

MERCATOR TRANSPORT GROUP CORPORATION

MANAGEMENT DISCUSSION AND ANALYSIS

UNAUDITED QUARTERLY REPORT

FOR THE THREE-MONTH PERIODS ENDED OCTOBER 31, 2008 AND 2007



MANAGEMENT DISCUSSION AND ANALYSIS

Management's analysis of the operating results and financial position of Mercator Transport Group Corporation (the "Mercator" or "Corporation") for the three-month periods ended October 31, 2008 and 2007 should be read in conjunction with the Corporation's most recent consolidated financial statements and related notes. The information contained in this analysis includes significant developments as of December 5, 2008, the date the Corporation's Board of Directors approved the analysis.

I. FORWARD-LOOKING STATEMENTS

Management's analysis of the operating results and financial position is intended to provide readers with the information that management believes is required for the interpretation of Mercator's current results and to assess the Corporation's future prospects. Accordingly, certain statements in this analysis of operating results and financial position, including statements regarding future results and performance, are, within the meaning of the *Securities Act*, forward-looking statements based on current expectations. These forward-looking statements, by their nature, are not guarantees of Mercator's future operating or financial performance and are subject to risks and uncertainties that could cause actual results to differ materially from those projected in such statements. Words such as "can," "have," "should," "anticipate," "believe," "project," "estimate," "plan," "continue" or similar expressions are intended to identify forward-looking statements. The Corporation cautions the reader that these assumptions regarding future events, many of which are beyond the control of management, may ultimately prove to be incorrect.

Factors that could cause actual results to differ materially from those contemplated in forward-looking statements include risks associated with economic conditions, risks associated with the Corporation's business environment, and operational risk.

Readers are cautioned not to place undue confidence in these forward-looking statements or to consider trends in certain financial data as indicative of Mercator's future activity. Given the analyses and uncertainties, actual events may differ materially from current expectations. The Corporation disclaims any intention or undertaking to update or revise any forward-looking statements, even as a result of future events or otherwise, except as required by applicable law.

Within this document, all financial data are expressed in Canadian dollars and are prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP), unless otherwise indicated.

II. NON-GAAP FINANCIAL MEASURES

In this management discussion and analysis, we also use certain non-GAAP financial measures. The Corporation believes that some of these measures, presented in conjunction with comparable GAAP financial measures, provide useful supplemental information for investors and other readers in order that they may evaluate the Corporation's performance. The non-GAAP financial measures used are the following:

EBITDA	EBIT	EBT	Free cash flow
<i>Earnings (loss) before interest, taxes, depreciation and amortization</i>	<i>Earnings (loss) before interest and taxes</i>	<i>Earnings (loss) before taxes</i>	<i>Cash flow related to operating activities minus net acquisitions of property, plant and equipment</i>

This information should not be taken out of context and should not be considered as a substitute for net earnings (net loss), cash flow from operating, investing and financing activities, or any other financial data presented in the financial statements as return or liquidity indicators. Non-GAAP earnings measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers.

III. CORPORATION PROFILE

The Mercator specializes in freight forwarding, international logistics and distribution. The Corporation offers high value-added services in global supply chain management and designs tailor-made solutions. Customer intimacy and commitment differentiates Mercator in its ability to implement customers' requirements.

➤ Main performance indicators

To achieve its objectives, vision and strategy, the Corporation focuses on the following growth levers:

- **Increasing market share:** Both through organic growth and by building a unique positioning in a market where the Corporation enjoys a solid competitive edge.
- **Valuing human capital:** In selecting human resources, Mercator has developed a hiring policy with the highest standards on the market and that is underpinned by a strong multicultural approach (90% of employees are bilingual and have higher education). The operations and commercial teams have international and specific expertise (international regulations, customs law, insurance law, banking law, etc.).

- **Dealing with competent, diversified suppliers:** In order to maintain its independence and its ability to choose only the best and most reliable partners, Mercator works with a diverse group of high-quality suppliers.

IV. HIGHLIGHTS FOR THE THREE-MONTH PERIOD ENDED OCTOBER 31, 2008

The following highlights of the second quarter of 2009 must be considered in order to understand the overall analysis of Mercator's results.

