



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

May 7, 2009

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 May 7, 2009, summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity and cash flows of Pareto for the quarter ended March 31, 2009. All amounts are in Canadian dollars. This MD&A should be read in conjunction with consolidated financial statements for the period ended December 31, 2008, which are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Additional information relating to Pareto, including the Annual Information Form dated March 31, 2009, 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 GAAP, to discuss operating performance. The Company cautions readers that measures adjusted to a basis other than GAAP do not have a 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 debt (capital lease obligation, acquisition notes payable, and bank indebtedness), 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 of 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 products and services which Pareto offers to its clients can be grouped into four core offerings:

- ❖ Retail promotions, including design, production and fulfillment of in-store marketing materials.
- ❖ Field merchandising services.
- ❖ Direct marketing.
- ❖ Incentive programs, including events.

Pareto Corporation

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

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

Additionally, Pareto provides outsourced marketing program management to select key customers. 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.

Outsourced marketing program management and field merchandising services are typically sold on a time and materials basis. 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 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 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 two to three years in length. Long-term contracts allow Pareto to develop and execute longer-term performance improvement and cost reduction programs, and achieve a more seamless interaction with the client personnel. We have been shifting our focus towards more strategic relationships, and away from opportunistic or reactive business. We are striving to build enterprise-wide relationships.

Pareto Corporation

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

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 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.

Comment on Current Global Economic Conditions

The current volatile and uncertain economic environment presents many companies with new business challenges, not the least of which is communicating the impact of the current economic environment to its shareholders.

Pareto has not seen a significant impact on its operations thus far as a result of the current global recession. The Company's customer base includes blue chip clients that are reasonably diversified and poses minimal credit risk. Since this economic downturn began, the Company has not experienced any collection problems on accounts receivable.

Pareto provides marketing execution services that are designed to produce measurable results and help our clients sell more. While overall marketing budgets are often reduced during economic downturns, it is services like advertising or branding that tend to be viewed as being most dispensable. Our retail promotion and field merchandising solutions are designed to influence consumers' decisions at the point of sale and provide measurable sales lift. Our customers are telling us these services are becoming more important during tough economic times and in some cases spending is being increased in these areas. These two core business areas represented approximately two thirds of the Company's revenues over the twelve month period ending March 31, 2009.

Pareto provides incentive solutions, encompassing loyalty programs and event management. This area of the business is the most susceptible to economic downturns, when this type of spending may be seen as expendable in times of cost cutting pressures. Given the long lead times on some of these projects, we are seeing reductions in spending for 2009 yet at the same time are seeing commitments being made for 2010. Pareto provides outsourced managed services to a customer in the automotive sector. While our relationships and service levels are strong, this sector has been hit particularly hard by the global financial crisis. Together these two components of the business represented less than 15% over the twelve month period ending March 31, 2009.

The Company has spent the last year implementing a business management system allowing us to monitor costs, profitability by project and resource requirements. The Company believes it is able to adjust internal resources quickly by shifting them to areas of growth. The Company has completed a thorough review of its cost base and has made material reductions in 2009 to its selling, general and administrative costs and reduced certain service offerings where profitability was not sufficient. Strategically, we believe this has led to stronger focus on our four core offerings.

The Company has a strong balance sheet and management believes the Company is underleveraged. Bank indebtedness at March 31, 2009 was \$2,029 thousand and there is considerable capacity on its line of credit, which allows for up to \$9 million of borrowing. This line of credit is secured against accounts receivable, and carries no financial covenants or adverse economic change language.

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

The Company will continue to monitor market activity and trends in our industry, in order to be able to react in a timely fashion should we see a decline in the level of new business activity.

For a more complete analysis of risks faced by the Company, and additional comments on the global economic environment, please refer to the section "Risks and Uncertainties".

