



Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

**To the Shareholders of
Pareto Corporation**

We have audited the consolidated balance sheet of Pareto Corporation as at December 31, 2008 and the consolidated statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2007 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those financial statements in their report dated March 25, 2008.

(Signed) PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario
March 18, 2009

Pareto Corporation

Consolidated Balance Sheets

As at	December 31 2008	December 31 2007
Assets		
Current assets		
Accounts receivable	\$ 16,460,617	\$ 17,321,405
Inventories (note 4)	1,746,355	2,204,311
Prepaid expenses	466,040	659,683
Current future income tax assets (note 14)	38,167	950,026
	<u>18,711,179</u>	<u>21,135,425</u>
Loans receivable and other assets (note 5)	1,299,045	486,250
Long-term future income tax assets (note 14)	258,209	732,603
Deferred costs (note 6)	159,838	335,956
Capital assets (note 7)	3,340,697	3,283,105
Intangible assets (note 8)	1,343,493	1,554,607
Goodwill (note 9)	21,058,577	19,058,577
	<u>\$ 46,171,038</u>	<u>\$ 46,586,523</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Bank indebtedness (note 10)	\$ 654,573	\$ 368,291
Accounts payable and accrued liabilities	12,032,040	13,836,117
Dividends payable	1,717,246	-
Deferred revenue	2,023,252	1,897,999
Income taxes payable	983,915	120,022
Current future income tax liabilities (note 14)	-	119,541
Current portion of acquisition notes payable	-	3,066,668
Current portion of capital lease obligations (note 11)	314,275	281,666
Current portion of lease inducements (note 12)	42,482	-
	<u>17,767,783</u>	<u>19,690,304</u>
Long-term future income tax liabilities (note 14)	235,540	484,667
Long-term capital lease obligations (note 11)	395,004	709,279
Deferred lease inducements (note 12)	342,742	-
Total liabilities	<u>18,741,069</u>	<u>20,884,250</u>
Shareholders' equity		
Share capital (note 13(b))	16,501,855	16,872,129
Contributed surplus (note 13(f))	1,492,547	706,513
Retained earnings and accumulated other comprehensive income	9,435,567	8,123,631
Total shareholders' equity	<u>27,429,969</u>	<u>25,702,273</u>
	<u>\$ 46,171,038</u>	<u>\$ 46,586,523</u>

On Behalf of the Board:

(Signed) David Atkins-Director

(Signed) Kerry Shapansky-Director

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

Pareto Corporation

Consolidated Statements of Operations and Retained Earnings

For the years ended	December 31, 2008	December 31, 2007
Revenue	\$ 77,164,336	\$ 74,340,013
Operating and administrative expenses	69,292,286	67,486,077
	7,872,050	6,853,936
Amortization of capital assets	671,216	556,864
Amortization of intangible assets	211,114	211,111
Amortization of deferred costs	163,378	188,124
Interest and finance charges, net	427,381	431,404
Share-based compensation (note 13(f))	815,643	480,623
	2,288,732	1,868,126
Earnings before income taxes	5,583,318	4,985,810
Income taxes (note 14)	2,024,038	1,855,313
Net earnings and comprehensive income for the year	3,559,280	3,130,497
Retained earnings, beginning of year	8,123,631	6,291,539
Dividends declared	(1,717,246)	-
Excess price paid over carrying value on repurchase of common shares	(530,098)	(1,298,405)
Retained earnings, end of year	\$ 9,435,567	\$ 8,123,631
Basic and diluted earnings per share (note 15)	\$ 0.08	\$ 0.07
Weighted average number of common shares outstanding:		
Basic	42,983,113	44,564,041
Diluted	44,768,231	45,931,882

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

Pareto Corporation

Consolidated Statements of Cash Flows

For the years ended	December 31, 2008	December 31, 2007
Operating activities		
Net earnings for the year	\$ 3,559,279	\$ 3,130,497
Items not involving cash:		
Amortization of capital assets	671,216	556,864
Amortization of intangible assets	211,114	211,111
Amortization of deferred costs	163,378	188,124
Amortization of lease inducement (note 12)	(39,191)	-
Non-cash interest and finance charges	(61,555)	6,347
Non-cash lease expense (note 12)	197,130	-
Share-based compensation (note 13 (f))	815,643	480,623
Future income tax provision (note 14)	1,017,585	1,918,465
	6,534,599	6,492,031
Changes in non cash operating accounts (note 16)	697,456	(5,874,867)
	7,232,055	617,164
Investing activities		
Capital asset additions	(728,808)	(2,117,671)
Proceeds from lease inducement (note 12)	227,285	-
Other asset additions	-	(21,719)
Loans receivable and other assets	(738,500)	-
Acquisitions, net of cash (note 9 (a))	(5,066,668)	(1,419,754)
	(6,306,691)	(3,559,144)
Financing activities		
Proceeds from loans receivable	-	366,667
Repayment of long-term debt	-	(665,992)
Repayment of capital lease obligations	(281,665)	(265,410)
Issuance of shares (note 13 (b) and (f))	98,500	143,500
Share issue costs (note 13 (b))	(2,051)	(22,796)
Repurchase of common shares (note 13(b))	(1,026,430)	(2,002,407)
	(1,211,646)	(2,446,438)
Decrease in cash for the year	(286,282)	(5,388,418)
(Bank Indebtedness) / Cash, beginning of year	(368,291)	5,020,127
Bank Indebtedness, end of year	\$ (654,573)	\$ (368,291)

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

1. Nature of Operations

Pareto Corporation ("the Company" or "Pareto") is incorporated under the laws of Ontario. Pareto is a marketing services company, providing marketing solutions through the delivery, fulfillment and distribution of retail promotions; direct marketing; customer incentive and loyalty management; field merchandising; and program management services.

