



Consolidated Financial Statements

For the quarter ended September 30, 2008

As at	September 30 2008 (unaudited)	December 31 2007 (audited)
Assets		
Current assets		
Accounts receivable	\$ 16,810,871	\$ 17,321,405
Inventory and work in progress (note 3)	2,037,047	2,204,311
Prepaid expenses	557,515	659,683
Current future income tax assets	229,526	950,026
	19,634,959	21,135,425
Loans receivable (note 4)	1,224,750	486,250
Long-term future income tax assets	510,056	732,603
Deferred costs	217,104	335,956
Capital assets	3,417,334	3,283,105
Intangible assets	1,396,274	1,554,607
Goodwill (note 5)	21,058,577	19,058,577
	\$ 47,459,054	\$ 46,586,523
Liabilities and Shareholders' Equity		
Current liabilities		
Bank indebtedness (note 6)	\$ 2,956,121	\$ 368,291
Accounts payable and accrued liabilities	10,315,966	13,836,117
Deferred revenue	2,988,152	1,897,999
Income taxes payable	190,254	120,022
Current future income tax liabilities	100,917	119,541
Current portion of acquisition notes payable (note 7)	2,000,000	3,066,668
Current portion of capital lease obligations (note 8)	305,786	281,666
Current portion of lease inducements (note 9)	42,482	-
	18,899,678	19,690,304
Long-term future income tax liabilities	375,130	484,667
Long-term capital lease obligations (note 8)	476,827	709,279
Deferred lease inducements (note 9)	353,362	
Total liabilities	20,104,997	20,884,250
Shareholders' equity		
Share capital (note 10(b))	16,501,855	16,872,129
Contributed surplus (note 10(f))	1,281,709	706,513
Retained earnings	9,570,493	8,123,631
Total shareholders' equity	27,354,057	25,702,273
	\$ 47,459,054	\$ 46,586,523

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

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Revenue	\$ 18,126,430	\$ 14,345,259	\$ 55,433,452	\$ 53,408,608
Operating and administrative expenses	16,536,954	13,744,123	50,670,690	49,638,232
	1,589,476	601,136	4,762,762	3,770,376
Amortization of capital assets	182,355	135,555	494,945	352,625
Amortization of intangible assets	52,778	52,778	158,333	158,333
Amortization of deferred costs	37,438	37,439	112,313	112,317
Interest and finance charges, net	113,855	135,096	390,307	320,642
Share-based compensation	203,214	125,764	604,805	310,121
	589,640	486,632	1,760,703	1,254,038
Earnings before income taxes	999,836	114,504	3,002,059	2,516,338
Income taxes (note 11)	341,684	38,290	1,025,099	822,326
Net earnings and comprehensive income for the period	658,152	76,214	1,976,960	1,694,012
Retained earnings, beginning of period	8,912,341	7,037,627	8,123,631	6,291,539
Excess price paid over carrying value on repurchase of common shares	-	(208,044)	(530,098)	(1,079,754)
Retained earnings, end of period	\$ 9,570,493	\$ 6,905,797	\$ 9,570,493	\$ 6,905,797
Basic and diluted earnings per share (note 12)	\$ 0.02	\$ 0.00	\$ 0.04	\$ 0.04
Weighted average number of common shares outstanding:				
Basic	42,773,370	44,737,190	43,066,546	44,649,180
Diluted	44,664,783	45,775,867	44,841,339	45,638,911

	Three months ended		Nine months ended	
	September 30		September 30	
	2008	2007	2008	2007
Operating activities				
Net earnings for the period	\$ 658,152	\$ 76,214	\$ 1,976,960	\$ 1,694,012
Items not involving cash:				
Amortization of capital assets	182,355	135,555	494,945	352,625
Amortization of intangible assets	52,778	52,779	158,333	158,334
Amortization of deferred costs	37,438	37,438	112,313	112,316
Amortization of lease inducement (note 9)	(28,571)	-	(28,571)	-
Non-cash interest and finance charges	1,539	31,813	6,538	38,375
Non-cash lease expense (note 9)	-	-	197,130	-
Share-based compensation	203,214	125,764	604,805	310,121
Future income tax provision	178,300	398,014	814,886	896,120
	1,285,205	857,577	4,337,339	3,561,903
Changes in non cash operating accounts (note 13)	424,556	(3,545,130)	(1,579,800)	(7,599,686)
	1,709,761	(2,687,553)	2,757,539	(4,037,783)
Investing activities				
Capital asset additions	(144,903)	(953,554)	(629,174)	(1,675,324)
Proceeds from lease inducement (note 9)	227,285	-	227,285	-
Other asset additions	-	56,479	-	(2,825)
Loans receivable	(188,500)	-	(738,500)	(33,923)
Acquisitions, net of cash	-	(10,589)	-	-
	(106,118)	(907,664)	(1,140,389)	(1,712,072)
Financing activities				
Repayment of acquisition notes payable	-	-	(3,066,668)	(1,383,333)
Repayment of loans receivable	-	65,000	-	65,000
Repayment of long-term debt	-	(415,990)	-	(665,992)
Repayment of capital lease obligations	(71,353)	(66,152)	(208,331)	(196,313)
Issuance of shares	86,000	29,000	98,500	139,500
Share issue costs	-	(20,535)	(2,051)	(20,535)
Repurchase of common shares	-	(322,399)	(1,026,430)	(1,405,225)
	14,647	(731,076)	(4,204,980)	(3,466,898)
Increase (Decrease) in cash for the period	1,618,290	(4,326,293)	(2,587,830)	(9,216,753)
(Bank Indebtedness)/Cash, beginning of period	(4,574,411)	129,667	(368,291)	5,020,127
(Bank Indebtedness)/Cash, end of period	\$ (2,956,121)	\$ (4,196,626)	\$ (2,956,121)	\$ (4,196,626)

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 of print management; direct marketing; event management; program management; customer incentive and loyalty management; fulfillment and distribution services; and field merchandising services.

1. Significant accounting policies

Basis of consolidation

These unaudited 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. These interim consolidated financial statements do not include all disclosure required by Canadian generally accepted accounting principles for annual financial statements, and accordingly, these interim consolidated financial statements should be read in conjunction with Pareto’s most recent annual consolidated financial statements. These interim consolidated financial statements follow the same accounting policies and methods of application used in the Company’s audited annual consolidated financial statements as at and for the year ended December 31, 2007, except for the new accounting policies adopted subsequent to that date, as discussed in Note 2.

