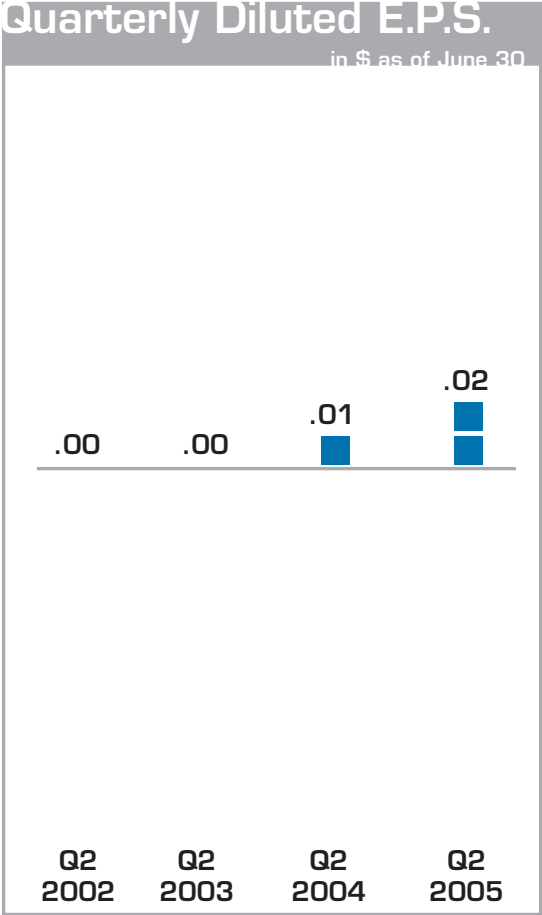
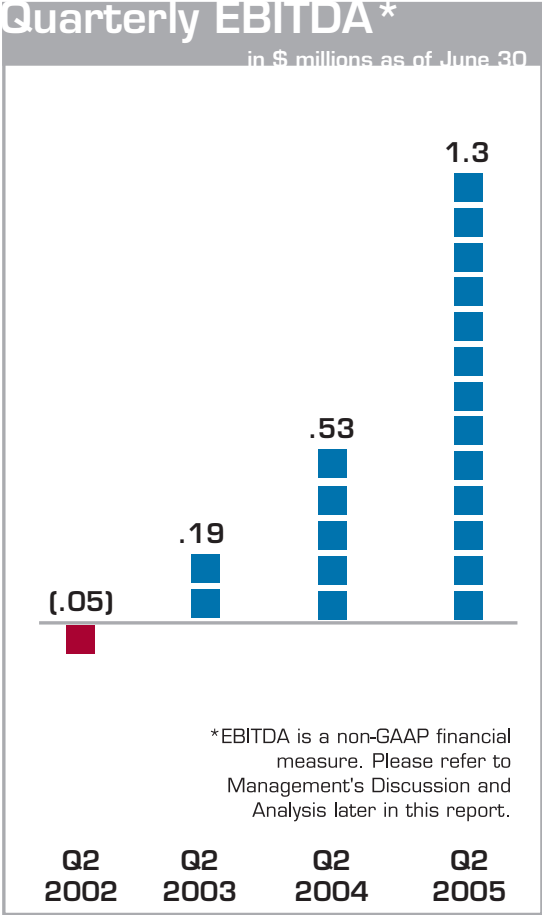
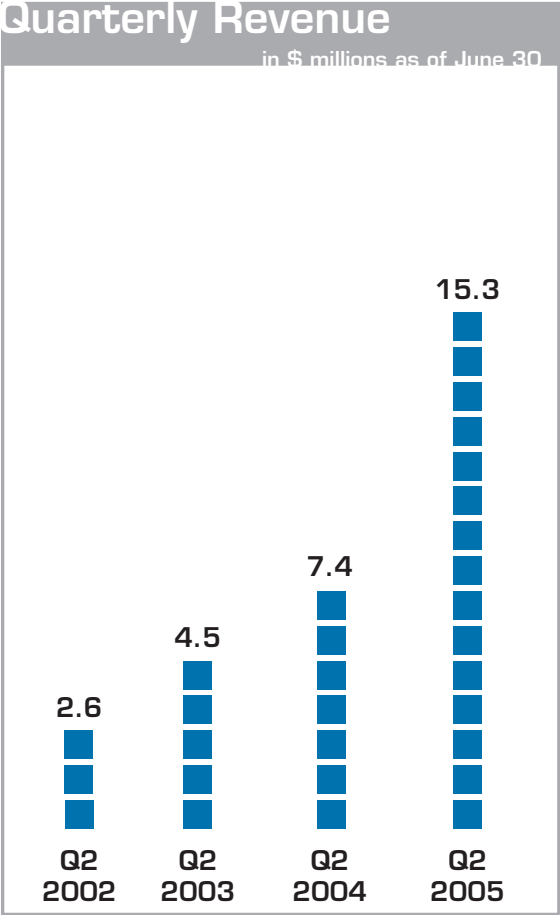