2. Significant Accounting Policies

Basis of Consolidation

These financial statements include the accounts of Pareto Corporation and all of its wholly-owned subsidiaries consisting of Pareto Inc., Pareto Retail Services Inc. and Secom Plus Inc. Inter-company transactions and balances are eliminated upon consolidation.

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. These estimates principally relate to valuation of accounts receivable, impairment testing of goodwill and stock compensation. Actual results could differ from management's best estimates as additional information becomes available in the future.

Accounts Receivable

Collectability of accounts receivable is reviewed on an ongoing basis. An allowance account is used when there is objective evidence that it is impaired. The factors that are considered in determining if an accounts receivable is impaired include whether a customer is in bankruptcy, under administration or if payments are in dispute. The offsetting expense is recognized in earnings within operating expenses. When an accounts receivable for which an impairment allowance had been recognized becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses in earnings.

Financial Instruments

Financial instruments are measured at fair value on initial recognition. After initial recognition, financial instruments are measured at their fair values, except for financial assets classified as held-to-maturity or loans and receivables and other financial liabilities, which are measured at amortized cost.

Amortized cost related to financial assets classified as held-to-maturity or loans and receivables and other financial liabilities is calculated using the effective interest method with changes recognized as income or expense in earnings.

Gains and losses related to financial assets and financial liabilities classified as held for trading are recorded in earnings in the period in which they arise. The Company designates financial assets and financial liabilities as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term.

If a financial asset is classified as available-for-sale, the cumulative unrealized gain or loss is recognized in accumulated other comprehensive income and recognized in earnings upon sale or other-than-temporary impairment. The Company assesses whether a financial asset is other-than-temporarily impaired by assessing whether there is a significant or prolonged decline in fair value and objective evidence of impairment exists such as financial difficulty, breach or default of contracts, probability of bankruptcy or other financial reorganization.

The Company applies trade date accounting for its purchases and sales of financial assets.

2. Summary of Significant Accounting Policies (continued)

i. Transaction Costs

Transaction costs directly attributable to financial assets and liabilities that are not classified as held-for-trading are included in the amortized cost of the related asset or liability and recognized in earnings through the effective interest method. Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred.

ii. Derivative Financial Instruments

All derivative financial instruments are measured at fair value, even when they are part of an effective hedging relationship. An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. If certain conditions are met, an embedded derivative is bifurcated from the host contract and accounted for as a derivative in the consolidated balance sheet, and measured at fair value.

The Company does not enter into derivative financial instruments for trading or speculative purposes.

The Company's significant financial asset and liabilities are classified as follows:

Bank indebtedness	Held for trading
Accounts receivable	Loans and receivables
Loans receivable	Loans and receivables
Other assets	Held to maturity
Accounts payable and accrued liabilities	Other financial liabilities
Acquisition notes payable	Other financial liabilities

Inventories

Inventories include work in progress, finished goods and loyalty reward units. Work in progress includes costs incurred on non-manufacturing projects for which revenue has not yet been recognized for accounting purposes. Finished goods inventory includes total costs incurred for print materials that the company holds for future distribution under its fulfillment and distribution client agreements. Loyalty reward units include the cost of units purchased that the company holds for resale under its incentive service agreements. Inventory is carried at the lower of cost and net realizable value. The cost of work in progress inventory and loyalty reward units is determined through specific identification by project and includes direct costs and labour. The cost of finished goods inventory is determined using the retail method of accounting.

Deferred Costs

Deferred start-up costs, the incremental costs directly related to placing a new business operation into service, are recorded at cost, less accumulated amortization and are amortized on a straight-line basis over an estimated useful life of 5 years.

2. Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are recorded at cost, less accumulated amortization. Amortization is provided as follows:

Computer software	Straight-line over 1 to 8 years
Computer hardware	30% declining balance
Furniture and fixtures	20% declining balance
Leasehold improvements	Straight-line over lease term

Intangible Assets

Intangible assets consist of the value of the Company's acquired customer relationships. In the marketing services industry, these are typically long-term in nature, and therefore customer relationship assets are amortized on a straight-line basis over an estimated useful life of 10 years.

Impairment of Long Lived Assets

The Company monitors events and changes in circumstances which may require an assessment of the recoverability of its long lived assets. The Company assesses recoverability using estimated undiscounted future operating cash flows expected from the use and eventual disposition of the asset. If the carrying amount of an asset is not recoverable, an impairment loss is recognized in operations, measured by comparing the carrying amount of the asset to its fair value.