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. Actual results could differ from management’s best estimates as additional information becomes available in the future.

2. 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. Refer to note 18 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. Refer to note 17 for additional disclosures.

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Inventories – CICA Handbook Section 3031 “Inventories”, 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 writedowns.

The adoption of this new standard had no financial effect on the consolidated financial statements of the Company. Refer to Note 3 for additional disclosures.

b) Future Accounting Policy Changes

International Financial Reporting Standards – In February 2008, The Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards (IFRS) will be required in Canada for publicly accountable profit-oriented enterprises for fiscal years beginning on or after January 1, 2011. The Company will be required to report using IFRS beginning September 1, 2011. The Company has begun the process of evaluating the impact of the change to IFRS.

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 evaluating the full impact of this standard on its consolidated financial statements.

3. Inventory and work in progress

Finished goods inventory includes total costs incurred for print materials that the company holds for future distribution under its fulfillment and distribution client agreements. Work in progress includes costs incurred on non-manufacturing projects for which revenue has not yet been recognized for accounting purposes. Inventory is carried at the lower of cost and net realizable value. The cost of work in progress inventory 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. There have been no write downs of inventory recognized as an expense in the period. There are no inventories pledged as security for liabilities.

	September 30 2008	December 31 2007
Work in progress	\$ 1,897,647	\$ 1,614,070
Finished goods	139,400	590,241
	\$ 2,037,047	\$ 2,204,311

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4. Loans receivable

	September 30 2008	December 31 2007
Employee loans receivable (a)	\$ 250,000	\$ 250,000
Employee loan receivable (b)	236,250	236,250
Employee loan receivable(c)	190,385	-
Convertible debenture - Ontogenix Inc. (d)	550,000	-
	1,224,750	486,250
Less current portion	-	-
	\$ 1,224,750	\$ 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 loans bear 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 300,000 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.
- (d) On February 27, 2008 the Company provided financing in the amount of \$550,000 to Ontogenix Inc. ("Ontogenix") in the form of a three year convertible debenture. The debenture bears an average annualized interest rate of 16% of the principal. Interest is payable in kind through the issue of additional notes and convertible debentures after six months. The debenture, principal and any outstanding interest, are payable at the end of the term or upon a material business change in Ontogenix's business, subject to the right to convert. The debenture may be converted at the sole option of the Company at any time upon a material business change event and/or liquidity event. A material business change event occurs if Ontogenix becomes insolvent; its board is reduced in size to two or fewer members, or is in default of any of under the debenture. A liquidity event means an initial public offering or change of control. When 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 Ontogenix.

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5. Goodwill

	September 30 2008	December 31 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)	-	29,995
Closing balance	\$ 21,058,577	\$ 19,058,577

- 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 of acquisition notes payable and additional transaction costs of \$12,429 were recorded in 2007. The acquisition was accounted for as a purchase.

As part of the purchase, additional cash consideration of \$2,000,000 is payable to the previous owners based on the satisfaction of remaining conditions precedent to payment. At September 30, 2008, these conditions have been met (note 7 (b)). Subsequent to the quarter, the payment was made on October 2, 2008.

- 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.

6. Bank indebtedness

At September 30, 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% (December 31, 2007 – 1%) and is repayable on demand. As at September 30, 2008, the prime rate was 4.75% (6% as of December 31, 2007).

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7. Acquisition notes payable

The balance of acquisition notes payable relates to the following business combinations:

	September 30 2008	December 31 2007
Trajectory Business Performance Inc. (a)	\$ -	\$ 66,668
Secom Plus Inc. (b)	2,000,000	3,000,000
	2,000,000	3,066,668
Less current portion	2,000,000	3,066,668
	\$ -	\$ -

- a) The notes are non-interest bearing and were repaid out of existing cash resources (note 5 (b)).
b) The note is non-interest bearing. In October 2008, the balance of \$2,000,000 was paid out of existing cash resources (note 5 (a)).

8. 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	139,507
	893,985
Less: imputed interest	111,372
	782,613
Less: current portion of capital lease obligation	305,786
	\$ 476,827

The leases bear interest at rates between 10% and 12% and expire between 2008 and 2011.

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9. Deferred Lease Inducements

During the nine months ended September 30, 2008 the Company entered into two 10-year lease agreements. At the time of establishing these lease arrangements, various lease inducements were received by Pareto from the landlords. In the process of conducting its review of 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.

	2008		
	Amount	Amortization	Balance
Leasehold improvement allowance paid by landlord	\$ 227,285	\$ (7,576)	\$ 219,709
Rent holiday	197,130	(20,995)	176,135
	424,415	(28,571)	395,844
Less: current portion			42,482
			\$ 353,362

10. 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, September 30, 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.

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10. Share capital (continued)

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.

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

	Number of Options	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	324,521	0.74
Exercised in 2008	(250,000)	0.25
Forfeited in 2008	(5,000)	1.05
Options outstanding, September 30, 2008	1,973,689	\$ 1.05

Number of options exercisable		
Options exercisable, September 30, 2008	643,605	\$ 1.12
Options exercisable, December 31, 2007	429,440	\$ 0.74
Options exercisable, December 31, 2006	864,775	\$ 0.37

The range of exercise prices for options outstanding and exercisable options at September 30, 2008 are as follows:

Exercise Price	Number Outstanding	Weighted Average Contractual Life	Number Exercisable	Weighted Average Contractual Life
\$0.25 - \$0.85	291,188	2.85	0	0
\$0.86 - \$1.10	887,501	3.37	288,609	2.43
\$1.11 - \$1.25	655,000	3.50	261,665	3.39
\$1.26 - \$1.53	140,000	2.58	93,331	2.58
	1,973,689	3.28	643,605	2.84

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10. 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 (2006 – 1,000,000) of the Company's common shares have been reserved for issue through the redemption of restricted stock units into common shares on a one to one basis. 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. At September 30, 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).

e) Share-based compensation:

The fair value of stock options granted in 2007 was estimated using the Black-Scholes option-pricing model with the following assumptions:

Dividend yield 0%
Expected volatility 40%
Risk-free interest rate 4.0% to 4.7%
Expected option life 2 to 4 years

The fair value of restricted stock units granted in 2008 and 2007 was estimated to equal the market price of a Pareto common share on the date of grant.

f) Contributed Surplus

In 2008, \$604,805 of share based compensation was added to contributed surplus with \$3,793 of contributed surplus reallocated to share capital as a result of options exercised in the year.

