For the six-month periods ended October 31	
	2008	2007	2008	2007
	\$	\$	\$	\$
Revenue	6,196,171	4,007,516	13,016,325	7,726,257
Direct costs	5,254,330	3,599,044	11,279,889	6,880,684
Gross profit	941,841	408,472	1,736,436	845,573
Administrative fees	-	36,000	5,000	72,000
	941,841	444,472	1,741,436	917,573
Operating expenses				
Salaries and fringe benefits	420,552	348,606	917,228	755,370
Depreciation and amortization (Note 13)	31,600	9,997	62,276	18,113
Insurance	19,262	13,000	29,157	22,145
Bad debts	13,308	-	18,197	(721)
Travel	69,718	32,546	125,736	70,002
Advertising	24,120	7,488	42,360	12,190
Maintenance and repairs	6,049	7,259	11,827	17,037
Consulting fees	24,206	10,694	45,598	25,928
Overhead and office expenses	25,340	22,822	52,144	41,386
Professional fees	55,338	54,244	96,849	93,516
Interest and bank charges (Note 13)	20,660	9,184	36,105	17,904
Rent	23,391	23,226	46,831	45,631
Telecommunications	10,373	7,869	20,718	17,448
Gain on disposal	(151)	-	(151)	-
	743,766	546,935	1,504,875	1,135,949
Earnings (loss) before income taxes	198,075	(102,463)	236,561	(218,376)
Income taxes (recovered) (Note 3)	76,472	(28,056)	88,200	(60,140)
Net earnings (loss) and comprehensive income (loss)	121,603	(74,407)	148,361	(158,236)
Basic and diluted earnings (loss) per share (Note 4)	0.004	(0.003)	0.005	(0.006)

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

MERCATOR TRANSPORT GROUP CORPORATION

Consolidated statement of shareholders' equity (unaudited)

For the six-month periods ended October 31, 2008 and 2007

	For the six-month period ended October 31, 2008			
	Capital stock	Contributed surplus	Deficit / Earnings	Shareholders' equity
	\$	\$	\$	\$
Balance, beginning of period	1,319,604	122,478	(555,537)	886,545
Net earnings	-	-	148,361	148,361
Adjustment related to stock options	-	20,021	-	20,021
Balance, end of period	1,319,604	142,499	(407,176)	1,054,927

	For the six-month period ended October 31, 2007			
	Capital stock	Contributed surplus	Deficit	Shareholders' equity
	\$	\$	\$	\$
Balance, beginning of period	1,021,349	(148,882)	47,058	919,525
Net loss	-	(158,236)	-	(158,236)
Adjustment related to stock options	6,083	-	37,710	43,793
Balance, end of period	1,027,432	(307,118)	84,768	805,082

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

MERCATOR TRANSPORT GROUP CORPORATION

Consolidated balance sheet (unaudited)

As at October 31, 2008 and as at April 30, 2008

	As at October 31, 2008	As at April 30, 2008
	\$	\$
Assets		
Current assets	672,921	594,146
Cash held in trust	45,000	35,000
Accounts receivable	3,331,688	2,736,056
Inventories (Note 5)	147,943	136,459
Prepaid expenses	219,583	48,649
	4,417,135	3,550,310
Equipment	51,764	38,082
Intangible assets	312,133	350,347
Future income taxes	255,367	343,567
	5,036,399	4,282,306
Liabilities		
Current liabilities		
Bank loans (Note 6)	125,617	290,000
Accounts payable	3,676,185	2,897,122
Current portion of obligations under capital leases	5,420	12,061
Current position of long-term debt (Note 7)	41,820	41,820
	3,849,042	3,241,003
Obligations under capital leases	-	1,418
Long-term debt (Note 7)	132,430	153,340
	3,981,472	3,395,761
Shareholders' equity		
Capital stock (Note 8)	1,319,604	1,319,604
Contributed surplus	142,499	122,478
Deficit	(407,176)	(555,537)
	1,054,927	886,545
	5,036,399	4,282,306

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

MERCATOR TRANSPORT GROUP CORPORATION

Consolidated statement of cash flows (unaudited)

