

**Pareto Corporation**  
**Consolidated Financial Statements**  
For the quarter ended March 31, 2008

## Pareto Corporation Consolidated Balance Sheets

As at	March 31 2008 (unaudited)	December 31 2007 (audited)
<b>Assets</b>		
<b>Current assets</b>		
Accounts receivable	\$ 16,593,571	\$ 17,321,405
Inventory and work in progress (note 3)	3,931,098	2,204,311
Prepaid expenses	571,642	659,683
Current future income tax assets	808,023	950,026
	21,904,334	21,135,425
<b>Loans receivable (note 4)</b>	1,036,250	486,250
<b>Long-term future income tax assets</b>	623,858	732,603
<b>Deferred costs</b>	296,167	335,956
<b>Capital assets</b>	3,176,612	3,283,105
<b>Intangible assets</b>	1,501,829	1,554,607
<b>Goodwill</b>	19,058,577	19,058,577
	\$ 47,597,627	\$ 46,586,523
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 5)	\$ 4,570,137	\$ 368,291
Accounts payable and accrued liabilities	12,597,030	13,836,117
Deferred revenue	3,232,906	1,897,999
Income taxes payable	83,965	120,022
Current future income tax liabilities	109,537	119,541
Current portion of acquisition notes payable (note 6)	66,668	3,066,668
Current portion of capital lease obligations (note 7)	289,485	281,666
	20,949,728	19,690,304
<b>Long-term future income tax liabilities</b>	463,115	484,667
<b>Long-term capital lease obligations (note 7)</b>	633,908	709,279
<b>Total liabilities</b>	22,046,751	20,884,250
<b>Shareholders' equity</b>		
Share capital (note 8(b))	16,503,355	16,872,129
Contributed surplus (note 8(f))	914,293	706,513
Retained earnings	8,133,228	8,123,631
<b>Total shareholders' equity</b>	25,550,876	25,702,273
	\$ 47,597,627	\$ 46,586,523

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

**Pareto Corporation**

**Consolidated Statements of Operations and Retained Earnings**

<b>For the three months ended (unaudited)</b>	<b>March 31, 2008</b>	<b>March 31, 2007</b>
<b>Revenue</b>	<b>\$ 16,453,170</b>	<b>\$ 14,716,308</b>
<b>Operating and administrative expenses</b>	<b>15,274,092</b>	<b>13,899,615</b>
	<b>1,179,078</b>	<b>816,693</b>
Amortization of capital assets	156,602	102,299
Amortization of intangible assets	52,778	52,778
Amortization of deferred costs	39,789	37,439
Interest and finance charges, net	109,343	74,595
Share-based compensation	207,780	64,525
	<b>566,292</b>	<b>331,636</b>
Earnings before income taxes	612,786	485,057
Income taxes (note 9)	208,933	137,513
<b>Net earnings and comprehensive income for the year</b>	<b>403,853</b>	<b>347,544</b>
<b>Retained earnings, beginning of year</b>	<b>8,123,631</b>	<b>6,291,539</b>
<b>Excess price paid over carrying value on repurchase of common shares</b>	<b>(394,256)</b>	<b>(727,477)</b>
<b>Retained earnings, end of year</b>	<b>\$ 8,133,228</b>	<b>\$ 5,911,606</b>
<b>Basic and diluted earnings per share (note 10)</b>	<b>\$ 0.01</b>	<b>\$ 0.01</b>
<b>Weighted average number of common shares outstanding:</b>		
Basic	43,408,981	44,646,385
Diluted	45,036,864	45,466,938

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

## Pareto Corporation

### Consolidated Statements of Cash Flows

For the three months ended (unaudited)	March 31, 2008	March 31, 2007
<b>Operating activities</b>		
Net earnings for the year	\$ 403,853	\$ 347,544
Items not involving cash:		
Amortization of capital assets	158,952	102,299
Amortization of intangible assets	52,778	52,778
Amortization of deferred costs	37,439	37,439
Non-cash interest and finance charges	2,350	3,281
Share-based compensation	207,780	64,525
Future income tax provision	219,192	(43,655)
	<u>1,082,344</u>	564,211
Changes in non cash operating accounts (note 11)	<u>(851,149)</u>	<u>(2,873,498)</u>
	<u>231,195</u>	<u>(2,309,287)</u>
<b>Investing activities</b>		
Capital asset additions	(52,459)	(219,263)
Other asset additions	-	(76,445)
Loans receivable	<u>(550,000)</u>	-
	<u>(602,459)</u>	<u>(295,708)</u>
<b>Financing activities</b>		
Repayment of acquisition notes payable	(3,000,000)	(1,283,333)
Repayment of long-term debt	-	(125,001)
Repayment of capital lease obligations	(67,552)	(65,790)
Issuance of shares	-	37,999
Share issue costs	(2,051)	-
Repurchase of common shares	<u>(760,979)</u>	<u>(857,046)</u>
	<u>(3,830,582)</u>	<u>(2,293,171)</u>
<b>Decrease in cash for the period</b>	<b>(4,201,846)</b>	<b>(4,898,166)</b>
<b>(Bank Indebtedness)/Cash, beginning of period</b>	<b><u>(368,291)</u></b>	<b>5,020,127</b>
<b>(Bank Indebtedness)/Cash, end of period</b>	<b>\$ (4,570,137)</b>	<b>\$ 121,961</b>