11. Income taxes

	Three months ended		Nine months ended	
	September 30		September 30	
	2008	2007	2008	2007
Provision for income taxes consists of:				
Current	\$ 163,384	\$ (359,724)	\$ 210,213	\$ (73,794)
Future	178,300	398,014	814,886	896,120
	\$ 341,684	\$ 38,290	\$ 1,025,099	\$ 822,326

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12. Earnings per share

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

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Net earnings	\$ 658,152	\$ 76,214	\$ 1,976,960	\$ 1,694,012
Weighted average number of common shares outstanding	42,773,370	44,737,190	43,066,546	44,649,180
Stock options	64,795	226,535	105,109	411,188
Restricted stock units	1,826,618	812,142	1,669,684	578,543
Weighted average number of diluted common shares outstanding	44,664,783	45,775,867	44,841,339	45,638,911
	\$ 0.02	\$ 0.00	\$ 0.04	\$ 0.04

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, 1,863,605 stock options were excluded because their effect would be anti-dilutive.

13. Supplementary cash flow information

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Changes in non-cash operating accounts:				
Accounts receivable	\$ (233,205)	\$ (1,983,832)	\$ 510,534	\$ (3,408,441)
Inventory and work in progress	(73,666)	(647,970)	167,264	(651,906)
Prepaid expenses	21,985	93,220	102,168	(28,322)
Accounts payable and accrued liabilities	(627,876)	(1,909,344)	(3,520,151)	(3,371,234)
Income taxes payable	90,945	898,224	70,232	725,201
Deferred revenue	1,246,373	4,572	1,090,153	(864,984)
	\$ 424,556	\$ (3,545,130)	\$ (1,579,800)	\$ (7,599,686)

14. 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

15. Related party transactions

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.

During the first nine months of 2008, \$20,559 (2007 - \$28,619) of interest was received pursuant to loans receivable from executives, measured at the exchange amount.

16. 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.

During the nine month period ended September 30, 2008, one customer represented greater than 10% of the Company's revenue with 26% (2007 - 30%). As at September 30, 2008, amounts due from this customer accounted for 29% (2007 - 26%) of accounts receivable. All of the Company's operations are located in Canada.

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17. 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.

	September 30, 2008	December 31, 2007
Bank Indebtedness	\$ 2,956,121	\$ 368,291
Acquisition notes payable	2,000,000	3,066,668
Long-term capital leases	782,613	990,945
Total debt	5,738,734	4,425,904
Shareholders' equity	27,354,057	25,702,273
Total capitalization	\$ 33,092,791	\$ 30,128,177
Net debt:Shareholders' equity	0.21:1	0.17:1
Net debt:Total Capitalization	0.17:1	0.15:1
Total debt:EBITDA	0.7:1	0.6:1

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.

17. 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.

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.

18. Financial Instruments

(a) Fair value of financial instruments

At September 30, 2008, the fair value of the Company's financial instruments approximate their carrying values due to their short-term nature.

(b) Derivative financial instruments

The Company, on occasion, engages in transactions in foreign currencies, most commonly involving the US dollar and the Euro. At September 30, 2008, there are no such contracts outstanding.

(c) Financial risk management

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
Accounts payable and accrued liabilities	Other financial liabilities
Acquisition notes payable	Other financial liabilities

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.

18. Financial Instruments (continued)

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.

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 June 30, 2008, a reserve in respect of doubtful accounts of \$98,099 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.

v) Interest rate risk

The Company's principal exposure to interest rate fluctuations is limited to bank indebtedness (as described in note 6) which bears interest at floating interest rates.

18. Financial Instruments (continued)

Based on the Company's average debt level during the first nine months of 2008, the sensitivity of a 100 basis point increase in interest rates would result in an approximate decrease of \$40 thousand in net 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.

19. Comparative figures

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



Management's Discussion and Analysis of Results of Operations and Financial Position

November 5, 2008

Pareto Corporation

Management's Discussion and Analysis of Results of Operations and Financial Position

Management's Discussion and Analysis of Results of Operations and Financial Position ("MD&A") of Pareto Corporation ("the Company" or "Pareto"), dated November 5, 2008, summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity and cash flows of Pareto for the quarter ended September 30, 2008. All amounts are in Canadian dollars. This MD&A should be read in conjunction with consolidated financial statements for the period ended December 31, 2007, which are prepared in accordance with Canadian GAAP. Additional information relating to Pareto, including the Annual Information Form dated March 26, 2008, can be found at the Company's website at www.pareto.ca and on SEDAR at www.sedar.com.

Forward-looking Statements

The Company and its representatives periodically make written and spoken forward-looking statements, including those contained in this report. By their nature, forward-looking statements are subject to risks and uncertainties that could result in actual performance being materially different from anticipated results. The Company cautions readers, when making decisions, to consider the risks and uncertainties of forward-looking statements. The Company relies upon litigation protection for forward-looking statements.

Non-GAAP Measures

In this discussion and analysis, management uses "EBITDA" (earnings before amortization, net interest and finance charges, share-based compensation, income taxes, gain on acquisition and non-recurring expenses); a measure not defined under Canadian generally accepted accounting principles ("GAAP"), to discuss Pareto's operating performance. The Company cautions readers 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. EBITDA is presented as a supplemental figure for discussion because management believes it provides useful information regarding operating performance.

Management uses other non-GAAP financial measures, including net debt (long-term debt plus acquisition notes payable, less cash), EBITDA margin and cash interest expense.

The Company's non-GAAP financial measures, particularly EBITDA, are measures used by investors, financial analysts and lenders, who may use EBITDA and other non-GAAP financial measures to value the Company and assess the Company's ability to service its debt.

Business Overview

Pareto is a marketing services company that provides marketing execution services to its clients. Pareto's focus is on the details of marketing programs, utilizing technology to drive efficient and effective marketing execution. The Company provides value to its clients by sourcing, designing and coordinating the many elements that go into delivery a successful campaign, event or loyalty program. Pareto provides measurable, quantifiable services that complement and support its clients' marketing and sales departments. The Company endeavors to sell, to each client, as many of its operational services and products as possible and while the Company markets a number of distinct "solutions", most client projects typically involve contributions from several of Pareto's service offerings. The specific products and services which Pareto offers to its clients include:

- ❖ Design, production and fulfillment of in-store marketing materials.
- ❖ Design and production of direct marketing materials.
- ❖ Corporate events.
- ❖ Field services.
- ❖ Incentive programs.
- ❖ Outsourced marketing program management.

