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

November 9, 2009

Management's Discussion and Analysis of Results of Operations and Financial Position ("MD&A") of Pareto Corporation ("the Company" or "Pareto"), dated November 9, 2009, summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity and cash flows of Pareto for the quarter ended September 30, 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 helps its clients sell more by implementing their Shopper Marketing strategies with optimal impact, inside and outside of the store. We deliver services on behalf of our clients that directly impact the way their customers buy. Pareto's focus is on the details of marketing programs, utilizing technology to drive efficient and effective marketing implementation. The Shopper Marketing products and services which Pareto offers to its clients can be grouped into those enhancing the Shopper Experience and those influencing Shopper Behaviors:

- Shopper Experience
  - In Store Messaging
  - Promotions & Special Events
  - Planograms/Merchandising
  -
- Shopper Behaviour
  - Direct to Shopper Messaging (Direct Marketing)
  - Incentives and Loyalty

Pareto provides measurable, quantifiable services that complement and support its clients' marketing and sales departments. The value proposition to the client is overall reduced promotion costs and the benefits of Pareto's management system in terms of reduced cycle times, program effectiveness and compliance, mass customization and data availability.

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 are typically sold on a fixed fee basis include in-store messaging, some promotions, direct marketing services, and special events. For example, the Company typically sells finished goods (such as in-store signage and direct mail) bundled with an end to end management system (which may include web or data management and distribution) for a fixed price per unit. 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.

Planograms/Merchandising services and some promotions programs are sold on a time and materials 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 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 are 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 shopper marketing 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.

Pareto provides shopper marketing services that are designed to produce measurable results and help our clients sell more. While overall marketing budgets have been reduced during economic downturns, it is services like advertising or branding that tend to be viewed as being most dispensable. Conventional media has grown increasingly fragmented, making it more difficult for marketers to reach their target audiences. The traditional focus on brands and mass advertising are less effective. Recent research indicates that shopper marketing is the fastest growing segment of the marketing industry. Total in-store marketing expenditures are on the increase and are projected to continue to be a larger percentage of marketing budgets. Our customers are indicating that these in-store, or shopper marketing, programs are more effective than traditional programs and deliver the highest return on investment of any marketing programs. Shopper marketing solutions are designed to influence consumers' decisions at the point of sale and provide measurable sales lift.

Pareto provides incentive solutions, encompassing loyalty programs and events. 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.

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.

Pareto has not seen a significant impact on its operations in the last 12 months as a result of the current global economic situation. The Company's customer base includes blue chip clients that are reasonably diversified and poses minimal credit risk. Over the last 12 months, the Company has not experienced any significant collection problems on accounts receivable.

All of the Company's operations are located in Canada with little selling or 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:

	2009	2008	$ Change	% Change
Revenue	$ 17,591,647	$ 18,126,430	$ (534,783)	(3%)
Operating and administrative expenses [1]	14,919,821	16,354,563	1,434,742	10%
EBITDA [2]	$ 2,671,826	$ 1,771,867	$ 899,959	51%
	15.2%	9.8%	5.4%	
Amortization of long-term assets	$ 206,000	$ 230,133	$ 24,133	10%
Non-recurring expenses [1]	--	182,391	182,391	100%
Interest expense	51,938	118,691	66,753	56%
Interest income	(47,410)	(6,375)	41,035	644%
Share-based compensation	208,441	203,214	(5,227)	(3%)
	418,969	728,054	309,085	42%
Earnings before income taxes	2,252,858	1,043,813	1,209,044	116%
Income taxes	757,735	399,483	(358,252)	(89%)
Net earnings	$ 1,495,122	$ 644,330	$ 850,792	132%
Basic and Diluted earnings per share	$ 0.035	$ 0.015	$ 0.02	140%

Operating Results for the nine months ended September 30:

	2009	2008	$ Change	% Change
Revenue	$ 50,823,212	$ 55,433,452	$ (4,610,240)	(8%)
Operating and administrative expenses [1]	44,606,499	50,488,299	5,881,800	12%
EBITDA [2]	$ 6,216,713	$ 4,945,153	$ 1,271,560	26%
	12.2%	8.9%	3.3%	
Amortization of long-term assets	$ 635,562	$ 653,278	$ 17,716	3%
Non-recurring expenses [1]	--	182,391	182,391	100%
Interest expense	148,306	404,328	256,022	63%
Interest income	(105,992)	(20,559)	85,433	416%)
Share-based compensation	629,374	604,805	(24,569)	(4%)
	1,307,250	1,824,243	516,993	28%
Earnings before income taxes	4,909,464	3,120,910	1,788,553	57%
Income taxes	1,683,608	1,058,189	(625,419)	(59%)
Net earnings	$ 3,225,855	$ 2,062,721	$ 1,163,134	56%
Basic and Diluted earnings per share	$ 0.075	$ 0.05	$ 0.025	58%

