



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

November 10, 2010

Pareto Corporation

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

Management's Discussion and Analysis of Results of Operations and Financial Position ("MD&A") of Pareto Corporation ("the Company" or "Pareto"), dated November 10, 2010, summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity and cash flows of Pareto for the three month and nine month periods ended September 30, 2010. All amounts are in Canadian dollars. This MD&A should be read in conjunction with consolidated interim financial statements for the period ended September 30, 2010 which are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The accompanying interim financial statements of the Company have been prepared by and are the responsibility of the Company and its Management. The interim financial statements have been reviewed and approved by the members of the audit committee and the Board of Directors. The Company's auditors have not reviewed the MD&A and interim financial statements. Additional information relating to Pareto, including the Annual Information Form dated September 30, 2010, 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 Promotion
 - Promotion and Special Events
 - Planograms/Merchandising
- Shopper Behaviour
 - Direct to Shopper Messaging (Direct Marketing)
 - Incentives and Loyalty
 - Direct Selling

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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 is committed to continuing to develop and release proprietary technology that enables its clients to measure marketing program effectiveness. In a retail environment this reduces cycle time, increases compliance and lower costs. In an economic environment where marketing dollars are cautiously invested, Pareto believes that providing its clients with the metrics necessary to measure program effectiveness is essential. Pareto's technology provides the data to drive marketing investment decisions.

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 which includes in-store promotion, 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. Pareto operates a client-centric operating structure which allows the Company flexibility to respond to the ever-changing needs of its clients. The Company is uniquely positioned to design an integrated solution that leverages all of its core capabilities or to execute individual marketing tactics when required. Pareto is the one-stop shop for clients who need to seamlessly integrate multiple marketing activities that influence shopper behavior at critical decision points. 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.

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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.

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.

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Operating Results for the quarter ended September 30:

	2010	2009	\$ Change	% Change
Revenue	\$ 25,597,450	\$ 17,591,647	\$ 8,005,803	45.5%
Operating and administrative expenses ⁽¹⁾	21,723,962	14,919,821	6,804,141	45.6%
EBITDA ⁽¹⁾	\$ 3,873,488	\$ 2,671,826	\$ 1,201,662	45.0%
	15.1%	15.2%	(0.1%)	
Amortization of long-term assets	\$ 315,264	\$ 206,000	\$ 109,264	53.0%
Interest expense	229,877	51,938	177,939	342.6%
Interest income	(6,191)	(47,410)	41,219	(86.9%)
Start-up costs ⁽²⁾	390,380	-	390,380	100.0%
Share-based compensation	131,056	208,441	(77,385)	(37.1%)
	1,060,386	418,969	641,417	153.1%
Earnings before income taxes	2,813,102	2,252,858	560,244	24.9%
Income taxes	993,182	757,735	235,447	31.1%
Net earnings	\$ 1,819,920	\$ 1,495,122	\$ 324,798	21.7%
Basic earnings per share	\$ 0.051	\$ 0.036	\$ 0.015	41.7%
Diluted earnings per share	\$ 0.048	\$ 0.034	\$ 0.014	41.2%

Operating Results for the nine months ended September 30:

	2010	2009	\$ Change	% Change
Revenue	\$ 70,527,748	\$ 50,823,212	\$ 19,704,536	38.8%
Operating and administrative expenses ⁽¹⁾	61,255,059	44,606,499	16,648,560	37.3%
EBITDA ⁽¹⁾	\$ 9,272,689	\$ 6,216,713	\$ 3,055,976	49.2%
	13.1%	12.2%	0.9%	
Amortization of long-term assets	\$ 899,537	\$ 635,562	\$ 263,975	41.5%
Interest expense	608,329	148,306	460,023	310.2%
Interest income	(15,358)	(105,992)	90,634	(85.5%)
Start-up costs ⁽²⁾	390,380	-	390,380	100%
Share-based compensation	479,580	629,374	(149,794)	(23.8%)
	2,360,468	1,307,250	1,053,218	80.6%
Earnings before income taxes	6,910,221	4,909,464	2,000,757	40.8%
Income taxes	2,480,034	1,683,608	796,426	47.3%
Net earnings	\$ 4,430,187	\$ 3,225,855	\$ 1,204,332	37.3%
Basic earnings per share	\$ 0.128	\$ 0.076	\$ 0.052	68.4%
Diluted earnings per share	\$ 0.119	\$ 0.073	\$ 0.046	63.0%

(1) See "Non-GAAP Measures"

(2) See "Third Quarter Results" – description of Start-up Costs

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Third Quarter Results

Revenue

In the third quarter, the Company generated \$25.6 million of revenue compared to \$17.6 million in 2009, an increase of \$8.0 million or 45.5%. In the first nine months of 2010, the Company generated \$70.5 million of revenue compared to \$50.8 million in 2009, an increase of \$19.7 million or 38.8%.

Increased consolidated revenue was the result of the contribution of Direct Sales Force Inc. ("DSF"), a Canadian intercept marketing and sales company the Company acquired effective January 1, 2010 as well as strong organic growth. The DSF acquisition was accounted for using the purchase method with the results of operations consolidated with those of the Company effective January 1, 2010. Adjusting for the historical impact of the DSF acquisition, revenues grew \$5.6 million or 28% this quarter and \$12.9 million or 22% year to date. This increase in revenue is the result of the return of incentive travel programs that were cancelled in 2009, as well as new customers using our services and existing clients utilizing more of the same services and purchasing additional shopper marketing services. We have had early success this year in selling the services of DSF to existing customers as well as introducing DSF customers to Pareto services

Revenue has been positively impacted by approximately \$1.3 million this quarter and \$3.9 million year to date by the return of incentive travel programs. During 2009, incentive travel programs were one area that was hardest hit by the economic conditions, as a number of programs were cancelled. The revenue on incentive travel programs is recognized when complete with the majority of events completed in the second quarter.

We have seen our services grow across all sectors, including continued growth of approximately 29% this quarter and 25% year to date in non-traditional retail areas of financial services, automotive and telecommunications, through both new customers and existing customers purchasing more services. Growth of services to consumer package goods manufacturers and traditional retailers grew approximately 20% this quarter and 10% year to date.

In the third quarter of 2010 the Company's mix of revenues by business model was as follows:

- ❖ Fixed fee basis - \$ 4.3 million or 17% (\$3.7 million or 21% in 2009)
- ❖ Time and materials basis - \$16.9 million or 66% (\$10.3 million or 58% in 2009)
- ❖ Resale of reward units - \$4.4 million or 17% (\$3.6 million or 21% in 2009)

Operating and Administrative Expenses

In the third quarter of 2010, the Company incurred \$21.7 million in operating and administrative expenses compared to \$14.9 million in 2009, an increase of \$6.8 million or 45.6%. As a percentage of revenue, operating and administrative expenses represented 84.9% in the third quarter of 2010 compared to 84.8% during the same period in 2009. Operating and administrative expenses include direct project costs, wages and salaries, facilities costs, and selling, general, and administrative costs. Expenses remained consistent as a percentage of revenue in the third quarter.

In the first nine months of 2010, the Company incurred \$61.2 million in operating and administrative expenses compared to \$44.6 million in 2009, an increase of \$16.6 million or 37.3%. As a percentage of revenue, operating and administrative expenses represented 86.9% in the first nine months of 2010 compared to 87.8% during the same period in 2009. Expense ratios decreased during the first nine months due to economies of scale realized with the acquisition of DSF offset by the effect of additional volume and related costs to the mix of services sold.

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EBITDA

In the third quarter of 2010, the Company generated \$3.9 million of EBITDA (see "Non-GAAP Measures"), compared to \$2.7 million in 2009, an increase of 45.0%. EBITDA as a percentage of revenue represented 15.1% in 2010 compared to 15.2% during the same period in 2009.

In the first nine months of 2010, the Company generated \$9.3 million of EBITDA, compared to \$6.2 million during the same period in 2009, an increase of 49.2%. EBITDA as a percentage of revenue increased to 13.1% in the 2010 from 12.2% during the same period in 2009.

EBITDA has improved as a percentage of revenue due to economies of scale offset by the mix of business.

Amortization, Interest, Allowance for Impairment, Share-based Compensation and Non-recurring expenses

In the third quarter of 2010, the Company incurred amortization, interest, share-based compensation expenses and start-up costs of \$1.1 million compared to \$0.4 million in 2009, an increase of \$0.6 million or 153.1%.

In the first nine months of 2010, the Company incurred amortization, interest, share-based compensation expenses and start-up costs of \$2.4 million compared to \$1.3 million during the same period in 2009, an increase of \$1.1 million or 80.6%

This increase was driven primarily by higher interest expenses resulting from additional debt taken on by the Company in the third quarter of 2009 to facilitate the purchase of shares under its substantial issuer bid, as well as higher amortization of capital assets resulting from a significant investment also completed in the third quarter of 2009.

Start-up Costs

The Company incurred start-up costs or pre-operating costs in relation to placing a material new business operation and contract into service of \$0.4 million during the quarter. These were staff costs, inefficiencies of operations, outside consulting and facilities costs required during the preproduction and pilot stage of a material new 5 year contract. The Company has signed a five-year contract to provide a range of in-store marketing and promotional services to a major Canadian retailer, which is expected to generate approximately \$14 million in revenue annually for Pareto, with some of the services provided by Pareto, to the retailer via a professional services firm which Pareto has partnered. The contract is expected to begin to generate revenue beginning in the fourth quarter of 2010. Due to a change in GAAP, these costs are no longer treated as an asset and amortized over their useful lives, but rather are required to be expensed as incurred. The Company expects to incur additional non-recurring expenses during the fourth quarter of 2010 in this regard.