Pareto sells its products and services, other than incentive programs which are based on reward unit resale (described in

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more detail below), either on a project or deliverable fixed fee basis or on a time and materials basis. Pareto services typically sold on a fixed fee basis include design, production and fulfillment of in-store marketing materials and direct marketing services and, corporate events. For example, the Company may sell finished goods (such as in-store signage and direct mail) bundled with a management system (which may include web or data management and distribution) for a fixed price per unit. The value proposition to the client in these circumstances is reduced cost and the benefits of Pareto's management system in terms of reduced cycle times, program effectiveness, and data availability. Profitability in the project or deliverable fixed fee business model is driven by Pareto's success in accurately projecting its costs in pricing products and services and by effective project management.

Outsourced marketing program management and field services are typically sold on a time and materials basis. In this application Pareto often acts as the client's representative. The Company's personnel are positioned as an extension of, and support for, the client's sales or marketing department. In addition to offering support, Pareto adds value in these situations through program management where it administers and manages an ongoing marketing program to specified objectives. These services may also be sold on a fixed fee basis. In the time and materials based business model profitability is driven by establishing appropriate billing rates for services rendered, and by ensuring that each billable employee is engaged in an appropriate level of billable activity.

Certain incentive programs are based upon the resale of reward units at prices in excess of the cost of the unit to Pareto. Profitability in this business model is dependent on the successful achievement by Pareto's clients of the sales and other business objectives for which the reward units are used as an incentive as well as the number of participants registered in the program. This drives the volume of reward units resold by the Company. These programs are also characterized by significant start-up costs incurred to put the program into place and to sign up participants. As revenues directly reflect our clients' sales volume, the timing of those revenues trends toward the end of the year, as client companies are working to ensure they meet their annual sales targets and accordingly offer attractive incentives to their sales channel during this time. The attractiveness of the reward units resold is also a factor in the overall performance and growth potential of the Company's loyalty and incentive business.

In all of Pareto's businesses it is critical that the Company have and retain the highest quality of personnel having the capabilities and expertise required to deliver the services and products required by Pareto's clients. Personnel development and retention is a key focus of Pareto management and the Company believes that its personnel systems and processes are a key component of its achievements in terms of growth and profitability to date.

Pareto is managed and operated as a single business. The Company endeavors to sell, to each client, as many of its operational services and products as possible and while the Company markets a number of distinct "solutions", in reality a particular project typically involves contributions from several service offerings. Senior management also participates directly in the sales and delivery of products and services to the Company's clients. Accordingly, the Company has determined that it is not practical to prepare and provide meaningful profitability information for individual components of Pareto's business, nor is it meaningful to present a measure of profitability for the business, which includes all direct costs incurred in respect of sales and operational execution other than EBITDA.

Pareto endeavors to enter into long-term contracts with its clients in order to deliver the most cost effective outsourcing of the client's marketing execution as possible. Customer contracts are often annual with certain contracts being 2 to 3 years in length. Long-term contracts allow Pareto to develop and execute longer-term performance improvement and cost reduction programs. The contracts also allow Pareto to achieve a seamless interaction with the client personnel and have been shifting our focus towards more strategic relationships, and away from opportunistic or reactive business. We are striving to build enterprise-wide relationships.

Competition in the marketing industry is intense, and competitors range from small, owner-managed companies to diversified multinational agency groups. While the industry is highly fragmented overall, the trend for many years has been towards consolidation. While many companies may provide services which are similar to the Company's, Pareto's focus on

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marketing execution as opposed to strategy is often a differentiator. As such, the Company often acts as a complement to, rather than in competition with, existing client marketing and agency resources.

All of the Company's operations are located in Canada with minimal purchasing done outside of Canada and as such, the Company has minimal exposure to changes in currency.

Operating Results for the quarter ended September 30:

	2008	2007	\$ Change	% Change
Revenue	\$ 18,126,430	\$ 14,345,259	\$ 3,781,171	26%
Operating and administrative expenses ⁽¹⁾	16,354,563	13,744,123	(2,610,440)	-19%
EBITDA ⁽²⁾	\$ 1,771,867	\$ 601,136	\$ 1,170,731	195%
	9.8%	4.2%	5.6%	
Amortization of long-term assets	\$ 272,571	\$ 225,772	\$ (46,799)	-21%
Non-recurring expenses ⁽¹⁾	182,391	-	(182,391)	0%
Interest and finance charges, net	113,855	135,096	21,241	16%
Share-based compensation	203,214	125,764	(77,450)	-62%
	772,031	486,632	(285,399)	-59%
Earnings before income taxes	999,836	114,504	885,332	773%
Income taxes	341,684	38,290	(303,394)	-792%
Net earnings	\$ 658,152	\$ 76,214	\$ 581,938	764%
Basic and Diluted earnings per share	\$ 0.02	\$ 0.00	\$	

⁽¹⁾ Operating and administration expenses exclude non-recurring expenses totaling \$182,391 for costs incurred during the third quarter by the Company for its substantial issuer bid announced August 7, 2008 and subsequently terminated on September 18, 2008.

⁽²⁾ See "Non-GAAP Measures"

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Operating Results for the nine months ended September 30:

	2008	2007	\$ Change	% Change
Revenue	\$ 55,433,452	\$ 53,408,608	\$ 2,024,844	4%
Operating and administrative expenses ⁽¹⁾	50,488,299	49,638,232	(850,067)	-2%
EBITDA ⁽²⁾	\$ 4,945,153	\$ 3,770,376	\$ 1,174,777	31%
	8.9%	7.1%	1.8%	
Amortization of long-term assets	\$ 765,591	\$ 623,275	\$ (142,316)	-23%
Non-recurring expenses ⁽¹⁾	182,391	-	(182,391)	0%
Interest and finance charges, net	390,307	320,642	(69,665)	-22%
Share-based compensation	604,805	310,121	(294,684)	-95%
	1,943,094	1,254,038	(689,056)	55%
Earnings before income taxes	3,002,059	2,516,338	485,721	19%
Income taxes	1,025,099	822,326	(202,773)	-23%
Net earnings	\$ 1,976,960	\$ 1,694,012	\$ 282,948	17%
Basic and Diluted earnings per share	\$ 0.04	\$ 0.04	\$	

⁽¹⁾ Operating and administration expenses exclude non-recurring expenses totaling \$182,391 for costs incurred during the third quarter by the Company for its substantial issuer bid announced August 7, 2008 and subsequently terminated on September 18, 2008.