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

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# Pareto Corporation

## Notes to Consolidated Financial Statements

March 31, 2008

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### 1. Significant accounting policies

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

#### **Basis of consolidation**

These unaudited financial statements include the accounts of Pareto Corporation and all of its wholly-owned subsidiaries consisting of Pareto Inc., Pareto Retail Services Inc. and Secom Plus Inc. Inter-company transactions and balances are eliminated upon consolidation. These interim consolidated financial statements do not include all disclosure required by Canadian generally accepted accounting principles for annual financial statement, and accordingly, these interim consolidated financial statements should be read in conjunction with Pareto’s most recent annual consolidated financial statements. These interim consolidated financial statements follow the same accounting policies and methods of application used in the Company’s audited annual consolidated financial statements as at and for the year ended December 31, 2007, except for the new accounting policies adopted subsequent to that date, as discussed in Note 2.

#### **Accounting estimates**

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

### 2. Changes in accounting policies

CICA Handbook Section 1506, Accounting Changes, prescribes expanded disclosure for changes in accounting policies, accounting estimates and accounting for errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted or where it is deemed impractical. The new standard also requires that the Company disclose new primary sources of GAAP that have been issued, but are not yet effective and have not been adopted by the Company.

#### a) **New accounting policies**

**Financial Instruments Disclosure and Presentation** –CICA Handbook section 3862 “Financial Instruments - Disclosure” and section 3863 “Financial Instruments – Presentation”, replace Handbook Section 3861, Financial Instruments – Disclosure and Presentations, revising and enhancing disclosure requirements to provide additional information on the nature and extent of risks arising from financial instruments to which the company is exposed and how it manages those risks. Refer to note 16 for additional disclosures.

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# Pareto Corporation

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**Capital Disclosures** –CICA Handbook Section 1535 “Capital Disclosures”, specifies the disclosure of the Company’s objectives, policies and processes for managing capital, including: a description of what components of liabilities and shareholders’ equity the Company defines as capital and their balances, and the nature of any externally imposed capital restrictions, how those are managed and the consequence of any non-compliance, if any. Refer to note 15 for additional disclosures.

**Inventories** – CICA Handbook Section 3031 “Inventories”, provides guidance on the measurement of inventories, with an expanded definition of cost, and the requirement that inventory must be measured at the lower of cost and net realizable value. In addition, the section has additional disclosure requirements, including accounting policies, carrying values, and the amount of any inventory writedowns.

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

### b) Future Accounting Policy Changes

**International Financial Reporting Standards** – The CICA will transition Canadian generally accepted accounting principles (“GAAP”) for publicly accountable entities to International Financial Reporting Standards (“IFRS”). The Company’s consolidated financial statements are to be prepared in accordance with IFRS for the fiscal year commencing January 1, 2011. The impact of the transition to IFRS on the company’s consolidated financial statements has not been determined.

**Goodwill and Intangible Assets** – Effective January 1, 2009, the Company will adopt new CICA Handbook Section 3064, Goodwill and Intangible Assets, and established revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of various preproduction and start-up costs and requires that these costs be expensed as incurred. The Company is evaluating the full impact of this standard on its consolidated financial statements.

### 3. Inventory and work in progress

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

	March 31, 2008	December 31, 2007
Work in progress	\$ 3,457,713	\$ 1,614,070
Finished goods	473,385	590,241
	<u>\$ 3,931,098</u>	<u>\$ 2,204,311</u>

**Pareto Corporation**  
**Notes to Consolidated Financial Statements**

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**4. Loans receivable**

	March 31, 2008	December 31, 2007
Employee loans receivable (a)	\$ 250,000	\$ 250,000
Employee loan receivable (b)	236,250	236,250
Convertible debenture - Ontogenix Inc. (c)	550,000	-
	<b>1,036,250</b>	486,250
Less current portion	-	-
	<b>\$ 1,036,250</b>	<b>\$ 486,250</b>

- (a) In May 2006, the Company issued loans totalling \$250,000 to executives of the Company for the purchase of 192,308 common shares of the Company. The loans bear interest at Prime Rate plus ½% with interest payable quarterly. The loans are repayable on May 16, 2011. The loans are full recourse and the Company has received a pledge of the purchased common shares as security for the loans.
- (b) In April 2007, the Company issued a loan totalling \$236,250 to an executive of the Company for the purchase of 225,000 common shares of the Company. The loan is carried at the carrying amount of \$236,250 which approximates its fair value. The loan bears interest at Prime Rate plus ½% with interest payable quarterly. The loan is repayable on April 4, 2012. The loan is full recourse and the Company has received a pledge of the purchased common shares as security for the loans.
- (c) On February 27, 2008 the Company provided financing in the amount of \$550,000 to Ontogenix Inc. ("Ontogenix") in the form of a three year convertible debenture. The debenture bears an average annualized interest rate of 16% of the principal. Interest payments are in the form of accrued interest and shall accrue after six months. The debenture, principal and any outstanding interest, are payable at the end of the term or upon a material business change event, subject to the right to convert. The debenture may be converted at the sole option of the Company at any time upon a material business change event and/or liquidity event. A material business change event occurs if Ontogenix becomes insolvent; its board of directors fall to two members, or is in default of any of its obligations. A liquidity event means an initial public offering or change of control. When converted, ownership would equate to less than 20%. The debenture is secured by a general security agreement over all the present and future assets of Ontogenix.