Pareto Corporation

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

Operating Results for the quarter ended March 31:

	2009	2008	\$ Change	% Change
Revenue	\$ 16,182,996	\$ 16,453,170	\$ (270,174)	(2%)
Operating and administrative expenses ⁽¹⁾	14,771,869	15,274,092	(502,223)	(3%)
EBITDA ⁽¹⁾	\$ 1,411,127	\$ 1,179,078	\$ 232,049	20%
	8.7%	7.2%	1.5%	
Amortization of long-term assets	\$ 219,829	\$ 211,730	\$ 8,099	4%
Interest, net	12,409	106,993	(94,584)	(88%)
Share-based compensation	189,659	207,780	(18,121)	(9%)
	421,897	526,503	(104,606)	(20%)
Earnings before income taxes	989,230	652,575	336,655	52%
Income taxes	332,460	195,802	136,658	70%
Net earnings	\$ 656,770	\$ 456,773	\$ 199,997	44%
Basic and Diluted earnings per share	\$ 0.015	\$ 0.01	\$ 0.005	-

⁽¹⁾ See "Non-GAAP Measures"

Pareto Corporation

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

First Quarter Results

Revenue

In the first quarter of 2009, the Company generated \$16.2 million of revenue compared to \$16.5 million in 2008, a decrease of \$0.3 million or 2%. Revenue increased this quarter in the retail promotion business, up \$0.8 million or 16% over the same period last year. Revenue was flat to prior year in our incentives business and direct marketing business. Revenue decreased in the field merchandising business, down \$0.8 million or 19%, and in the managed services business, down \$0.3 million or 17% over the same period last year.

Increased revenues from the retail promotion business were driven primarily by new business that we have won as well as increasing volume with our existing clients. Our retail promotion solutions are designed to influence consumers' decisions at the point of sale and provide measurable sales lift. Some customers have indicated that these services are becoming more important during tough economic times, as evidenced by this quarter's results. The field merchandising business decline was due mainly to a large \$2.5 million project undertaken during the first half of 2008 with new business in 2009 spread more evenly throughout the year. The managed services business decline was due to reduced programs provided to one of our clients within the automotive sector; however, the overall customer margins have been minimally reduced this quarter as the reduction was not in our services but in items that, under our contract, are essentially passed through at cost. Our business is impacted by seasonality, with the first quarter traditionally the lowest period and the fourth quarter the highest period of client spending in the marketing services industry. Although our incentive business was flat to prior year this quarter, this is the one area of our business that has most adversely impacted by the economic downturn. Customers have cancelled large scale events for 2009, opting for smaller scale incentive programs or deferring until 2010. In fact, two of our largest incentive event programs that took place in the second quarter of 2008 will not recur this year. As a result, we are expecting our overall Q2 revenue to be significantly reduced compared to 2008, but given that events have large cost components together with our focus on cost reduction and improved operating efficiencies, we expect second quarter EBITDA to be at comparable or slightly higher levels to 2008.

In 2009 the Company's mix of revenues by business model was as follows:

- ❖ Fixed fee basis - \$ 1.5 million or 9% (\$1.8 million or 11% in 2008)
- ❖ Time and materials basis - \$11.5 million or 71% (\$11.2 million or 68% in 2008)
- ❖ Resale of reward units - \$3.2 million or 20% (\$3.1 million or 19% in 2008)

Operating and Administrative Expenses

In the first quarter of 2009, the Company incurred \$14.8 million in operating and administrative expenses compared to \$15.3 million in 2008, a decrease of \$0.5 million or 3%. As a percentage of revenue, operating and administrative expenses represented 91% in the first quarter of 2009 as compared to 93% 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.

Expenses decreased as a percentage of revenue in the first quarter due to mix of services sold, reduced selling, general and administrative costs resulting from cost cutting measures and improved operating efficiencies and procurement savings.

We have worked to take costs out of the business. To some extent, this has been a consistent goal of management for the past two years. But in recent months we have undertaken a more focused effort to squeeze savings opportunities out of the business. As a result, we have found material cost reductions. We continue to strive for ways to ensure SG&A remains at an appropriate level.

Pareto Corporation

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

EBITDA

In the first quarter of 2009, the Company generated \$1.4 million of EBITDA (see "Non-GAAP Measures"), compared with \$1.2 million in 2008, an increase of 20%. EBITDA as a percentage of revenue represented 8.7% in 2009 compared to 7.2% in 2008. This increase in percentage is due to reduced infrastructure costs, and greater operating efficiencies realized.

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

In the first quarter of 2009, the Company incurred amortization, interest and share-based compensation expenses of \$0.4 million compared to \$0.5 million in 2008, a decrease of \$0.1 million or 20%. This decrease was driven primarily by interest expenses and a decreased share-based compensation expense. Interest and finance charges decreased this quarter as compared to the prior year as a result of interest income on other investments as well as lower debt levels. Long-term asset amortization increased due to prior year capital additions. Share-based compensation expense decreased by 9% reflecting the impact of timing on vesting of options and restricted stock units granted.