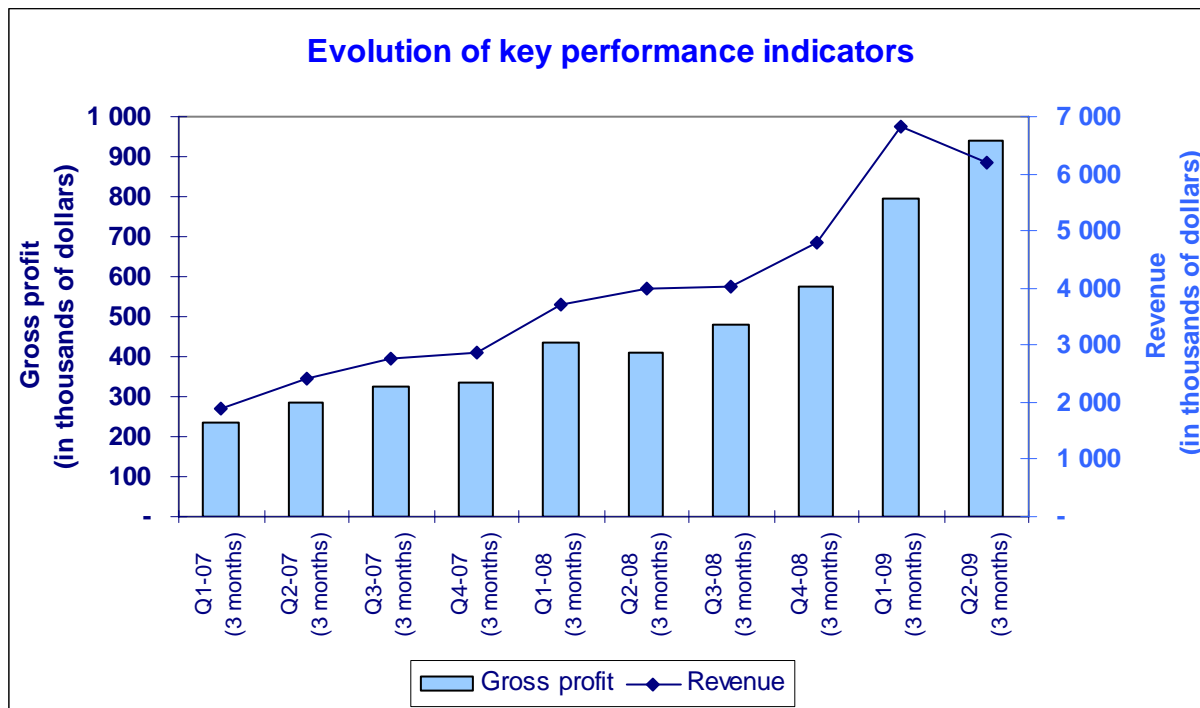
- As part of the Corporation's sustained growth, quarterly revenues increased by \$2,189,000 or 55% to reach \$6,196,000 (including \$1,323,000 generated by the distribution division) in the second quarter of 2009 compared to the second quarter of 2008.
- The gross profit margin significantly increased to 15.2% in the second quarter of 2009, compared to 11.7% for the previous quarter.
- The Corporation generated an EBITDA of \$241,000 for the three-month period ended October 31, 2008 compared to a loss of \$84,000 for the three-month period ended October 31, 2007. This significant positive change in EBITDA is mainly the result of organic growth, which led to increased sales volume.
- The Corporation reported a net earnings of \$122,000 (\$ 0.004 per share) compared to a net loss of \$74,000 (\$ 0.003 per share) for the same quarter in the previous year.
- As at October 31, 2008, shareholder's equity was at \$1,055,000 compared to \$ 887,000 as at April 30, 2008.

V. HISTORICAL FINANCIAL INFORMATION

In the second quarter of 2009, sales grew by 55% or \$2,189,000 from the second quarter of 2008, to reach \$6,196,000 (including \$1,323,000 generated by the distribution division). The combined effect of cost controls and increase in revenue, and more particularly gross profit appreciation, allowed the Corporation to surpass its break-even point. As such, the Corporation made a net profit of \$122,000 for the three-month period ended October 31, 2008 compared to a net loss of \$74,000 for the three-month period ended October 31, 2007.