**5. Bank indebtedness**

At March 31, 2008, the Company has a line of credit available in the amount of \$9,000,000 (December 31, 2007 – \$9,000,000) secured by a general security agreement over the assets of the Company. The line of credit bears interest at prime plus 1% (December 31, 2007 – 1%) and is repayable on demand. As at March 31, 2008, the prime rate was 5.25% (6% as of December 31, 2007).

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**6. Acquisition notes payable**

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

	<b>March 31, 2008</b>		December 31, 2007
Trajectory Business Performance Inc. (a)	\$ 66,668	\$	66,668
Secom Plus Inc. (b)	-		3,000,000
	<b>66,668</b>		3,066,668
Less current portion	<b>66,668</b>		3,066,668
	<b>\$ -</b>	<b>\$</b>	<b>-</b>

- a) The notes are non-interest bearing and are repayable in four equal installments ending July 1, 2008.
- b) The note is non-interest bearing. In January 2008, \$3,000,000 was paid out of existing cash resources.

**7. Capital Lease Obligations**

Future minimum annual lease payments, including imputed interest, under capital leases for machinery leases are as follows:

2009	\$	377,239
2010		377,239
2011		328,127
		1,082,605
Less: imputed interest		159,212
		923,393
Less: current portion of capital lease obligation		289,485
	<b>\$</b>	<b>633,908</b>

The leases bear interest at rates between 10% and 12% and expire between 2008 and 2011. The leases are secured by the machinery.

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**8. Share capital**

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

- b) Issued common shares:

	Number of Shares		Amount
Balance, December 31, 2006	45,058,204	\$	17,176,172
Shares issued pursuant to private placement (i)	225,000		236,250
Shares issued on exercise of stock options	573,571		186,505
Shares repurchased for cancellation	(1,862,127)		(703,822)
Shares issue costs	-		(22,976)
<b>Balance, December 31, 2007</b>	<b>43,994,648</b>	<b>\$</b>	<b>16,872,129</b>
<b>Shares repurchased for cancellation</b>	<b>(970,500)</b>		<b>(366,723)</b>
<b>Share issue costs</b>	<b>-</b>		<b>(2,051)</b>
<b>Balance, March 31, 2008</b>	<b>43,024,148</b>	<b>\$</b>	<b>16,503,355</b>

- (i) On April 5, 2007, Pareto issued 225,000 common shares pursuant to an employee private placement at an issue price of \$1.05 per common share.

- c) Stock options

The Company has a stock option plan (the "Plan") for employees, consultants, directors and officers of the Company and was amended in May 2007. Pursuant to the amended Plan, the lesser of 10 per cent of the outstanding and 3,500,000 (2006 – 3,500,000) common shares of the Company have been reserved for issue. In addition, subject to regulatory approval, the Company grants options which are not included under the Plan to new employees as an incentive of employment. Currently, there are no options awaiting regulatory approval. One-third of granted options vest on each of the anniversary dates of the grant and expire after five years

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**8. Share capital (continued)**

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

	Number of Options	Weighted Average Exercise Price
Options outstanding, December 31, 2006	1,385,516	\$ 0.67
Granted in 2007	1,263,334	1.08
Exercised in 2007	(573,571)	0.25
Forfeited in 2007	(171,111)	1.10
<b>Options outstanding, December 31, 2007</b>	<b>1,904,168</b>	<b>\$ 1.02</b>
<b>Granted in 2008</b>	-	-
<b>Exercised in 2008</b>	-	-
<b>Options outstanding, March 31, 2008</b>	<b>1,904,168</b>	<b>\$ 1.02</b>
<b>Number of options exercisable</b>		
Options exercisable, March 31, 2008	568,607	\$ 0.82
Options exercisable, December 31, 2007	429,440	\$ 0.74
Options exercisable, December 31, 2006	864,775	\$ 0.37

The range of exercise prices for options outstanding and exercisable options at March 31, 2008 are as follows:

Exercise Price	Number Outstanding	Weighted Average Contractual Life	Number Exercisable	Weighted Average Contractual Life
\$0.25 - \$0.85	216,667	0.72	216,667	0.72
\$0.86 - \$1.10	892,501	3.87	236,942	2.79
\$1.11 - \$1.25	655,000	4.00	51,666	3.38
\$1.26 - \$1.53	140,000	3.08	63,332	3.05
	<b>1,904,168</b>	<b>3.50</b>	<b>568,607</b>	<b>2.08</b>

d) Restricted stock units:

The Company has a long-term incentive plan (LTIP) for employees, consultants, directors and officers of the Company which was amended in May 2007. Pursuant to the amended LTIP, a total of 2,000,000 (2006 – 1,000,000) of the Company's common shares have been reserved for issue through the redemption of restricted stock units into common shares on a one to one basis. In addition, subject to regulatory approval, the Company grants restricted stock units which are not included under the LTIP to new employees as an incentive of employment. Currently there are no restricted stock units awaiting regulatory approval. Restricted stock units are redeemable upon the third anniversary of the date of grant. At March 31, 2008, 682,619 restricted stock units were outstanding pursuant to the LTIP (682,619 at December 31, 2007) and 833,333 restricted stock units were outstanding outside of the LTIP as issued as incentives (833,333 at December 31, 2007).