Income Taxes

In the first quarter of 2009, the Company incurred income tax expenses of \$0.3 million, compared to \$0.2 million in 2008. Income taxes represented 33% of earnings before tax compared to 30% in 2008. The Company expects to incur an effective tax rate of approximately 33% during 2009.

Net earnings

In the first quarter of 2009, the Company generated \$0.7 million of net earnings compared to \$0.5 million in 2008, an increase of \$0.2 million or 44% over the same period last year. This increase is the result of improved EBITDA margins, offset somewhat by increased amortization and decreased interest and share-based compensation costs. Net earnings as a percentage of revenue was 4% for the first quarter compared to 3% in 2008. Excluding the effect of income taxes, earnings before income taxes were 6% of revenue for the quarter compared to 4% during the same period in 2008.

Earnings per share

Basic and diluted earnings per share were \$0.015 for the first quarter of 2009 and \$0.01 for the first quarter of 2008.

Pareto Corporation

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

Liquidity and Capital Resources

Financial Position

	March 31, 2009	December 31, 2008	\$ Change	% Change
Bank Indebtedness	\$ 2,029,277	\$ 654,573	1,374,704	210%
Capital lease obligation	633,909	709,279	(75,370)	(11%)
Total debt	2,663,186	1,363,852	1,299,334	95%
Shareholders' equity	27,498,942	27,429,969	68,973	0%
Total capitalization	\$ 30,162,128	\$ 28,793,821	\$ 1,368,307	5%
Working capital position	\$ 1,149,891	\$ 943,397	\$ 206,494	22%

Debt:Shareholders' equity	0.10:1	0.05:1
Debt:Total Capitalization	0.09:1	0.05:1
Debt:EBITDA	0.32:1	0.2:1

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 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.

On November 20, 2008, the Company declared a special cash dividend of \$0.04 per issued and outstanding share payable on January 15, 2009, to shareholders of record at the close of business on December 31, 2008

On March 4, 2009, the Company initiated a quarterly cash dividend of \$0.015 per issued and outstanding share, with the inaugural dividend payable on April 15, 2009, to shareholders of record at the close of business on March 31, 2009.

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

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

Operating activities

The Company continues to generate strong cash flows from operations despite the challenging environment. In the first quarter of 2009, operating activities generated \$0.5 million of cash flow compared to \$0.2 million of cash flow in the same period in 2008, an increase of \$0.3 million. Operating activities before changes in non-cash operating accounts generated \$1.0 million of cash flow in 2009 compared to \$1.1 million in 2008, a decrease of \$0.1 million. This decrease is due mainly to income taxes, as the Company is incurring cash taxes whereas tax losses were available during the first quarter of 2008. Non-cash operating accounts utilized \$0.5 million of cash flow in 2009 compared to utilizing \$0.9 million in 2008, an increase of \$0.4 million in cash.

Pareto Corporation

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

Our accounts receivable balance showed a decrease during the quarter to \$13.6 million from \$16.4 million at December 31, 2008, a decrease of \$2.8 million. Compared to the same quarter a year ago, accounts receivable decreased \$3.0 million from \$16.6 million at March 31, 2008. This significant decrease reflects our focus in the area of managing our working capital.

Investing activities

During the first quarter 2009, investing activities utilized \$0.1 million of cash flow compared to \$3.6 million for the same period in the previous year. The substantial decrease reflects cash used for acquisition earn-out payments of \$3.0 million and a strategic investment loan of \$0.6 million in 2008.

Financing activities

In the first quarter of 2009 financing activities utilized \$1.8 million of cash flow compared to \$0.8 million in the same period last year. During the current quarter, \$0.1 million was utilized as payment of capital lease obligations and \$1.7 million was utilized to pay dividends, whereas, \$0.8 million was utilized in the prior year for purchases of the Company's shares under an NCIB.

Off- Balance Sheet Arrangements

The Company has no off-balance sheet arrangements, other than operating leases disclosed below

Contractual Obligations

The following table provides a summary of 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	\$ 705,365	\$ 377,239	\$ 328,126	\$ -	\$ -
Operating leases	6,165,681	853,480	1,596,687	1,312,693	2,402,821
Total contractual obligations	\$ 6,871,046	\$ 1,230,719	\$ 1,924,813	\$ 1,312,693	\$ 2,402,821

Outstanding Share Data

At March 31, 2009 an unlimited number of common shares were authorized and 42,931,148 (December 31, 2008 – 42,931,148) common shares were outstanding. The Company has 2,719,209 options currently outstanding to acquire common shares pursuant to its Option Plan of which 808,051 are exercisable. The Company also has 2,103,618 restricted stock units currently outstanding, all convertible to common shares on a one to one basis. See note 12 to the consolidated financial statements for further information on the Company's share capital.