[1] Operating and administrative expenses for 2008 exclude non-recurring expenses totaling $182,391 for costs incurred during the third quarter of 2008 by the company for its September 18, 2008 terminated substantial issuer bid. [2] See "Non-GAAP Measures"

Third Quarter Results

Revenue

In the third quarter of 2009, the Company generated $17.6 million of revenue compared to $18.1 million in 2008, a decrease of $0.5 million or 3%. Revenue decreased this quarter in our incentives and loyalty services, down $0.9 million or 21% and in the merchandising services, down $0.5 million or 15% over the same period last year. Revenue increased this quarter in direct marketing services, up $0.6 million or 22% and in our in-store messaging services, up $0.6 million or 7%

For the nine month period ended September 30, 2009, revenues decreased by 8% or $4.6 million to $50.8 million from $55.4 million in the same period last year. Revenue decreased in our incentives and loyalty services, down $4.3 million or 33%, in the merchandising services down $2.2 million or 21%. Revenue increased in in-store messaging services, up $3.3 million or 17%, and direct marketing services by $0.5 or 6%.

Increased revenues from the in-store messaging services were driven in the third quarter due to new business, and year to date by new business that we have won as well as increasing volume with our existing clients. Our in-store messaging services 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 year's results. Increased revenues from direct marketing services are the result of new business that we have won this year, which has offset declines in sales to financial services clients.

The merchandising service 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.

Our incentive and loyalty services are the one part of our business that has been most adversely impacted by the economic downturn. Several customers have cancelled large scale events for 2009, opting for smaller scale incentive programs or deferring until 2010. Our current year decline is due to two of our largest incentive event programs that took place in the third quarter of 2008 and two programs that took place in the second quarter and did not recur this year, but given that events have large cost components together with our focus on cost reduction and improved operating efficiencies, margins have not been impacted at the same levels.

At the beginning of 2009, in addition to our focus on cost reduction, we exited relationships with a number of customers where the service offerings were insufficiently profitable. The impact of these decisions are seen in 2009 through somewhat reduced revenues, but significantly improved margins with the removal of the insufficiently profitable business but also in the improved operating focus of our business.

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

- Fixed fee basis - $ 33.6 million or 66% ($32.3 million or 58% in 2008)
- Time and materials basis - $12.7 million or 25% ($17.8 million or 32% in 2008)
- Resale of reward units - $4.5 million or 9% ($5.3 million or 10% in 2008)

Operating and Administrative Expenses

In the third quarter of 2009, the Company incurred $14.9 million in operating and administrative expenses compared to $16.4 million in 2008, a decrease of $1.4 million or 10%. As a percentage of revenue, operating and administrative expenses represented 84.8% in the third quarter of 2009 as compared to 91.2% 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.

For the nine month ended September 30, 2009, operating and administrative expenses decreased by 12% to $44.6 million compared to $50.5 million in the same period last year. As a percentage of revenue, operating and administrative expenses represented 87.8% in 2009 as compared to 91.1% in 2008.

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

At the beginning of 2009, in addition to our focus on cost reduction, we exited relationships with a number of customers where the service offerings were insufficiently profitable. The impact of these decisions are seen in 2009 through somewhat reduced revenues, but significantly improved margins with the removal of the insufficiently profitable business but also in a sharper focus operationally.

We have invested significant capital into our production facility during the third quarter and have begun to see improved efficiencies for the customers utilizing this technology.

During 2009, 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.

EBITDA

In the third quarter of 2009, the Company generated $2.7 million of EBITDA (see "Non-GAAP Measures"), compared with $1.8 million in 2008, an increase of 51%. EBITDA as a percentage of revenue represented 15.2% in 2009 compared to 9.8% in 2008. This increase in percentage is due to reduced infrastructure costs, mix of revenues and greater operating efficiencies. For the nine month ended September 30, 2009, the Company generated $6.2 million of EBITDA, compared to $4.9 million in 2008. EBITDA as a percentage of revenue represented 12.2% in the first three quarters of 2009 compared to 8.9% in 2008.
EBITDA percentage has improved as a percentage of revenue due to reduced infrastructure costs, mix of revenues and greater operating efficiencies.

