

IN THE MATTER OF THE BANKRUPTCY OF
PARETO HOLDINGS LTD. AND PARETO CORPORATION
OF THE CITY OF TORONTO IN THE
PROVINCE OF ONTARIO

TRUSTEE'S REPORT ON PRELIMINARY ADMINISTRATION

SUPERINTENDENT'S FILE NUMBERS: 31-457513 AND 31-457512

Background

The company that would come to be known as Pareto Corporation was formed in December 2001 by the amalgamation of Alouettes 1974 Capital Inc. and Caxton Group Inc. The amalgamated company began trading its shares on the TSX Venture Exchange in February 2002, eventually changing its name to Pareto Corporation in July 2002. Pareto Corporation grew through various acquisitions over the ensuing decade to include services such as direct selling, in-store messaging, promotions and special events, print production, direct marketing, incentive and loyalty programs. In March 2011, The Riverside Company, a New York based private equity fund, took Pareto Corporation private through the acquisition of Pareto Corporation's shares by Pareto Holdings Ltd. Pareto Holdings Ltd. holds no other assets than the shares of Pareto Corporation. (Pareto Holdings Ltd. and Pareto Corporation are collectively referred to herein as "Pareto" or the "Companies").

Prior to these bankruptcy proceedings, Pareto employed approximately 300 full-time, non-unionized employees in Canada. Pareto also engaged the services of approximately 2,500 part time and/or contract staff. Pareto's head office was located at 200 – 1 Concorde Gate, Toronto, Ontario and also had warehousing operations located at 66 Leek Crescent, Richmond Hill, Ontario. Pareto also maintained a Quebec office, located at 300 – 4 Place du Commerce, Verdun, Quebec and a very small British Columbia office located at 9912 Lougheed Highway, Burnaby, British Columbia. All of these locations were leased.

The Trustee understands from discussions with former management that Pareto had been experiencing increased competition over the last several years which resulted in the loss of certain key customers and contracts. The Trustee understands that this in turn resulted in cash flow difficulties leading up to its bankruptcy filing. On September 30, 2013 Pareto ceased operations and shut down. On October 2, 2013 Pareto assigned itself into bankruptcy and KPMG Inc. was appointed as Trustee.

A summary of the secured creditors, the nature of their security and corresponding outstanding indebtedness to each secured creditor (if known) is summarized as follows:

Secured Creditor	Nature of Security	Outstanding Indebtedness
Senior secured debt	GSA	\$55,365,000
Subordinate (2nd lien) secured debt	GSA	\$19,421,000
Pitney Bowes	Leases	Unknown
Xerox	Leases	Unknown
Johnston Equipment	Leases	Unknown

The syndicate of secured lenders has security over all of the assets of Pareto pursuant to their general security agreements. On October 4, 2013, the syndicate of secured lenders appointed Alvarez & Marsal Canada Inc. as their agent to collect Pareto's accounts receivable (the "Agent").

Section A: Trustee's Duties

The *Bankruptcy and Insolvency Act* ("BIA"), requires the Trustee to give security in cash or by bond of a guaranty company in an amount set by the Official Receiver. There has been no bond set in this estate.

The BIA also requires the Trustee to take possession of the Companies' records and property. The Trustee has taken possession of the requisite records and property of Pareto as more particularly described below.

Class I - Stocks of Merchandise

The Trustee has taken possession of Pareto's inventory, which consists of paper products, promotional items and marketing merchandise for its various customers.

Class II - Plant, Machinery and Equipment

The Trustee has taken possession of Pareto's equipment consisting primarily of office furniture and equipment, large scale printers, copying machines and inserters.

Class III - Buildings and Real Estate

As set out in the Background section of this report, Pareto operated from four leased premises. The landlord of 66 Leek Crescent, Richmond Hill, Ontario terminated its lease with Pareto prior to the Trustee's appointment. Further information regarding the Trustee's actions to date with respect the other three locations is set out in the Background section of this report, as well as in "Section B – Conservatory and Protective Measures" (further in this report).

The Companies did not own any real estate.

