



Pareto Corporation

**First Quarter Report
For The Three Months Ended March 31, 2003**

To Our Shareholders:

The first quarter of 2003 was a strong start to the year for our Company. In the quarter Pareto enjoyed the benefits of our strategy as significant revenue growth and improved profitability margins led to record EBITDA and net income performance.

Traditionally our slowest quarter, Q1 revenues were \$3.2 million, up from \$0.8 million for the first quarter of 2002. EBITDA increased to \$167,000, up from a loss of \$400,000 in the first quarter of last year and the Company reported its most profitable quarter in its brief history.

Most impressive is that that almost 75% of our Q1 revenue growth was organic growth resulting from increased business from both new and existing clients with the acquisition of Event contributing the remaining 25% of growth. Our long term goal is to build a large business that will dominate the Canadian marketplace and this will be achieved through both organic growth and acquisitions. Our Q1 success shows the benefits of this strategy.

This organic growth indicates our clients are seeing the value Pareto delivers. Our goal is to show our clients even more value and to become an even more trusted partner with them.

We also continue to improve the financial position of our Company. On March 31, 2003, the Company's cash position exceeded the amount owing under our senior bank debt and during the quarter we reduced our total debt by \$105,000. Improving cashflow and our financial strength will continue to be a major focus for the Company.

I am very proud that we have taken what was a very small business and grown it into a business which generated over \$13 million of revenues over the last year. There is much more to be done.

2003 has gotten off to a good start. All of us here at Pareto are committed to make 2003 a great year for our Company.

Thank you for your support.

A handwritten signature in blue ink, appearing to read 'K. Shapansky', with a long, sweeping underline.

Kerry Shapansky
President & Chief Executive Officer

Pareto Corporation
Consolidated Summary Financial Information

For Periods ended March 31
(Unaudited)

	Three Months	
	2003	2002
Revenues	\$ 3,249,140	\$ 845,293
Gross Profit	1,061,124	77,113
EBITDA	167,310	(399,257)
Net income (loss) for the period	56,786	(411,774)
Basic and fully diluted earnings (loss) per share	\$ 0.002	\$ (0.03)
Basic weighted average number of shares outstanding	32,056,081	22,311,581
Diluted weighted average number of shares outstanding	32,978,641	22,311,581

Pareto Corporation

Management's Discussion and Analysis

The following discussion focuses on Pareto Corporation's (the "Company or "Pareto") operating results for the three months ended March 31, 2003 and 2002, and the financial condition as at March 31, 2003. This analysis should be read in conjunction with the consolidated interim financial statements presented in this interim report and the annual audited financial statements for the year ended December 31, 2002.

Operating Results

Three Months Ended March 31, 2003 Compared to Three Months Ended March 31, 2002:

The Company's revenue was \$3,249,140 in the quarter, 284% higher than the \$845,293 reported in the first quarter of 2002. The significant growth in revenue is due to the organic business growth coupled with inclusion of the financial results of Naylor Event Management ("Event"), which the Company acquired effective May 31, 2002. Of the 284% increase in revenue, Event contributed 75 % or \$636,842 with the remaining 209% driven by strong business growth in the Company's other divisions, Print and Digital.

During the first quarter of 2003, the Company's revenues derived from customers in a broad mix of industries with significant contributions from customers in the retail, food and beverage, pharmaceutical and technology sectors. All of the Company's operations are in Canada, however 6% (2002 – 11%) of the quarter's revenues were earned from customers based in the United States.

The Company achieved a gross profit percentage of 33% in the quarter compared to 9% gross profit in 2002. The overall gross profit percentage was achieved consistently over the Company's divisions.

Operating expenses excluding depreciation totaled \$893,814 for the quarter compared to \$476,370 in 2002. The quantum increase is equally related to business growth and the addition of the operating expenses of Event. Operating expenses as a percentage of revenue declined significantly in the quarter to 28% compared to 56% last year as the continues to grow its revenue base.

Earnings before interest, taxes, depreciation and amortization (EBITDA as defined by the Company) improved from a loss of \$399,257 in 2002 to earnings of \$167,310 for 2003 as higher revenues resulted in positive EBITDA. The Company expects EBITDA, as a percentage of revenues will improve as the revenue base grows relative to the Company's operating cost structure.

Depreciation increased by \$42,186 for the first quarter of 2003, as compared to 2002. This increase was primarily a result of amortization of digital software and the inclusion of depreciation for Event.