Income Taxes

In the third quarter of 2010, the Company incurred income tax expenses of \$1.0 million compared to \$0.8 million in the same period in 2009. Income taxes represented 35.3% of earnings before tax compared to 33.6% in 2009.

In the first nine months of 2010, the Company incurred income tax expenses of \$2.5 million compared to \$1.7 million in the same nine month period in 2009. Income taxes represented 35.9% of earnings before tax compared to 34.3% in 2009.

The Company anticipates the overall tax rate to be 36% in 2010.

Net earnings

In the third quarter of 2010, the Company generated \$1.8 million of net earnings, compared to \$1.5 million in 2009, an increase of \$0.3 million or 21.7%. Net earnings as a percentage of revenue were 7.1% for the third quarter for 2010 compared to 8.5% during the same period in 2009. Excluding the effect of income taxes, earnings before income taxes were 11.0% of revenue for the quarter compared to 12.8% in 2009. This decrease in percentage of revenue is driven primarily due to increased interest costs, increased amortization of capital assets and start-up costs incurred during the third quarter.

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In the first nine months of 2010, the Company generated \$4.4 million of net earnings, compared to \$3.2 million in 2009, an increase of \$1.2 million or 37.3%. Net earnings as a percentage of revenue were 6.3% for the first nine months of both 2010 and 2009. Excluding the effect of income taxes, earnings before income taxes were 9.8% of revenue for the first nine months of 2010 compared to 9.7% during the same period in 2009.

Earnings per share

Basic earnings per share were \$0.051 for the third quarter of 2010 compared to \$0.036 in the same period in 2009, an increase of 41.7%. Diluted earnings per share were \$0.048 in 2010 compared to \$0.034 for the same period in 2009, an increase of 41.2%.

During the first nine months of 2010, basic and diluted earnings per share were \$0.128 and \$0.119 respectively, compared to basic and diluted earnings per share of \$0.076 and \$0.073 respectively in the same period in 2009, an increase of 68.4% for basic and 63.0% for diluted earnings per share.

Liquidity and Capital Resources

Financial Position

	September 30, 2010	December 31, 2009	\$ Change	% Change
Cash	\$ -	\$ 48,623	(48,623)	(100.0%)
Bank indebtedness	\$ 6,530,920	\$ 415,602	6,115,318	1471.4%
Long-term loans	13,688,362	11,541,099	2,147,263	18.6%
Total debt	\$ 20,219,282	\$ 11,956,701	8,262,581	69.1%
Net debt	\$ 20,219,282	\$ 11,908,078	8,311,204	69.8%
Shareholders' equity	22,949,933	18,869,034	4,080,899	21.6%
Total capitalization	\$ 43,169,215	\$ 30,825,735	\$ 12,343,480	40.0%

Net debt:Shareholders' equity	0.9:1	0.6:1
Net debt:Total Capitalization	0.5:1	0.4:1
Net debt:EBITDA	1.6:1	1.3:1

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

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

The Company's policy is to maintain a strong capital base and ensure that financial flexibility is present to increase shareholder value through organic growth and selective acquisitions as well as allow the Company to respond to changes in economic and/or marketplace conditions. Furthermore, the Company manages its capital with a view to continue with its dividend policy. In order to maintain or adjust its capital structure, the Company may issue new shares, purchase shares for cancellation pursuant to a normal course issuer bid, raise debt or refinance existing debt with different characteristics.

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Although there are no externally imposed capital requirements, the Company is subject to certain covenants on its credit facilities which include a ratio to maintain shareholders' equity, and EBITDA⁽¹⁾ at a certain level. At September 30, 2010, the Company is in compliance with those covenants.

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 December 15, 2009, the Company declared an additional quarterly dividend of \$0.04 per issued and outstanding share, payable on January 15, 2010 to shareholders of record at the close of business on December 31, 2009. On March 15, 2010, the Company declared an increase in its quarterly dividend to \$0.02 per issued and outstanding share beginning with the dividend payable on April 15, 2010 to shareholders of record at the close of business on March 31, 2010. On June 15, 2010, the Company declared a quarterly dividend of \$0.02 per issued and outstanding share payable on July 15, 2010 to shareholders of record at the close of business on June 30, 2010. On August 6, 2010, the Company declared an increase in its quarterly dividend to \$0.03 per issued and outstanding share beginning with the dividend payable October 15, 2010 to shareholders at the close of business on September 30, 2010.

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, 2010. 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 August 12, 2010, the company drew upon its credit facility in the amount of \$3 million. The term loan bears interest at an annual rate starting at prime plus 1.75% and is repayable in quarterly installments starting at of \$120,000 beginning December 31, 2010. Interest is paid at the end of the month. The loan has a term of six years is payable on December 31, 2016.

On September 17, 2009, the Company announced the results of its "modified Dutch Auction" offer previously announced August 7, 2009 to purchase for cancellation up to \$10,000,000 of its common shares. The auction process was over-subscribed with 12,099,345 shares validly tendered to the Offer. Pursuant to the terms of the offer, 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 plus transaction costs of \$170,150. These 10,526,315 shares represented approximately 24.4% of the total shares outstanding as of September 16, 2009. Shares deposited to the offer at or below \$0.95 per share were purchased for cancellation at the purchase price of \$0.95 per share subject to a proration factor of 95.3%. The payment was funded by the Company's new credit facility.

On January 12, 2010 the Company announced, that effective January 1, 2010, the Company acquired all of the outstanding shares of Direct Sales Force Inc. (DSF), a Canadian intercept marketing and sales company. The initial purchase price totaled \$5,570,145, comprised of \$4,107,982 in cash and 1,539,119 common shares with a fair value of \$1,462,163 at that date. Additional consideration of \$492,148 was paid in April 2010 as a result of final 2009 operating results and working capital calculations. Additional consideration to a maximum of approximately \$4,178,000 could be payable over a two-year period contingent upon DSF achieving certain future growth performance benchmarks. A total of 100,000 stock options were issued to employees of DSF, with terms and conditions in accordance with the Company's stock option plan.

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

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Operating activities

In the third quarter of 2010, Pareto's operating activities utilized \$1.8 million of cash flow compared to \$1.9 million generated in 2009, a decrease of \$3.7 million. During the first nine months of 2010, operating activities generated \$0.7 million in cash flow compared to \$3.3 million generated during the same period in 2009. This decrease was mainly due to the impact of changes in the non cash operating accounts offset by the increase in net earnings during the quarter. Operating activities before changes in non-cash operating accounts generated \$2.3 million of cash flow during the third quarter of 2010 compared to \$1.9 million generated in 2009. Non-cash operating accounts utilized \$4.2 million of cash flow during the third quarter of 2010 compared to less than \$0.1 million utilized in 2009, a decrease of \$4.2 million. This decrease in cash flow is due to an increase in accounts receivable utilizing \$4.5 million, prepaid expenses utilizing \$1.1 million, offset by an increase in accounts payable generating \$1.1 million, income tax payable generating \$0.1 million and deferred revenue generating \$0.2 million of cash flow this quarter

Operating activities before changes in non-cash operating accounts generated \$6.0 million of cash flow during the first nine months of 2010 compared to \$4.6 million generated in 2009. Non-cash operating accounts utilized \$5.3 million of cash flow during the first nine months of 2010 compared to \$1.2 million utilized in 2009, a decrease of \$4.1 million. This decrease is primarily due to an increase in accounts receivable utilizing \$7.1 million and prepaid expenses utilizing \$0.9 million, increase in inventory of \$0.2 million, a decrease in income taxes payable of \$0.8 million, offset by an increase in accounts payable generating \$4.4 million and deferred revenue generating \$0.5 million of cash flow during the period.

This increase in working capital is driven by increased revenues and increased accounts receivable balances at the end of the third quarter with our largest customer. The increase in accounts receivable was due mainly to a significant increase in outstanding amounts from our largest customer at the end of the third quarter. Changes in personnel and a system implementation within this customer have increased the days outstanding to 111 days this quarter. We fully expect this situation to be remedied within the fourth quarter. As a large percentage of our services are delivered with the primary cost being labour and our contract terms with our top customers do not require deposits, there is a working capital requirement as revenues increase. We expect overall during 2010, working capital will increase approximately \$3.0 million as a result of increased revenues. Additionally, under the terms of the new material contract, a deposit of \$1.0 million was paid during the third quarter and will be drawn upon as certain contract provisions are earned over the next year.

Investing activities

During the third quarter 2010, investing activities utilized \$0.7 million of cash flow, comprised of \$0.4 million for capital asset additions to our production facility, \$0.3 million for internally developed software. During the same quarter in 2009, investing activities utilized \$1.6 million of cash flow for capital asset additions, \$0.1 million for internally developed software, and \$0.2 million as a short term loan to an executive of the company.

During the first nine months of 2010, investing activities utilized \$6.0 million of cash flow, comprised of \$4.4 million for the acquisition of Direct Sales Force, \$0.8 million towards capital asset additions, \$0.6 million of internally developed software, and \$0.2 million as a short term loan to an executive of the company. During the same period in 2009, investing activities utilized \$1.9 million towards capital asset additions, \$0.1 million of internally developed software, and \$0.4 million as a short term loan to an executive of the company.