(in thousands of dollars)	2007					2008					2009		
	Q1 (3 months)	Q2 (3 months)	Q3 (3 months)	Q4 (3 months)	Total (12 months)	Q1 (3 months)	Q2 (3 months)	Q3 (3 months)	Q4 (3 months)	Total (12 months)	Q1 (3 months)	Q2 (3 months)	Total (6 months)
Revenue	1 905	2 414	2 760	2 879	9 958	3 719	4 007	4 021	4 802	16 549	6 820	6 196	13 016
Gross profit	236	286	326	336	1 184	437	408	481	574	1 900	795	942	1 737
EBITDA	74	(33)	(64)	(221)	(244)	(99)	(84)	(202)	(41)	(426)	78	241	319
Depreciation	7	8	8	9	32	8	10	18	26	62	31	32	63
EBIT	67	(41)	(72)	(230)	(276)	(107)	(94)	(220)	(67)	(488)	47	209	256
Interest	3	6	10	8	27	9	8	10	10	37	9	11	20
EBT	64	(47)	(82)	(238)	(303)	(116)	(102)	(230)	(77)	(525)	38	198	236
Income taxes	14	(11)	(9)	(131)	(137)	(32)	(28)	(41)	(17)	(118)	12	76	88
Net earnings (losses)	50	(36)	(73)	(107)	(166)	(84)	(74)	(189)	(60)	(407)	26	122	148
(as a percentage of revenue)													
Gross profit	12,4%	11,8%	11,8%	11,7%	11,9%	11,8%	10,2%	12,0%	12,0%	11,5%	11,7%	15,2%	13,3%
EBITDA	3,9%	-1,4%	-2,3%	-7,7%	-2,5%	-2,7%	-2,1%	-5,0%	-0,9%	-2,6%	1,1%	3,9%	2,5%
EBIT	3,5%	-1,7%	-2,6%	-8,0%	-2,8%	-2,9%	-2,3%	-5,5%	-1,4%	-2,9%	0,7%	3,4%	2,0%
EBT	3,4%	-1,9%	-3,0%	-8,3%	-3,0%	-3,1%	-2,5%	-5,7%	-1,6%	-3,2%	0,6%	3,2%	1,8%
Net earnings (losses)	2,6%	-1,5%	-2,6%	-3,7%	-1,7%	-2,3%	-1,8%	-4,7%	-1,2%	-2,5%	0,4%	2,0%	1,1%
Cash and cash equivalents	100	165	692	554	554	495	35	253	629	629	872	673	673
Free cash flows	(106)	(40)	79	(607)	(674)	(161)	(452)	102	456	(55)	534	(233)	301

Non-GAAP measure as defined on page 3 of this MD&A.



VI. CONSOLIDATED FINANCIAL RESULTS

Comparison of financial results for the three-month periods ended October 31, 2008 and 2007

Sales

Reflecting sustained growth, sales grew by 55% or \$2,189,000 to reach \$6,196,000 (including \$1,323,000 generated by the distribution division), compared to 2008 second quarter results.

This significant growth is mainly the result of the Corporation's organic growth. Moreover, average net U.S. and euro dollar sales prices increased for most of our transactions, higher prices being charged by our suppliers to offset higher fuel costs and scarcity of cargo space for Canadian exports.

Sales regressed by \$624,000 or 9% compared to the previous quarter. This second quarter regression mainly results from seasonal and cyclical needs of a portion of our clientele.

Gross margin

Gross margin significantly increased to reach 15.2% in 2008, compared to 10.2% for the previous year, and 11.7% for the first quarter of 2009. This increase mainly stems from the implementation of a purchasing optimisation operational strategy adopted at the beginning of fiscal 2009. Furthermore, the appreciation of the American and European currencies also contributed to the gross margin increase.

EBITDA¹

The Corporation generated an EBITDA of \$241,000 for the three-month period ended October 31, 2008 compared to a loss of \$84,000 for the three-month period ended October 31, 2007. This significant EBITDA appreciation mainly results from an organic increase in sales volume, as well as an indemnity payment received by the Corporation for breach of contractual obligations amounting to \$81,000 accounted for in the salaries and fringe benefits charges. Gross profit increased by \$534,000 (131%), while operating costs (excluding depreciation and interest expenses) increased by \$250,000 (47%). This increase in operating costs mainly stems from human resources investments incurred in 2007-2008 to meet anticipated growth.

Other major changes

Salaries and fringe benefits rose by \$72,000 to \$421,000 in 2008, against \$349,000 in 2007. This increase results from new employee recruitment and accruals for employee compensation plans.

¹ Non-GAAP measure as defined on page 3 of this MD&A.

The increase in doubtful accounts is mainly explained by the creation of a general allowance based on the Company's history of bad debt whereas in 2007, no such provision was recorded.

Traveling expenses were up \$37,000 to reach \$70,000 for the three-month period ended October 31, 2008, compared to \$33,000 for the same period in 2007. This increase results from traveling expenses being granted to an increased number of employees, as well as to a higher volume of international travel for building business relationships and identifying prospective potential business ventures.

Consulting fees increased by \$14,000, costs incurred to develop international markets.