PARETO 2005 • Q2 REPORT

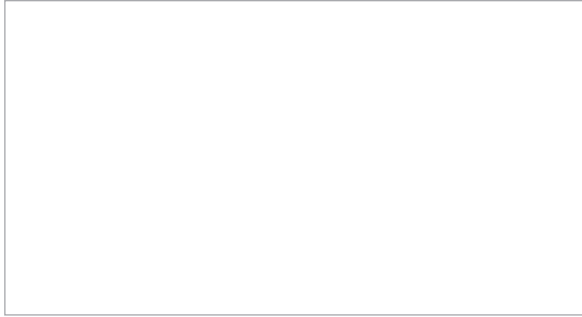


PARETO

Pareto • Q2 Report 2005



President's Letter



TO OUR SHAREHOLDERS:

Once again our company achieved dramatic and profitable growth, more than doubling the previous year's results with the second highest quarterly revenues in its history.

Pareto recorded revenues of \$15.3 million in Q2 2005, up 107% from \$7.4 million in 2004. Excluding the impact of an acquisition, organic growth was 61% in the quarter. Revenues for the first six months of 2005 grew 72% over the same period last year to \$24.4 million, and on a rolling 12 month basis we have booked revenues totaling \$49.0 million.

This strong top line performance helped us achieve EBITDA growth of 170% in the quarter, and net earnings growth of 105%. Earnings per share doubled to \$0.02. Q2 performance was led by our Event group, which posted its best ever quarter with revenues exceeding its sales for all of 2002, the year it was acquired by Pareto.

Our Elevate Incentives subsidiary also made a solid contribution, with five times more Aeroplan miles issued versus Q1, of revenues in only its second full quarter of operations. We are devoting significant resources to this division, reflecting the strength of demand we are seeing in the market.

And I am pleased to report that our largest customer, Shoppers Drug Mart, recently extended its contract with Pareto for another three years. The results we have delivered for a marquee name like Shoppers have led directly to additional retail customers.

We continue to realize synergies from the integration of last year's acquisition, Barry Rayner Associates. BRA client Ford has been buying new services from Pareto, and BRA personnel are applying their unique expertise to service other Pareto customers.

This Quarterly Report marks the beginning of an ongoing strategy to a higher level of transparency and disclosure for Pareto. We recognize that our business is unique among Canadian public companies, and that investors need a high level of disclosure to make informed decisions. I encourage you to review the Management's Discussion and Analysis, which we've enhanced with more detailed operating metrics and descriptions of our business model.

On the basis of existing signed commitments and our robust sales pipeline, I fully expect Pareto's strong performance to continue into the second half of the year.

Thank you for your support.

A handwritten signature in black ink, appearing to read 'Kerry Shapansky'. The signature is fluid and cursive.

Kerry Shapansky

President & Chief Executive Officer



Management's Discussion and Analysis

Management's Discussion and Analysis of Results of Operations and Financial Position ("MD&A") of Pareto Corporation ("the Company" or "Pareto"), dated August 12, 2005, summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity and cash flows of Pareto for the quarter and the six month period ended June 30, 2005. All amounts are in Canadian dollars. This MD&A should be read in conjunction with consolidated annual financial statements for the year ended December 31, 2004, which are prepared in accordance with Canadian GAAP. Additional information relating to Pareto, including the Annual Information Form dated March 28, 2005, can be found at the Company's website at www.pareto.ca and on SEDAR at www.sedar.com.

Forward-looking Statements

The Company and its representatives periodically make written and spoken forward-looking statements, including those contained in this report. By their nature, forward-looking statements are subject to risks and uncertainties that could result in actual performance being materially different from anticipated results. The Company cautions readers, when making decisions, to consider the risks and uncertainties of forward-looking statements. The Company relies upon litigation protection for forward-looking statements.

Non-GAAP Measures

In this discussion and analysis, management uses "EBITDA" (earnings before amortization, net interest and finance charges, share-based compensation, income taxes 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. The items required to reconcile between EBITDA and net earnings are amortization of capital assets, amortization of intangible and other assets, net interest and finance charges, share-based compensation, income taxes, and non-controlling interest, all of which are clearly identified on the Company's Statement of Operations and Retained Earnings (Deficit).

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 common 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 for both retail and business-to-business applications. Pareto provides measurable, quantifiable services that complement its clients' marketing and sales departments. The specific products and services which Pareto offers to its clients include:

- Print management and fulfillment and distribution of in-store point of sale/point of purchase materials.
- Direct mail.
- Design, production and coordination of consumer promotions.
- Corporate events and incentive travel management.
- Outsourced sales and marketing program management.
- Customer loyalty programs.
- Channel sales and employee incentive programs.