Goodwill

Goodwill represents the consideration paid for acquisitions in excess of the fair market value of the net identifiable assets acquired. Goodwill is carried at cost, less impairment losses, if any.

The Company uses a two-step impairment test on an annual basis, or when significant business changes have occurred that may have had an adverse impact on the fair value of the goodwill. To determine whether impairment has occurred, the fair value of the reporting unit is compared to its carrying amounts, including goodwill. The Company uses a present value of future cash flow approach for determining the fair value of its reporting units. Future cash flows are based on management's best estimates considering historical and expected operating plans, economic conditions and general outlook for the industry and markets in which the reporting unit operates. The discount rates used by the Company are based on an optimal debt to equity ratio and consider the risk free rate, market equity risk premium, size premium and operational risk premium for possible variations from management's projections. The terminal value is the value attributed to the reporting unit's operations beyond the projected period of growth prospects.

The Company's assumptions are affected by current market conditions which may affect expected revenues. In addition, while the Company plans to limit increases in costs, operating costs may increase more significantly than expected. The Company has made certain assumptions for the discount and terminal growth rates to reflect possible variations in the cash flows; however the risk premiums expected by market participants related to uncertainties may differ or change quickly depending on economic conditions or events.

When the fair value is in excess of its carrying amount, the goodwill is not considered impaired, and the second step of the impairment test is not necessary. An impairment loss is recognized when the carrying amount of the goodwill exceeds its fair value. It is not reversed in the event that the fair value subsequently increases. At December 31, 2008 and 2007 the Company's estimates of the fair value of each reporting unit exceeded the carrying value and therefore there was no impairment of goodwill.

2. Summary of Significant Accounting Policies (continued)

Income Taxes

The liability method is used for determining income taxes. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement basis and tax basis of assets and liabilities measured at the rates expected to apply when the differences are realized. Future tax assets and liabilities are adjusted to reflect changes in tax rates and laws in the period such changes are substantially enacted, resulting in adjustments to that period's earnings. A valuation allowance is recorded against future tax assets for amounts that are not more likely than not to be realized. Tax reserves are established for uncertain tax positions based on management's best estimates.

Revenue Recognition

Revenue is recognized when the service is performed, in accordance with terms of the contractual arrangement and upon completion of the earnings process as follows: for print management when delivered to the client or fulfillment agency, direct marketing when delivered to the client's distribution agency, event management when the event is completed, fulfillment and distribution upon shipment to the client, and customer incentive and loyalty management services when delivered to the client or its agent. Costs incurred in advance of a project's completion are reflected as work in progress. Customer receipts in advance of a project's completion are recorded as deferred revenue. For program management and field merchandising services, revenues are recognized as services are rendered.

The Company has arrangements to provide multiple products and services to certain of its customers. The Company has accounted for the activities within such arrangements as separate accounting units based on the relevant revenue recognition criteria for each revenue type described above. These arrangements include delivered items with stand-alone value, and undelivered items with objective and reliable evidence of fair value where delivery is probable and substantially controlled by the vendor.

Revenue from sales of third party services is recorded net of costs when the Company is acting as an agent between the customer and the vendor and recorded gross when the Company is a principal to the transaction. Several factors are considered to determine whether the Company is an agent or a principal, including whether the Company is the primary obligor to the customer, has inventory risk or adds meaningful value to the service. Consideration is also given to whether the Company was involved in the selection of the vendor's service, has latitude in establishing the sales price or has credit risk.

Earnings per Share

Basic earnings per share are determined using the weighted average number of common shares outstanding during the year. Diluted earnings per share are determined using the weighted average number of common shares outstanding during the year, plus the effects of potential dilutive common shares outstanding during the year. This method requires that diluted earnings per share be calculated, using the treasury stock method, as if all potential common shares had been issued at the later of the beginning of the year or the date of issuance of the dilutive instrument, and that the funds obtained thereby be used to repurchase common shares of the Company at the average fair value of the common shares during the year.

2. Summary of Significant Accounting Policies (continued)

Stock-based Compensation

The compensation cost for options granted to employees and officers is determined using the fair value method. The fair value of the options at the grant date is estimated using the Black-Scholes option pricing model, and recognized over the vesting period of the options as an expense, using the graded vesting method with a corresponding amount included in equity as contributed surplus. Any consideration received by the Company on the exercise of stock options is credited to share capital and the contributed surplus component of the stock-based compensation is transferred to share capital upon the issuance of shares.

Long-term Incentive Plans

Eligible employees, consultants, directors and officers of the Company participate in a long-term incentive plan, being restricted stock units (RSUs). Compensation cost for RSUs granted is recorded as an expense with a corresponding increase in contributed surplus. Compensation cost is measured based on the common share price on the grant date and recognized over the vesting period using the straight-line method.

Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect as of the balance sheet date.

Revenue and expense items are translated at the exchange rates prevailing on the date the transactions occur. The results of foreign currency translation are recognized in net earnings.