Interest and finance charges, net of interest income increased from \$11,932 in the first quarter of 2002 to \$50,743 in 2003. For 2003, interest and finance charges included \$23,333 of amortization of deferred financing costs relating to the Company's long-term

debt facilities. The remaining, \$27,410, represents cash interest relating to the Company's senior bank loan and other long-term debts.

The Company recorded net income \$56,786 being earned in the first quarter of 2003 compared to a net loss of \$411,774 for the first quarter of 2002. This improvement was as a result of the revenue growth in all divisions of Pareto as well as the inclusion of Event.

On a per share basis, the Company earned \$0.002 per share on both a basic and diluted basis compared to a loss of \$0.03 in the same period last year. The weighted average number of shares outstanding increased from 22.3 million in 2002 to 32.1 million in 2003 primarily as a result of shares issued pursuant to the acquisition of Event and the private placement completed by the Company in August 2002.

Liquidity and Capital Resources

As at March 31, 2003 the Company had \$950,191 of cash and equivalents compared to \$143,126 as at March 31, 2002, an increase of \$807,065.

Cash flow derived from operations for the quarter was \$148,056 compared to a cash outflow of \$411,189 for the first quarter of 2002. This improvement was as a result of the Company's improved profitability.

Changes in non-cash operating accounts resulted in a cash inflow of \$245,491 in the first quarter of 2003 versus an outflow of \$196,073 in 2002. The inflow was primarily a result of an increase in deferred revenue relating to projects to be completed in the future within the Event division.

The Company purchased \$23,845 of capital assets in the quarter compared to \$31,974 in the first quarter of 2002.

The Company's financing activities in first quarter of 2003, included retiring accrued acquisition obligation by \$30,000 and reducing term debt from Bank by \$75,000. This compares to total inflows of \$193,922 in 2002 resulting the issuance of debt.

The Company did not pay any dividends in the three-month period ended March 31, 2003 and does not currently anticipate paying any dividends in the foreseeable future.

This report to shareholders contains forward-looking statements related to expected future events and financial operating results of the Company that involves risks and uncertainties. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including market and general economic conditions and the risks and uncertainties detailed from time to time in the Company's SEDAR filings.

Pareto Corporation Consolidated Balance Sheets

	March 31, 2003 (unaudited)	December 31, 2002 (audited)
Assets		
Current assets		
Cash and cash equivalents	\$ 950,191	\$ 685,489
Accounts receivable	3,336,823	2,458,341
Income and other taxes recoverable	739,874	748,336
Work in progress	1,168,338	149,321
Inventory and other current assets	86,255	62,553
	6,281,481	4,104,040
Deferred finance costs	43,958	71,459
Capital assets	503,815	533,240
Goodwill and intangible assets	5,720,275	5,730,775
	\$ 12,549,529	\$ 10,439,514
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 3,216,646	\$ 3,145,043
Deferred revenue	3,084,206	997,580
Current portion of long-term debt	300,000	300,000
Current portion of acquisition notes payable	732,500	426,250
	7,333,352	4,868,873
Future income tax liability	272,620	272,620
Acquisition notes payable	190,000	526,250
Long-term debt	975,000	1,050,000
	8,770,972	6,717,743
Shareholders' equity		
Share capital (note 3)	4,044,539	4,044,539
Special warrants	140,000	140,000
Deficit	(405,982)	(462,768)
	3, 778,557	3,721,771
	\$ 12,549,529	\$ 10,439,514

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Pareto Corporation
Consolidated Statements of Operations and Deficit
(unaudited)

For the three months ended	March 31, 2003	March 31, 2002
Revenue	\$ 3,249,140	\$ 845,293
Direct costs	2,188,016	768,180
Gross profit	1,061,124	77,113
Expenses		
Facilities	92,302	98,313
Selling and administration	801,512	378,057
	893,814	476,370
	167,310	(399,257)
Amortization of capital assets	53,271	11,085
Amortization of intangible assets	10,500	-
Interest and finance charges	50,743	11,932
	114,514	23,017
Income (loss) before income taxes	52,796	(422,274)
Income taxes		
Current (recovery)	-	-
Future (recovery)	(3,990)	(10,500)
	(3,990)	(10,500)
Net Income (loss) for the period	56,786	(411,774)
Deficit, beginning of period	(462,768)	(2,642,429)
Deficit, end of period	\$ (405,982)	\$ (3,054,203)
Basic and fully diluted earnings (loss) per share	\$ 0.002	\$ (0.03)
Basic weighted average number of shares outstanding	32,056,081	22,311,581
Diluted weighted average number of shares outstanding	32,978,641	22,311,581

Pareto Corporation
Consolidated Statements of Cash Flows
(unaudited)