Short term loans to executives of the company are primarily for the purpose of purchasing Pareto's common shares in the open market.

Financing activities

In the third quarter of 2010 financing activities provided \$2.4 million of cash flow compared to \$2.1 million in the same quarter last year. During the current quarter, \$0.3 million was provided by the Company's revolving credit line, \$3.0 million was provided by a term loan drawn out of the credit facility, and \$0.1 million was from the issuance of the company's shares as a result of the exercise of stock options, \$0.3 million was utilized for repayment of the term loan and \$0.7 million was

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utilized to pay dividends. During the same quarter in 2009, \$1.6 million was provided by the Company's revolving credit line, \$11.8 million was provided by the three year term loan drawn out of the credit facility, and \$0.1 million was provided from the repayment of a short term loan to an executive of the company. This was offset by \$0.6 million utilized to pay dividends, \$0.6 million was utilized to pay and discharge all capital lease obligations, and \$10.2 million was utilized for the repurchase of the Company's own common shares under a substantial issuer bid.

During the nine months in 2010, financing activities provided \$5.2 million of cash flow compared to a utilization of \$0.3 million in the same period last year. During 2010, \$6.1 million was provided by the Company's revolving credit line, \$3.0 million was provided by a term loan drawn out of the credit facility, and \$0.2 million was provided from the exercise of the Company's stock options to common shares. This was offset by \$0.9 million of cash flow utilized for the scheduled loan repayments and \$3.2 million was utilized to pay dividends. During the same period in 2009, \$1.7 million was provided by the Company's revolving credit line, \$11.8 million was provided by a term loan drawn out of the credit facility, and \$0.1 million was provided from the repayment of a short term loan to an executive of the company. This was offset by \$3.0 million utilized to pay dividends, \$0.7 million was utilized to pay and discharge all capital lease obligations, and \$10.2 million was utilized for the repurchase of the Company's own common shares under a substantial 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	\$ 13,800,000	\$ 2,280,000	\$ 11,520,000	\$ -	\$ -
Operating leases	6,120,230	1,453,423	1,930,363	1,319,633	1,416,811
Total contractual obligations	\$ 19,920,230	\$ 3,733,423	\$ 13,450,363	\$ 1,319,633	\$ 1,416,811

Outstanding Share Data

At September 30, 2010 an unlimited number of common shares were authorized and 35,369,262 (35,349,004 at November 10, 2010) common shares were outstanding. The Company had 3,445,321 options (3,465,579 at November 10, 2010) outstanding to acquire common shares pursuant to its Option Plan of which 1,600,858 (1,596,116 at November 10, 2010) are exercisable. The Company also has 633,333 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.

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Non-GAAP Earning Measures

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

	Three months ended		Nine months ended	
	September 30 (unaudited)		September 30 (unaudited)	
	2010	2009	2010	2009
Net earnings	\$ 1,819,920	\$ 1,495,122	\$ 4,430,187	\$ 3,225,855
Income taxes	993,182	757,735	2,480,034	1,683,608
Amortization of capital assets and intangible assets	315,264	206,000	899,537	635,562
Interest	223,686	4,528	592,971	42,314
Start-up costs	390,380	-	390,380	-
Share-based compensation	131,056	208,441	479,580	629,374
EBITDA	\$ 3,873,488	\$ 2,671,826	\$ 9,272,689	\$ 6,216,713

Transactions with Related Parties

In March 2010, the Company issued a loan totaling \$150,000 to an executive of the Company for an initial purchase of 120,000 common shares of the Company in the open market. The loan is carried at the carrying amount of \$150,000 which approximates its fair value. The loan bears interest at Prime Rate plus ½% with interest payable quarterly. The loan is repayable on March 11, 2015. 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.

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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 first six months of 2010 Pareto generated revenues from one client representing greater than 10% of revenues (20%, 2009 – 24%). The Company's current contract with this customer has a multi year term.

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 has been historically successful in maintaining and renewing contracts. The Company also reduces the risk of key client dependence by winning new clients through strategic acquisitions and internal growth.

Credit Risk

The company's exposure to credit risk in relation to its financial assets is through cash, accounts receivable, and loans receivable. The Company's credit risk is primarily attributable to its trade receivables. The Company's exposure to credit risk is dependent upon individual characteristics of each customer. Each new customer is assessed for creditworthiness before standard payment and delivery terms and conditions are offered. At September 30, 2010, accounts receivable represented 42% of consolidated assets (December 31, 2009 – 38%). 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.

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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 2010 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.

The Company regularly reviews the collectability of its accounts receivable and establishes an allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts. The amounts disclosed in the balance sheet are net of allowances for bad debts, which are established based on the specific credit risk associated with the customer and other relevant information. The allowance for doubtful accounts as at September 30, 2010 is \$31,268 (December 31, 2009 - \$120,937). There was no change during the three month period ending September 30, 2010. The balance of trade accounts receivable includes \$3,560,855 (December 31, 2009 - \$5,941,162) that is overdue and not impaired.

Valuation of Loans Receivable

Investments recorded as impaired loans are accounted for at their face amount net of the allowance for loan impairment. When a loan is deemed to be impaired, its carrying amount is reduced to its estimated realizable amount which is measured by discounting the expected future cash flows at the effective interest rate inherent in the loans. The amount initially recognized as an impairment loan, together with any subsequent change, is charged to the allowance as an adjustment. The determination of an impairment allowance involves estimation of realizable amounts and future cash flows, and is therefore subject to measurement uncertainty. Changes in general economic conditions, the borrower's operations or credit quality could result in a material change in the carrying amount of the investments.

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 4 year projected period of growth prospects.

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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 period ended September 30, 2010.

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:

Cash and Bank indebtedness	Held for trading
Accounts receivable	Loans and receivables
Loans receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Long term loans	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, 2010, there are no such contracts outstanding.

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Disclosure Controls and Procedures

The Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures and concluded that such controls and procedures were effective at the reasonable assurance levels as of September 30, 2010. 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, 2010.

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, 2010, 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.

Future Account Policy Changes

a) 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. The Company has established a changeover plan that consists of three phases: initiation, a detailed assessment, and design and implementation.

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Initiation phase – this phase started with the selection of the key players in the changeover process and their participation in initial training sessions, a high level analysis between IFRS and the Company's accounting policies, and the preliminary identification of the major categories that may have a material impact to the Company's financial statements. The last stage of this phase involves the selection among the elections available under First Time Adopters of IFRS (IFRS1) it will make and identifying the mandatory exemptions required. This phase has been completed.

Detailed assessment phase – in this phase, the Company plans to prepare a model for IFRS financial statements including notes, compile financial information for comparative financial statements, and draft preliminary changes to its accounting policies as it acquires a more detailed understanding of those changes required under IFRS. The evaluation of the impact of the changes on information systems and processes, internal controls on financial information, controls and procedures for communicating information, as well as the impact on the Company's contractual undertakings in operating its business are also involved at this stage. This phase is currently underway.

Design and implementation phase – in this phase, the Company starts to design and develop solutions to address the differences identified in the previous phases. Changes required to the existing accounting policies, financial reporting, information systems and business processes are identified, and modifications to contractual agreements are made as required. The final part of this phase involves implementing the changes identified and tested to ensure that any concerns are addressed prior to the changeover date.

As the project is currently underway in its detailed assessment phase, the determination of the key areas identified in the initiation phase and the level of their impact may change as more information is acquired, or as a result to any changes to the standards. The International Accounting Standards Board has significant ongoing projects, which management is monitoring, that could affect the ultimate differences between Canadian GAAP and IFRS and the impact those differences have on the Company's results of operations, financial position and disclosures. Current developments and changes to IFRS will continue to be monitored throughout 2010 and the Company's transition plan and timelines will be adjusted as necessary to respond to these developments.

The Company will engage the services of an external consultant to support the final stages of the project. Training sessions required for the IFRS changeover team including the stakeholders will be conducted throughout 2010 and 2011.

The Company reports regularly to the Audit Committee of the Board of Directors on the status of its transition project. The Company expects to finalize its accounting policy and first-time adoption election recommendations and seek approval for those recommendations from the Audit Committee before the end of the fourth quarter of 2010.

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The Company is progressing through its assessment of the impacts of adopting IFRS based on the standards as they currently exist, and has made choices, as warranted, with regard to these standards and noted the following as having a significant impact on the Company's consolidated financial statements. The following table summarizes this evaluation, and is not definitive and the list is not exhaustive. Changes could be made during the changeover to IFRS following a more in-depth analysis and possible changes to existing standards.