3. Changes in Accounting Policies

CICA Handbook Section 1506, Accounting Changes, prescribes expanded disclosure for changes in accounting policies, accounting estimates and accounting for errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted or where it is deemed impractical. The new standard also requires that the Company disclose new primary sources of GAAP that have been issued, but are not yet effective and have not been adopted by the Company.

a) New Accounting Policies

Financial Instruments Disclosure and Presentation – CICA Handbook section 3862 “Financial Instruments - Disclosure” and section 3863 “Financial Instruments – Presentation”, replace Handbook Section 3861, Financial Instruments – Disclosure and Presentations, revising and enhancing disclosure requirements to provide additional information on the nature and extent of risks arising from financial instruments to which the company is exposed and how it manages those risks. These standards were adopted on January 1, 2008. Refer to note 21 for additional disclosures.

Capital Disclosures –CICA Handbook Section 1535 “Capital Disclosures”, specifies the disclosure of the Company’s objectives, policies and processes for managing capital, including: a description of what components of liabilities and shareholders’ equity the Company defines as capital and their balances, and the nature of any externally imposed capital restrictions, how those are managed and the consequence of any non-compliance, if any. This standard was adopted on September 1, 2008. Refer to note 20 for additional disclosures.

3. Changes in Accounting Policies (continued)

Inventories – CICA Handbook Section 3031 “Inventories” was adopted on January 1, 2008 and, provides guidance on the measurement of inventories, with an expanded definition of cost, and the requirement that inventory must be measured at the lower of cost and net realizable value. In addition, the section has additional disclosure requirements, including accounting policies, carrying values, and the amount of any inventory write-down.

The adoption of this new standard had no financial effect on the consolidated financial statements of the Company. Refer to Note 4 for additional disclosures.

b) Future Accounting Policy Changes

International Financial Reporting Standards - In February 2008, the Accounting Standards Board (AcSB) announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (“IFRS”) for fiscal years beginning on or after January 1, 2011. The transition from Canadian GAAP to IFRS will be applicable for the Company for the first quarter of 2011, at which time the Company will prepare both its fiscal 2011 and 2010 comparative financial information using IFRS.

The Company has used internal resources to understand, identify and assess the overall effort required to adopt IFRS and has met with an external consultant to proceed in 2009 preparing for the change. The Company has established a changeover plan that consists of three phases: initiation, a detailed assessment, and design and implementation. The plan will cover various areas including:

- Changes to accounting policies and implementation decisions;
- Disclosure requirements
- Changes to information systems and accounting processes
- Changes to internal control over financial reporting and disclosure controls and procedures
- Training requirements; and
- External stakeholder communications

The impact of the adoption of IFRS on the Company’s financial reporting is not yet determinable. As the Company assesses the impact of adopting IFRS, it will update its MD&A disclosures quarterly to report on the progress of its IFRS changeover plan.

The Company plans to adopt IFRS according to the schedule recommended by the AcSB.

Pareto Corporation
Notes to Consolidated Financial Statements
December 31, 2008

3. Changes in Accounting Policies (continued)

Goodwill and Intangible Assets – Effective January 1, 2009, the Company will adopt new CICA Handbook Section 3064, Goodwill and Intangible Assets, which establish revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of various preproduction and start-up costs and requires that these costs be expensed as incurred. The Company is currently evaluating the impact of the new section on its consolidated financial statements. Based on analyses to date, certain assets included on the Company's balance sheet will no longer meet the requirements of the new section, notably, start-up and other deferred costs (included in "Deferred Costs"). In first quarter 2009, the balances in these asset accounts as at December 31, 2007 – that is, at the beginning of first quarter 2008 – will be restated and included in "Retained earnings" and the results of operations of 2008 will also be restated to conform to the 2009 presentation. As at December 31, 2008, according to analyses completed to date, the impact of the recommendations of the new section on the consolidated financial statements for the first period of application consists of a \$159,838 reduction in deferred costs (\$335,956 as at December 31, 2007), a \$41,097 reduction in long-term future income tax liabilities (\$90,131 as at December 31, 2007), a \$127,084 increase in 2008 net earnings and a reduction in retained earnings at December 31, 2008 of \$118,741 (\$245,825 at January 1, 2008).

4. Inventories

	2008	2007
Work in progress	\$ 623,226	\$ 1,614,070
Finished goods	73,129	590,241
Loyalty reward units	1,050,000	-
	\$ 1,746,355	\$ 2,204,311

There have been no write downs of inventory recognized as an expense in the period. There are no inventories pledged as security for liabilities.

Pareto Corporation
Notes to Consolidated Financial Statements
December 31, 2008

5. Loans Receivable and Other Assets

	2008	2007
Employee loans receivable (a)	\$ 250,000	\$ 250,000
Employee loan receivable (b)	236,250	236,250
Employee loan receivable(c)	188,500	-
Convertible debenture (d)	624,295	-
	1,299,045	486,250