For the three months ended	March 31, 2003	March 31, 2002
Cash provided by (used in)		
Operating activities		
Net Income (loss) for the period	\$ 56,786	\$ (422,274)
Items not involving cash:		
Amortization of capital assets	53,270	11,085
Amortization of intangible assets	10,500	-
Amortization of deferred finance costs	27,500	-
	148,056	(411,189)
Changes in non-cash operating accounts	245,491	(196,073)
	393,547	(607,262)
Investing activities		
Capital asset additions	(23,845)	(31,974)
Financing activities		
Bank indebtedness	-	93,922
Issuance of long-term debt	-	100,000
Repayment of long-term debt	(75,000)	-
Repayment of acquisition notes payable	(30,000)	-
	(105,000)	193,922
Increase (decrease) in cash for the period	264,702	(445,314)
Cash and cash equivalents, beginning of period	685,489	588,440
Cash and cash equivalents, end of period	\$ 950,191	\$ 143,126

Pareto Corporation
Notes to Consolidated Financial Statements
(unaudited)

March 31, 2003

1. Significant Accounting Policies

The financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles in Canada for interim financial statements. The financial statements have, in management's opinion, been properly prepared using judgment within reasonable limits of materiality. These interim financial statements do not include all the note disclosures required for annual financial statements and, therefore, should be read in conjunction with the Company's audited annual financial statements for the year ended December 31, 2002. The significant accounting policies follow that of the most recently reported annual financial statements.

2. Accounting Estimates

The preparation of interim financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimated.

3. Share Capital

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

- (b) Issued common shares

	Number of Shares	Amount
Balance, March 31, 2003 and December 31, 2002	32,056,081	\$ 4,044,539

- (c) Stock options

The Company has a stock option plan (the "Plan") for employees, consultants, directors and officers of the company. Pursuant to the plan, a total of 3,000,000 of the company's common shares have been reserved for issue. One-third of granted options vest on each of the anniversary dates of the grant.

Pareto Corporation
Notes to Consolidated Financial Statements
(unaudited)

March 31, 2003

3. Share Capital (continued):

Stock option transactions under the Plan during the period are as follows:

	Number of Options	Weighted Average Exercise Price
Options outstanding, December 31, 2002	2,990,286	\$ 0.28
Cancelled in 2003	(61,000)	0.22
Options outstanding, March 31, 2003	2,929,286	\$ 0.28
Options exercisable, March 31, 2003	722,762	\$ 0.35
Options exercisable, December 31, 2002	320,571	\$ 0.35

As at March 31, 2003, the Company had the following options outstanding pursuant to the Plan:

Number of Options	Exercise Price Per share	Expiry Date
564,000	\$0.35	March 31, 2006
381,715	\$0.35	November 30, 2006
658,571	\$0.35	February 15, 2007
745,000	\$0.20	August 1, 2007
580,000	\$0.20	November 4, 2007

The Company does not record compensation expense when stock options are granted to employees. Had compensation expense been determined based on the fair value at the grant dates, the net income and earnings per share amounts have been changed to the pro forma amounts indicated below:

	Three months ended March 31,	
	2003	2002
Net Income – as reported	\$ 56,786	\$ (411,774)
– pro forma	37,406	(416,864)
Earnings per share – basic and diluted		
– as reported	\$ 0.002	\$ (0.03)
– pro forma	0.002	(0.03)

Pareto Corporation
Notes to Consolidated Financial Statements
(unaudited)

March 31, 2003

3. Share Capital (continued):

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

Dividend yield	0%
Expected Volatility	40%
Risk-free interest rate	3.5% to 4.75%
Expected option life	2 to 4 years

(d) Special warrants:

Pursuant to the acquisition of Solutions, the Company issued 700,000 special warrants. The special warrants are convertible upon exercise to common shares of the Company for no further consideration in six tranches, exercisable every six months beginning May 19, 2003. The fair value of the special warrants at the date of issuance was \$140,000.

(e) Escrow common shares:

- i. Pursuant to an Escrow Agreement with the former shareholders of Campbell, the 628,724 common shares issued on the acquisition will be released during 2003 provided specific revenue targets are met.
- ii. Pursuant to an Escrow Agreement with the CDN, the founders of Alouettes and certain shareholders of Caxton were required to place a total of 8,705,000 shares in escrow. 10% of the 8,705,000 shares were released from escrow in February 2002 and 15% of the 8,705,000 shares will be released every six months thereafter. As at March 31, 2003, 5,223,000 of these shares remain in escrow.