IFRS Standard	Differences from Current Canadian GAAP	Comments
IFRS 1: First-Time Adoption of IFRS	<ul style="list-style-type: none"> • IFRS 1 sets out optional and mandatory exemptions and elections which are available upon initial adoption of the standards. • IFRS 1 also requires a reconciliation of the Company's opening balance sheet from Canadian GAAP to IFRS in the notes to the financial statements in fiscal 2011. 	<ul style="list-style-type: none"> • IFRS 1 elections are being assessed in depth as the Company advances through its detailed assessment of the individual standards and have made preliminary choices on which available elections to apply. • IFRS 1 reconciliation will be completed in the fourth quarter of 2010 as accounting policy choices and related implementation decisions are completed.
IAS 1: Presentation of Financial Statements	<ul style="list-style-type: none"> • IFRS specifies that classification of assets and liabilities in the balance sheet can be based on liquidity, whereas Canadian GAAP does not specify a method other than by current and non-current. • Classification of the income statement requires that expenses be classified according to nature or function. • Under IFRS, the Company has a choice on the presentation of operating cash flows. The direct method of presentation is encouraged but the indirect method is acceptable 	<ul style="list-style-type: none"> • The Company is assessing these options with respect to its differences from its current financial statements presentation under Canadian GAAP and the additional information or disclosure required as necessary. It has not determined at this date which type of classification it will choose to use to present its financial statements.
IFRS 3: Business Combinations	<ul style="list-style-type: none"> • Under IFRS 3, business combinations must be accounted for by applying the acquisition method. • In accordance with IFRS 3, acquisition-related costs incurred to effect a business combination shall be expensed in the period the costs are incurred and the services are received. Under IFRS, these costs are not permitted to form a component of goodwill as is permitted under Canadian GAAP. • Under Canadian GAAP, contingent consideration is initially recognized at the date of acquisition when the amount can be reasonable estimated and the outcome is determinable beyond reasonable doubt. Otherwise, contingent consideration is recognized when resolved. When there are subsequent revisions to the amount the fair value is recognized as an additional cost of the purchase when the contingency is resolved. Under IFRS, all contingent consideration has to be recognized at acquisition, regardless if it can be reasonable 	<ul style="list-style-type: none"> • The Company will elect not to apply IFRS 3 retrospectively to past business combinations completed prior to January 1, 2011 or the date of transition to IFRS, as made available under IFRS 1. • For the comparable period of 2010, the Company will expense acquisition related costs relating to its acquisition of Direct Sales Force. The amount is currently estimated at \$123,894 as described in note 4 of its financial statements. • At the effective date of January 1, 2011, the Company will record a provision for a contingent consideration related to a prior business acquisition, at its best estimate of fair value at this date, with a corresponding adjustment (before income taxes) to retained earnings. The amount of contingent consideration is currently estimated at

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IFRS Standard	Differences from Current Canadian GAAP	Comments
IFRS 3: Business Combinations	estimated or if the outcome is determinable beyond reasonable doubt. Subsequent changes to the contingent consideration that is classified as a liability and not within the scope of IAS 39 are recognized in profit or loss.	\$4,233,305 as described in Note 18 of its financial statements.. Subsequent changes in estimates shall be measured at fair value and the resulting gain or loss shall be recorded in the statement of earnings.
IAS 16: Property, Plant and Equipment	<ul style="list-style-type: none"> • IAS 16 requires the allocation of the amount initially recognized into its significant parts and the depreciation of such parts separately. • The Company has the option to reset the cost of its property, plant and equipment based on fair value in accordance with IFRS 1, and to use either the cost model or revaluation model to measure its property, plant, and equipment subsequent to transition. • IFRS allows the evaluation and possible revaluation of assets at fair value at each balance sheet date. 	<ul style="list-style-type: none"> • This method may result in an increase in the number of component parts that are recorded and depreciated, and may impact the calculation of depreciation expense. • The Company will elect to use the previous GAAP revaluation of its property, plant and equipment at, or before the date of transition to IFRS as deemed cost at the date of revaluation as allowed under IFRS 1. • The Company will use the cost method as an on-going accounting policy and will not elect to evaluate assets at fair value at each balance sheet date.
IAS 36: Impairment of Assets	<ul style="list-style-type: none"> • Under Canadian GAAP, long lived assets are tested for impairment if there is any indication that an impairment loss may have occurred. Under IFRS, the Company shall assess at the end of the reporting period whether there is any indication that an asset may be impaired. • Current Canadian GAAP involves a two-step approach for assessing impairment whereby step one uses undiscounted cash flows. Under IFRS, long-lived assets are tested for impairment using a one-step process where the carrying amount is compared directly with the recoverable amount (higher of fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset or cash-generating unit). An asset is impaired if the carrying amount exceeds its recoverable amount. • Under Canadian GAAP, impairment of goodwill is assessed at the reporting unit level, while under IFRS, goodwill is assessed for impairment at the lowest level monitored by management. • Indefinite-life intangibles are tested on a stand-alone basis under current Canadian GAAP. Under IFRS, intangibles are tested for impairment at the level of the cash generating unit which is the lowest level of assets that generates largely independent cash flows. 	<ul style="list-style-type: none"> • This may result in more frequent write-downs in the carrying value of assets under IFRS since asset carrying values that were previously supported under Canadian GAAP based on undiscounted cash flows may not be supported on a discounted cash flow basis under IFRS. However, under IAS 36, previous impairment losses may be reversed where circumstances change such that the impairment has reduced. This also differs from Canadian GAAP, which prohibits the reversal of previously recognized impairment losses. • The Company is in the process of assessing IAS36 with regards to its reporting units and the allocation of assets to these groups as required and has not determined at this date if there are any changes necessary from its current asset impairment policies and procedures, or if there will be a material impact on the Company's financial statements if differences do occur.

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IFRS Standard	Differences from Current Canadian GAAP	Comments
IAS 18: Revenue	<p>Rendering of services:</p> <ul style="list-style-type: none"> • Under IFRS, revenue associated with the transaction shall be recognized by reference to the stage of completion of the transaction at the end of the reporting period. • For practical purposes, when services are performed by an indeterminate number of acts over a specified period of time, revenue is recognized on a straight-line basis over the specified period unless there is evidence that some other method better represents the stage of completion. • When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed. • When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognized only to the extent of the expenses recognized that are recoverable. 	<ul style="list-style-type: none"> • This method may require a significant change in the Company's policy in recognizing revenue on its service contracts. • The Company's policy is to recognize revenue when service is performed, in accordance with terms of the contractual arrangement and completion of the earnings process which is either the evidence of delivery or shipment, or a completion of an event. • The Company is currently designing a model which will be used as a basis to measure revenue based on the new standard.
IFRS 2: Share-based Payment	<ul style="list-style-type: none"> • Under IFRS, when equity instruments are granted for services received and the instruments do not vest until the completion of service over a specified period, the awards should be accounted for as the services are rendered during the vesting period. Under Canadian GAAP, the awards should be measured at the earliest of the date at which the performance of the service is complete, the commitment for performance to earn the award is reached, or the date the equity instruments is granted if they are fully vested and non-forfeitable at that date. • If the options vest in installments, each tranche is to be considered a separate award with the compensation cost amortized accordingly. If there is a change in the service period, the cumulative effect is recorded in the current period. Under Canadian GAAP, if the fair value of the award is determined based on different expected lives for the options that vest each year, the installments should be viewed as separate awards; otherwise the gradually vesting tranches could be considered as a single award. • A first time adopted is encouraged, but not required, to apply IFRS 2 to equity instruments that were granted before November 7, 2002 or after, and vested before the later of date of transition and January 1, 2005. 	<ul style="list-style-type: none"> • The Company currently considers each tranche as a separate award with compensation expense amortized accordingly and therefore it has determined that the amount recorded by the Company will not be materially different. • The Company will elect not to apply IFRS 2 to equity instruments granted before the transition date to IFRS. The Company will nevertheless disclose the information required by paragraphs 44 and 45 of IFRS 2 to all grants of equity instruments to which IFRS 2 has not

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IFRS Standard	Differences from Current Canadian GAAP	Comments
IFRS 2: Share-based Payment		been applied. This disclosure includes the description of each type of share-based payment arrangement that existed during the period, and the number and weighted average exercise prices of share options for each group of transactions.
IAS 12: Income Taxes	<ul style="list-style-type: none">Any significant or material adjustments resulting from the adoption of IFRS on transition may have a corresponding impact on future income tax balances.	<ul style="list-style-type: none">The impact of IAS 12 will depend on the transition adjustments which will be quantified in the current fiscal year.

At this time, the Company cannot quantify the impact of IFRS to its financial statements. As the conversion process is implemented, the Corporation will outline the consequences of the transition to IFRS in its financial disclosures.

As part of the transition process, management is also responsible to make sure that the appropriate internal controls over financial reporting ("ICFR") are in place. In most cases, existing controls can be used with only minor modifications. There may need to be some new controls established for new IFRS disclosure requirements. It is not expected that any of these new controls or the modification of the existing ones would be considered to have a material impact on the Company's ICFR process.

b) 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. Prospective application of the standard is effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. The Company is in the process of evaluating the requirements and assessing the impact of the new standard on the Company's consolidated financial statements.

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c) Multiple Deliverable Revenue Arrangements

In December 2009, the CICA issued EIC 175, Multiple Deliverable Revenue Arrangements, replacing EIC 142, Revenue Arrangements with Multiple Deliverables. This abstract was amended to: (1) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (2) require, in situations where a vendor does not have vendor-specific objective evidence ("VSOE") or third-party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (3) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (4) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance. The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the Abstract is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal year, it must be applied retroactively from the beginning of the Company's period of adoption. The Company is in the process of evaluating the requirements and assessing the impact of the new standard on the Company's consolidated financial statements.

OUTLOOK⁽¹⁾

Looking forward, the Company expects the revenue growth momentum experience over the last twelve months to continue throughout the balance of 2010, as a number of new customer wins will begin to contribute to overall revenues. The Company expects to incur additional non-recurring expenses during the fourth quarter of 2010 in relation to the start-up of this material new contract.