- (a) In May 2006, the Company issued loans totalling \$250,000 to executives of the Company for the purchase of 192,308 common shares of the Company. The loan is carried at the carrying amount of \$250,000 which approximates its fair value. The loan bears interest at Prime Rate plus ½% with interest payable quarterly. The loans are repayable on May 16, 2011. The loans are full recourse and the Company has received a pledge of the purchased common shares as security for the loans.
- (b) In April 2007, the Company issued a loan totalling \$236,250 to an executive of the Company for the purchase of 225,000 common shares of the Company. The loan is carried at the carrying amount of \$236,250 which approximates its fair value. The loan bears interest at Prime Rate plus ½% with interest payable quarterly. The loan is repayable on April 4, 2012. The loan is full recourse and the Company has received a pledge of the purchased common shares as security for the loans.
- (c) In September 2008, the Company issued a loan totalling \$188,500 to an executive of the Company for an initial purchase of 290,000 common shares of the Company in the open market. The loan is carried at the carrying amount of \$188,500 which approximates its fair value. The loan bears interest at Prime Rate plus ½% with interest payable quarterly. The loan is repayable on September 30, 2013. The loan is full recourse and the Company has received a pledge of the purchased common shares as security for the loans.

In 2008, \$20,559 (2007 - \$46,873) of interest was received pursuant to loans receivable from executives, measured at the exchange amount.

- (d) On February 26, 2008 the Company provided financing in the amount of \$550,000 to PeerSet Inc. ("Peerset"), formerly Ontogenix Inc., in return for a three year convertible debenture. The debenture bears an annualized interest rate of 16% of the principal, compounded annually. Interest shall be due and payable upon prepayment or repayment of the debenture. The Company has the option to convert the principal and any outstanding interest into equity securities at any time upon a material business change event and/or liquidity event. A material business change event occurs if Peerset becomes insolvent, its board is reduced in size to two or fewer members, or Peerset is in default of any of the terms of the debenture. A liquidity event means an initial public offering or change of control. If converted, ownership is expected to be treated on a cost basis. The debenture is secured by a general security agreement over all the present and future assets of Peerset. The debenture has been classified as held-to-maturity. Management deemed the value of the conversion right to be insignificant at the date of issue and at December 31, 2008 based on an assessment of the conversion rights and term to expiry.

At December 31, 2008, the carrying amount of the loan includes \$74,295 of accrued interest from the issue date of February 26, 2008 and approximates fair value calculated based on the present value of estimated cash flows at current interest rates.

Pareto Corporation
Notes to Consolidated Financial Statements
December 31, 2008

6. Deferred Costs

	2008		2007	
Deferred costs	\$	34,541	\$	65,038
Deferred start-up costs		125,297		270,918
	\$	159,838	\$	335,956

7. Capital Assets

2008	Cost	Accumulated Amortization	Net book Value
Computer software	\$ 1,710,804	\$ 956,603	\$ 754,201
Computer hardware	979,647	628,825	350,822
Furniture and fixtures	1,934,797	841,622	1,093,175
Leasehold improvements	1,621,015	478,516	1,142,499
	\$ 6,246,263	\$ 2,905,566	\$ 3,340,697

2007	Cost	Accumulated Amortization	Net Book Value
Computer software	\$ 1,561,993	\$ 784,014	\$ 777,979
Computer hardware	936,981	545,778	391,203
Furniture and fixtures	1,928,629	700,222	1,228,407
Leasehold improvements	1,228,787	343,271	885,516
	\$ 5,656,390	\$ 2,373,285	\$ 3,283,105

8. Intangible Assets

2008	Cost	Accumulated Amortization	Net book Value
Intangible assets – customer relationships	\$ 2,111,106	\$ 767,613	\$ 1,343,493

2007	Cost	Accumulated Amortization	Net book Value
Intangible assets – customer relationships	\$ 2,111,106	\$ 556,499	\$ 1,554,607

Pareto Corporation
Notes to Consolidated Financial Statements
December 31, 2008

9. Goodwill

	2008	2007
Opening balance	\$ 19,058,577	\$ 16,017,153
Acquisition of Secom Plus Inc. (a)	2,000,000	3,012,429
Acquisition of Trajectory Business Performance Inc. (b)	-	28,995
Closing balance	\$ 21,058,577	\$ 19,058,587

- a) On October 3, 2006, the Company acquired all of the outstanding shares of Secom Plus Inc. ("Secom") a Montreal based retail sales and merchandising company for initial consideration of \$5,000,000, comprised of \$3,250,000 in cash, \$1,250,000 of acquisition notes payable, and 450,450 common shares with a fair value of \$500,000 at that date.

Additional contingent consideration of \$3,000,000 and additional transaction costs of \$12,429 were recorded in 2007 and paid in 2008. Additional contingent consideration of \$2,000,000 was recorded and paid in 2008 based on the satisfaction of remaining conditions precedent. The acquisition was accounted for as a purchase.

- b) On April 30, 2006, the Company acquired certain operating assets and liabilities of Trajectory Business Performance Inc. ("Trajectory") a Toronto based sales force training company for initial consideration of \$600,000, comprised of \$400,000 in cash and \$200,000 of acquisition notes payable. Additional contingent cash consideration of \$23,333 and additional transaction costs of \$5,662 were paid on June 1, 2007 based on the operating results of the business. The acquisition was accounted for as a purchase.