Pareto will typically provide its clients a combination of the foregoing products and services, and seeks over time to use the knowledge and experience acquired in working with each client to design and develop a broader range of services that will meet their marketing objectives in a more cost efficient manner. Pareto seeks to build long-term relationships with its clients which result in the clients outsourcing, to Pareto, the execution of all of aspects of their marketing program within Pareto's operational expertise.

Pareto's clients are, predominately, Canadian companies in the financial services, automotive, retail, communications, pharmaceutical, services and technology sectors. Pareto sells products and services to these clients for both retail and business-to-business applications.

Pareto sells its products and services, other than channel sales and employee 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 print management, direct mail, consumer promotions, corporate events and customer loyalty programs. For example, in a retail application the Company sells 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.

Outsourced sales and marketing program management 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 sales and marketing program to specified objectives. These services may also be sold on a fixed fee basis.



Profitability in the project or deliverable fixed fee business model is driven by Pareto's success in accurately projecting its costs in pricing products and services and by effective project management. 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 channel sales and employee incentive programs, and in particular the Elevate business, 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. 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 that regard, the acceptance and use of Aeroplan Miles in the Canadian marketplace is anticipated to be a significant contributor to the success of the Company's Elevate 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 unit. The Company endeavors to sell, to each client, as many of its operational services and products as possible and also 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. 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.

Operating Results

	for the quarter ended June 30:				for the six months ended June 30:			
	2005	2004	\$ Change	% Change	2005	2004	\$ Change	% Change
Revenue	\$ 15,278,951	\$ 7,389,411	\$ 7,889,540	107%	\$ 24,420,762	\$ 14,200,966	\$ 10,219,796	72%
Operating and administrative expenses	13,758,036	6,825,206	6,932,830	102%	22,220,959	13,138,505	9,082,454	69%
	\$ 1,520,915	\$ 564,205	\$ 956,710	170%	\$ 2,199,803	\$ 1,062,461	\$ 1,137,342	107%
Amortization of capital assets	\$ 81,188	\$ 64,352	\$ 16,836	26%	\$ 165,244	\$ 125,484	\$ 39,760	32%
Amortization of intangible assets and deferred cost	57,298	22,585	34,713	154%	114,596	45,170	69,426	154%
Interest and finance charges, net	72,378	10,029	62,349	522%	135,082	20,266	114,816	467%
Share-based compensation	13,972	17,571	(3,599)	(20%)	30,436	34,036	(3,600)	(11%)
	\$ 224,836	\$ 114,537	\$ 110,299	96%	\$ 445,358	\$ 224,956	\$ 220,402	98%
Earnings before income taxes and non-controlling interest	1,296,079	449,668	846,441	88%	1,754,445	837,505	916,940	109%
Income taxes (recovery)	450,001	(4,059)	454,060	11,186%	614,239	(12,477)	626,716	49,229%
Non-controlling interest	(22,782)	29,521	(52,303)	(177%)	(51,084)	(5,670)	(45,414)	700%
Net earnings	\$ 868,860	\$ 424,206	\$ 444,654	105%	\$ 1,191,290	\$ 855,652	\$ 335,638	39%
Basic earnings per share	\$ 0.02	\$ 0.01	\$ 0.01	100%	\$ 0.03	\$ 0.03	\$ 0.00	0%
Diluted earnings per share	\$ 0.02	\$ 0.01	\$ 0.01	100%	\$ 0.03	\$ 0.02	\$ 0.01	50%



Revenue

Revenue for the quarter ended June 30, 2005 increased by 107% to \$15.3 million from \$7.4 million. On a year to date basis revenue for the six month period ended June 30, 2005 increased by 72% to \$24.4 million. Excluding revenues generated by Barry Rayner Associates, acquired in August 2004, revenues grew organically by 61% in the quarter and 31% year to date. The organic growth in the quarter was driven by 156% revenue growth in corporate events and the inclusion of increasing Elevate revenues, partially offset by small declines in fulfillment and distribution and customer loyalty programs. The increase in corporate event revenues was partially a result of the timing of approximately \$1.7 million of large client projects which were completed in the second quarter of 2005 compared to the comparable 2004 client event occurring in the first quarter of 2004. For the six month period all businesses contributed positively with strong growth in corporate events and customer loyalty programs in addition to the contribution to revenue by Elevate.

On a last twelve month basis Pareto has generated \$49.0 million of revenues since July 1, 2004.

Revenues from the sale of products and services on a fixed fee basis represented 75% of revenue in the quarter (73% year to date). Revenues from services sold on a time and materials basis represented 22% (24% year to date) of revenues while revenues from the resale of reward units in incentive programs represented 3% (3% year to date). In the first six months of 2004 all revenues were derived on a fixed fee basis. The number of participants enrolled in reward unit incentive programs at June 30, 2005 was approximately 1,600.

Pareto's clients are, predominately, Canadian companies in the financial services, automotive, retail, communications, pharmaceutical, services and technology sectors. Pareto sells products and services to these clients for both retail and business-to-business applications.