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SUMMARY OF QUARTERLY AND ANNUAL RESULTS

Year ended 31 December, 2010	Mar 31	Jun 30	Sep 30	Dec 31	Last 12 months ⁽⁴⁾
Quarterly information:					
Revenue	\$ 19,175,150	25,755,148	25,597,450		\$ 92,400,748
EBITDA ⁽²⁾	1,902,347	3,746,855	3,873,488		12,924,689
EBITDA Margin	9.9%	14.5%	15.1%		14.0%
Net earnings	838,789	1,928,978	1,819,920		6,209,473
Basic and diluted earnings per share ⁽³⁾	0.02	0.06	0.05		0.17
Cash dividends declared	688,309	703,910	1,060,470		

Year ended 31 December, 2009	Mar 31	Jun 30	Sep 30	Dec 31	Last 12 months
Quarterly information:					
Revenue	\$ 16,182,996	17,048,569	17,591,647	19,539,986	\$ 70,363,198
EBITDA ⁽²⁾	1,411,127	2,133,760	2,671,826	3,244,100	9,460,813
EBITDA Margin	8.7%	12.5%	15.2%	16.6%	13.4%
Net earnings	656,770	1,073,962	1,495,122	1,254,786	4,480,641
Basic and diluted earnings per share ⁽³⁾	0.01	0.02	0.03	0.04	0.11
Annual information:					
Total assets					49,760,183
Total long-term financial Liabilities, including current portion					11,956,701
Cash dividends declared	643,967	645,147	488,762	1,792,140	3,570,016

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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 ⁽²⁾	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	456,775	961,617	644,330	1,623,893	3,686,615
Basic and diluted earnings per share ³	0.01	0.02	0.01	0.04	0.08
Annual information:					
Total assets					46,011,200
Total long-term financial Liabilities, including current portion					1,363,852
Cash dividends declared				1,717,246	1,717,246

(1) To be read in conjunction with "Forward-Looking Statements" on page 2.

(2) EBITDA is a non-GAAP financial measure. See "Non-GAAP Measures" on page 11.

(3) 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.

(4) The rolling twelve month figures have been adjusted to include the historical normalized financial results of Direct Sales Force Inc., acquired effective January 1, 2010.

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.



Consolidated Interim Financial Statements

For the quarter and nine months ended September 30, 2010

Pareto Corporation
Consolidated Balance Sheets

As at	September 30 2010 (unaudited)	December 31 2009 (audited)
Assets		
Current assets		
Cash	\$ -	\$ 48,623
Accounts receivable	26,700,015	18,766,352
Inventories (note 5)	3,135,003	1,684,849
Prepaid expenses	1,674,275	645,236
Current future income tax assets	-	41,982
	<u>31,509,293</u>	<u>21,187,042</u>
Loans receivable and other assets (note 6)	1,767,670	1,570,737
Long-term future income tax assets	-	71,243
Capital assets (note 7)	4,700,525	4,591,668
Intangible assets (note 8)	1,695,718	1,280,916
Goodwill (note 9)	25,942,893	21,058,577
	<u>\$ 65,616,099</u>	<u>\$ 49,760,183</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Bank indebtedness (note 10)	\$ 6,530,920	\$ 415,602
Accounts payable and accrued liabilities	14,223,903	11,035,642
Dividends payable	1,060,470	1,792,129
Deferred revenue	4,307,581	3,044,381
Income taxes payable	2,148,226	2,413,569
Current portion of lease inducements (note 11)	42,482	42,482
Current portion of long term loan (note 12)	2,280,000	1,350,000
	<u>30,593,583</u>	<u>20,093,805</u>
Long-term future income tax liabilities	395,823	305,985
Deferred lease inducements (note 11)	268,399	300,260
Long-term loan (note 12)	11,408,362	10,191,099
Total liabilities	<u>42,666,167</u>	<u>30,891,149</u>
Shareholders' equity		
Share capital (note 13(b))	15,380,452	12,635,777
Contributed surplus (note 13(f))	1,450,221	2,091,495
Retained earnings and accumulated other comprehensive income	6,119,260	4,141,762
Total shareholders' equity	<u>22,949,933</u>	<u>18,869,034</u>
	<u>\$ 65,616,099</u>	<u>\$ 49,760,183</u>
Commitments and Contingencies (note 17 and 18)		

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

Pareto Corporation
Consolidated Statements of Operations and Retained Earnings

	Three months ended September 30 (unaudited)		Nine months ended September 30 (unaudited)	
	2010	2009	2010	2009
Revenue	\$ 25,597,450	\$ 17,591,647	\$ 70,527,748	\$ 50,823,212
Operating and administrative expenses	21,723,962	14,919,821	61,255,059	44,606,499
	3,873,488	2,671,826	9,272,689	6,216,713
Amortization of capital assets	262,485	153,221	741,201	477,226
Amortization of intangible assets	52,779	52,779	158,336	158,336
Interest expense	229,877	51,938	608,329	148,306
Interest income	(6,191)	(47,410)	(15,358)	(105,992)
Start-up costs	390,380	-	390,380	-
Share-based compensation (note 13(f))	131,056	208,441	479,580	629,374
	1,060,386	418,969	2,362,468	1,307,250
Earnings before income taxes	2,813,102	2,252,858	6,910,221	4,909,464
Income taxes (note 14)	993,182	757,735	2,480,034	1,683,608
Net earnings and comprehensive income for the period	1,819,920	1,495,122	4,430,187	3,225,855
Retained earnings, beginning of period	5,359,810	9,758,685	4,141,762	9,317,077
Dividends declared	(1,060,470)	(488,762)	(2,452,689)	(1,777,887)
Excess price paid over carrying value on repurchase of common shares	-	(6,085,940)	-	(6,085,940)
Retained earnings, end of period	\$ 6,119,260	\$ 4,679,105	\$ 6,119,260	\$ 4,679,105
Basic earnings per share	\$ 0.051	\$ 0.036	\$ 0.128	\$ 0.076
Diluted earnings per share (note 15)	\$ 0.048	\$ 0.034	\$ 0.119	\$ 0.073
Weighted average number of common shares outstanding:				
Basic	35,512,483	41,545,569	34,685,152	42,244,025
Diluted (note 15)	37,917,685	43,857,647	37,255,143	44,410,848

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

Pareto Corporation
Consolidated Statements of Cash Flows

	Three months ended		Nine months ended	
	September 30 (unaudited)		September 30 (unaudited)	
	2010	2009	2010	2009
Operating activities				
Net earnings for the period	\$ 1,819,920	\$ 1,495,122	\$ 4,430,187	\$ 3,225,855
Items not involving cash:				
Amortization of capital assets	262,485	153,221	741,201	477,226
Amortization of intangible assets	52,779	52,779	158,335	158,336
Amortization of lease inducement (note 11)	(10,620)	(10,621)	(31,861)	(31,862)
Non-cash interest	19,016	(41,805)	47,264	(90,189)
Share-based compensation (note 13 (f))	131,056	208,441	479,580	629,374
Future income tax provision (note 14)	57,683	69,491	200,877	202,131
	2,332,319	1,926,628	6,025,583	4,570,871
Changes in non cash operating accounts (note 16)	(4,166,418)	(37,428)	(5,311,435)	(1,246,689)
	(1,834,101)	1,889,200	714,148	3,324,182
Investing activities				
Capital asset additions	(385,191)	(1,596,770)	(782,361)	(1,864,611)
Intangible asset additions	(260,231)	(107,088)	(618,448)	(107,088)
Loans receivable and other assets	(46,933)	(190,250)	(196,933)	(380,500)
Acquisitions, net of cash (note 4)	-	-	(4,357,657)	-
	(692,355)	(1,894,108)	(5,955,399)	(2,352,199)
Financing activities				
Bank indebtedness	299,564	1,645,284	6,115,318	1,645,284
Proceeds of long term debt	3,000,000	11,823,106	3,000,000	11,823,106
Repayment of long term debt	(300,000)	-	(900,000)	-
Dividends paid	(703,910)	(645,147)	(3,184,347)	(3,006,371)
Repayment of capital lease obligations	-	(582,503)	-	(709,279)
Repayment of loans receivable	-	75,000	-	100,000
Issuance of shares	88,699	-	165,731	-
Share issue costs	-	-	(4,074)	-
Repurchase of common shares	-	(10,170,150)	-	(10,170,150)
	2,384,353	2,145,590	5,192,628	(317,410)
Increase (Decrease) in cash for the period	(142,103)	2,140,682	(48,623)	654,573
Cash, beginning of period	142,103	(2,140,682)	48,623	(654,573)
Cash, end of period	\$ -	\$ -	\$ -	\$ -

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

1. Nature of Operations

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

2. Significant Accounting Policies

Basis of Consolidation

These interim financial statements include the accounts of Pareto Corporation and all of its wholly-owned subsidiaries consisting of Pareto Inc., Pareto Merchandising Inc., and Direct Sales Force Inc. Inter-company transactions and balances are eliminated upon consolidation.

On January 1, 2010, Pareto Corporation acquired all of the outstanding shares of Direct Sales Force Inc. (DSF), a Canadian intercept marketing and sales company. Refer to Note 4 for additional information.

