

**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>	<u>564,211</u>
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	(550,000)	-
	<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	(760,979)	(857,046)
	<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>(368,291)</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>

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**4. Loans receivable**

	<b>March 31, 2008</b>	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>	\$ 486,250

- (a) In May 2006, the Company issued loans totalling \$250,000 to executives of the Company for the purchase of 192,308 common shares of the Company. The loans bear interest at Prime Rate plus ½% with interest payable quarterly. The loans are repayable on May 16, 2011. The loans are full recourse and the Company has received a pledge of the purchased common shares as security for the loans.
- (b) In April 2007, the Company issued a loan totalling \$236,250 to an executive of the Company for the purchase of 225,000 common shares of the Company. The loan is carried at the carrying amount of \$236,250 which approximates its fair value. The loan bears interest at Prime Rate plus ½% with interest payable quarterly. The loan is repayable on April 4, 2012. The loan is full recourse and the Company has received a pledge of the purchased common shares as security for the loans.
- (c) 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:

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

- 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
	\$ 633,908

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>\$ 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>\$ 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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**March 31, 2008**

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

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**Notes to Consolidated Financial Statements**

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**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>	<b>3 months March 31, 2007</b>
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>	<b>3 months March 31, 2007</b>
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**  
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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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**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.

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**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.