Depreciation rose from \$10,000 for the three-month period ended October 31, 2007 to \$32,000 in 2008, resulting from the amortization of exclusive distribution rights acquired in December 2007.

Shareholders' equity

As at October 31, 2008, shareholders' equity represented \$1,055,000 compared to \$887,000 as at April 30, 2008 representing an increase of \$168,000. This increase is mainly attributable to the net earnings generated in the first two quarters of the year.

Comparison of financial results for the six-month periods ended October 31, 2008 and 2007

Sales

Reflecting the Corporation's sustained growth, revenue increased by \$5,290,000 (68%) to \$13,016,000 (including \$2,343,000 generated by our distribution division) for the six-month period ended October 31, 2008, compared to \$7,726,000 for the comparable period in 2007.

This increase in Mercator's sales was mainly organic. Average net U.S. and euro dollar sales prices also increased for most of our transactions, higher prices being charged by our suppliers to offset higher fuel costs and scarcity of cargo space for Canadian exports.

Gross margin

The gross profit margin grew significantly to 13.3% in 2008, compared to 10.2% the previous year. This increase mainly stems from the implementation of a purchasing optimisation operational strategy adopted at the beginning of fiscal 2009. Furthermore, the appreciation of the American and European currencies also contributed to the gross margin increase.

EBITDA²

The Corporation generated an EBITDA of \$319,000 for the six-month period ended October 31, 2008, compared to a loss of \$192,000 for the six-month period ended October 31, 2007. This significant EBITDA appreciation mainly results from an organic increase in sales volume, as well as an indemnity payment received by the Corporation for breach of contractual obligations amounting to \$81,000 accounted for in the salaries and fringe benefits charges. Gross profit increased by \$891,000 (105%), while operating costs (excluding depreciation and interest expenses) increased by \$394,000 (36%). This increase in operating costs mainly stems from human capital investments incurred in 2007-2008 to meet anticipated growth.

Other major changes

Salaries and fringe benefits rose by \$162,000 to \$917,000 in 2008, against \$755,000 in 2007. This increase results from new employee recruitment and accruals for employee compensation plans.

The increase in doubtful accounts is mainly explained by the creation of a general allowance based on the Company's history of bad debt whereas in 2007, no such provision was recorded.

Traveling expenses were up \$56,000 to \$126,000 for the six-month period ended October 31, 2008, compared to \$70,000 for the same period in 2007. This increase results from traveling expenses being granted to an increased number of employees, as well as to a higher volume of international travel for building business relationships and identifying prospective potential business ventures.

Consulting fees increased by \$20,000, costs incurred to develop international markets.

Depreciation rose from \$18,000 to \$62,000 in 2008, resulting from the amortization of exclusive distribution rights acquired in December 2007.

Shareholders' equity

As at October 31, 2008, shareholders' equity represented \$1,055,000, compared to \$887,000 as at April 30, 2008 representing an increase of \$168,000. This increase is mainly attributable to the net earnings generated in the first two quarters of the year.

² Non-GAAP measure as defined on page 3 of this MD&A.

VII. CASH FLOW

Cash from Operations

Cash flows from operations generated \$320,000 in 2008 (cash requirement of \$222,000 for the second quarter) compared to a cash requirement of \$603,000 in 2007 (cash requirement of \$448,000 for the second quarter of that year). Changes in non-cash working capital items amounted to an inflow of \$1,000 in 2008 (outflow of \$442,000 for the second quarter), versus an outflow of \$442,000 a year earlier (outflow of \$375,000 for the second quarter of that year). This 2008 cash inflow appreciation mainly stems from increased business volumes and due to the increase in accounts payable and receivable.

Investing Activities

Investment cash flow mainly stems from the acquisition of capital and intangible assets such as software, as well as from the creation of a corporate Web site.

Financing Activities

Financing cash flow essentially represents the net change in bank loans, as well as repayment of capital leasing obligations and long-term debt.

Ability to finance operations and growth

In Mercator's industry, those who make it a priority to respect their business engagements generally do not find it difficult to obtain the supplier credit required to finance operations and development. Nevertheless, the Corporation may, in the future, require additional financing to develop unexpected business opportunities such as, for instance, acquisitions or to face any other financial situation. As of the date of this MD&A, management does not anticipate any particular trend or fluctuation to affect its current position. Should it however decide to consider the conclusion of exceptional transactions, management will first proceed with their assessment and solicit proper financing, should it consider appropriate to do so. Management does not foresee any material liquidity risk for the coming fiscal year. To date, Mercator has indeed never defaulted, been in arrears or postponed any due date, and all of its commitments have been and should continue to be honoured. Moreover, management does not expect its cash flow to be materially affected by any of its obligations.