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**8. Share capital (continued)**

e) Share-based compensation:

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

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

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

f) Contributed Surplus

In 2008, \$207,780 of share based compensation was added to contributed surplus with \$nil of contributed surplus reallocated to share capital as a result of options exercised in the year.

**9. Income taxes**

The Company has approximately \$1.6 million of non-capital losses to apply against future taxable income. These losses expire in 2014.

	<b>3 months March 31, 2008</b>	3 months March 31, 2007
Provision for income taxes consists of:		
Current	\$ (10,259)	\$ 181,168
Future	219,192	(43,655)
	<b>\$ 208,933</b>	<b>\$ 137,513</b>

# Pareto Corporation

## Notes to Consolidated Financial Statements

March 31, 2008

### 10. Earnings per share

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

	<b>3 months March 31, 2008</b>	3 months March 31, 2007
Net earnings	\$ 403,853	\$ 347,544
Weighted average number of common shares outstanding	43,408,981	44,646,385
Stock options	111,931	582,220
Restricted stock units	1,515,952	238,333
Weighted average number of diluted common shares outstanding	<u>45,036,864</u>	<u>45,466,938</u>
	<u>\$ 0.01</u>	<u>\$ 0.01</u>

The calculation of the dilutive impact of the exercise of options excludes those securities considered anti-dilutive because their exercise price exceeded the average market price of Pareto's common shares during the period (2008 - \$0.79), meaning their inclusion would increase diluted earnings per share. In 2008, 1,687,501 stock options were excluded because their effect would be anti-dilutive.

### 11. Supplementary cash flow information

	<b>3 months March 31, 2008</b>	3 months March 31, 2007
Changes in non-cash operating accounts:		
Accounts receivable	\$ 727,834	\$ (53,018)
Inventory and work in progress	(1,726,787)	(2,367,041)
Prepaid expenses	88,041	(109,346)
Accounts payable and accrued liabilities	(1,239,087)	(3,286,966)
Income taxes payable	(36,057)	133,478
Deferred revenue	1,334,907	2,809,395
	<u>\$ (851,149)</u>	<u>\$ (2,873,498)</u>

### 12. Commitments

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

2009	\$	830,980
2010		632,146
2011		603,565
2012		526,124
2013		413,050
2014 and thereafter	\$	1,897,856

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**Pareto Corporation**  
**Notes to Consolidated Financial Statements**

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**13. Related party transactions**

(d) In April 2007, the Company issued a loan totalling \$236,250 to an executive of the Company for the purchase of 225,000 common shares of the Company. The loan is carried at the carrying amount of \$236,250 which approximates its fair value. The loan bears interest at Prime Rate plus ½% with interest payable quarterly. The loan is repayable on April 4, 2012. The loan is full recourse and the Company has received a pledge of the purchased common shares as security for the loans.

During 2008, \$7,598 (2007 - \$32,036) of interest was received pursuant to loans receivable from executives, measured at the exchange amount.

**14. 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.

In 2008, one customer represented greater than 10% of the Company's revenue with 25% (2007 – 33%). As at March 31, 2008, amounts due from this customer accounted for 24% of accounts receivable. All of the Company's operations are located in Canada.

**15. Capital management**

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and sustain future development of the business. The Company defines capitalization to include the total of bank indebtedness, acquisition notes payable, capital lease obligation and shareholders' equity.

	<b>March 31, 2008</b>	December 31, 2007
Bank Indebtedness	<b>\$ 4,570,137</b>	\$ 368,291
Acquisition notes payable	<b>66,668</b>	3,066,668
Long-term capital leases	<b>923,393</b>	990,945
Total debt	<b>5,560,198</b>	4,425,904
Shareholders' equity	<b>25,550,876</b>	25,702,273
Total capitalization	<b>\$ 31,111,074</b>	\$ 30,128,177
Net debt:Shareholders' equity	0.22:1	0.17:1
Net debt:Total Capitalization	0.18:1	0.15:1
Total debt:EBITDA	0.8:1	0.6:1

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# Pareto Corporation

## Notes to Consolidated Financial Statements

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### 15. Capital management (continued)

Management considers the Company's capital resources adequate to meet the Company's operating, capital expenditure, and financing requirements. However, 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 Company seeks to maintain a balance between the higher returns that might be possible with the leverage afforded by higher borrowing levels and the security afforded by a sound capital position. The company's target is to create value for its shareholders over the long-term through increases in share value.

In July 2007, the Company commenced a normal course issuer bid to acquire up to 2,365,000 common shares through the facilities of the Toronto Stock Exchange. Purchases are made at market prices with a maximum of 400,000 shares being purchased in any 30 day period. The shares are cancelled as purchased. The normal course issuer bid will terminate no later than July 11, 2008. The Company considers its shares to be undervalued, and a buy-back program is consistent with the Company's goal of creating long-term value for its shareholders.