⁽²⁾ See "Non-GAAP Measures"

Third Quarter Results

Revenue

In the third quarter of 2008, the Company generated \$18.1 million of revenue compared to \$14.3 million in 2007, an increase of \$3.8 million or 26%. Revenue increased this quarter in the field services business, up \$0.6 million or 19% over the previous year, in the event business, up \$1.8 million or 200% over the previous year, and up \$1.6 million or 24% in the direct marketing and retail in-store marketing business, offset somewhat by a decline of program management services, down \$0.2 million or 8% over the previous year.

Increased revenues from the field services business and the event business are driven primarily from timing of new business that we have won to replace large non-recurring projects done during the second quarter of 2007. Our retail in-store marketing business increase is driven by both new customers as well as increasing volumes with our existing customers. One of our customers within the automotive sector cancelled a \$1.5 million incentive based travel program originally scheduled for the third quarter and reduced programs within our managed service business this quarter. While event revenue was decreased due to this cancellation, overall program margins were maintained as significant planning efforts had been completed and additional resources were required to manage the cancellation.

For the nine month period ended September 30, 2008, revenues increased by 4% or \$2.0 million to \$55.4 million from \$53.4 million in the same period last year. Revenue increased in retail in-store marketing materials, up \$1.7 million or 8% over the previous year, in the event business, up \$0.4 million or 4% over the previous year, and in program management services,

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up \$0.9 million or 19% over the previous year, offset by a decrease in field services, down \$1.0 million or 9% over the previous year.

Our retail in-store marketing business increase is driven by both new customers as well as increasing volumes in our existing customers. Our event business revenue increase is the result of overall timing of events. Program management service revenue has increased due mainly to new customer wins late in 2007. The field services revenue decline is due to timing of one large project that was completed in the second quarter of 2007. New business has already been won and we expect the overall business to grow this year, however, the new business is spread through the year rather than concentrated in one quarter.

We continue to be confident about our ability to generate organic growth in 2008. Our revenues are smoother in 2008 than in the past. In 2007, we experienced two very low quarters, 1st and 3rd each with approximately \$14million in revenues, and two very high quarters, 2nd and 4th each with \$24 million and \$21 million respectively. To date in 2008, our first three quarters' revenues are \$17 million, \$21 million and \$18 million respectively. We expect the fourth quarter revenue to marginally exceed the revenue of the related quarter of the previous year, but EBITDA margin may be somewhat lighter than the prior year due to mix in business lines.

To date, we have experienced minimal impact from the economic downturn within the field service and retail sectors, the largest components of our business, but are experiencing more squeezing of spending within the event and incentive services. Overall, we expect to see the event and incentive business flat to prior year, with growth expected in the field service and retail sectors.

In the first three quarters of 2008 the Company's mix of revenues by business model was as follows:

- ❖ Fixed fee basis - \$ 32.3 million or 58% (\$30.7 million or 57% in 2007)
- ❖ Time and materials basis - \$17.8 million or 32% (\$17.5 million or 33% in 2007)
- ❖ Resale of reward units - \$5.3 million or 10% (\$5.2 million or 10% in 2007)

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Operating and Administrative Expenses

In the third quarter of 2008, the Company incurred \$16.3 million in operating and administrative expenses compared to \$13.7 million in 2007, an increase of \$2.6 million or 19%. As a percentage of revenue, operating and administrative expenses represented 90% in the third quarter of 2008 as compared to 95% in the same period last year. Operating and administrative expenses include direct project costs, wages and salaries, facilities costs, and selling, general, and administrative costs.

The improvement in expenses as a percentage of revenue in the third quarter is due to improved operating efficiencies, procurement savings, and economies of scale, offset somewhat by reduced customer pricing from material customer contract renegotiation. The loss of small low margin customers and the implementation of our Business Management System process have improved both direct material usage and labour efficiencies during 2008. Additionally, a procurement process has been undertaken where similar to our customers pushing us for ways to save costs, we have asked our suppliers to reduce costs. The resulting savings have been recognized providing reduced costs over the previous year. Additionally, improved margins have been seen as our costs are spread over higher volumes. Facilities costs and selling, general and administrative costs declined as a percentage of revenue by 2% in 2008 when compared to the prior year due to organizational savings realized with the integration of acquisitions which have reduced facility charges and reduced redundant administrative costs.

For the nine month period ended September 30, 2008, operating and administrative expenses increased by 2% to \$50.4 million compared to \$49.6 million in the same period last year. As a percentage of revenue, operating and administrative expenses represented 91% in 2008 as compared to 93% in 2007.

Direct project costs declined as a percentage of revenue by 1% in 2008 as compared to the prior year. This improvement is due to the mix of services sold, improved efficiencies and procurement savings. Wages and salaries remained unchanged as a percentage of revenue in 2008 when compared to the prior year. Facilities costs and selling, general and administrative costs declined as a percentage of revenue by 1% in 2008 when compared to the prior year due to organizational savings realized with the integration of acquisitions which have reduced facility charges and reduced redundant administrative costs.

EBITDA

In the third quarter of 2008, the Company generated \$1.7 million of EBITDA (see "Non-GAAP Measures") compared to \$0.6 million in 2007, an increase of \$1.2 million or 195%. EBITDA as a percentage of revenue represented 9.8% in 2008 compared to 4.2% in 2007. The EBITDA percentage has grown steadily over the first three quarters of 2008, improving from 7.2% in the first quarter to 9.4% with higher revenues in the second quarter and to 9.8% on reduced revenues in the third quarter. This increase in percentage is the result of greater efficiencies realized through the integration of acquisitions and operational improvements.

For the nine month period ended September 30, 2008, the Company generated \$4.9 million of EBITDA, compared to \$3.7 million in 2007. EBITDA as a percentage of revenue represented 8.9% in 2008 compared to 7.1% in 2007. EBITDA percentage has improved as a percentage of revenue due to improved mix of business, greater efficiencies realized from integration of acquisitions and operational improvements.