Capital stock information

As at October 31, 2008, the issued and outstanding capital stock 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 \$20,021 was expensed as stock-based compensation for 2008 (\$10,745 for the second quarter) compared to \$38,792 for 2007 (\$19,126 for the second quarter) the related credits accounted for as contributed surplus.

Contractual obligations and other commitments

The Corporation's principal contractual obligations and commercial commitments relate to outstanding debt, operating leases and capital leases.

In dollars	Total	2009	2010	2011	2012	2013
Long-term debt	174,250	41,820	41,820	41,820	41,820	6,970
Capital leases	5,420	5,420	-	-	-	-
Operating leases	61,176	45,882	15,294	-	-	-
Total	240,846	93,122	57,114	41,820	41,820	6,970

Related-party transactions

During the year, the Corporation also entered into transactions with companies controlled by common shareholders. These transactions took place during the normal course of business and were measured at the exchange amount.

Off-balance-sheet arrangements and other contingencies

To date, the Corporation has no significant off-balance-sheet arrangements or other contingencies and does not anticipate any in the foreseeable future.

Significant accounting policies

These unaudited interim consolidated financial statements and the notes thereto 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 with the most recent annual financial statements of the Corporation, which have been prepared using the same accounting policies except for the following:

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 Corporation adopted these standards effective May 1, 2008. The adoption of this Section had no impact on the Corporation's consolidated financial statements except for a more detailed information disclosure.

Financial instruments - Disclosures and presentation

On May 1, 2008, the Corporation 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 Corporation.

Capital disclosures

On May 1, 2008, the Corporation 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 Corporation 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 Corporation.

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 Corporation’s plan for convergence and the anticipated effects is to be disclosed prior to the adoption, with the first disclosure by the Corporation 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 Corporation will adopt these standards effective May 1, 2009. The Corporation is presently evaluating the impact of this new standard on the consolidated financial statements.

Internal control over financial reporting

Internal control over financial reporting (“ICFR”) is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Chief Executive Officer and the Chief Financial Officer have evaluated whether there were changes to its ICFR during the three-month period ended October 31, 2008 that have materially affected, or that are reasonably likely to materially affect its ICFR. No such changes have been identified by management.

Disclosure controls and procedures

As of October 31, 2008, an evaluation of the effectiveness of the Corporation’s disclosure controls and procedures was carried out under the supervision of and with the participation of the Chief Executive Officer and the Chief Financial Officer. Based on that evaluation, the CEO and CFO concluded that the design and operation of the Corporation’s disclosure controls and procedures were effective and provided reasonable assurance.

Risk management

The following risks, actively managed by management, could have an impact on the Corporation’s projects:

Inflation risk

The Corporation does not believe it is exposed to inflationary risk as any increase in freight rates due to inflation is recovered through its own rates. The effects are not immediately felt because there is a lag given the time required for its implementation.

Foreign currency risk

The Corporation is exposed to foreign currency fluctuations arising from the translation of revenues, expenses, assets and liabilities of operations using foreign currencies. Mercator 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.

In accordance with its policy, the Corporation may use derivative financial instruments to cover itself against exchange rate fluctuations. The Corporation’s objective in managing its foreign currency is to minimize the impact of currency fluctuation and by keeping a partial natural hedge between the different entities of the Group. As at October 31, 2008, the Corporation had concluded currency contracts in order to partially cover itself against exchange rate fluctuations.

Operational risk

The Corporation does not believe it is exposed to significant operational risks to the extent that it has errors and omissions liability insurance that provides coverage for any professional misconduct. The Corporation is a member of the professional association CIFFA, which requires such coverage.

Credit risk

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

The Corporation is exposed to credit risk on its accounts receivable from customers. In order to reduce this risk, the Corporation'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'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.

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 Corporation's results.

Risks related to dependence on management

Because the entire Corporation is managed by a limited number of key people, the business is subject to risks associated with resignations, death, disability or other personal factors that could affect these individuals.

As part of its growth, the Corporation plans to appoint seasoned people in addition to the managers already in place to mitigate these risks.

Acquisition risk

Because management plans to make strategic acquisitions, related inherent risks are likely to materialize and the integration of the acquired companies may not occur according to plan.

Outlook

As regards organic growth, management expects the trend of the last quarter to continue.

Additional information related to Mercator may be found on SEDAR at www.sedar.com.