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

### 16. Financial Instruments

#### (a) Fair value of financial instruments

At March 31, 2008, the fair value of the Company's financial instruments approximate their carrying values due to their short-term nature.

#### (b) Derivative financial instruments

The Company, on occasion, engages in transactions in foreign currencies, most commonly involving the US dollar and the Euro. At March 31, 2008, there are no such contracts outstanding.

#### (c) Financial risk management

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

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

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

**16. Financial Instruments (continued)**

**i) Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Company's receivables from customers.

Accounts receivable

The Company's exposure to credit risk is dependent upon individual characteristics of each customer. Each new customer is assessed for creditworthiness before standard payment and delivery terms and conditions are offered. The Company deals with large, credit worthy clients and bills in advance of the provision of services, whenever possible.

The Company regularly reviews the collectability of its accounts receivable and establishes an allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts. Historically, the Company has experienced minimal bad debts. As at March 31, 2008, a reserve in respect of doubtful accounts of \$99,725 was set up to cover accounts where collection is not assured.

All of the Company's accounts receivables are within Canada.

**ii) Liquidity risk**

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

**iii) Market risk**

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

**iv) Foreign exchange risk**

The Company, on occasion, engages in transactions in foreign currencies, most commonly involving the US dollar and the Euro. The Company mitigates its risk by billing whenever possible in the relevant currency and, on occasion, enters into derivative instruments to manage this risk.

**v) Interest rate risk**

The Company's principal exposure to interest rate fluctuations is limited to bank indebtedness (as described in note 7) which bears interest at floating interest rates.

Based on the Company's average debt level during the first quarter of 2008, the sensitivity of a 100 basis point increase in interest rates would result in an approximate decrease of \$42 thousand in net annual earnings.

**vi) Other market price risk**

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

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**17. Comparative figures**

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

## **Pareto Corporation**

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

Management's Discussion and Analysis of Results of Operations and Financial Position ("MD&A") of Pareto Corporation ("the Company" or "Pareto"), dated May 9, 2008, summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity and cash flows of Pareto for the quarter ended March 31, 2008. All amounts are in Canadian dollars. This MD&A should be read in conjunction with consolidated financial statements for the period ended December 31, 2007, which are prepared in accordance with Canadian GAAP. Additional information relating to Pareto, including the Annual Information Form dated March 26, 2008, can be found at the Company's website at [www.pareto.ca](http://www.pareto.ca) and on SEDAR at [www.sedar.com](http://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-controlling interest); a measure not defined under Canadian generally accepted accounting principles ("GAAP"), to discuss Pareto's operating performance. The Company cautions readers that measures adjusted to a basis other than GAAP do not have standardized meaning and are unlikely to be comparable to similar measures used by other companies. EBITDA is presented as a supplemental figure for discussion because management believes it provides useful information regarding operating performance.

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

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

#### **Business Overview**

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

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

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

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and by effective project management.

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

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

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

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

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

Competition in the marketing industry is intense, and competitors range from small, owner-managed companies to diversified multinational agency groups. While the industry is highly fragmented overall, the trend for many years has been towards consolidation. While many companies may provide services which are similar to the Company's, Pareto's focus on marketing execution as opposed to strategy is often a differentiator. As such, the Company often acts as a complement to, rather than in competition with, existing client marketing and agency resources.

While marketing services may be exposed to risk in an economic downturn, our retail customers may actually increase spending during such a downturn to promote consumer spending. The Company has been fairly resilient to previous downturns in economic cycles. All of the Company's operations are located in Canada with minimal purchasing done outside of Canada and as such, the Company has minimal exposure to changes in currency.

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**Operating Results for the quarter ended March 31:**

	2008	2007	\$ Change	% Change
Revenue	\$ 16,453,170	\$ 14,716,308	\$ 1,736,862	12%
Operating and administrative expenses	15,274,092	13,899,615	1,374,477	10%
	\$ 1,179,078	\$ 816,693	\$ 362,385	44%
Amortization of capital assets	\$ 156,602	\$ 102,299	\$ 54,303	53%
Amortization of intangible assets	52,778	52,778	0	0%
Amortization of deferred costs	39,789	37,439	2,350	6%
Interest and finance charges, net	109,343	74,595	34,748	47%
Share-based compensation	207,780	64,525	143,255	222%
	566,292	331,636	234,656	70%
Earnings before income taxes	612,786	485,057	127,729	26%
Income taxes	208,933	137,513	38,834	52%
Net earnings	\$ 403,853	\$ 347,544	\$ 56,309	16%
Basic and Diluted earnings per share	\$ 0.01	\$ 0.01	\$	

**First Quarter Results**

Revenue

In 2008, the Company generated \$16.5 million of revenue compared to \$14.7 million in 2007, an increase of \$1.7 million or 12%. Growth was achieved this quarter in the field services business, up 22% over the previous year, print production, up 11% over the previous year and in the event business, up 94% over the previous year. On the basis of a strong start to the year, we continue to be optimistic about our ability to generate [solid] organic growth in 2008. However, the timing of the field service activities is such that we do not necessarily expect to show year-on-year growth in every quarter. In the second quarter of 2007, we completed a \$5 million-dollar field merchandising project that would not recur. We have already won new business that we expect will allow our field merchandising business to grow this year, despite the non-recurrence of that one major project. But with that new business spread throughout the year rather than concentrated in one quarter, we may be in a position after the second quarter where we are not ahead of the pace we set in 2007. Nevertheless, we expect our Q2 EBITDA margins to be comparable to the prior year, despite the potentially lower revenue. To date, at this stage we have not experienced any impact of an economic downturn.