Pareto Corporation

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

Non-GAAP Earning Measures

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

	Quarter ending March 31, 2008	Quarter ending March 31, 2008
Net earnings	\$656,770	\$ 456,773
Income Taxes	332,460	195,802
Amortization of capital assets and intangible assets	219,829	211,730
Interest	12,409	106,993
Share-based compensation	189,659	207,780
EBITDA	\$1,411,127	\$ 1,179,078

Transactions with Related Parties

In September 2008, the Company issued a loan totalling \$188,500 to an executive of the Company for an initial purchase of 290,000 common shares of the Company in the open market. The loan is carried at the carrying amount of \$188,500 which approximates its fair value. The loan bears interest at Prime Rate plus ½% with interest payable quarterly. The loan is repayable on September 30, 2013. The loan is full recourse and the Company has received a pledge of the purchased common shares as security for the loans.

In March 2008, the Company recorded a repayment of \$25,000 on the loan to an executive of the Company issued on May 2006 for the purchase of common shares of the Company repayable on May 2011 in exchange for the cancellation of the common shares.

Risks and Uncertainties

Global Economic Environment and Access to Capital

The capital and credit markets have been experiencing extreme volatility and disruption. In the fourth quarter of 2008, the volatility and disruption reached unprecedented levels. The markets have exerted extreme downward pressure on stock prices and upward pressure on the cost of new debt capital and have severely restricted credit availability for most issuers. Recent events have demonstrated that business and industries throughout the world are very tightly connected to each other and may adversely affect the Company over the course of time. For example, credit contraction in financial markets may hurt the Company's ability to access credit in the event that it identifies an acquisition opportunity or some other opportunity that would require a significant investment in resources. Continued market disruptions could cause broader economic downturns, which may lead to lower demand for certain of Pareto's services and increased incidence of customers' inability to pay or timely pay for the services or products that they provide. As a result, the Company's business, financial condition, and operating results may be affected in a material adverse manner.

The disruptions in the capital and credit markets have also resulted in higher interest rates on issuance of debt securities and increased costs under credit facilities. Continuation of these disruptions could increase Pareto's interest expense, adversely affecting their results of operations and financial position.

Pareto's access to funds under its existing credit facilities is dependent on the ability of the financial institutions that are parties to those facilities to meet their funding commitments. Those financial institutions may not be able to meet their funding commitments if they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests within a short period of time.

Pareto Corporation

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

Longer term volatility and continued disruptions in the capital and credit markets as a result of uncertainty, changing or increased regulation of financial institutions, reduced alternatives or failures of significant financial institutions could adversely affect Pareto's access to the liquidity needed for its businesses in the longer term. Such disruptions could require Pareto to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding for its business needs can be arranged.

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. In the quarter ending March 31, 2009 Pareto generated revenues from one client representing greater than 10% of revenues (28%, 2008 – 25%). 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

At March 31, 2009, accounts receivable represented 31% of consolidated assets (December 31, 2008 – 36%). 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 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 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.

Pareto Corporation

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

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 in the 2009 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.

Valuation of Accounts Receivable

Accounts receivable is one of the Company's most significant assets. Collectability of accounts receivable is reviewed on an ongoing basis. An allowance account is used when there is objective evidence that it is impaired. The factors that are considered in determining if an account receivable is impaired include whether a customer is in bankruptcy, the age of the receivable, customer creditworthiness, and historical collection experience or if payments are in dispute. Changes in one or more assumptions could materially impact the Company's results of operation.

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

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

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.

No impairment in goodwill and intangible assets were noted during the year-ended December 31, 2008.

Pareto Corporation

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

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.

Stock Based Compensation

Stock based compensation is accounted for in accordance with section 3870 of the CICA handbook. When equity based instruments such as stock options are issued, an estimate of fair value is derived using the Black-Scholes pricing model. The application of this pricing model requires management to estimate several variables, including the period for which the instrument is expected to be outstanding, price volatility of the Company's stock over the relevant timeframe, the determination of a relevant risk free interest rate and an assumption regarding the Company's future dividend rate policy. Changes in one or more assumptions could materially impact the value derived for these equity instruments.