Use of Estimates

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

Accounts Receivable

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

Financial Instruments

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

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

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

2. Significant Accounting Policies (continued)

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

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

i. Transaction Costs

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

ii. Derivative Financial Instruments

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

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

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

Cash and Bank indebtedness	Held for trading
Accounts receivable	Loans and receivables
Loans receivable and other assets	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Long-term loans	Other financial liabilities

Inventories

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

Impaired loans and allowance for loan impairment

Investments recorded as impaired loans are accounted for at their face amount net of the allowance for loan impairment. When a loan is deemed to be impaired, its carrying amount is reduced to its estimated realizable amount which is measured by discounting the expected future cash flows at the effective interest rate inherent in the loans. The amount initially recognized as an impairment loan, together with any subsequent change, is charged to the allowance as an adjustment.

2. Summary of Significant Accounting Policies (continued)

Capital Assets

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

Computer software	30% declining balance
Computer hardware	30% declining balance
Furniture and fixtures	20% declining balance
Machinery and equipment	Straight-line over useful life of 4 to 10 years
Leasehold improvements	Straight-line over lease term of 3 to 10 years

Intangible Assets

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.

Impairment of Long Lived Assets

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

Goodwill

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

The Company uses a two-step impairment test on an annual basis, or when significant business changes have occurred that may have had an adverse impact on the fair value of the goodwill. To determine whether impairment has occurred, the fair value of the reporting unit is compared to its carrying amounts, including goodwill. The Company uses a present value of future cash flow approach for determining the fair value of its reporting units. Future cash flows are based on management's best estimates considering historical and expected operating plans, economic conditions and general outlook for the industry and markets in which the reporting unit operates. The discount rates used by the Company are based on an optimal debt to equity ratio and consider the risk free rate, market equity risk premium, size premium and operational risk premium for possible variations from management's projections. The terminal value is the value attributed to the reporting unit's operations beyond the 4 year 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.

2. Summary of Significant Accounting Policies (continued)

When the fair value of the reporting unit is in excess of its carrying amount, the goodwill is not considered impaired, and the second step of the impairment test is not necessary. An impairment loss is recognized when the carrying amount of the reporting unit goodwill exceeds its fair value. It is not reversed in the event that the fair value subsequently increases.

Income Taxes

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

Revenue Recognition

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

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

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

Start-up Costs

Start-up costs or pre-operating costs, the incremental costs directly relating to placing a material new business operation and contract into service prior to revenue generation, are expensed as incurred.

2. Summary of Significant Accounting Policies (continued)

Earnings per Share

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

Stock-based Compensation

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

Long-term Incentive Plans

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

Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect as of the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing on the date the transactions occurred.

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

3. Future Accounting Policy Changes

- d) **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 begun to assess the impact of IFRS on its processes, information systems and consolidated financial statements. At this time, the Company cannot quantify the impact of IFRS to its financial statements. As the conversion process is implemented, the Company will outline the consequences of the transition to IFRS in its financial disclosures.

3. Future Accounting Policy Changes (continued)

- b) **Business Combinations and Non-Controlling 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. Prospective application of the standard is effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. The Company is in the process of evaluating the requirements and assessing the impact of the new standard on the Company's consolidated financial statements

Multiple Deliverable Revenue Arrangements - In December 2009, the CICA issued EIC 175, Multiple Deliverable Revenue Arrangements, replacing EIC 142, Revenue Arrangements with Multiple Deliverables. This abstract was amended to: (1) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (2) require, in situations where a vendor does not have vendor-specific objective evidence ("VSOE") or third-party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (3) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (4) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance. The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the Abstract is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal year, it must be applied retroactively from the beginning of the Company's period of adoption. The Company is in the process of evaluating the requirements and assessing the impact of the new standard on the Company's consolidated financial statements.

4. Business Combination

On January 1, 2010, the Company acquired all of the outstanding shares of Direct Sales Force Inc. ("DSF"), a Canadian intercept marketing and sales company. The total initial purchase consideration totals \$6,186,187. Additional consideration to a maximum of approximately \$4,178,000 could be payable over a two-year period contingent upon DSF achieving certain future growth performance benchmarks. A total of 100,000 stock options were issued to employees of DSF, with terms and conditions in accordance with the Company's stock option plan. The acquisition was accounted for using the purchase method with the results of operations consolidated with those of the Company effective January 1, 2010.

Pareto Corporation
Notes to Consolidated Financial Statements
September 30, 2010

4. Business Combination (continued)

The preliminary allocation of the purchase price based on the consideration paid and on the fair value of DSF's net assets acquired is as follows:

Issuance of 1,539,119 Pareto common shares	\$	1,462,163
Cash paid on closing, January 12, 2010		4,107,982
Cash paid on April 2010		492,148
Acquisition costs		123,894
Purchase price consideration	\$	6,186,187

Net assets acquired:		
Cash and cash equivalents	\$	366,367
Accounts receivable		1,225,109
Income tax receivable		70,961
Prepaid expenses		13,450
Accounts payable and accrued liabilities		(387,802)
Working capital	\$	1,288,085
Capital assets		67,697
Intangible assets		-
Fair value of net assets acquired	\$	1,355,782
Excess of purchase price consideration allocated to Goodwill	\$	4,884,316

The Company does not expect the above goodwill to be deductible for income tax purposes.

For the purposes of these consolidated financial statements the purchase price consideration has been allocated on a preliminary basis to the fair value of assets acquired and liabilities assumed, based on preliminary financial information subject to adjustment as the valuation process is completed. The Company anticipates fair value allocation to the intangible assets, namely customer relationships and contracts, to be completed before the end of the fiscal year.

5. Inventories

	September 30 2010	December 31 2009
Work in progress	\$ 2,705,380	\$ 1,299,367
Finished goods	429,623	385,482
	\$ 3,135,003	\$ 1,684,849

There have been no write downs of inventory recognized as an expense in the period

Pareto Corporation
Notes to Consolidated Financial Statements
September 30, 2010

6. Loans Receivable and Other Assets

	September 30 2010	December 31 2009
Employee loans receivable (a)	\$ 150,000	\$ 150,000
Employee loan receivable (b)	236,250	236,250
Employee loan receivable (c)	188,500	188,500
Employee loan receivable (d)	150,000	-
Convertible debentures (e)	1,042,920	995,987
	1,767,670	1,570,737

- (a) In May 2006, the Company issued loans totalling \$250,000 to executives of the Company for the purchase of 192,308 common shares of the Company. During 2009, \$25,000 was repaid to the Company. The loan is carried at the carrying amount of \$225,000 which approximates its fair value. The loan bears interest at Prime Rate plus ½% with interest payable quarterly. The loans are repayable on May 16, 2011. The loans are full recourse and the Company has received a pledge of the purchased common shares as security for the loans.
- (b) In April 2007, the Company issued a loan totalling \$236,250 to an executive of the Company for the purchase of 225,000 common shares of the Company. The loan is carried at the carrying amount of \$236,250 which approximates its fair value. The loan bears interest at Prime Rate plus ½% with interest payable quarterly. The loan is repayable on April 4, 2012. The loan is full recourse and the Company has received a pledge of the purchased common shares as security for the loans.
- (c) In September 2008, the Company issued a loan totalling \$188,500 to an executive of the Company for an initial purchase of 290,000 common shares of the Company in the open market. The loan is carried at the carrying amount of \$188,500 which approximates its fair value. The loan bears interest at Prime Rate plus ½% with interest payable quarterly. The loan is repayable on September 30, 2013. The loan is full recourse and the Company has received a pledge of the purchased common shares as security for the loans.
- (d) In March 2010, the Company issued a loan totalling \$150,000 to an executive of the Company for an initial purchase of 120,000 common shares of the Company in the open market. The loan is carried at the carrying amount of \$150,000 which approximates its fair value. The loan bears interest at Prime Rate plus ½% with interest payable quarterly. The loan is repayable on March 11, 2015. The loan is full recourse and the Company has received a pledge of the purchased common shares as security for the loans.

6. Loans Receivable and Other Assets (continued)

- (e) On February 26, 2008 the Company provided financing in the amount of \$550,000 to Peerset Inc. ("Peerset"), formerly Ontogenix Inc., in return for a convertible debenture repayable January 31, 2011. The debenture bears an annualized interest rate of 16% of the principal, compounded annually. Interest shall be due and payable upon prepayment or repayment of the debenture.

On April 7, 2009, the Company provided an additional loan in the amount of \$190,250 ("First Tranche Debenture") to Peerset in return for a convertible debenture also repayable January 31, 2011. In accordance with the terms of the Subscription Agreement, a second amount of \$190,250 was provided to Peerset on July 13, 2009 ("Second Tranche Debenture"), and a third amount of \$150,000 was provided to Peerset on December 22, 2009 ("Third Tranche Debenture") in return for a convertible debenture, with terms and conditions substantially similar to the First Tranche Debentures, including the maturity date thereof. The debentures bear an annualized interest rate of 12% of the principal, compounded annually. Interest shall be due and payable upon prepayment or repayment of the debenture.

On July 29, 2010, the Company provided an additional loan in the amount of \$46,934 to Peerset in return for a convertible debenture also repayable January 31, 2011. The debenture bears an annualized interest rate of 12% of the principal, compounded annually. Interest shall be due and payable upon prepayment or repayment of the debenture.

The Company has the option to convert the principal and any outstanding interest for all debentures into equity securities at any time upon a material business change event and/or liquidity event as defined in the agreement. The debentures are secured by a general security agreement over all the present and future assets of Peerset.