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

- Fixed fee basis - \$ 9.4 million or 57% ( \$8.2 million or 56% in 2007)
- Time and materials basis - \$5.4 million or 33% (\$4.9 million or 33% in 2007)
- Resale of reward units - \$1.7 million or 10% (\$1.6 million or 11% in 2007)

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#### Operating and Administrative Expenses

In 2008, the Company incurred \$15.3 million in operating and administrative expenses compared to \$13.9 million in 2007, an increase of \$1.4 million or 10%. Operating and administrative expenses include direct project costs, wages and salaries, facilities costs, and selling, general, and administrative costs.

Direct project costs increased as a percentage of revenue by 8% in 2008 as compared to the prior year due to a change in mix of revenues as a significant portion of the revenue growth this quarter was derived from event management and retail solutions and direct marketing, both utilizing higher direct costs. Wages and salaries, as a percentage of revenue, remained at the same percentage when compared to the prior year. Facilities costs and selling, general and administrative costs declined as a percentage of sales by 81% as these infrastructure costs are spread over a larger revenue base.

#### EBITDA

In 2008, the Company generated \$1.2 million of EBITDA (see "Non-GAAP Measures") compared to \$0.8 million in 2007, an increase of \$0.4 million or 44%. EBITDA as a percentage of revenue represented 7.2% in 2008 compared to 5.4% in 2007. This increase in percentage is due to economies of scale as fixed infrastructure costs are spread over a larger revenue base, and greater efficiencies realized as integration efforts of acquisitions have begun and operating efficiencies are realized.

#### Amortization, Interest and Share-based Compensation

In 2008, the Company incurred amortization, interest and share-based compensation expenses of \$0.6 million compared to \$0.3 million in 2007, an increase of \$0.2 million or 70%. This increase was driven primarily by increased share-based compensation costs, increased interest and finance costs, and increased amortization of capital. Share-based compensation expense increased by \$0.1 million or 222% reflecting the impact of the options and restricted stock units granted as part of the Company's plans as well as those granted for incentive purposes in 2007 for the hiring of three new senior executives. Interest and finance charges increased due to interest paid on higher operating line of credit balances which was required to finance an acquisition note payment in 2008. Capital asset amortization increased due to amortization related to capital assets acquired in 2007.

#### Income Taxes

In 2008, the Company incurred income tax expenses of \$0.2 million compared to \$0.17 million in 2007, an increase of \$0.03 million or 23%. In 2008 income taxes represented 34% of earnings before tax compared to 28% in 2007. At March, 2008 the Company has \$1.7 million of future income tax assets still to be utilized, with approximately \$1.0 million expected to be utilized during the remainder of 2008. The Company expects to incur an effective tax rate of approximately 34% in 2008.

#### Net earnings

In 2008, the Company generated \$0.4 million of net earnings compared to \$0.35 million in 2007, an increase of \$0.05 million or 16%. This increase is the result of revenue growth, improved EBITDA margins partially offset by increased amortization, interest and share-based compensation and an increase in the effective tax rate in 2008. In 2008, net earnings as a percentage of revenue was 2.5% compared to 2.4% in 2007. Excluding the effect of income taxes, earnings before income taxes was 3.7% of revenue in the year compared to 3.3% in 2007.

#### Earnings per share

Pareto's basic and diluted earnings per share in 2008 were \$0.01 versus \$0.01 for both measures in 2007.

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**Liquidity and Capital Resources**

Financial Position

	March 31, 2008		December 31, 2007		\$ Change	% Change
Cash	\$		\$	-	\$	
		-				
Bank Indebtedness		4,570,137		368,291	4,201,846	1141%
Acquisition notes payable		66,668		3,066,668	(3,000,000)	(98%)
Long-term capital leases		923,393		990,945	67,552	7%
Total debt		5,560,198		4,425,904	1,134,294	26%
Total net (debt) cash position		(5,560,198)		(4,425,904)		
Shareholders' equity		25,550,876		25,702,273	(151,397)	(0.6%)
Total capitalization	\$	31,111,074	\$	30,128,177	\$ 982,897	3.3%
Working capital position	\$	954,606	\$	1,445,121	\$ (490,515)	(40%)
Net debt:Shareholders' equity		0.22:1		0.17:1		
Net debt:Total Capitalization		0.18:1		0.15:1		
Total debt:EBITDA		0.8:1		0.6:1		

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

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

Operating activities

In the first quarter of 2008, Pareto's operating activities generated \$0.2 million of cash flow compared to utilizing \$2.3 million of cash flow in 2007, an increase of \$2.5 million. Operating activities before changes in non-cash operating accounts generated \$0.9 million of cash flow in 2008 compared to \$0.6 million in 2007, an increase of \$0.3 million. Non-cash operating accounts utilized \$0.6 million of cash flow in 2008 compared to \$2.9 million in 2007, an increase of \$2.3 million. Our accounts receivable balance showed a slight decline during the first quarter, from \$17.3 million to \$16.6 million. This figure, being roughly equal to the full quarter's sales, is still above the level we are targeting. However, the aging schedule is better than it has ever been at Pareto. The percentage of receivables that are more than 60 days old reached a new low during the quarter. The significance of this is not related to the risk of bad debts. Our clients are large, stable organizations whose ability to pay does not come into question. Rather, our concern is in the area of managing our working capital. We have begun implementing a plan to improve cash management, with some early success, and we believe there is further leverage available.