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

In the third quarter of 2009, the Company incurred amortization, interest and share-based compensation expenses of $0.4 million compared to $0.7 million in 2008, a decrease of $0.3 million or 42%. This decrease was driven primarily by interest expenses as a result of lower debt levels compared to prior year and non-recurring costs incurred in the prior year related to the cancelled substantial issuer bid.. Share-based compensation expense increased by 3% reflecting the impact of timing on vesting of options and restricted stock units granted

For the nine month period ended September 30, 2009, total amortization, interest and share-based compensation expenses decreased by $0.5 million or 20% compared to the same period last year. This decrease is due to lower interest costs, ($0.3 million) due to lower debt levels, increased, and non-recurring costs of $0.2 million incurred in 2008 related to the cancelled substantial issuer bid.

Income Taxes

In the third quarter of 2009, the Company incurred income tax expenses of $0.8 million, compared to $0.4 million in 2008. Income taxes represented 34% of earnings before tax compared to 38% in 2008, as the prior year tax provision has been adjusted for actual tax returns completed this fiscal year. For the nine month period, the overall tax rate was 34% compared to 34% in 2008. The Company expects to incur an effective tax rate of approximately 34% during 2009.

Net earnings

In the third quarter of 2009, the Company generated $1.5 million of net earnings compared to $0.6 million in 2008, an increase of $0.9 million or 132%. For the nine month ended September 30, 2009, net earnings of $3.2 million represented a 56% increase compared to $2.1 million in the same period last year. This increase is the result of improved EBITDA margins, lower interest expenses and non-recurring expenses incurred in 2008 for the cancelled substantial issuer bid. Net earnings as a percentage of revenue was 8.8% for the third quarter compared to 3.6% in 2008. For the nine month period, net earnings as a percentage of revenue was 6.4% compared to 3.7% in 2008. Excluding the effect of income taxes, earnings before income taxes were 13.2% of revenue for the quarter compared to 5.8% in 2008, and 9.8% of revenue for the nine month period compared to 5.6% in 2008.

Earnings per share

Basic and diluted earnings per share were $0.035 for the third quarter 2009 and $0.015 for 2008. For the nine month ended September 30, basic and diluted earnings per share were $0.075 in 2009 compared to $0.05 in 2008.

Liquidity and Capital Resources

Financial Position

	September 30, 2009	December 31, 2008	$ Change	% Change
Bank Indebtedness	$ 1,645,284	$ 654,573	990,711	151%
Long-term loans	11,821,346	-	11,821,346	100%
Capital lease obligation	-	709,279	(709,279)	(100%)
Total debt	13,466,630	1,363,852	12,102,778	909%
Shareholders' equity	19,203,671	27,429,969	(8,107,809)	(30)%
Total capitalization	$ 32,670,301	$ 28,793,821	$ 3,876,480	13%
Working capital position	$ 1,532,726	$ 943,397	$ 589,329	62%

Debt:Shareholders' equity	0.7:1	0.05:1
Debt:Total Capitalization	0.4:1	0.05:1
Debt:EBITDA	1.4:1	0.17:1

Sources of short-term liquidity include cash provided by operating activities, a $10 million operating line of credit secured by a general security agreement over the assets of Pareto and its subsidiaries, which is repayable on demand, and a $15 million term loan facility.

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. On June 11, 2009, the Company declared another cash dividend of $0.015 per issued and outstanding share, payable on July 15, 2009, to shareholders of record at the close of business on June 30, 2009. On September 15, 2009, the Company declared a quarterly dividend of $0.015 per issued and outstanding share, payable on October 15, 2009, to shareholders of record at the close of business on September 30, 2009.

On September 9, 2009, the Company entered into a new credit facility with a major Canadian chartered bank. The credit facility is comprised of a three year term loan in the amount of $15 million and a revolving line of credit in the amount of $10 million. The term loan bears interest at an annual rate starting at banker's acceptance rate plus 3.25% and is repayable in quarterly installments starting at an annual rate of 10% of the amount drawn. The Company is in compliance with the covenants of the long term credit facility at September 30, 2009. The revolving line of credit bears interest at an annual rate equal to prime rate plus 1% and is repayable in monthly interest-only payments. The line of credit will be used initially to repay funds borrowed on the company's existing line of credit and subsequently for operating purposes.