For the three-month and six-month periods ended October 31, 2008 and 2007

	For the three-month periods ended October 31		For the six-month periods ended October 31	
	2008	2007	2008	2007
	\$	\$	\$	\$
Operating activities				
Net earnings (loss)	121,603	(74,407)	148,361	(158,236)
Adjustments for:				
Depreciation and amortization	31,600	9,997	62,276	18,113
Future income taxes	76,472	(28,056)	88,200	(60,140)
Stock-based compensation	10,745	19,666	20,021	38,792
Gain on disposal	(151)	-	(151)	-
Net change in non-cash working capital items (Note 13)	(462,267)	(375,346)	1,013	(441,846)
	(221,998)	(448,146)	319,720	(603,317)
Investing activities				
Acquisition of equipment	(11,079)	(4,204)	(18,916)	(9,728)
Acquisition of intangible assets	(11,079)	(1,858)	(18,828)	(7,558)
Proceeds from disposal	151	-	151	-
Net change in cash held in trust	-	-	(10,000)	-
	(22,007)	(6,062)	(47,593)	(17,286)
Financing activities				
Net change in bank loans	102,677	7,721	(164,383)	132,475
Repayment of obligations under capital leases	(1,870)	(7,742)	(8,060)	(15,271)
Long-term debt repayments	(10,455)	(10,455)	(20,910)	(20,910)
Issuance of common shares	-	5,000	-	5,000
	90,352	(5,476)	(193,353)	101,294
Net change in cash and cash equivalents	(153,653)	(459,684)	78,774	(519,309)
Cash and cash equivalents, beginning of period	826,573	494,773	594,146	554,398
Cash and cash equivalents, end of period	672,920	35,089	672,920	35,089

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

MERCATOR TRANSPORT GROUP CORPORATION

Notes to the consolidated financial statements (unaudited)

For the three-month and six-month periods ended October 31, 2008 and 2007

1. Significant accounting policies

These unaudited interim consolidated financial statements and the notes there to have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") with the exception that they do not conform in all material respects to the requirement of GAAP for annual financial statements. These financial statements should be read in conjunction with the most recent annual financial statements of the Company as they have been prepared using the same accounting policies except for the following:

2. Changes in accounting policies

Recent changes in accounting standards

Inventories

The CICA issued the following standards effective for interim and annual financial statements for the fiscal years beginning on or after January 1, 2008: Accounting Standards Section 3031 "Inventories". This Section replaces Section 3030, establishing standards for the measurement and disclosure of inventories. The Company adopted these standards effective May 1, 2008. The adoption of this Section had no impact on the Company's consolidated financial statements except for a more detailed information disclosure.

Financial instruments - Disclosures and presentation

On May 1, 2008, the Company adopted the new CICA Handbook accounting recommendations regarding the recognition, measurement and disclosure of financial instruments as follows: 3862 "Financial Instruments - Disclosures" and 3863 "Financial Instruments - Presentation".

The adoption of this Section had no impact on the consolidated financial position and results of the Company.

Capital disclosures

On May 1, 2008, the Company adopted Section 1535 of the CICA handbook, "Capital Disclosures". This new standard established disclosure requirements concerning capital such as: qualitative information about its objectives, policies and process for managing capital; quantitative data about what it regards as capital; whether it has complied with any externally imposed capital requirements and, if not, the consequences of such non-compliance.

General standards of financial statement presentation

In June 2007, the CICA amended Section 1400 to include requirements to assess an entity's ability to continue as a going concern and disclose any material uncertainties that cast doubt on its ability to continue as a going concern. The Company adopted this new recommendation on May 1, 2008.

The adoption of this Section had no impact on the consolidated financial position and results of the Company.

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Notes to the consolidated financial statements (unaudited)

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2. Changes in accounting policies (continued)

New accounting standards not yet adopted

Adoption of International Financial Reporting Standards (IFRS) in Canada

In 2006, the Canadian Accounting Standards Board (AcSB) adopted its strategic plan, which includes the decision to move financial reporting for Canadian publicly accountable enterprises to the IFRSs, as issued by the International Accounting Standard Board (IASB). Under the IASB's plan, this new framework will be effective for fiscal years beginning on or after January 1, 2011. Information regarding the Company's plan for convergence and the anticipated effects is to be disclosed prior to the adoption, with the first disclosure by the Company expected to be made in the consolidated financial statements for the year ending April 30, 2009.

Goodwill and intangible assets

In February 2008, the CICA published Section 3064 "Goodwill and Intangible Assets". This new standard establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The requirements will be effective for interim period and annual financial statements starting October 1, 2008. The Company will adopt these standards effective May 1, 2009. The Company is presently evaluating the impact of this new standard on the consolidated financial statements.