Investing activities

In the first quarter of 2008, Pareto's investing activities, comprised of capital asset additions and investment loans issued. In 2008 capital asset additions incurred totaled \$0.05 million compared to \$0.2 million in 2007, and reduction of \$0.15 million. The Company anticipates its capital asset requirements in 2008 will be significantly reduced from the 2007 levels, returning closer to the levels incurred in 2006. In 2008, cash utilized for investments includes \$0.6 million of cash flow for a strategic investment loan to Ontogenix Inc, a technology company focused in online marketing. The investment loan consists of a three year convertible debenture bearing interest at a rate of 16%, accrued annually. When converted, ownership would equate to less than 20%. The loan was funded out of existing cash resources.

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Financing activities

In the first quarter of 2008, Pareto's financing activities, comprised of payment of acquisition notes payable, capital lease obligations and share repurchase, utilized \$3.8 million of cash flow compared to utilizing \$2.3 million in 2007. In 2008, \$3.0 million was utilized for payment of outstanding acquisition notes payable from the Secom Plus Inc. prior year acquisition compared to \$1.3 million in 2007, \$0.07 million utilized payment of capital lease obligations and \$0.8 million utilized to repurchase 1.0 million common shares of the Company pursuant to its normal course issuer bid. The Company intends to expend further funds to repurchase common shares in 2008. At March 31, 2008, the Company had approximately 0.4 million shares remaining available to purchase under the current normal course issuer bid.

**Contractual Obligations**

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

	Payments due by period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Capital leases	\$ 923,393	\$ 289,485	\$ 633,908	\$ -	\$ -
Acquisition notes payable	66,668	66,668	-	-	-
Operating leases	4,903,721	830,980	1,761,835	826,100	1,484,806
Total contractual obligations	\$ 5,893,782	\$ 1,187,133	\$ 2,395,743	\$ 826,100	\$ 1,484,806

**Off Balance Sheet Arrangements**

In October 2006, the Company acquired the shares of Secom Plus Inc. ("Secom"). As part of the purchase, additional cash consideration of \$2.0 million will be payable to the previous owners in October 2008 based on the satisfaction of remaining conditions precedent to payment.

**Outstanding Share Data**

At May 9, 2008 an unlimited number of common shares were authorized and 42,985,648 (December 31, 2007 - 43,994,648) common shares were outstanding. The Company has 1,904,168 options currently outstanding to acquire common shares pursuant to its Option Plan of which 568,607 are exercisable. The Company also has 1,515,952 restricted stock units currently outstanding, all convertible to common shares on a one to one basis. See note 8 to the consolidated financial statements for further information on the Company's share capital.

**Non-GAAP Earning Measures**

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

	Quarter Ending March 31, 2008	Quarter Ending March 31, 2007
Net earnings	\$ 403,853	\$ 347,544
Income Taxes	208,933	137,513
Amortization of capital assets	156,602	102,299
Amortization of intangible assets and deferred costs	92,567	90,217
Interest and financing charges	109,343	74,595
Share-based compensation	207,780	64,525
EBITDA	\$ 1,179,078	\$ 816,693

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#### **Transactions with Related Parties**

In April 2007, the Company issued a loan totalling \$236,250 to an executive of the Company for the purchase of 225,000 common shares of the Company. The loan is carried at the carrying amount of \$236,250 which approximates its fair value. The loan bears interest at Prime Rate plus ½% with interest payable quarterly. The loan is repayable on April 4, 2012. The loan is full recourse and the Company has received a pledge of the purchased common shares as security for the loans.

During 2008, \$7,598 of interest was received pursuant to the loans receivable from executives.

#### **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**

While the Company expects to generate positive cash flow from operations, the Company may raise capital to fund its future growth, either from the incurrence of short-term or long-term indebtedness or the issuance of equity securities. Although the Company has been able to obtain such financing in the past, there is no assurance that required capital will continue to be available or that the Company will be able to refinance current or future indebtedness on terms that are acceptable to the Company.

The incurrence of additional indebtedness may result in increased interest expense or decreased net income and the issuance of additional equity securities could result in dilution of existing equity positions.

##### **Competition**

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

##### **Dependence Upon a Limited Number of Clients**

Although the Company has a significant number of clients, a relatively small number of them contribute the majority of the Company's revenue and gross profit. During the quarter Pareto generated revenues from one client represented greater than 10% of revenues (25%, 2007 – 33%). The Company's current contract with this customer is up for renewal July 2008.

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

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

##### **Credit Risk**

Accounts receivable represented 35% of consolidated assets at March 31, 2008 (2007 – 37%). 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.