Revenues from retail applications, which include print management, direct mail, fulfillment and distribution, consumer promotions and certain customer loyalty programs, comprised 31% (44% year to date) of total revenues for the quarter ended June 30, 2005, while business-to-business applications, which include corporate events, channel sales and employee incentive programs and certain outsourced sales and marketing management programs represent the remaining percentage of total revenue.

Operating and Administrative Expenses

Operating and administrative expenses increased by \$6.9 million or 102% to \$13.8 million for the quarter. For the year to date, operating and administrative expenses increased by \$9.1 million or 69%. These increases in operating and administrative expenses resulted from the significant increase in revenues and the inclusion of approximately \$2.8 million in the quarter (\$4.9 million year to date) of operating and administrative costs related to Barry Rayner Associates, acquired in August 2004.

In the quarter, the component costs of operating and administrative expenses were consistent with that of last year. Salary costs as a percentage of revenue increased from Q2 2004 as a result of the inclusion of the time and materials business model of Barry Rayner Associates, which utilizes a higher proportion of personnel.

EBITDA

EBITDA (see "Non-GAAP Measures" above) was \$1.5 million in the second quarter of 2005, up 170% from \$564,000 in 2004. For the six month period EBITDA increased to \$2.2 million, up 107%. The growth was driven by overall revenue growth and improved operational profitability. EBITDA as a percentage of revenue represented 10.0% in Q2 of 2005 (9.0% year to date), up 240 basis points from 7.6% in Q2 2004 (7.5% year to date in 2004). This improvement in EBITDA margin percentage was achieved as a result of improved production and administrative efficiencies. The \$956,000 quarterly increase in EBITDA represented 12.1% of the revenue increase in the period. The \$1.1 million increase in EBITDA on a year to date basis represented 11.1% of the revenue increase in the period. Pareto's quarterly EBITDA margin percentage fluctuates during the course of the year in conjunction with revenues as infrastructure costs are more consistent by quarter.

On a last twelve month basis Pareto has generated \$4.5 million of EBITDA since July 1, 2004 representing 9.2% of revenues in that period.

Amortization, Interest and Share-based Compensation

Amortization, interest and share-based compensation increased by a total of \$110,000 or 96% to \$225,000 in the second quarter and \$220,000 or 98% on a year to date basis. The increases were caused by amortization and interest expense related to the acquisition of Barry Rayner Associates as well as the inclusion of amortization of start-up costs of Elevate.

Income Taxes (Recovery)

Pareto recorded income tax expense of \$450,000 in the second quarter of 2005

and \$614,000 for the six month period, representing an effective tax rate of 34.7% (35.0% year to date). In 2004, Pareto realized a small income tax recovery as a result of the utilization of tax loss carryforwards. The Company expects to incur a effective tax rate comparable to the rate experienced in Q2 2005 on an on going basis.

Non-controlling interest

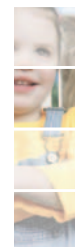
Non-controlling interest expense, which relates to the share of net income or loss attributed to minority shareholders of the operations of Pareto Dialogue, a subsidiary controlled by the Company, changed by \$52,303 (\$45,414 year to date) between the second quarters of 2005 and 2004.

Net earnings

Net earnings for the quarter increased by 105% to \$868,000 from \$424,000 in 2004 as the quarterly EBITDA improvement of \$956,000 was offset by increases of approximately \$100,000 in interest and amortization and \$450,000 of income taxes. On a year to date basis net earnings increased by \$335,000 or 39%. Net earnings as a percentage of revenue remained constant at 5.7% while for the six month period net earnings percentage declined from 6.0% to 4.9%. Excluding the effect of income taxes, earnings before income taxes and non-controlling interest improved to 8.5% of revenue in the quarter compared to 6.1% in 2004 (7.2% from 6.0% on a year to date basis).

Earnings per share

In the second quarter of 2005 Pareto's basic and diluted earnings per share were \$0.02, up 100% from \$0.01 in Q1 of 2004. This improvement resulted from the 105% increase in net earnings offset by an 8% increase in the number of diluted



shares outstanding in the quarter. On a year to date basis diluted earnings per share increased 50% to \$0.03 from \$0.02 as a 39% increase in net earnings was offset by a 9% increase in the diluted number of shares outstanding. The weighted average number of diluted shares outstanding increased in both periods by approximately 2.8 million shares as a result of the two 1,000,000 share private placements completed by Pareto since June 30, 2004 as well as the shares issued pursuant to the acquisition of Barry Rayner Associates.