10. Bank Indebtedness

At December 31, 2008, the Company has a line of credit available in the amount of \$9,000,000 (December 31, 2007 – \$9,000,000) secured by a general security agreement over the assets of the Company. The line of credit bears interest at prime plus 1.0% and is repayable on demand. As at December 31, 2008, the prime rate was 3.5% (6.0% as of December 31, 2007).

11. Capital Lease Obligations

Future minimum annual lease payments, including imputed interest, under capital leases for machinery leases are as follows:

2009	\$ 377,239
2010	377,239
2011	45,197
	799,675
Less: imputed interest	90,396
	709,279
Less: current portion of capital lease obligation	314,275
	\$ 395,004

The leases bear interest at rates between 10% and 12% and expire between 2009 and 2011. In 2008, \$95,574 (2007 - \$125,281) of interest was expensed under these leases.

12. Deferred Lease Inducements

During the year ended December 31, 2008 the Company received various lease inducements under two of its 10 year lease agreements. In accordance with CICA EIC-21 "Accounting for Lease Inducements by the Lessee", the Company adopted the recommended balance sheet presentation as well as the amortization of the lease inducements over the term of the lease as a reduction to rental expense.

	Amount	Accumulated Amortization	Balance
Leasehold improvement allowance paid by landlord	\$ 227,285	\$ (13,259)	\$ 214,026
Rent holiday	197,130	(25,932)	171,198
	424,415	(39,191)	385,224
Less: current portion			42,482
			\$ 342,742

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13. Share Capital

- a) Authorized: Unlimited common shares
Unlimited special shares issuable in series
- b) Issued common shares:

	Number of Shares	Amount
Balance, December 31, 2006	45,058,204	\$ 17,176,172
Shares issued pursuant to private placement ⁽ⁱ⁾	225,000	236,250
Shares issued on exercise of stock options	573,571	186,505
Shares repurchased for cancellation	(1,862,127)	(703,822)
Shares issue costs	-	(22,976)
Balance, December 31, 2007	43,994,648	\$ 16,872,129
Shares issued on exercise of stock options	250,000	128,109
Shares repurchased for cancellation	(1,313,500)	(496,332)
Shares issue costs	-	(2,051)
Balance, December 31, 2008	42,931,148	\$ 16,501,855

⁽ⁱ⁾ On April 5, 2007, Pareto issued 225,000 common shares pursuant to an employee private placement at an issue price of \$1.05 per common share.

- c) Stock options

The Company has a stock option plan (the "Plan") for employees, consultants and officers of the Company and was amended in May 2007. Pursuant to the amended Plan, the lesser of 10 per cent of the outstanding and 3,500,000 common shares of the Company have been reserved for issue.

In addition, subject to regulatory approval, the Company grants options which are not included under the Plan to new employees as an incentive of employment. Currently, there are no options awaiting regulatory approval. One-third of granted options vest on each of the anniversary dates of the grant and expire after five years.

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13. Share Capital (continued)

Stock option transactions under the Plan, including options issued as incentives, during the period are as follows:

	Number of Options Outstanding	Weighted Average Exercise Price
Options outstanding, December 31, 2006	1,385,516	\$ 0.67
Granted in 2007	1,263,334	1.08
Exercised in 2007	(573,571)	0.25
Forfeited in 2007	(171,111)	1.10
Options outstanding, December 31, 2007	1,904,168	\$ 1.02
Granted in 2008	424,521	0.68
Exercised in 2008	(250,000)	0.39
Forfeited in 2008	(5,000)	1.05
Options outstanding, December 31, 2008	2,073,689	\$ 1.03

	Number of Options Exercisable	Weighted Average Exercise Price
Options exercisable, December 31, 2008	751,938	\$ 1.11
Options exercisable, December 31, 2007	429,440	\$ 0.74

The range of exercise prices for options outstanding and exercisable options at December 31, 2008 are as follows:

Exercise Price	Number Outstanding	Weighted Average Contractual Life	Number Exercisable	Weighted Average Contractual Life
\$0.52 - \$0.75	391,188	3.17	0	0
\$0.76 - \$1.00	139,167	1.01	139,167	1.01
\$1.01 - \$1.25	1,403,334	3.39	519,440	3.31
\$1.26 - \$1.53	140,000	2.32	93,331	2.32
	2,073,689	3.12	751,938	2.76

13. Share Capital (continued)

d) Restricted stock units:

The Company has a long-term incentive plan (LTIP) for employees, consultants, directors and officers of the Company which was amended in May 2007. Pursuant to the amended LTIP, a total of 2,000,000 of the Company's common shares have been reserved for issue through the redemption of restricted stock units. RSUs are convertible into common shares on a one-to-one basis at a price equal to the common share value when granted. In addition, subject to regulatory approval, the Company grants restricted stock units which are not included under the LTIP to new employees as an incentive of employment. Currently there are no restricted stock units awaiting regulatory approval. Restricted stock units are redeemable upon the third anniversary of the date of grant. During the year 333,333 units were granted and 22,0667 were cancelled. At December 31, 2008, 993,285 restricted stock units were outstanding pursuant to the LTIP (682,619 at December 31, 2007) and 833,333 restricted stock units were outstanding outside of the LTIP as issued as incentives (833,333 at December 31, 2007). The fair value of a restricted stock unit granted in 2008 and 2007 was estimated to equal the market price of a Pareto common share on the date of grant.

e) Share-based compensation:

The fair value of stock options granted was estimated using the Black-Scholes option-pricing model with the following assumptions:

	2008	2007
Dividend yield	0%	0%
Expected volatility	52.30% to 60.73%	40%
Risk-free interest rate	2.22% to 2.94%	4.0% to 4.7%
Expected option life	2 to 4 years	2 to 4 years

f) Contributed surplus

In 2008, \$815,643 (2007 - \$480,623) of share based compensation was added to contributed surplus with \$29,609 (2007 - \$43,005) of contributed surplus reallocated to share capital as a result of options exercised in the year.