On September 17, 2009, the Company announced the completion of its offer to purchase from shareholders up to $10 million of its outstanding common shares for cancellation. Pursuant to the terms of the offer previously announced on August 7, 2009, the company determined the Purchase Price to be $0.95 per share and purchased for cancellation 10,526,315 Shares for a total cost of $10,000,000. These 10,526,315 Shares represent approximately 24.4% of the total Shares outstanding as of September 16, 2009.

On September 21, 2009, the Company drew upon its new credit facility to fund the Company's substantial issuer bid described in note 22 for $10 million and to fund the purchase of capital assets of $2 million.

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

While the overall debt position increased significantly during the quarter, the overall approach to capital management did not change during the quarter.

Operating activities

The Company continues to generate strong cash flows from operations. In the third quarter of 2009, Pareto's operating activities generated $1.9 million of cash flow compared to $1.7 million of cash flow generated in 2008, an increase of $0.2 million. Operating activities before changes in non-cash operating accounts generated $1.9 million of cash flow in 2009 compared to $1.3 million in 2008, an increase of $0.6 million. This increase was due to increased net earnings for the period of $0.9 offset by a decrease due to income taxes of $0.2 million, as the Company is incurring taxes whereas tax losses were available during the first nine months of last year. Non-cash operating accounts remained unchanged in 2009 compared to $0.4 million provided in 2008, a decrease of $0.4 million.

For the nine month ended September 30, 2009, operating activities generated $3.3 million of cash flow compared to $2.8 million of cash flow generated in 2008, a increase of $0.5 million. Operating activities before changes in non-cash operating accounts generated $4.6 million of cash flow in 2009 compared to $4.3 million in 2008, an increase of 0.3 million. This increase was mainly due to increased net earnings for the nine month period of $1.2 million, offset by the impact of cash taxes versus prior year losses available of $0.6 million and a one time non-cash leasehold inducement of $0.2 million received in 2008. Non-cash operating accounts utilized $1.2 million of cash flow in 2009 compared to $1.6 million in 2008, an increase of $0.4 million.

Our accounts receivable balance showed a $0.2 million decrease during the first nine months of the year to $15.9 million from $16.1 million at December 31, 2008. This figure represents an average Days Sales Outstanding of 86 days compared to 76 days at December 31, 2008.

Investing activities

During the third quarter 2009, investing activities utilized $1.9 million of cash flow, using $1.6 million for capital asset additions to our production facility, used $0.1 million for internally developed software and $0.2 million as a short term loan to PeerSet Inc. ("PeerSet"), formerly known as Ontogenix Inc., compared to $0.1 million for the same period last year. In 2008, $0.2 million was utilized for payment of outstanding acquisition notes payable, used $0.1 million for capital asset additions offset by $0.2 million provided by cash lease inducements.

For the nine month ended September 30, 2009, investing activities utilized $2.4 million of cash flow, using $1.9 million for capital asset additions, used $0.1 million for internally developed software and $0.4 as a short term loan to PeerSet, compared to $4.2 million for the same period last year. In 2008, $3.1 million was utilized for payment of outstanding acquisition notes payable from the Secom Plus Inc. acquisition in 2006, $0.7 million was utilized to provide financing to PeerSet, in return for a three year convertible debenture, used $0.6 million for utilized for capital asset additions offset by $0.2 million provided by cash lease inducements.

Financing activities

In the third quarter of 2009 financing activities provided $0.5 million of cash flow compared to $0.01 million in the same period last year. During the current quarter, $11.8 million was provided by a three year term loan drawn out of the new credit facility of which $10.1 million was utilized to fund the Company's repurchase of 10.5 million shares pursuant to a substantial issuer bid, $0.6 million was utilized as full payment of capital lease obligations and $0.6 million was utilized to pay dividends.

For the nine month ended September 30, 2009, financing activities utilized $2.0 million of cash flow compared to $1.1 million in the same period last year, an increase of $0.9 million. In 2009, $11.8 million was provided by a three year term loan drawn out of the new credit facility. This was offset by $10.1 million utilized to fund the Company's substantial issuer bid, $0.7 million was utilized as full payment of capital lease obligations and $3.0 million was utilized to pay dividends. In 2008, $0.2 million was utilized for payment of capital lease obligations and $1.0 million was utilized to repurchase 1.3 million common shares of the Company under a normal course issuer bid.