Financial Instruments and Other Instruments

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

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

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

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

The Company, on occasion, engages in transactions in foreign currencies, most commonly involving the US dollar and the Euro. The Company mitigates its risk by billing whenever possible in the relevant currency and, on occasion, enters into derivative instruments to manage this risk. At March 31, 2009, there are no such contracts outstanding.

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 March 31, 2009. 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.

Pareto Corporation

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

Internal Control over Financial Reporting

Internal control over financial reporting has been designed, based on the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

Management and the CFO have evaluated the effectiveness of our internal control over financial reporting using the framework designed as described above. Based on this evaluation, the CEO and CFO have concluded that internal control over financial reporting, as defined by National Instrument 52-109, was effective as at March 31, 2009.

Because of inherent limitations, internal control over financial reporting and disclosure controls can provide only reasonable assurances and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

During the quarter ended March 31, 2009, 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.

Recent Accounting Developments

a) New accounting policies

Goodwill and Intangible Assets – In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, replacing the existing guidance on goodwill and other intangible assets and research and development costs. The standard is effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2008. The new standard established revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets and provides guidance for the treatment of various preproduction and start-up costs, and requires that these costs be expensed as incurred.

The Company applied the new accounting standard retrospectively at the beginning of its current fiscal year, with restatement of prior periods. Certain assets, notably, start-up and other deferred costs previously included on the Company's balance sheet as Deferred Costs prior to the Company's current fiscal year no longer meet the new recognition or measurement criteria and the definition of an asset were removed from the consolidated balance sheets in accordance with CICA Handbook Section 1506, Accounting Changes. The balance of any such Deferred Costs as at the end of the Company's 2008 fiscal year was reflected as a charge to opening retained earnings.

Net Earnings Impact – for the three months ending March 31, 2009, the implementation of the new standard resulted in an increase to the Company's pre-tax net earnings of \$39,789 and an increase to income taxes of \$13,131.

Balance Sheet Adjustments – the impact on balances as at March 31, 2009 and December 31, 2008 was primarily a non-cash reduction of \$118,490 to opening retained earnings, a \$159,838 reduction in deferred costs, and a \$41,348 reduction in long-term future income tax liabilities.

Pareto Corporation

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

b) Future Accounting Policy Changes

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

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

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

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

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

Business Combinations and Minority Interest - In October of 2008, the CICA issued Handbook Section 1582, Business Combinations (CICA 1582), concurrently with Handbook Sections 1601, Consolidated Financial Statements (CICA 1601), and 1602, Non-controlling Interests (CICA 1602). CICA 1582, which replaces Handbook Section 1581, Business Combinations, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. CICA 1601, which replaces Handbook Section 1600, carries forward the existing Canadian guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition other than non-controlling interests. CICA 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. These new standards are effective for the Company's interim and annual consolidated financial statements commencing on September 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. The Company is assessing the impact of the new standards on its consolidated financial statements.

Pareto Corporation

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

SUMMARY OF QUARTERLY AND ANNUAL RESULTS

Quarter ended 31 March, 2009	Mar 31	Jun 30	Sep 30	Dec 31	Last 12 months
Quarterly information:					
Revenue	\$ 16,182,996				\$ 76,894,162
EBITDA ¹	1,411,127				8,286,490
EBITDA Margin	8.7%				10.8%
Net earnings	656,770				3,812,196
Basic and diluted earnings per share ²	.015				.09
Cash dividends declared	643,967				2,361,213

Year Ended 31 December, 2008	Mar 31	Jun 30	Sep 30	Dec 31	Total
Quarterly information:					
Revenue	\$ 16,453,170	\$ 20,853,852	\$ 18,126,430	\$ 21,730,884	\$ 77,164,336
EBITDA ¹	1,179,078	1,994,208	1,771,867	3,109,288	8,054,441
EBITDA Margin	7.2%	9.6%	9.8%	14.3%	10.4%
Net earnings	456,773	914,954	658,152	1,582,320	3,612,199
Basic and diluted earnings per share ²	0.01	0.02	0.02	0.04	0.08
Annual information:					46,171,038
Total assets					
Total long-term financial Liabilities, including current portion					1,363,852
Cash dividends declared					1,717,246

Pareto Corporation

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

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					45,586,523
Total long-term financial liabilities, including current portion					4,057,613
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.

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 Incentives business, does not follow a predetermined seasonal pattern though the fourth quarter 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.