Liquidity and Capital Resources

Financial Position

	June 30 2005	December 31 2004	\$ Change	% Change
Cash	\$ (1,706,627)	\$ (964,056)	\$ 742,571	77%
Acquisition notes payable	40,000	435,000	(395,000)	(91%)
Long term debt	1,749,998	2,000,000	(250,002)	(13%)
Net debt	83,371	1,470,944	(1,387,573)	(94%)
Shareholders' equity	3,625,822	2,434,532	1,191,290	49%
Total capitalization	\$ 3,709,193	\$ 3,905,476	\$ (196,283)	(5%)
Working capital position	\$ 27,440	\$ (2,497,317)	\$ 2,524,757	101%
Net debt : Shareholders' equity	0.02 : 1	0.60 : 1		
Net debt : Total capitalization	0.02 : 1	0.38 : 1		
Net debt : EBITDA	0.02 : 1	0.43 : 1		
Total debt : EBITDA	0.40 : 1	0.72 : 1		

Liquidity and Capital Resources

Pareto's sources of short-term liquidity include cash provided by operating activities

and a \$2.5 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.

The Company has long-term subordinated debt with a principal amount of \$1,749,998 outstanding as at June 30, 2005. The debt bears variable interest payable monthly at bankers' acceptance rates plus 3.5%. In addition, the Company pays monthly fees of \$6,000 in respect of the subordinated debt. Scheduled principal repayments on the subordinated debt are due in the following years: 2005 - \$500,000; 2006 - \$500,000; 2007 - \$500,000; and 2008 - \$500,000. The Company may make discretionary prepayments of \$167,000 in November of 2005, 2006, and 2007.

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

Operating activities

Pareto's operating activities generated \$1.7 million of cashflow in the quarter compared to \$198,000 in Q2 2004 led by the significant increase in net earnings as well as a \$1.1 million improvement in changes in non-cash operating accounts, primarily a reduction in accounts receivable. For the year to date period, cashflow from operations totaled \$533,000, down from \$898,000 last year. Though net earnings improved in the period changes in non-cash operating accounts declined by \$800,000 largely due to reductions in deferred revenue. Deferred revenue primarily relates to corporate events where customers are billed in advance of the completion of projects. The decline in deferred revenue from March 31, 2005 is consistent with the significant corporate event revenues realized in Q2 2005.

Investing activities

Investing activities used \$57,000 of cash in the quarter ended June 30, 2005, down from \$185,000 last year primarily as a result of lower additions to other assets. On a year to date basis, investing activities utilized \$226,000 of cash compared to \$235,000 in 2004 as lower other asset additions were offset by \$100,000 of cash utilized pursuant to the acquisition of Barry Rayner Associates.

Financing activities

Pareto's financing activities utilized \$175,000 of cashflow in the quarter, primarily for the reduction of debt, compared with \$407,000 in 2004. On a year to date basis Pareto was able to generate \$435,000 in cash compared to expenditures of \$1.4 million in 2004. The primary source was the \$1.0 million private placement completed by the Company in January 2005 offset by long-term debt repayments of \$250,000 and acquisition obligations payments of \$495,000.

Contractual Obligations

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

(in dollars)	Payments due by period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt	\$ 1,749,998	\$ 500,000	\$ 1,249,998	\$ -	\$ -
Acquisition notes payable	40,000	40,000	-	-	-
Operating leases	1,919,562	779,405	872,593	267,564	-
Total contractual obligations	\$ 3,709,560	\$1,319,405	\$ 2,122,591	\$267,564	\$ -

In addition the Company has \$335,000 of acquisition note obligations which may be recognized in future depending on 2005 operating results pursuant to the acquisition of Naylor Event Management.

Under Canadian generally accepted accounting principles, this amount will be recognized as a liability only upon the achievement of the required operating performance criteria.

The Company anticipates the \$335,000 acquisition note payable related to Naylor Event Management will be earned and be payable in April 2006.

Pursuant to the acquisition of Barry Rayner Associates, in 2004, the Company agreed to pay additional consideration based on the future operating performance of Barry Rayner Associates. In 2005, the Company amended the purchase agreement to replace the Barry Rayner Associates performance criteria with a sales commission payable based on the efforts of a former owner relating to the expansion of Barry Rayner Associates services to new clients. The commission is eligible until 2008 with a maximum amount of \$1.8 million. The rate of sales commission is consistent with the Company's general sales commission policy. Any commission payable under the amendment will be included in operating and administrative expenses and not reflected as an addition to goodwill.

The Company does not have any other significant off-balance-sheet arrangements.



Outstanding Share Data

At June 30, 2005, an unlimited number of common shares were authorized and 36,525,093 were outstanding. The Company has issued 2,985,319 options to acquire common shares pursuant to its Option Plan of which 1,931,708 were exercisable. The Company also has 115,000 special warrants and 800,000 common share purchase warrants currently outstanding, all convertible to common shares on a one to one basis. See note 4 to the consolidated financial statements for further information on the Company's share capital.

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 in the coming year, 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 40 different clients with three clients representing greater than 10% of revenues (20%, 19% and 14% respectively for the quarter and 22%, 25% and 11% for the year to date). 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 reduces 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 34% of consolidated assets at June 30, 2005. The Company mitigates its credit risk with respect to accounts receivable by dealing with large, creditworthy clients and also by billing whenever possible in advance of the provision of services.