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**Dependence on Key Personnel**

The Company's success is dependent on the leadership of a number of key executive and management personnel. If any of these key individuals leave the Company, the relationships they have with certain of the Company's clients could be lost. In addition, the Company's ability to generate revenue is dependent upon the number and expertise of individuals who perform project work. The competition for the most experienced and able employees is intense, even during cyclical downturns in the industry. As a result, if the Company fails to retain existing employees or hire new employees when necessary, the Company's business, financial condition, and operating results could be materially and adversely affected.

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

**Consolidation of Accounts**

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

**Critical Accounting Estimates**

**Overview**

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

**Goodwill and Intangible Assets**

Goodwill and intangible assets represent the Company's most significant assets. Goodwill represents the consideration paid for acquisitions in excess of the fair market value of the net identifiable assets acquired. The carrying value of the goodwill is assessed at least annually by comparing it to its fair value. For the first quarter of 2008, the Company completed the annual assessment and found no impairment of goodwill. Intangible assets consist of the value of the Company's acquired customer relationships. In the marketing services industry, these are typically long-term in nature, and therefore customer relationship assets are amortized on a straight-line basis over an estimated useful life of 10 years. If impairment losses related to goodwill and intangible assets were to be recognized in future periods, the losses could have a material adverse impact on the Company's results of operations and financial position.

**Financial Instruments and Other Instruments**

Pareto engages in transactions in foreign currencies, most commonly involving the U.S. dollar and the euro. From time to time, Pareto will use currency forward contracts to fix the exchange rate for known future transactions. No such contracts were outstanding at March 31, 2008.

**Disclosure Controls and Procedures**

The Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the company's disclosure controls and procedures and concluded that such controls and procedures were effective at the reasonable assurance levels as of March 31, 2008 and in respect of the year ending. Due to inherent limitations, the company's disclosure controls and procedures do not guarantee timely communication of all material events to

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the certifying officers and projections of any evaluation of effectiveness of such controls and procedures to future periods are subject to the risk that controls may become inadequate due to changes in conditions, or deterioration in the degree of compliance with the Company's policies and procedures.

#### **Internal Control over Financial Reporting**

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

During the quarter ended March 31, 2008, there were no substantive changes in the nature of the company's policies or procedures that have materially affected, or are reasonably likely to materially affect, the company's system of internal control over financial reporting. The Company is continuing with its efforts in formalizing and documenting various elements of its system of internal control over financial reporting in preparation for the evaluation of the operating effectiveness of its internal control system within the timelines to be prescribed by the Canadian Securities Administrators.

#### **Recent Accounting Developments**

##### **d) New accounting policies**

Financial Instruments Disclosure and Presentation –CICA Handbook section 3862 “Financial Instruments - Disclosure” and section 3863 “Financial Instruments – Presentation”, replace Handbook Section 3861, Financial Instruments – Disclosure and Presentations, revising and enhancing disclosure requirements to provide additional information on the nature and extent of risks arising from financial instruments to which the company is exposed and how it manages those risks.

Capital Disclosures –CICA Handbook Section 1535 “Capital Disclosures”, specifies the disclosure of the Company's objectives, policies and processes for managing capital, including: a description of what components of liabilities and shareholders' equity the Company defines as capital and their balances, and the nature of any externally imposed capital restrictions, how those are managed and the consequence of any non-compliance, if any.

Inventories – CICA Handbook Section 3031 “Inventories”, provides guidance on the measurement of inventories, with an expanded definition of cost, and the requirement that inventory must be measured at the lower of cost and net realizable value. In addition, the section has additional disclosure requirements, including accounting policies, carrying values, and the amount of any inventory writedowns. The adoption of this new standard had no financial effect on the consolidated financial statements of the Company. .

##### **e) Future Accounting Policy Changes**

International Financial Reporting Standards – The CICA will transition Canadian generally accepted accounting principles (“GAAP”) for publicly accountable entities to International Financial Reporting Standards (“IFRS”). The Company's consolidated financial statements are to be prepared in accordance with IFRS for the fiscal year commencing January 1, 2011. The impact of the transition to IFRS on the company's consolidated financial statements has not been determined.

Goodwill and Intangible Assets – Effective January 1, 2009, the Company will adopt new CICA Handbook Section 3064, Goodwill and Intangible Assets, and established revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of various preproduction and start-up costs and requires that these costs be expensed as incurred. The Company is evaluating the full impact of this standard on its consolidated financial statements.

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**SUMMARY OF QUARTERLY AND ANNUAL RESULTS**

<b>Year Ended</b>					
<b>31 March, 2008</b>	<b>Mar 31</b>	<b>Jun 30</b>	<b>Sep 30</b>	<b>Dec 31</b>	<b>Total</b>
<b>Quarterly information:</b>					
Revenue	\$ 16,453,170				
EBITDA <sup>1</sup>	1,179,078				
EBITDA Margin	7.2%				
Net earnings	403,853				
Basic and diluted earnings per share <sup>2</sup>	0.01				
<b>Annual information:</b>					
Total assets					
Total long-term financial Liabilities, including current portion					
Cash dividends declared					

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

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

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

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

**Seasonality**

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

**ADDITIONAL INFORMATION**

Other information relating to Pareto, including the Company's Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).