3. Income taxes

a) Income tax expense (recovery) was as follows:

	October 31, 2008 (3 months)	October 31, 2007 (3 months)	October 31, 2008 (6 months)	October 31, 2007 (6 months)
	\$	\$	\$	\$
Current income taxes	-	-	-	-
Future income taxes	76,472	(28 056)	88,200	(60 140)
	76,472	(28 056)	88,200	(60 140)

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Notes to the consolidated financial statements (unaudited)

For the three-month and six-month periods ended October 31, 2008 and 2007

4. Earnings per share

The following table provides information on net earnings per basic share:

	October 31, 2008 (3 months)	October 31, 2007 (3 months)	October 31, 2008 (6 months)	October 31, 2007 (6 months)
	\$	\$	\$	\$
Net earnings (loss)	121,603	(74,407)	148,361	(158,236)
Weighted-average number of basic shares outstanding	27,293,335	26,570,533	27,293,335	26,569,422
Net earnings (loss) per basic share	0.004	(0.003)	0.005	(0.006)
Weighted-average number of basic and diluted shares outstanding	29,334,671	26,570,533	29,380,337	26,569,422
Net earnings (loss) per basic and diluted share	0.004	(0.003)	0.005	(0.006)

Options and stock purchase warrants to purchase respectively 1,733,334 and 125,000 common shares were outstanding as at October 31, 2008 and were included in the calculation of the diluted net earnings per share. Options and stock purchase warrants to purchase 2,008,334 and 125,000 common shares were outstanding as at October 31, 2007. They were, however, not included in the calculation of the diluted loss per share; including these options would have had an antidilutive effect.

5. Inventories

Inventory expense recognized in direct cost was as follows:

	October 31, 2008 (3 months)	October 31, 2007 (3 months)	October 31, 2008 (6 months)	October 31, 2007 (6 months)
	\$	\$	\$	\$
Inventory expense	(4,510)	-	(2,675)	-

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Notes to the consolidated financial statements (unaudited)

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6. Bank loans

As at October 31, 2008, the Company had one line of credit of \$1,000,000 at prime rate plus 1.5%, secured by a first mortgage on trade accounts receivable and other receivables of which \$874,383 was unused as at October 31, 2008. This line of credit is renewable annually.

Under the terms of the credit agreement the Company must comply with certain debt covenants, including the maintenance of financial ratios. As at October 31, 2008, the Company was in compliance with these financial ratios.

7. Long-term Debt

Loan from the Business Development Bank of Canada at an interest rate varying between 10.3% and 11.7%, repayable in one principal payment of \$2,565 and 71 monthly principal installments of \$3,485 starting January 15, 2007, secured by a corporate guarantee, certain equipment and intangible assets, as well as trade accounts receivable and up to 50% of the commitment is by some Company's directors.

The estimated repayments of long-term debt over the next five years are as follows:

	\$
2009	41,820
2010	41,820
2011	41,820
2012	41,820
2013	6,970
	<u>174,250</u>

8. Capital stock

As at October 31, 2008, the capital stock issued and outstanding consisted of 27,293,335 common shares (27,293,335 as at April 30, 2008). As at October 31, 2008, 1,733,334 stock options and 125,000 stock purchase warrants were issued and outstanding (2,008,334 and 125,000 respectively as at April 30, 2008). During the period, no options were issued or exercised. An amount of \$10,745 was expensed as stock-based compensation for the three-month period ended October 31, 2008 and \$19,126 for the three-month period ended October 31, 2007 and the related credit was recorded in the contributed surplus. An amount of \$20,021 was expensed as stock based compensation for the six-month period ended October 31, 2008 and \$38,792 for the six-month period ended October 31, 2007 and the related credit was recorded in the contributed surplus.

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Notes to the consolidated financial statements (unaudited)

For the three-month and six-month periods ended October 31, 2008 and 2007

9. Capital management

The Company defines its capital as follows: cash and cash equivalents less bank loans, long-term debt and shareholders' equity which includes capital stock.

	<u>As at October 31, 2008</u>	<u>As at April 30, 2008</u>
	\$	\$
Cash and cash equivalents	672,921	594,146
Bank loans	(125,617)	(290,000)
Long-term debt, including current portion	(174,250)	(195,160)
	<u>373,054</u>	<u>108,986</u>
Shareholders' equity	1,054,927	886,545
Total capital	1,427,981	995,531

The Company's objectives when managing capital are:

- To safeguard the Company's ability as a going concern in order to meet its financial obligations and provide returns to its shareholders;
- Maintain cash and short-term borrowings sufficient to fund operations in a volatile market;
- To maintain an optimal capital structure and maintain the cost of capital as low as possible;
- To fund capital improvements in order to maintain and improve the Company's cost position;
- Preserve its financial flexibility in order to benefit from potential opportunities as they arise.