Dependence on Key Personnel

The Company's success is dependent on the leadership of a number of key executive and management personnel. If any of these key individuals leave the Company, the relationships they have with certain of the Company's clients could be lost. In addition, the Company's ability to generate revenue is dependent upon the number and expertise of individuals who perform project work. The competition for the most experienced and able 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.

Transactions With Related Parties

The Company has not had any transactions with related parties in 2005. Please refer to note 12 of the Company's 2004 consolidated financial statements for further information on past related party transactions.

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 1 to the 2004 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. During the fourth quarter of 2004, 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 they were to be recognized in future periods, impairment losses related to goodwill and intangible assets 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 June 30, 2005.

Summary of Quarterly and Annual Results

Year Ended December 31, 2005

	March 31	June 30
Quarterly information:		
Revenue	\$ 9,141,811	\$ 15,278,951
EBITDA ¹	458,366	1,520,915
Net earnings	322,430	868,860
Basic and diluted earnings per share ²	0.01	0.02

Year Ended December 31, 2004

	March 31	June 30	September 30	December 31	Total
Quarterly information:					
Revenue	\$ 6,811,555	\$ 7,389,411	\$ 7,588,106	\$ 16,956,135	\$ 38,745,207
EBITDA ¹	498,256	564,206	684,888	1,655,428	3,402,778
Net earnings ³	431,446	424,206	436,662	1,193,753	2,486,067
Basic and diluted earnings per share ²	0.01	0.01	0.01	0.03	0.07

Annual information:

Total assets	24,966,769
Total long-term financial liabilities	1,948,576
Cash dividends declared	0.00



Year Ended December 31, 2003

	March 31	June 30	September 30	December 31	Total
Quarterly information:					
Revenue	\$ 3,249,140	\$ 4,515,375	\$ 4,889,182	\$ 6,474,964	\$ 19,128,661
EBITDA ¹	167,310	191,876	304,161	444,624	1,107,971
Net earnings ³	37,406	4,736	185,335	234,386	461,863
Basic and diluted earnings per share ²	0.00	0.00	0.01	0.01	0.01
Annual information:					
Total assets				14,766,281	
Total long-term financial liabilities				925,865	
Cash dividends declared				0.00	

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

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

³ Net earnings have been retroactively restated to give effect to the adoption of CICA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments". See above under "Changes in Accounting Policies".

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 with respect to corporate events, does not follow a predetermined seasonal pattern through the fourth quarter of each calendar year 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.

Pareto Corporation

Consolidated Balance Sheets

	June 30, 2005 (unaudited)	December 31, 2004 (audited)
Assets		
Current assets		
Cash	\$ 1,706,627	\$ 964,056
Accounts receivable	8,622,660	8,265,330
Income taxes recoverable	—	403,753
Work in progress	1,061,986	1,161,067
Inventory and other current assets	523,405	540,127
Current future income tax assets	300,780	359,532
	<u>12,245,458</u>	11,693,865
Deferred costs and other assets	836,669	869,839
Capital assets	1,078,405	1,158,899
Goodwill and intangible assets	11,293,700	11,244,166
	<u>\$ 25,424,232</u>	\$ 24,966,769
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 8,200,496	\$ 8,004,616
Current portion of deferred revenue	3,159,044	5,168,782
Income taxes payable	235,694	—
Current future income tax liabilities	82,784	82,784
Current portion of acquisition notes payable	40,000	435,000
Current portion of long-term debt	500,000	500,000
	<u>12,218,018</u>	14,191,182
Long-term deferred revenue	470,722	—
Long-term future income tax liabilities	407,184	448,576
Long-term debt	1,249,998	1,500,000
	<u>14,345,922</u>	16,139,758
Non-controlling interest	110,549	161,633
Shareholders' equity		
Share capital (note 4)	6,971,649	5,867,592
Contributed surplus	216,250	185,814
Special warrants	23,000	46,400
Common share purchase warrants	131,040	131,040
Retained earnings	3,625,822	2,434,532
	<u>10,967,761</u>	8,665,378
	<u>\$ 25,424,232</u>	\$ 24,966,769

Pareto Corporation
Consolidated Statements of Operations and
Retained Earnings (Deficit)

	For the three month periods ended June 30, (unaudited)	2005	2004
Revenue	\$ 15,278,951	\$ 7,389,411	
Operating and administrative expenses	13,758,036	6,825,206	
	<u>1,520,915</u>	<u>564,205</u>	
Amortization of capital assets	81,188	64,352	
Amortization of intangible assets and deferred costs	57,298	22,585	
Interest and finance charges, net	72,378	10,029	
Share-based compensation	13,972	17,571	
	<u>224,836</u>	<u>114,537</u>	
Earnings before income taxes and non-controlling interest	1,296,079	449,668	
Income taxes (recovery)	450,001	(4,059)	
Non-controlling interest	(22,782)	29,521	
	<u>868,860</u>	<u>424,206</u>	
Net earnings for the period	868,860	424,206	
Retained earnings, beginning of period	2,756,962	379,911	
Retained earnings, end of period	\$ 3,625,822	\$ 804,117	
Basic earnings per share	\$ 0.02	\$ 0.01	
Diluted earnings per share	\$ 0.02	\$ 0.01	
Average number of common shares outstanding:			
Basic	36,333,865	33,403,158	
Diluted	38,387,740	35,539,456	