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
Term loan	$ 11,823,106	$ 1,200,000	$ 10,623,106	$ -	$ -
Operating leases	5,765,635	856,196	1,514,588	1,324,511	2,070,340
Total contractual obligations	$ 17,588,741	$ 2,056,196	$ 12,137,694	$ 1,324,511	$ 2,070,340

Outstanding Share Data

At September 30, 2009 an unlimited number of common shares were authorized and 32,584,166 (December 31, 2008 – 42,931,148) common shares were outstanding. The Company has 2,684,209 options currently outstanding to acquire common shares pursuant to its Option Plan of which 1,116,083 are exercisable. The Company also has 1,924,285 restricted stock units currently outstanding, all convertible to common shares on a one to one basis. See note 13 to the consolidated financial statements for further information on the Company's share capital.

Non-GAAP Earning Measures

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

	Quarter ending September 30, 2009	Quarter ending September 30, 2008
Net earnings	$1,495,122	$644,330
Income Taxes	757,735	399,483
Amortization of capital assets and intangible assets	206,000	235,133
Interest and financing charges	4,528	107,316
Non-recurring expenses [1]		182,391
Share-based compensation	208,441	203,214
EBITDA	$2,671,826	$1,771,867

	Nine months ending September 30, 2009	Nine months ending September 30, 2008
Net earnings	$3,225,855	$2,062,721
Income Taxes	1,683,608	1,058,189
Amortization of capital assets and intangible assets	635,563	658,278
Interest and financing charges	42,314	378,769
Non-recurring expenses [1]		182,391
Share-based compensation	629,374	604,805
EBITDA	$6,216,714	$4,945,153

[1] Non-recurring expenses relate to costs incurred during the third quarter of 2008 by the company for its September 18, 2008 terminated substantial issuer bid.

Transactions with Related Parties

During the nine months ended September 2009, the Company received repayment of $100,000 on a loan to an executive of the Company issued May 2006 for the purchase of common shares of the Company.

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.

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, 2009 Pareto generated revenues from one client representing greater than 10% of revenues (24%, 2008 – 26%). 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 September 30, 2009, accounts receivable represented 33% of consolidated assets (December 31, 2008 – 35%). 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 bodied 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.

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. 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 and internally developed software. In the marketing services industry, customer relationship assets are typically long-term in nature, and therefore are amortized on a straight-line basis over an estimated useful life of 10 years. Internally developed software are costs to design, develop and implement proprietary software including fees paid to independent contractors, salaries and related expenses of personnel engaged in these activities, and are amortized on a straight-line basis over an estimated useful life of 5 years.

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

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
Long term loans 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 September 30, 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 September 30, 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.

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 September 30, 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 September 30, 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 nine months ending September 30, 2009, the implementation of the new standard resulted in an increase to the Company's pre-tax net earnings of $118,851, a decrease to future income taxes of $33,090, and an increase to net earnings of $85,761.

Balance Sheet Adjustments – The impact on balances as at December 31, 2008 was a non-cash reduction of $118,490 to opening retained earnings ($245,825 at January 1, 2008 and $ 192,905 at April 1, 2008), a $159,838 reduction in deferred costs and a $41,348 reduction in long-term future income tax liabilities

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.

SUMMARY OF QUARTERLY AND ANNUAL RESULTS

Quarter ended 30 September, 2009	Mar 31	Jun 30	Sep 30	Dec 31	Last 12 months
Quarterly information:					
Revenue	$ 16,182,996	17,048,569	17,591,647		$ 72,554,096
EBITDA[1]	1,411,127	2,133,760	2,671,826		9,326,001
EBITDA Margin	8.7%	12.5%	15.2%		12.9%
Net earnings	656,770	1,073,962	1,495,122		4,808,174
Basic and diluted earnings per share[2]	0.015	0.024	0.035		0.110
Cash dividends declared	643,967	645,147	488,762		3,495,122

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]	0.009	0.021	0.015	0.036	0.081
Annual information:					
Total assets					46,171,038
Total long-term financial Liabilities, including current portion					1,363,852
Cash dividends declared					1,717,246

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 or LTM figures 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.