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14. Income Taxes

The significant components of future income tax assets (liabilities) consist of the following:		
	2008	2007
Loss carry forwards	\$ -	\$ 640,204
Capital assets	392,707	871,399
Share issuance costs	146,971	171,026
Intangible assets	(443,354)	(514,077)
Deferred costs	(35,488)	(90,131)
	\$ 60,836	\$ 1,078,421
Current future income tax assets	\$ 38,167	\$ 950,026
Long-term future income tax assets	258,209	732,603
Current future income tax liabilities	-	(119,541)
Long-term future income tax liabilities	(235,540)	(484,667)
Future income tax assets, net	\$ 60,836	\$ 1,078,421

A reconciliation between income taxes provided at actual rates and at the basic rate of 33.50% (2007 – 36.12%) for federal and provincial taxes is as follows:		
	2008	2007
Earnings before income taxes	\$ 5,583,318	\$ 4,985,810
Income tax at statutory rates	1,870,412	1,800,875
Tax differences resulting from:		
Income taxed in a different jurisdiction	(6,157)	(16,085)
Non-deductible items	316,836	229,089
Federal investment tax credits re SR&ED claim	(82,649)	-
Change in future income taxes due to changes in future enacted rates	(9,427)	351,799
Assessments and provision adjustments	(64,977)	(510,365)
Provision for income taxes	\$ 2,024,038	\$ 1,855,313

	2008	2007
Provision for income taxes consists of:		
Current	\$ 1,006,453	\$ (63,152)
Future	1,017,585	1,918,465
	\$ 2,024,038	\$ 1,855,313

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15. Earnings Per Share

The table below contains the data used to calculate the Company's diluted earnings per share:

	2008	2007
Net earnings	\$ 3,559,280	\$ 3,130,497
Weighted average number of common shares outstanding	42,983,113	44,564,041
Stock options	75,986	381,743
Restricted stock units	1,709,132	986,098
Weighted average number of diluted common shares outstanding	44,768,231	45,931,882
	\$ 0.08	\$ 0.07

The calculation of the dilutive impact of the exercise of options excludes those securities considered anti-dilutive because their exercise price exceeded the average market price of Pareto's common shares during the period (2008 - \$0.73), meaning their inclusion would increase diluted earnings per share. In 2008, 1,803,705 stock options were excluded because their effect would be anti-dilutive.

16. Supplementary Cash Flow Information

	2008	2007
Changes in non-cash operating accounts:		
Accounts receivable	\$ 860,788	\$ (4,291,659)
Inventory and work in progress	457,956	253,050
Prepaid expenses	193,643	(118,985)
Accounts payable and accrued liabilities	(1,804,077)	(222,939)
Income taxes payable	863,893	(155,069)
Deferred revenue	125,253	(709,265)
	\$ 697,456	\$ (5,874,867)
Supplemental cash flow information:		
Interest paid	\$ 529,890	488,954
Income taxes paid	70,114	136,311
Supplemental disclosure of non-cash transactions:		
Shares issued for non-cash consideration	-	236,250
Increase in goodwill and acquisition notes payable	-	3,000,000

17. Commitments

Pareto has operating lease agreements for premises and equipment with aggregate future annual minimum lease payments as follows:

2009	\$ 874,823
2010	816,626
2011	772,462
2012	614,944
2013	632,809
2014 and thereafter	2,550,357

18. Related Party Transactions

The company has no related party transactions other than the loans receivable described in note 5.

19. Segmented Information

The Company provides marketing solutions through the delivery of print management, direct marketing, event management, program management, customer incentive and loyalty management, fulfillment and distribution services and field merchandising. In the opinion of management, the Company carries on business in one operating segment.

In 2008, one customer represented greater than 10% of the Company's revenue with 27% (2007 – 30%). Amounts due from this customer accounted for 22% of accounts receivable as at December 31, 2008 and 2007. All of the Company's operations are located in Canada.

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20. Capital Management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and sustain future development of the business. The Company defines capitalization to include the total of bank indebtedness, acquisition notes payable, capital lease obligation and shareholders' equity.