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

Pareto Corporation
Consolidated Statements of Operations and
Retained Earnings (Deficit)

For the six month periods ended June 30, (unaudited)	2005	2004
Revenue	\$ 24,420,762	\$ 14,200,966
Operating and administrative expenses	22,220,959	13,138,505
	2,199,803	1,062,461
Amortization of capital assets	165,244	125,484
Amortization of intangible assets and deferred costs	114,596	45,170
Interest and finance charges, net	135,082	20,266
Share-based compensation	30,436	34,036
	445,358	224,956
Earnings before income taxes and non-controlling interest	1,754,445	837,505
Income taxes (recovery)	614,239	(12,477)
Non-controlling interest	(51,084)	(5,670)
Net earnings for the period	1,191,290	855,652
Retained earnings (deficit), beginning of period	2,434,532	(51,535)
Retained earnings, end of period	\$ 3,625,822	\$ 804,117
Basic earnings per share	\$ 0.03	\$ 0.03
Diluted earnings per share	\$ 0.03	\$ 0.02
Average number of common shares outstanding:		
Basic	36,183,491	33,291,532
Diluted	38,362,300	35,133,060

Pareto Corporation
Consolidated Statements of Cash Flows

For the three month periods ended June 30, (unaudited)	2005	2004
Cash provided by (used in)		
Operating activities		
Net earnings for the period	\$ 868,860	\$ 424,206
Items not involving cash:		
Amortization of capital assets	81,188	64,352
Amortization of intangible assets and deferred costs	57,298	22,585
Non-cash interest and finance charges	9,464	5,556
Share-based compensation costs	13,972	17,571
Non-controlling interest	(22,782)	29,521
Change in future income taxes	(39,969)	(4,059)
	968,031	559,732
Changes in non-cash operating accounts	738,333	(360,882)
	1,706,364	198,850
Investing activities		
Capital asset additions	(37,473)	(47,134)
Other asset additions	(19,338)	(137,705)
	(56,811)	(184,839)
Financing activities		
Repayment of acquisition notes payable	(130,000)	(460,000)
Repayment of long-term debt	(125,001)	–
Issuance of shares	80,333	52,499
	(174,668)	(407,501)
Increase (decrease) in cash for the period	1,474,885	(393,490)
Cash and cash equivalents, beginning of period	231,742	593,294
Cash and cash equivalents, end of period	\$ 1,706,627	\$ 199,804

Pareto Corporation
Consolidated Statements of Cash Flows

For the six month periods ended June 30, (unaudited)	2005	2004
Cash provided by (used in)		
Operating activities		
Net earnings for the period	\$ 1,191,290	\$ 855,652
Items not involving cash:		
Amortization of capital assets	165,244	125,484
Amortization of intangible assets and deferred costs	114,596	45,170
Non-cash interest and finance charges	18,928	11,112
Share-based compensation costs	30,436	34,036
Non-controlling interest	(51,084)	(5,670)
Change in future income taxes	17,360	(12,477)
	<u>1,486,770</u>	<u>1,053,307</u>
Changes in non-cash operating accounts	(953,316)	(154,729)
	<u>533,454</u>	<u>898,578</u>
Investing activities		
Capital asset additions	(84,750)	(81,244)
Other asset additions	(41,788)	(154,720)
Acquisitions, net of cash acquired	(100,000)	-
	<u>(226,538)</u>	<u>(235,964)</u>
Financing activities		
Issuance of acquisition notes payable	100,000	-
Repayment of acquisition notes payable	(495,000)	(796,250)
Repayment of long-term debt	(250,002)	(700,000)
Issuance of shares	1,085,746	85,999
Share issue costs	(5,089)	-
	<u>435,655</u>	<u>(1,410,251)</u>
Increase (decrease) in cash for the period	742,571	(747,637)
Cash and cash equivalents, beginning of period	964,056	947,441
Cash and cash equivalents, end of period	\$ 1,706,627	\$ 199,804

Pareto Corporation
Notes to Consolidated Financial Statements

June 30, 2005 (Unaudited)

1. Interim financial information

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and use the same accounting policies and methods used in the preparation of the Company's most recent annual consolidated financial statements. However, not all disclosures required for annual financial statements have been included in these financial statements. These interim consolidated financial statements should therefore be read in conjunction with the company's most recent annual consolidated financial statements. The financial information as at June 30, 2005 and for the three-month and six-month periods ended June 30, 2005 and June 30, 2004 are unaudited.