Amortization, Interest, Share-based Compensation and Non-recurring expenses

In the third quarter of 2008, the Company incurred amortization, interest and share-based compensation expenses of \$0.8 million compared to \$0.5 million in 2007, an increase of \$0.3 million or 59%. This increase was driven primarily by one-time non-recurring costs totaling \$0.2 million resulting from the Substantial Issuer Bid the Company announced on August 7, 2008 and subsequently terminated on September 18, 2008. Additionally, share-based compensation expense increased by \$0.1 million or 62% reflecting the impact of the options and restricted stock units granted under the Company's plans as well as those granted for incentive purposes in 2007 for the hiring of three new senior executives. Capital asset amortization

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increased slightly due to amortization related to capital assets acquired in 2007 and 2008. Interest and finance charges decreased slightly this quarter as compared to the prior year as a result of lower debt balances.

For the nine month period ended September 30, 2008, similar factors affected these costs with total amortization, interest and share-based compensation expenses increasing \$0.7 million or 55% compared to the same period last year.

Income Taxes

In the third quarter of 2008, the Company incurred income tax expenses of \$0.3 million compared to nil in 2007, an increase of \$0.3 million. Income taxes represented 34% of earnings before tax compared to 33% in 2007. For the nine month period, the overall tax rate remained consistent at 34%. At September 30, 2008 the Company has \$0.3 million of net future income tax assets still to be utilized, with no further amounts expected to be utilized during the remainder of 2008. The Company expects to incur an effective tax rate of approximately 34% during the remainder of 2008.

Net earnings

In the third quarter of 2008, the Company generated \$0.7 million of net earnings compared to \$0.1 million in 2007, an increase of \$0.6 million. For the nine month period ended September 30, 2008, net earnings of \$2.0 million represented a 17% increase compared to \$1.7 million in the same period last year. This increase is the result of increased revenues and improved EBITDA margins, offset somewhat by increased amortization, interest and share-based compensation costs. Excluding the tax effected impact of the non-recurring substantial issuer bid expenses, net earnings totals \$0.8 million for the third quarter and \$2.1 million for the first nine months, representing a 900% increase and 24% increase respectively over the prior year. Net earnings as a percentage of revenue was 3.6% for the third quarter compared to 0.5% in 2007 and 3.6% for the nine month period compared to 3.2% in 2007. Excluding the effect of income taxes, earnings before income taxes were 6.7% of revenue for the quarter compared to 7.9% in 2007, and 5.4% of revenue for the nine month period compared to 6.1% in 2007.

Earnings per share

Pareto's basic and diluted earnings per share in the third quarter of 2008 were \$0.02 versus nil in 2007. For the nine month period ended September 30, basic and diluted earnings per share were \$0.04 for both years.

Liquidity and Capital Resources

Financial Position

	September 30, 2008	December 31, 2007	\$ Change	% Change
Bank Indebtedness	2,956,121	368,291	2,599,830	1142%
Acquisition notes payable	2,000,000	3,066,668	(1,066,668)	-100%
Long-term capital leases	782,613	990,945	(514,118)	-14%
Total debt	5,738,734	4,425,904	1,007,044	23%
Shareholders' equity	27,354,057	25,702,273	1,651,784	3%
Total capitalization	\$ 33,092,791	\$ 30,128,177	\$ 2,658,828	6%
Working capital position	\$ 735,281	\$ 1,445,121	\$ (672,219)	9%

Net debt:Shareholders' equity	0.21:1	0.17:1
Net debt:Total Capitalization	0.17:1	0.15:1
Total debt:EBITDA	0.7:1	0.6:1

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Pareto's sources of short-term liquidity include cash provided by operating activities and a \$9 million operating line of credit secured by a general security agreement over the assets of Pareto and its subsidiaries, and which is repayable on demand.

Management considers the Company's capital resources adequate to meet the Company's operating, capital expenditure, and financing requirements. The Company has access to capital and is currently reviewing its options. The Company may consider reintroducing its Substantial Issuer Bid announced August 7, 2008 and subsequently terminated on September 18, 2008, or 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.

Operating activities

In the third quarter of 2008, Pareto's operating activities generated \$1.7 million of cash flow compared to a use of \$2.7 million of cash flow in 2007, an increase of \$4.4 million. Operating activities before changes in non-cash operating accounts generated \$1.3 million of cash flow in 2008 compared to \$0.9 million in 2007, an increase of \$0.4 million. Non-cash operating accounts generated \$0.4 million of cash flow in 2008 compared to utilizing \$3.5 million in 2007, an increase of \$3.9 million.

For the nine month period ended September 30, 2008, operating activities generated \$2.8 million of cash flow compared to a utilization of \$4.0 million of cash flow in 2007, an increase of \$6.8 million. Operating activities before changes in non-cash operating accounts generated \$4.4 million of cash flow in 2008 compared to \$3.6 million in 2007, an increase of \$0.8 million. Non-cash operating accounts utilized \$1.6 million of cash flow in 2008 compared to \$7.6 million in 2007, an increase of \$6.0 million.

Our accounts receivable balance showed a slight decrease during the first nine months of the year to \$16.8 million from \$17.3 million at December 31, 2007. This figure represents an average Days Sales Outstanding of 71 days compared to 75 days at December 31, 2007. While this marks an improvement of 5%, it is still above the level we are targeting. However, the aging schedule is better than it has ever been at Pareto. The percentage of receivables that are more than 60 days old reached a new low this year. The significance of this is not related to the risk of bad debts. Our clients are mostly large, stable organizations. Our focus is in the area of managing our working capital. We have begun implementing a plan to improve cash management, with some early success, and we believe there is further leverage available.

Investing activities

In the third quarter of 2008, Pareto's investing activities, comprised of capital asset additions and investment loans, utilized \$0.1 million of cash flow, a decrease of \$0.8 compared to 2007. For the nine month period ended September 30, 2008, investing activities utilized \$1.1 million of cash flow compared to \$1.7 million for the same period last year. In 2008, \$0.6 million has been utilized on capital additions, \$0.3 million resulting from leasehold improvements incurred as the field service division moved into a new facility during the third quarter, and the remaining \$0.3 million on maintenance capital requirements. In 2008, cash from lease inducements was received totaling \$0.2 million relating to the new field service facility lease. In 2008, cash utilized for investments includes \$0.55 million of cash flow for a strategic investment loan to Ontogenix Inc, a technology company focused in online marketing, and \$0.2 million for an employee loan for the purchase of shares. The investment loan consists of a three year convertible debenture bearing interest at a rate of 16%, accrued annually. When converted, ownership is expected to be treated on a cost basis. The loan was funded out of existing cash resources.