The Company monitors capital on a monthly basis considering measures including liquidity and leverage ratios. The capital structure provides the Corporation the ability to support its liquidity needs as well as longer-term strategic investments. The Company manages the capital structure and makes adjustments in light of changes in economic conditions and risk characteristics of the underlying assets. It is expected that fluctuations in working capital would be funded from cash on hand or the bank loans.

The Company's financial objectives and strategy as described above remained substantially unchanged over the three-month period ended October 31, 2008. These objectives and strategy are reviewed on an annual basis. Management considers that its ratios are within reasonable limits, in light of its capital management objectives.

The Company is subject to various bank covenants under its credit facility. The Company regularly monitors these ratios to ensure it meets all financial covenants, and has control in place to ensure that contractual covenants are met. The Company complied with all bank covenants as at October 31, 2008.

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Notes to the consolidated financial statements (unaudited)

For the three-month and six-month periods ended October 31, 2008 and 2007

10. Financial instruments

Currency risk

The Company is exposed to foreign currency fluctuations arising from the translation of revenues, expenses, assets and liabilities of operations using foreign currencies. Mercator Group uses the U.S. dollar (USD) 70% to 80% of the time to conduct its commercial transactions. It uses the Canadian dollar (CDN) exclusively to settle operating expenses. Foreign exchange risk is therefore a factor to consider given the financial volume.

The Board of Directors requires the Company to manage its foreign currency risk. Mercator Group hedges against this risk through the use of currency contracts.

Part of the Company's sales and purchases are denominated in foreign currency. Consequently, the Company has a foreign currency exposure on certain assets, liabilities, revenue and expenses. As at October 31, 2008, cash, receivables and payables denominated in US dollars amounted to \$387,394, \$1,520,601 and \$1,788,260, respectively. Cash, receivables and payables in Euros were €88,463, €265,757 and €553,332, respectively.

Assuming no change in commodity prices and interest rates, a hypothetical increase of CAN\$0.06 of the Canadian dollar in relation to the US dollar and the Euro at October 31, 2008 would have had an impact of \$7,184 and \$53, respectively. The Company would have had an equal but opposite effect for a decrease of the related currencies. Financial instruments are accounts receivable, accounts payable and accrued liabilities and a portion of the bank loans.

Credit risk

The Company's exposure to credit risk relates to the Company's cash and cash equivalents, financial instruments and deposits with banks and financial institutions. The Company manages this risk by dealing with only creditworthy institutions.

The Company is exposed to credit risk on its accounts receivable from customers. The Company provides credit to its clients in the normal course of its operations. It carries out, on a continuing basis, credit checks of its clients and maintains provisions for potential losses on receivables, which are consistent with management's forecasts, when they occur. In order to reduce this risk, the Company's credit policy includes:

- an analysis of the financial position of its customers;
- A very strict and diligent credit policy for all customers;
- Monthly review of all customers' credit rating with the relevant agencies;
- Significant diversification of customer base. Mercator Group's policy is that no one customer should systematically account for over 10% of sales. This reduces the potential impact of bad debt;
- Selection of customers as part of a well-established marketing strategy.

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Notes to the consolidated financial statements (unaudited)

For the three-month and six-month periods ended October 31, 2008 and 2007

10. Financial instruments (continued)

Credit risk (continued)

In conclusion, management believes that these measures allow for an effective assessment of the risk incurred with a particular customer and the potential consequences for the Company's results.

Management considers that all receivables are fully collectible as most of the Company's customers have good credit standing and no history of default.

As at October 31, 2008, the Company had receivables of \$877,633 from one client and nil from related companies.

As at October 31, 2008, approximately 13.7% of trade receivable is outstanding for more than 90 days from the date of invoice, while approximately 58.8% is current (less than 30 days). The allowance for doubtful accounts amounted to \$31,056 as at October 31, 2008.

Interest risk

The Company is exposed to financial risks as a result of interest rate fluctuations and the volatility of these rates. Short-term credit facilities described in Note 6 bear interest at floating rates whereas the long-term debt rate is fixed.

