



Consolidated Financial Statements

For the quarter ended September 30, 2008

Pareto Corporation

Consolidated Balance Sheets

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.

Pareto Corporation

Consolidated Statements of Operations and Retained Earnings

	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
	<u>1,589,476</u>	<u>601,136</u>	<u>4,762,762</u>	<u>3,770,376</u>
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
	<u>589,640</u>	<u>486,632</u>	<u>1,760,703</u>	<u>1,254,038</u>
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
	<u>658,152</u>	<u>76,214</u>	<u>1,976,960</u>	<u>1,694,012</u>
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)
	<u>9,570,493</u>	<u>6,905,797</u>	<u>9,570,493</u>	<u>6,905,797</u>
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

Pareto Corporation

Consolidated Statements of Cash Flows

	Three months ended September 30		Nine months ended 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
	<u>1,285,205</u>	<u>857,577</u>	<u>4,337,339</u>	<u>3,561,903</u>
Changes in non cash operating accounts (note 13)	424,556	(3,545,130)	(1,579,800)	(7,599,686)
	<u>1,709,761</u>	<u>(2,687,553)</u>	<u>2,757,539</u>	<u>(4,037,783)</u>
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)	-	-
	<u>(106,118)</u>	<u>(907,664)</u>	<u>(1,140,389)</u>	<u>(1,712,072)</u>
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)
	<u>14,647</u>	<u>(731,076)</u>	<u>(4,204,980)</u>	<u>(3,466,898)</u>
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.

Pareto Corporation
Notes to Consolidated Financial Statements
September 30, 2008

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

Pareto Corporation
Notes to Consolidated Financial Statements
September 30, 2008

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.

Pareto Corporation
Notes to Consolidated Financial Statements
September 30, 2008

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).

Pareto Corporation
Notes to Consolidated Financial Statements
September 30, 2008

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.

Pareto Corporation
Notes to Consolidated Financial Statements
September 30, 2008

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		Balance
	Amount	Amortization	
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.

Pareto Corporation
Notes to Consolidated Financial Statements
September 30, 2008

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

Pareto Corporation
Notes to Consolidated Financial Statements
September 30, 2008

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

Pareto Corporation
Notes to Consolidated Financial Statements
September 30, 2008

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.

Pareto Corporation
Notes to Consolidated Financial Statements
September 30, 2008

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.