The Peerset debentures have been classified as loans and receivables. Management assessed the value of the conversion right to be insignificant at the date of issue and at December 31, 2009 based on an assessment of the conversion rights and term to expiry.

The convertible debentures are not in arrears; however, based on an assessment of the credit quality of the borrower, at December 31, 2009, the Company recorded an allowance for loan impairment of \$248,997 and ceased recognizing interest income on the convertible debentures. The determination of an impairment allowance involves estimation of realizable amounts and future cash flows, and is therefore subject to measurement uncertainty. Changes in general economic conditions, the borrower's operations or credit quality could result in a material change in the carrying amount of the investments.

At September 30, 2010, the carrying amount of the debentures includes \$131,587 of accrued interest from the first issue date and approximates fair value based on the present value of estimated cash flows at current interest rates.

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7. Capital Assets

September 30, 2010	Cost	Accumulated Amortization	Net book Value
Computer software	\$ 2,094,094	\$ 1,288,998	\$ 805,096
Computer hardware	1,565,238	915,306	649,932
Furniture and fixtures	1,375,561	857,226	518,335
Machinery and equipment	2,318,866	620,026	1,698,840
Leasehold improvements	1,808,319	779,997	1,028,322
	\$ 9,162,078	\$ 4,461,553	\$ 4,700,525

December 31, 2009	Cost	Accumulated Amortization	Net Book Value
Computer software	\$ 1,911,676	\$ 1,143,219	\$ 768,457
Computer hardware	1,161,674	763,044	398,630
Furniture and fixtures	1,269,078	773,365	495,713
Machinery and equipment	2,253,583	370,104	1,883,479
Leasehold improvements	1,680,982	635,593	1,045,389
	\$ 8,276,993	\$ 3,685,325	\$ 4,591,668

8. Intangible Assets

September 30, 2010	Cost	Accumulated Amortization	Net book Value
Customer relationships	\$ 2,111,106	\$ 1,137,060	\$ 974,046
Internally developed software	721,672	-	721,672
	\$ 2,832,778	\$ 1,137,060	\$ 1,695,718

December 31, 2009	Cost	Accumulated Amortization	Net book Value
Customer relationships	\$ 2,111,106	\$ 978,728	\$ 1,132,378
Internally developed software	148,538	-	148,538
	\$ 2,259,644	\$ 978,728	\$ 1,280,916

9. Goodwill

Balance at December 31, 2009	\$ 21,058,577
Acquisition of Direct Sales Force Inc. (note 4)	4,884,316
Balance at September 30, 2010	\$ 25,942,893

10. Bank indebtedness

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 revolving line of credit bears interest at an annual rate equal to prime rate plus 1% and is repayable in monthly interest-only payments. As at September 30, 2010, the prime rate was 3.00% (December 31, 2009 – 2.25%).

11. Deferred Lease Inducements

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

	Leasehold improvement allowance paid by			
	landlord	Rent holiday		Total
Cost	\$ 227,285	\$ 197,130	\$	424,415
Amortization	(35,987)	(45,686)		(81,673)
Balance at December 31, 2009	191,298	151,444		342,742
Amortization	(17,046)	(14,815)		(31,861)
Balance at September 30, 2010	\$ 174,252	\$ 136,629	\$	310,881
Less: Current portion	22,728	19,754		42,482
	\$ 151,524	\$ 116,875	\$	268,399

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12. Long term debt

	September 30 2010	December 31 2009
\$12,000,000 loan payable , bearing interest at banker's acceptance rate plus 3.25%, maturing in September 2012, repayable in quarterly installments starting at an annual rate of 10% of the amount drawn.	\$ 10,800,000	\$ 11,700,000
Transaction costs	(111,638)	(158,901)
\$3,000,000 loan payable , bearing interest equal to prime plus 1.75%, maturing in September 2012, repayable in quarterly principal payments of \$120,000 plus interest with the balance payable on maturity.	3,000,000	-
Sub-total	\$ 13,688,362	\$ 11,541,099
Less: Current portion	2,280,000	1,350,000
Balance	\$ 11,408,362	\$ 10,191,099

\$12,000,000 loan payable - On September 21, 2009, the Company drew upon its new credit facility in note 9 to fund the Company's substantial issuer bid described in note 20 for \$10,000,000 and to fund the purchase of capital assets and repayment of capital leases of \$2,000,000. The term loan was initially recognized at its fair value including all directly attributable transaction costs. After initial recognition, the balance is measured at amortized cost using the effective interest method. The Company's effective interest rate for the quarter ended September 30, 2010 is 4.25%.

\$3,000,000 loan payable - On August 12, 2010, the Company drew upon its credit facility in note 9 for \$3,000,000 to use in its operating activities. The term loan bears interest at an annual rate equal to prime plus 1.75% and is repayable in quarterly installments starting of \$120,000 beginning December 31, 2010. Interest is paid at the end of the month.

The Company is in compliance with the covenants of the long-term loans as at September 30, 2010.

The aggregate future minimum principal payments are as follows:

	Amount
2010	\$ 570,000
2011	2,280,000
2012	10,950,000
	\$ 13,800,000

Pareto Corporation
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13. Share Capital

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

	Number of Shares	Amount
Balance, December 31, 2008	42,931,148	\$ 16,501,855
Shares issued on redemption of restricted stock units	179,333	218,132
Shares repurchased for cancellation	(10,526,315)	(4,084,210)
Balance, December 31, 2009	32,584,166	\$ 12,635,777
Shares issued on acquisition of Direct Sales Force Inc. (note 4)	1,539,119	1,462,163
Shares issued on exercise of stock options	245,878	222,753
Shares issued on redemption of restricted stock units	979,841	1,063,833
Share issue costs	-	(4,074)
Balance, September 30, 2010	35,349,004	\$ 15,380,452

On September 17, 2009, the Company announced the results of its "modified Dutch Auction" offer previously announced August 7, 2009 to purchase for cancellation up to \$10,000,000 of its common shares. The auction process was over-subscribed with 12,099,345 shares validly tendered to the Offer. Pursuant to the terms of the offer, 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 plus transaction costs of \$170,150. These 10,526,315 shares represented approximately 24.4% of the total shares outstanding as of September 16, 2009. Shares deposited to the offer at or below \$0.95 per share were purchased for cancellation at the purchase price of \$0.95 per share subject to a proration factor of 95.3%. The payment was funded by the Company's new credit facility (note 12).

On January 12, 2010, the Company issued 1,539,119 of its common shares with a fair value of \$1,462,163 or \$0.95 per share, to the shareholders of Direct Sales Force Inc. as part of the initial purchase consideration of the business combination (note 4). The value per share was determined using a weighted average closing share price of the Company's common shares prior to the transaction.

- e) Stock options

The Company has a stock option plan (the "Plan") for employees, consultants and officers of the Company and was amended on May 4, 2010, to among other things, permit directors to be granted options. Pursuant to the amended Plan, the lesser of 10 per cent of the outstanding common shares and 3,500,000 common shares of the Company have been reserved for issue.

In addition, subject to regulatory approval, the Company grants options which are not included under the Plan to new employees as an incentive of employment. Currently, there are no options awaiting regulatory approval. At September 30, 2010, 2,532,245 stock options were outstanding pursuant to the Plan (1,720,875 at December 31, 2009) and 933,334 stock options were outstanding outside of the Plan as issued as incentives (933,334 at December 31, 2009).

One-third of granted options vest on each of the anniversary dates of the grant and expire after five years.

Pareto Corporation
Notes to Consolidated Financial Statements
September 30, 2010

13. Share Capital (continued)

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

	Number of Options Outstanding	Weighted Average Exercise Price
Options outstanding, December 31, 2008	2,073,689	\$ 1.03
Granted in 2009	797,630	0.50
Expired in 2009	(65,000)	0.87
Forfeited in 2009	(152,110)	0.99
Options outstanding, December 31, 2009	2,654,209	\$ 0.87
Granted in 2010	1,141,000	1.23
Exercised in 2010	(245,878)	0.67
Forfeited in 2010	(83,752)	0.63
Options outstanding, September 30, 2010	3,465,579	\$ 1.01

	Number of Options Exercisable	Weighted Average Exercise Price
Options exercisable, December 31, 2009	1,219,418	\$ 1.09
Vested in 2010	622,576	0.80
Exercised in 2010	(245,878)	0.67
Options exercisable, September 30, 2010	1,596,116	\$ 1.04

The range of exercise prices for options outstanding and exercisable options at September 30, 2009 are as follows:

Exercise Price	Number Outstanding	Weighted Average Contractual Life	Number Exercisable	Weighted Average Contractual Life
\$0.50 - \$0.70	713,831	3.40	164,280	3.41
\$0.71 - \$0.90	200,747	2.85	116,835	2.85
\$0.91 - \$1.10	740,001	2.11	545,001	1.73
\$1.11 - \$1.30	1,491,000	3.20	630,000	1.52
\$1.31 - \$1.53	320,000	2.92	140,000	0.58
	3,465,579	2.96	1,596,116	1.80

13. Share Capital (continued)

d) Restricted stock units:

The Company has a long-term incentive plan (LTIP) for employees, consultants, directors and officers of the Company which was amended in May 2007. Pursuant to the amended LTIP, a total of 2,000,000 of the Company's common shares have been reserved for issue through the redemption of restricted stock units. RSUs are convertible into common shares on a one-to-one basis. Restricted stock units are redeemable upon the third anniversary of the date of grant.