	December 31, 2008	December 31, 2007
Bank Indebtedness	\$ 654,573	\$ 368,291
Acquisition notes payable	-	3,066,668
Capital lease obligation	709,279	990,945
Total debt	1,363,852	4,425,904
Shareholders' equity	27,429,969	25,702,273
Total capitalization	\$ 28,793,821	\$ 30,128,177
Debt:Shareholders' equity	0.05:1	0.17:1
Debt:Total Capitalization	0.05:1	0.15:1
Debt: EBITDA ⁽¹⁾	0.17:1	0.6:1

⁽¹⁾ For purposes of calculating ratios EBITDA is defined as earnings before amortization, net interest and finance charges, share-based compensation, income taxes, gain on acquisition and non-recurring expenses. EBITDA is not a measure defined under Canadian generally accepted accounting principles ("GAAP") and therefore readers are cautioned that measures adjusted to a basis other than GAAP do not have standardized meaning and are unlikely to be comparable to similar measures used by other companies.

Management considers the Company's capital resources adequate to meet the Company's operating, capital expenditure, and financing requirements.

The Company seeks to maintain a balance between the higher returns that might be possible with the leverage afforded by higher borrowing levels and the security afforded by a sound capital position. The Company's target is to create value for its shareholders over the long-term through increases in share value.

In July 2007, the Company commenced a normal course issuer bid to acquire up to 2,235,000 common shares through the facilities of the Toronto Stock Exchange. Purchases are made at market prices with a maximum of 400,000 shares being purchased in any 30 day period. The shares are cancelled as purchased. The normal course issuer bid terminated on July 11, 2008 with a total of 2,210,727 shares repurchased. The Company considers its shares to be undervalued, and a buy-back program is consistent with the Company's goal of creating long-term value for its shareholders.

On August 7, 2008 the Company announced that its Board of Directors authorized an offer to repurchase ("the Offer") for cancellation up to \$11 million worth of its common shares, at a price of \$1.00 per share, through a substantial issuer bid. This represented up to 11 million common shares or approximately 26% of the Company's approximately 42.7 million total issued and outstanding common shares. An issuer bid circular containing full details of the offer and procedures for tendering common shares was filed on SEDAR and mailed to shareholders on August 14, 2008.

20. Capital Management (continued)

On September 18, 2008, the Company announced the termination of the Offer as the conditions had not been satisfied. The substantial issuer bid circular dated August 14, 2008 specified that Pareto could terminate the Offer if, among other things, the S&P/TSX Composite Index (the "Index") declined by an amount in excess of 10%, as measured from the close of business on August 6, 2008. On September 17, 2008 the Index had declined 11.7% since August 6, 2008. The board of directors of Pareto determined that proceeding with the bid under the market conditions would not be in the best interests of Pareto shareholders. Pareto then notified the depositary appointed under the Offer of the withdrawal of the Offer, and instructed the depositary to cease accepting deposits of common shares and to promptly return all deposited shares to the tendering shareholders.

On November 20, 2008, the Company declared a special cash dividend of \$0.04 per issued and outstanding share payable on January 15, 2009, to shareholders of record at the close of business on December 31, 2008. Subsequent to year end, the company initiated a quarterly dividend commencing with the first quarter of 2009, payable on April 15, 2009 to shareholders of record March 31, 2009.

The Company may consider acquisition opportunities. Depending on the size of an acquisition, the Company may need to secure external capital, in the form of debt or share equity, to finance the acquisition.

There were no changes in the Company's approach to capital management during the period. The Company currently has no externally imposed capital restrictions.

21. Financial Instruments

(a) Fair value of Financial Instruments

At December 31, 2008, the fair value of the Company's financial instruments approximate their carrying values due to their short-term nature or because they bear interest at market rates.

(b) Financial Risk Management

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

i. Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Company's receivables from customers and notes receivable.

21. Financial Instruments (continued)

Accounts Receivable

The Company's exposure to credit risk is dependent upon individual characteristics of each customer. Each new customer is assessed for creditworthiness before standard payment and delivery terms and conditions are offered. The Company deals with large, credit worthy clients and bills in advance of the provision of services, whenever possible.

The Company regularly reviews the collectability of its accounts receivable and establishes an allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts. Historically, the Company has experienced minimal bad debts. As at December 31, 2008, a reserve in respect of doubtful accounts of \$109,000 was set up to cover accounts where collection is not assured.

All of the Company's accounts receivables are within Canada.

ii. **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures, as far as possible, that it will always have sufficient liquidity to meet obligations when due and monitors cash flow requirements daily and projections weekly.

iii. **Market Risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

iv. **Foreign Exchange Risk**

The Company, on occasion, engages in transactions in foreign currencies, most commonly involving the US dollar and the Euro. The Company mitigates its risk by billing whenever possible in the relevant currency and, on occasion, enters into derivative instruments to manage this risk. At December 31, 2008, there are no such contracts outstanding.

v. **Interest Rate Risk**

The Company's principal exposure to interest rate fluctuations is limited to bank indebtedness (as described in note 10) which bears interest at floating interest rates.

Based on the Company's average debt level during the year ended December 31, 2008, the sensitivity of a 100 basis point increase in interest rates would result in an approximate decrease of \$21,000 in net after tax annual earnings.

vi. **Other Market Price Risk**

The Company does not enter into commodity contracts other than to meet the Company's expected usage and sale requirements and such contracts are not settled net.

22. Comparative Figures

Certain comparative figures have been reclassified to conform to the current period's presentation.