Assuming that bank loan as reported on October 31, 2008 had been the same throughout the period, a hypothetical 1% interest rate increase would have had an unfavorable impact of \$314 on net earnings for the three-month period ended October 31, 2008. The Company would have had an equal but opposite effect for a hypothetical 1% rate decrease.

Fair value

The Company determines the fair market value of financial instruments based on current interest rates, the market value and current price of a financial instrument under comparable conditions. Unless otherwise specified, the carrying value of these financial instruments, particularly short-term instruments, approximates their fair value.

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Notes to the consolidated financial statements (unaudited)

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10. Financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company manages liquidity risk through the management of its capital structure and financial leverage, and by continuously monitoring forecasts and actual cash flows. The following are the contractual maturities of financial liabilities as at October 31, 2008:

	Carrying amount	Less than one year	Between one and two years	Between two and five years	More than five years
	\$	\$	\$	\$	\$
Bank loans	125,617	125,617	-	-	-
Accounts payable and accrued liabilities	3,676,185	3,676,185	-	-	-
Capital lease obligations	5,420	5,420	-	-	-
Long-term debts	174,250	41,820	41,820	90,610	-
	3,981,472	3,849,042	41,820	90,610	-

The Company has one credit facility renewable in one year. There can be no assurance that such credit facility will be renewed or refinanced, or if renewed or refinanced, that the renewal or refinancing will occur on equally favorable terms. If, when required, the Company is unable to renew or refinance the credit facility, or is able to renew or refinance such credit facility on less favorable terms, this may have an adverse effect on the Company's business, financial condition, results of operations, future prospects.

11. Related party transactions

The Company entered into the following transactions with related parties:

	October 31, 2008 (6 months)	October 31, 2007 (6 months)
	\$	\$
Revenue	-	903,646
Administrative fees	-	72,000
Professional fees	43,162	-

The Company is related to other companies that are controlled by common shareholders. Transactions between the Company and related companies are conducted in the ordinary course of business and are measured at the exchange amount, which is the consideration established and agreed upon by the related parties.

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Notes to the consolidated financial statements (unaudited)

For the three-month and six-month periods ended October 31, 2008 and 2007

12. Segmented information

The Company's two main operating segments are international logistics and distribution.

Revenue by geographical segments are as follows:

	October 31, 2008 (3 months)	October 31, 2007 (3 months)	October 31, 2008 (6 months)	October 31, 2007 (6 months)
	\$	\$	\$	\$
Revenue by geographical segment				
Canada	3,057,434	2,326,404	6,348,182	4,660,109
International	2,372,713	1,434,621	5,180,128	2,506,152
US	766,024	246,491	1,488,015	559,996
	6,196,171	4,007,516	13,016,325	7,726,257

For the six-month period ended October 31, 2008, one client represents 10% or more of the Company's revenue 23% (in 2007, one customer represented 26% of revenue).

13. Additional information

a) The net change in non-cash working capital components was as follows:

	October 31, 2008 (3 months)	October 31, 2007 (3 months)	October 31, 2008 (6 months)	October 31, 2007 (6 months)
	\$	\$	\$	\$
Accounts receivable	(195,128)	(255,592)	(595,632)	(652,218)
Inventories	(26,353)	-	(11,484)	-
Prepaid expenses	(84,668)	(6,736)	(170,934)	313
Accounts payable	(156,118)	(112,838)	779,063	210,239
Others	-	(180)	-	(180)
	(462,267)	(375,346)	1,013	(441,846)

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Notes to the consolidated financial statements (unaudited)

For the three-month and six-month periods ended October 31, 2008 and 2007

13. Additional information (continued)

b) Additional information				
Interest paid	12,004	10,598	21,804	20,685
Income taxes paid	-	180	-	180
c) Foreign exchange gain (loss)	29,965	23,414	30,553	50,212
d) Depreciation and amortization				
Depreciation of equipment	2,753	2,138	5,234	4,048
Amortization of intangible assets	28,847	7,859	57,042	14,065
	31,600	9,997	62,276	18,113
e) Interest and bank charges				
Interest revenue	(717)	(6,111)	(1,614)	(12,175)
Interest on bank loans and other	6,202	2,939	10,321	5,160
Interest on long-term debt	5 500	6,549	10,761	13,092
Interest on obligations under capital leases	302	1,111	722	2,433
Bank charges	9,373	4,696	15,915	9,394
	20,660	9,184	36,105	17,904