In addition, subject to regulatory approval, the Company grants restricted stock units which are not included under the LTIP to new employees as an incentive of employment. Currently there are no restricted stock units awaiting regulatory approval.

At September 30, 2010, 633,333 restricted stock units were outstanding pursuant to the LTIP (890,952 at December 31, 2009) and 311,111 restricted stock units were outstanding outside of the LTIP as issued as incentives (1,033,333 at December 31, 2009). The fair value of a restricted stock unit granted in 2010 and 2009 was estimated to equal the market price of a Pareto common share on the date of grant.

Restricted stock unit transactions including RSU's issued under the Plan and RSU's issued as incentives, during the period are as follows:

	Number of RSU's Outstanding
RSU's outstanding, December 31, 2008	1,826,618
Granted in 2009	300,000
Redeemed in 2009	(179,333)
Forfeited in 2009	(23,000)
RSU's outstanding, December 31, 2009	1,924,285
Redeemed in 2010	(979,841)
Forfeited in 2010	-
RSU's outstanding, September 30, 2010	944,444

e) Share-based compensation:

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

	2010	2009
Dividend yield	6%	0%
Expected volatility	60.89% to 71.36%	60.17% to 64.18%
Risk-free interest rate	1.73% to 2.19%	1.38% to 1.60%
Expected option life	3 to 4 years	3 to 4 years

Pareto Corporation
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13. Share Capital (continued)

f) Contributed surplus

In the nine months ending September 30, 2010, \$479,580 (2009 - \$629,379) of share based compensation was added to contributed surplus with \$1,120,854 (2009 - \$218,133) of contributed surplus reallocated to share capital as a result of restricted stock units exercised in the period.

14. Income Taxes

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Provision for income taxes consists of:				
Current	\$ 57,682	\$ 688,244	\$ 200,876	\$ 1,481,477
Future	935,500	69,491	2,279,158	202,131
	\$ 993,182	\$ 757,735	\$ 2,480,034	\$ 1,683,608

15. Earnings Per Share

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

	Three months ended September 30		Nine months ended September 30	
	2009	2009	2009	2009
Net earnings	\$ 1,819,920	\$ 1,495,122	\$ 4,430,187	\$ 3,225,855
Weighted average number of common shares outstanding	35,512,483	41,545,569	34,685,152	42,244,025
Stock options	1,538,748	346,489	1,260,884	189,070
Restricted stock units	866,454	1,965,589	1,309,107	1,977,752
Weighted average number of diluted common shares outstanding	37,917,685	43,857,647	37,255,143	44,410,848
Diluted earnings per share	\$ 0.048	\$ 0.034	\$ 0.119	\$ 0.073

The calculation of the dilutive impact of the exercise of options excludes those securities considered anti-dilutive because their exercise price exceeded the average market price of Pareto's common shares during the period (2010 - \$1.70), meaning their inclusion would increase diluted earnings per share. In 2010, there were no stock options excluded because their effect would be anti-dilutive.

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16. Supplementary Cash Flow Information

	Three months ended		Nine months ended	
	September 30		September 30	
	2010	2009	2010	2009
Changes in non-cash operating accounts:				
Accounts receivable	\$ (6,721,967)	\$ (2,235,008)	\$ (6,637,593)	\$ 431,369
Inventory and work in progress	(784,885)	(813,108)	(1,450,154)	(1,202,132)
Prepaid expenses	(1,033,299)	81,323	(1,015,589)	(141,858)
Accounts payable and accrued liabilities	2,452,563	1,378,715	2,794,044	(1,596,815)
Income taxes payable	849,312	718,870	(265,343)	511,380
Deferred revenue	1,071,856	831,780	1,263,200	751,367
	\$ (4,166,420)	\$ (37,428)	\$ (5,311,435)	\$ (1,246,689)
Supplemental cash flow information:				
Interest paid	\$ 229,877	\$ 51,938	\$ 560,649	\$ 148,306
Income taxes paid	45,096	-	2,427,671	999,619

17. Commitments

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

2010	\$ 373,504
2011	1,439,892
2012	1,075,480
2013	661,722
2014	662,674
2015 and thereafter	1,906,959

18. Contingencies

The purchase price of the acquisition of Direct Sales Force Inc. in note 4 is subject to contingent consideration. The Company estimates the additional cash consideration as follows:

Payable in Q1 2011 Contingent on the reaching of 2010 operating targets of DSF, amount based on a multiple of 2009 actual results	\$ 1,881,469
Payable in Q1 2010 Contingent on the reaching of 2011 operating targets of DSF, amount based on a multiple of 2010 actual results	2,351,836

The preliminary allocation of the purchase price in note 4 does not include any part of the contingent consideration. The Company will record the financial liability at the end of the each fiscal year once the obligation to pay has been determined. For each year until the contingent consideration is resolved in 2011, the adjustment to the financial liability will be recorded as an additional element of purchase price and goodwill will be adjusted accordingly.

19. Related Party Transactions

The company has no related party transactions other than the loans receivable described in note 6.

20. Segmented Information

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

During the nine month period ending September 30, 2010, one customer represented greater than 10% of the Company's revenue being 20% (2009 – 24%). Amounts due from this customer accounted for 30% of accounts receivable as at September 30, 2009 (December 31, 2009 – 20%). All of the Company's operations are located in Canada.

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21. Capital Management

The Company defines capitalization to include the total of bank indebtedness, long-term loans, capital lease obligation and shareholders' equity. The Company's policy is to maintain a strong capital base and ensure that financial flexibility is present to increase shareholder value through organic growth and selective acquisitions as well as allow the Company to respond to changes in economic and/or marketplace conditions. Furthermore, the Company manages its capital to ensure that it can continue with its dividend policy. In order to maintain or adjust its capital structure, the Company may issue new shares, purchase shares for cancellation pursuant to a normal course issuer bid, raise debt or refinance existing debt with different characteristics. Although there are no externally imposed capital requirements, the Company is subject to certain covenants on its credit facilities which include a ratio to maintain shareholders equity, and EBITDA⁽¹⁾ at a certain level. At September 30, 2010, the Company is in compliance with those covenants.

Management considers the Company's capital resources adequate to meet the Company's operating, capital expenditure, and financing requirements. There were no changes in the Company's approach to capital management during the period.

	September 30, 2010	December 31, 2009
Cash	\$ -	\$ 48,623
Bank Indebtedness	\$ 6,530,920	\$ 415,602
Long-term loans	13,688,362	11,541,099
Total debt	\$ 20,219,282	\$ 11,956,701
Net debt	\$ 20,219,282	\$ 11,908,078
Shareholders' equity	22,949,933	18,869,034
Total capitalization	\$ 43,169,215	\$ 30,825,735
Net debt:Shareholders' equity	0.9:1	0.6:1
Net debt:Total Capitalization	0.5:1	0.4:1
Net debt: EBITDA ⁽¹⁾	1.6:1	1.3:1

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

22. Financial Instruments

(a) Fair value of Financial Instruments

The carrying values of cash, trade and other receivables, bank indebtedness and accounts payable and accrued liabilities approximate their fair values due to the short term nature of these instruments. The carrying value of long term loan of \$13,688,362 at September 30, 2010 approximates its fair value because it bears interest at rates to which the Company would currently be able to obtain for loans with similar maturity dates and terms.

(b) Financial Risk Management

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

i. Credit Risk

The company's exposure to credit risk in relation to its financial assets is through cash, accounts receivable, and loans receivable. The Company's credit risk is primarily attributable to its trade receivables. The Company's exposure to credit risk is dependent upon individual characteristics of each customer. Each new customer is assessed for creditworthiness before standard payment and delivery terms and conditions are offered.

The Company regularly reviews the collectability of its accounts receivable and establishes an allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts. The amounts disclosed in the balance sheet are net of allowances for bad debts, which are established based on the specific credit risk associated with the customer and other relevant information. The allowance for doubtful accounts as at September 30, 2010 is \$31,268 (December 31, 2009 - \$120,937). There was no change during the three month period ending September 30, 2010.

The balance of trade accounts receivable includes \$3,560,855 (December 31, 2009 - \$5,941,162) that is overdue and not impaired. The Company deals with large, credit worthy clients and bills in advance of the provision of services, whenever possible. Historically, the Company has experienced minimal bad debts.

ii. Liquidity Risk

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

The following is a contractual maturity analysis of the Company's financial liabilities:

	Total	Less than 1 year	1 to 3 years
Bank indebtedness	8,119,065	8,119,065	
Accounts payable and accrued liabilities	14,149,061	14,149,061	
Dividends payable	1,060,470	1,060,470	
Long term loan (Note 12)	13,800,000	2,280,000	11,520,000
	37,128,596	25,608,596	11,520,000

22. Financial Instruments (continued)

iii. Market Risk

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

iv. Interest Rate Risk

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

Based on the Company's average debt level during the year ended September 30, 2010, the sensitivity of a 100 basis point increase in interest rates would result in an approximate decrease of \$219,000 in net after tax annual earnings.

v. Foreign Exchange Risk

The Company, on occasion, engages in transactions in foreign currencies, most commonly involving the US dollar and the Euro. The Company mitigates its risk by billing whenever possible in the relevant currency and, on occasion, enters into derivative instruments to manage this risk. At September 30, 2010, there are no such contracts outstanding.

vi. Other Market Price Risk

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

23. Comparative Figures

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