Financing activities

In the third quarter of 2008, Pareto's financing activities, comprised of payment of acquisition notes payable, capital lease obligations and share repurchase, utilized no cash compared to a use of \$0.7 million of cash flow, last year. For the nine month period ended September 30, 2008, financing activities utilized \$4.2 million of cash flow compared to \$3.5 million in the same period last year, an increase of \$0.7 million. In 2008, \$3.0 million was utilized for payment of outstanding

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acquisition notes payable from the Secom Plus Inc. acquisition in the prior year compared to \$1.4 million in 2007, \$0.2 million was utilized as payment of capital lease obligations and \$1.0 million was utilized to repurchase 1.3 million common shares of the Company pursuant to its normal course issuer bid. The bid expired on July 11, 2008 and the Company purchased a total of 1.3 million shares, approximately 24,000 shares short of the total level authorized.

As part of the Secom Plus Inc. purchase completed in October 2006, additional cash consideration of \$2.0 million is payable to the previous owners in October 2008 based on the satisfaction of remaining conditions precedent. These conditions have been met during this quarter and as such, this transaction was recorded as an addition to Goodwill (note 5). Subsequent to the quarter, the payment was made on October 2, 2008. This payment was financed out of existing cash resources

Contractual Obligations

The following table provides a summary of Pareto's contractual obligations under various debt and lease agreements:

Payments due by period					
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Capital leases	\$ 893,985	\$ 377,239	\$ 516,746	\$ -	\$ -
Operating leases	6,513,964	922,114	814,631	785,993	3,991,226
Total contractual obligations	\$ 7,407,949	\$ 1,299,353	\$ 1,331,377	\$ 785,993	\$ 3,991,226

Outstanding Share Data

At November 5, 2008 an unlimited number of common shares were authorized and 42,931,148 (December 31, 2007 - 43,994,648) common shares were outstanding. The Company has 1,973,689 options currently outstanding to acquire common shares pursuant to its Option Plan of which 643,605 are exercisable. No options are currently exercisable at a value lower than the average trading value of \$0.73 this quarter. The Company also has 993,285 restricted stock units currently outstanding, all convertible to common shares on a one to one basis. See note 10 to the consolidated financial statements for further information on the Company's share capital.

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Non-GAAP Earning Measures

The following is a quantitative reconciliation of EBITDA to net earnings:

	Three months ending September 30, 2008	Three months ending September 30, 2007
Net earnings	658,152	\$ 76,214
Income Taxes	341,684	38,290
Amortization of capital assets, intangible assets and deferred costs	272,571	225,772
Non-recurring expenses re substantial issuer bid	182,391	-
Interest and financing charges	113,855	135,096
Share-based compensation	203,214	125,764
EBITDA	\$ 1,771,867	\$ 601,136

	Nine months ending September 30, 2008	Nine months ending September 30, 2007
Net earnings	1,976,960	\$ 1,694,012
Income Taxes	1,025,099	822,326
Amortization of capital assets, intangible assets and deferred costs	765,591	623,275
Non-recurring expenses re substantial issuer bid	182,391	-
Interest and financing charges	390,307	320,642
Share-based compensation	604,805	310,121
EBITDA	\$ 4,945,153	\$ 3,770,376

Transactions with Related Parties

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.

In September 2008, the Company issued a loan totalling \$188,500 to an executive of the Company for the purchase of 300,000 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.

During 2008, \$20,559 of interest was received pursuant to the loans receivable from executives.

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Risks and Uncertainties

Economic Uncertainty

The marketing services industry is subject to the effects of economic downturns. The Company is also exposed to the risk of clients changing their business plans or reducing their budgets for the Company's services. As a result, the Company's business, financial condition, and operating results may be affected in a material adverse manner.

Access to Capital Resources

Management considers the Company's capital resources adequate to meet the Company's operating, capital expenditure, and financing requirements. While the Company expects to generate positive cash flow from operations, 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. The incurrence of additional indebtedness will result in increased interest expense.

Competition

The marketing services industry is highly competitive. The Company has competition in all major markets in which it does business from competitors that range from large multinational agencies to smaller, regional agencies. The Company must compete with these companies, firms and agencies in order to maintain existing client relationships and to obtain new clients and assignments. Competitive factors include account management and creative capabilities and reputation, management, personal relationships, quality and reliability of service, and expertise in particular niche areas of the marketplace. As the Company continues to expand through strategic acquisitions or organic growth, this may reduce the number of competitors in the market; however the success achieved may be a springboard for other companies to enter the market, therefore the competitive landscape is ever fluctuating and difficult to predict.

Dependence Upon a Limited Number of Clients

Although the Company has a significant number of clients, a relatively small number of them contribute the majority of the Company's revenue and gross profit. During the nine month period ending September 30, 2008 Pareto generated revenues from one client represented greater than 10% of revenues (26%, 2007 – 30%). The Company's current contract with this customer has a term ending July 31, 2012.

The Company's dependence on a limited number of clients may increase in the future, should the Company continue to achieve improved relationships with key clients and succeed in providing new services to them.

The Company endeavors to reduce the risk of key client dependence by entering into multi-year contractual arrangements with its key clients and by developing multiple relationships within the client organization. The Company also reduces the risk of key client dependence by winning new clients through strategic acquisitions and internal growth.

Credit Risk

Accounts receivable represented 35% of consolidated assets at September 30, 2008 (2007 – 32%). Accordingly, the Company could be adversely affected by the bankruptcy of a customer. The Company mitigates its credit risk with respect to accounts receivable by dealing with large, creditworthy clients and also by billing whenever possible in advance of the provision of services.

Dependence on Key Personnel

The Company's success is dependent on the leadership of a number of key executive and management personnel. If any of these key individuals leave the Company, the relationships they have with certain of the Company's clients could be lost. In addition, the Company's ability to generate revenue is dependent upon the number and expertise of individuals who perform project work. The competition for the most experienced and able employees is intense, even during cyclical

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downturns in the industry. As a result, if the Company fails to retain existing employees or hire new employees when necessary, the Company's business, financial condition, and operating results could be materially and adversely affected.