Class IV - Books and Records

The Trustee has taken possession of those books and records it is required to under the BIA. The Agent for the secured lenders has taken possession of those records it requires to realize on the accounts receivable.

Class V - Other Assets

As mentioned prior, the Agent is responsible for the collection of Pareto's accounts receivable accounts.

The Trustee is aware of certain deposits made by Pareto on behalf of its clients with suppliers. The Agent has taken possession of these claims as well (as "accounts" under their appointment).

The Trustee is aware that Pareto had developed certain proprietary computer software programs used in its business processes. The Trustee will investigate the potential to realize on these assets.

Property of the bankrupt not divisible amongst creditors

Not applicable.

Property placed under the guardianship of the debtor

Not applicable.

Section B: Conservatory and Protective Measures

Upon the appointment of the Trustee, the locks were changed to the premises at 200 – 1 Concorde Gate, Toronto, Ontario and 300 – 4 Place du Commerce, Verdun, Quebec. The Trustee did not change the locks at the 66 Leek Crescent, Richmond Hill, Ontario premises as the landlord had already changed the locks upon termination of the lease (which occurred prior to the date of bankruptcy). The Trustee has negotiated an interim temporary occupancy arrangement for the 66 Leek Crescent, Richmond Hill premises. The Trustee did not take possession of the British Columbia office, which maintained assets of only a nominal value.

Section C: Legal Proceedings

The Trustee is not aware of any ongoing legal proceedings either for or against the Companies.

Section D: Provable Claims

To date, we have received 182 proofs of claim representing approximately \$7,158,000 in unsecured claims.

Insufficient proofs of claim have been filed to date to permit the Trustee to fully ascertain if the statement of affairs is accurate.

Section E: Secured Creditors (See **Background section)**

The Trustee is reviewing several leases with respect to certain of Pareto's fixed assets to determine the validity of the lessors' secured claims.

The Trustee's independent counsel has reviewed the security granted to Bank of Montreal in its capacity as Agent for the Senior Secured Lenders and determined that the security is valid and enforceable as against the Trustee. Given that the Senior Secured Lenders are expected to suffer a significant short fall, the Trustee has not obtained an independent opinion regarding the security granted to the Subordinated Lenders.

Section F: Anticipated Realization and Projected Distribution

The Trustee anticipates that the funds realized will not be sufficient to repay the entire secured indebtedness of Pareto. Accordingly, the Trustee expects there will be no funds available for distribution to unsecured creditors.

Section G: Reviewable Transactions and Preference Payments

The Trustee has not been able to complete its search for reviewable transactions and transactions at undervalue at the time of the writing of this report. The Trustee will report any findings regarding these types of transactions to the inspectors at a future inspectors' meeting.

Section H: Other Matters

Funding of Trustee's Costs

The Trustee has entered into an arrangement with the Senior Secured Lenders concerning the payment the reasonable fees and disbursements of the Trustee and its counsel out of assets in the bankruptcy estate and the proceeds therefrom that would otherwise be entitled to be received by the Senior Secured Lenders pursuant to their security. The Trustee did not obtain a third party indemnity from the Senior Secured Lenders.

Procedural Consolidation

On October 8, 2013, the Trustee applied for and was granted by the Ontario Superior Court of Justice, certain procedural relief which has the effect of allowing the estates of Pareto Holdings Ltd. and Pareto Corporation to be consolidated for administrative purposes only. This relief was sought in order to reduce the overall costs to the estate of the bankruptcy administration.

Trustee's investigation into potential wrong doing and missing property

After the Trustee's appointment, it was brought to the Trustee's attention that certain property was removed from two of Pareto's leased locations without authorization. In addition, it was also brought to the Trustees attention that, immediately prior to the bankruptcies, a number of former Pareto employees made unauthorized corporate credit card purchases. The Trustee is actively pursuing the missing property and a recovery or reversal of the applicable credit card charges for the benefit of the estate.

DATED AT TORONTO, ONTARIO this 22nd day of October, 2013.

KPMG INC.

KPMG INC.
333 BAY STREET, SUITE 4600
TORONTO, ONTARIO
M5H 2S5