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. Business combinations

In 2004, the Company acquired all of the issued and outstanding shares of Barry Rayner Associates Inc., paying initial consideration of \$3,893,553 comprised of \$3,393,553 in cash and 495,050 common shares with a fair value of \$500,000 at that date. The acquisition was accounted for as a purchase.

In 2005 the Company has paid additional cash consideration of \$100,000 and amended the purchase agreement.



Pareto Corporation
Notes to Consolidated Financial Statements

June 30, 2005 (Unaudited)

4. Share capital

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

(b) Issued common shares:

	Number of Shares	Amount
Balance, December 31, 2004	35,160,492	\$ 5,867,592
Shares issued pursuant to private placement (i)	1,000,000	1,000,000
Shares issued on exercise of stock options	247,601	85,746
Conversion of special warrants	117,000	23,400
Share issue costs	-	(5,089)
	36,525,093	\$ 6,971,649
Balance, June 30, 2005		

- i. On January 11, 2005 Pareto issued 1,000,000 common shares pursuant to a private placement at an issue price of \$1.00 per common share for gross proceeds of \$1,000,000.

(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 3,500,000 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.

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

	Number of Options	Weighted Average Exercise Price
Options outstanding, December 31, 2004	3,203,286	\$ 0.32
Granted in 2005	74,167	0.90
Exercised in 2005	(282,134)	0.30
Cancelled in 2005	(10,000)	0.88
	2,985,319	\$ 0.33
Options outstanding, June 30, 2005		
Options exercisable, June 30, 2005	1,931,708	\$ 0.29
Options exercisable, December 31, 2004	1,882,096	\$ 0.28

As at June 30, 2005, the Company had the following options outstanding pursuant to the Plan:

Number of Options	Exercise Price Per Share	Expiry Date
28,000	\$0.35	March 31, 2006
366,248	\$0.35	November 30, 2006
608,571	\$0.35	February 15, 2007
483,333	\$0.20	August 1, 2007
560,000	\$0.20	November 4, 2007
400,000	\$0.25	June 23, 2008
300,000	\$0.43	February 10, 2009
135,000	\$0.86	July 19, 2009
30,000	\$0.88	December 13, 2009
34,167	\$0.90	March 7, 2010
40,000	\$0.90	April 26, 2010

Pareto Corporation
Notes to Consolidated Financial Statements

June 30, 2005 (Unaudited)

(d) Restricted stock units:

The Company has a long-term incentive plan (LTIP) for employees, consultants, directors and officers of the Company. Pursuant to the LTIP, a total of 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. Restricted stock units are redeemable upon the third anniversary of the date of grant. No restricted stock units have been granted pursuant to the LTIP to June 30, 2005.

(e) Share-based compensation:

The fair value of share options granted in 2005 was estimated using the Black-Scholes option-pricing model with the following assumptions:

Dividend yield	0%
Expected volatility	40%
Risk-free interest rate	2.5% to 3.25%
Expected option life	2 to 4 years

The fair value of share options granted in 2004 was estimated using the Black-Scholes option-pricing model with the following assumptions:

Dividend yield	0%
Expected volatility	40%
Risk-free interest rate	3% to 3.25%
Expected option life	2 to 4 years

(f) Special warrants:

In 2002, the Company issued 700,000 special warrants. The fair value of the special warrants at the date of issuance was \$140,000. 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 book value of the remaining 115,000 special warrants was \$23,000 at June 30, 2005.

(g) Common share purchase warrants:

In 2004, the Company issued 800,000 common share warrants (the "warrants"), each of which provide the holder with the right to purchase one common share of the Company for \$1.00. The warrants expire on October 13, 2006, and all of the warrants were outstanding at June 30, 2005. The fair value of the warrants at the date of issuance was \$131,040, which has been included in shareholder's equity as common share purchase warrants.

5. Comparative figures

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



Directors

J.R. Kingsley Ward (chairman)^{(1)(2) Chair}

Gregory Cochrane⁽²⁾⁽³⁾

Kerry Shapansky

David Atkins^{(1) Chair}(2)(3)

John Stevens^{(1)(3) Chair}

(1) Member, audit committee.

(2) Member, compensation committee.

(3) Member, corporate governance committee.

Management Team

Kerry Shapansky
President & Chief Executive Officer

Georgia Curtis
Human Resources

Kim Naylor
Event Solutions

Clint Becker
Chief Financial Officer

Dave Houston
Managed Solutions

Dave Rose
Retail Solutions

Don Brommet
Elevate

Sandy Matheson
Pareto Dialogue

Jonathan Silver
Business Development

Michael Collins
Managed Solutions

Mari-Lynn Misener
Incentive Solutions

Michael Zivot
Business Development

Independent Auditors

BDO Dunwoody LLP - Toronto, Ontario

Legal Counsel

Fraser Milner Casgrain LLP

Transfer Agent

CIBC Mellon Trust Company

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Common Stock

The common stock of Pareto Corporation trades on the TSX under the ticker symbol "PTO".

Corporate Information

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