Although certain members of Pareto's senior management team have entered into employment contracts that include non-competition and non-solicitation agreements, those agreements may not be effective in retaining key personnel. All key employees are shareholders of the Company.

Consolidation of Accounts

Large business organizations have shown a tendency towards consolidating their marketing services providers so that one firm provides these services to all national and international locations. While the Company could benefit from this trend, it is also possible that the Company could lose client relationships if certain clients elected to consolidate their marketing services relationship with another supplier. To the extent that Pareto loses revenue as a result of this trend, the Company's business, financial condition and operating results may be affected in a material adverse manner.

Critical Accounting Estimates

Overview

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates that affect the amounts reported and disclosed in the consolidated financial statements. Management bases estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. On an ongoing basis, management evaluates its estimates. However, actual results could differ from estimated results. The Company's significant accounting policies are included in note 2 to the 2008 consolidated financial statements. Management believes the following critical accounting policy involves the most significant judgments and estimates used in the preparation of the Company's consolidated financial statements.

Goodwill and Intangible Assets

Goodwill and intangible assets represent the Company's most significant assets. Goodwill represents the consideration paid for acquisitions in excess of the fair market value of the net identifiable assets acquired. The carrying value of the goodwill is assessed at least annually by comparing it to its fair value. In the first quarter of 2008, the Company completed the annual assessment and found no impairment of goodwill. 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. If impairment losses related to goodwill and intangible assets were to be recognized in future periods, the losses could have a material adverse impact on the Company's results of operations and financial position.

Financial Instruments and Other Instruments

Pareto engages in transactions in foreign currencies, most commonly involving the U.S. dollar and the euro. From time to time, Pareto will use currency forward contracts to fix the exchange rate for known future transactions. No such contracts were outstanding at September 30, 2008.

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Disclosure Controls and Procedures

The Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures and concluded that such controls and procedures were effective at the reasonable assurance levels as of September 30, 2008 and in respect of the year ending. Due to inherent limitations, the Company's disclosure controls and procedures do not guarantee timely communication of all material events to the certifying officers and projections of any evaluation of effectiveness of such controls and procedures to future periods are subject to the risk that controls may become inadequate due to changes in conditions, or deterioration in the degree of compliance with the Company's policies and procedures.

Internal Control over Financial Reporting

The Chief Executive Officer and Chief Financial Officer have designed a system of internal control over financial reporting which provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with the generally accepted accounting principles.

During the quarter ended September 30, 2008, there were no substantive changes in the nature of the Company's policies or procedures that have materially affected, or are reasonably likely to materially affect, the Company's system of internal control over financial reporting. The Company is continuing with its efforts in formalizing and documenting various elements of its system of internal control over financial reporting in preparation for the evaluation of the operating effectiveness of its internal control system within the timelines to be prescribed by the Canadian Securities Administrators.

Recent Accounting Developments

d) 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.

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.

Inventories – CICA Handbook Section 3031 “Inventories”, 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 downs. The adoption of this new standard had no financial effect on the consolidated financial statements of the Company. .

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e) Future Accounting Policy Changes

International Financial Reporting Standards – In February 2008, The Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards (IFRS) will be required in Canada for publicly accountable profit-oriented enterprises for fiscal years beginning on or after January 1, 2011. The Company will be required to report using IFRS beginning September 1, 2011. The Company has begun the process of evaluating the impact of the change to IFRS.

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 evaluating the full impact of this standard on its consolidated financial statements.

SUMMARY OF QUARTERLY AND ANNUAL RESULTS

Year ended 30 September, 2008	Mar 31	Jun 30	Sep 30	Dec 31	Last 12 months
Quarterly information:					
Revenue	\$ 16,453,170	\$ 20,853,852	\$ 18,126,430		\$ 76,364,857
EBITDA ¹	1,179,078	2,002,222	1,771,867		8,028,713
EBITDA Margin	7.2%	9.6%	9.8%		10.5%
Net earnings	403,853	914,954	658,152		3,413,445
Basic and diluted earnings per share ²	0.01	0.02	0.02		0.07
Annual information:					
Total assets					
Total long-term financial Liabilities, including current portion					
Cash dividends declared					

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Year Ended 31 December, 2007	Mar 31	Jun 30	Sep 30	Dec 31	Total
Quarterly information:					
Revenue	\$ 14,716,308	\$ 24,347,041	\$ 14,345,259	\$ 20,931,405	\$ 74,340,013
EBITDA ¹	816,693	2,352,547	601,136	3,083,560	6,853,936
EBITDA Margin	5.5%	9.7%	4.2%	14.7%	9.2%
Net earnings	347,544	1,270,254	76,214	1,436,485	3,130,497
Basic and diluted earnings per share ²	0.01	0.03	0.00	0.03	0.07
Annual information:					
Total assets					46,586,523
Total long-term financial liabilities, including current portion					4,057,613
Cash dividends declared					-

Year Ended 31 December, 2006	Mar 31	Jun 30	Sep 30	Dec 31	Total
Quarterly information:					
Revenue	\$ 9,532,273	\$ 13,036,822	\$ 10,316,477	\$ 18,194,436	\$ 51,080,008
EBITDA ¹	764,547	1,236,293	708,050	40,846	2,749,736
EBITDA Margin	8.0%	9.5%	6.9%	0.2%	5.4%
Net earnings	346,152	713,047	464,347	26,249	1,549,795
Basic and diluted earnings per share ²	0.01	0.02	0.01	0.00	0.04
Annual information:					
Total assets					44,807,361
Total long-term financial liabilities, including current portion					3,372,347
Cash dividends declared					-

¹ EBITDA is a non-GAAP financial measure. See above under "Non-GAAP Measures".

² The quarterly figures do not add to the annual figure due to rounding and differences in weighted average diluted shares outstanding during the periods.

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Seasonality

Because of the project-based nature of certain of the Company's business units which recognize revenue using the completed contract method, the Company's results can be significantly impacted in a quarterly period depending on the timing of the completion of significant projects. This impact, which is particularly pronounced in the Event business, does not follow a predetermined seasonal pattern though the fourth is traditionally the largest period of client spending in the marketing services industry and can cause material fluctuations in quarterly revenues, EBITDA, and net earnings.

Additional Information

Other information relating to Pareto, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.