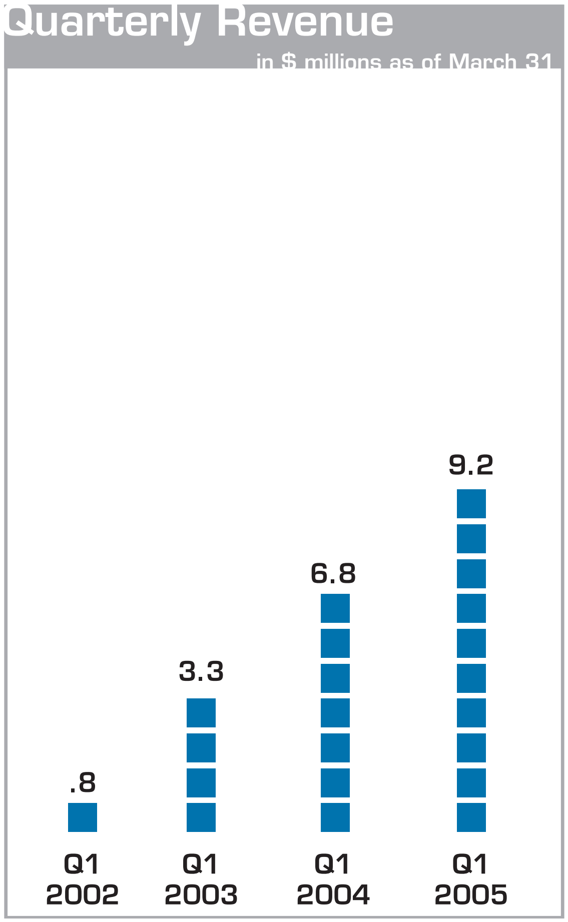
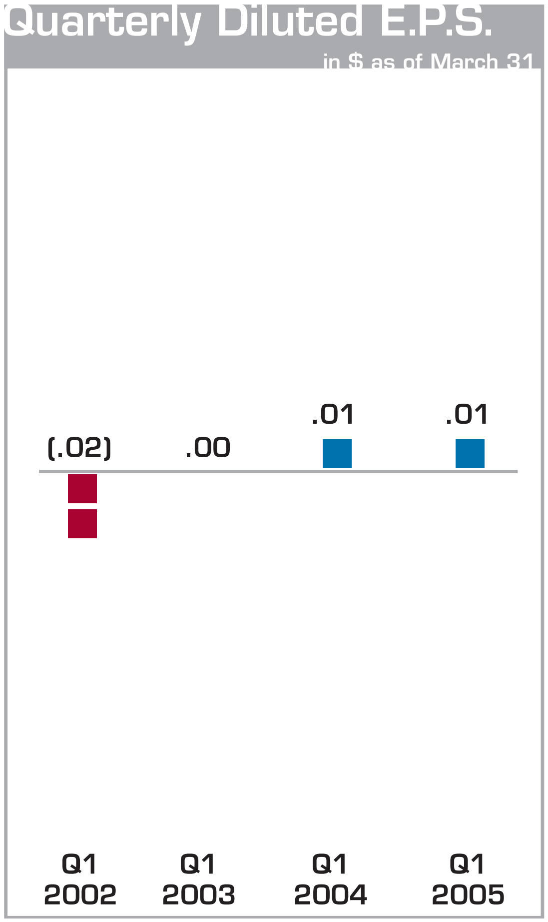
Pareto • Q1 Report 2005

PARETO

Pareto • Q1 Report 2005


Quarterly Revenue
in $ millions as of March 31
.8
3.3
6.8
9.2
Q1 2002
Q1 2003
Q1 2004
Q1 2005


Quarterly EBITDA*
in $ millions as of March 31
(.4)
.2
.5
.7
*EBITDA is a non-GAAP financial measure. Please refer to Management's Discussion and Analysis later in this report.
Q1 2002
Q1 2003
Q1 2004
Q1 2005


Quarterly Diluted E.P.S.
in $ as of March 31
(.02)
.00
.01
.01
Q1 2002
Q1 2003
Q1 2004
Q1 2005

Retail Solutions

PARETO

Event Solutions

PARETO

Incentive Solutions

PARETO

Managed Solutions

PARETO

President's Letter

TO OUR SHAREHOLDERS:

I am pleased to report that we continued to build on our track record of profitable growth by posting a strong set of first quarter results that met our expectations. Pareto's Q1 2005 revenues were up 34% over last year, from $6.8 million to $9.1 million. EBITDA grew by 36%, from $498,256 to $678,888. Our pre-tax earnings increased by 15%, but with nine consecutive profitable quarters we are now incurring an income tax expense. After accounting for taxes our net earnings decreased to $322,430 from $431,446 last year, while earnings per share were unchanged at $0.01.

Our existing businesses – excluding Event Solutions – grew revenues organically by 40% compared to Q1 of last year, with the growth coming from both new customers and increased sales to existing clients. Event Solutions revenues were down $1.7 million from last year due to the timing of several key projects for which we will recognize significant revenues in the second quarter.

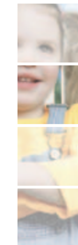
Two new businesses not included in last year's Q1 results – Elevate Incentives and Barry Rayner Associates division – generated 25% of our revenues for this quarter. Elevate, the subsidiary we launched late last year to serve as the sole distributor of Aeroplan Mile-based channel and employee incentive programs, signed its first customers during Q1. We are very encouraged by the demand for Elevate's services and expect it to contribute more than $5 million of sales in 2005.

In Q1 we rebranded Barry Rayner Associates, the firm we acquired last August, under the Pareto banner to reflect its successful integration into our operations. In addition to a 17 year relationship with Ford, this division brought to Pareto valuable expertise that we are currently tapping for projects involving seven non-Ford clients and is just the latest example of our strategy of acquiring companies that add capabilities or client relationships, and integrating them fully into our existing business.

With a solid start to the year, our demonstrated ability to execute our strategy, and a healthy pipeline of new business opportunities, Pareto is well positioned for another year of strong revenue and profit growth.

Thank you for your support.

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 May 11, 2005, summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity and cash flows of Pareto for the quarter ended March 31, 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, loss on lease termination, 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 assets and deferred costs, net interest and finance charges, share-based compensation, income taxes, and non-controlling interest, all of which are clearly identified on the Company's Consolidated Statement of Operations and Retained Earnings (Deficit).

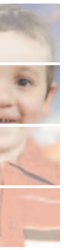
Management uses other non-GAAP financial measures, including net debt (long-term debt plus acquisition notes payable, less cash), EBITDA margin and cash interest expense.

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.

Operating Results

Revenue, Operating and Administrative Expenses, EBITDA

	2005	**2004**	**$ Change**	**% Change**
Revenue	**$ 9,141,811**	$ 6,811,555	$ 2,330,256	34%
Operating and administrative expenses	**8,462,923**	6,313,299	2,149,624	34%
EBITDA	**$ 678,888**	$ 498,256	$ 180,632	36%



Revenue

For the quarter ended March 31, 2005, revenue totaled $9.1 million, up 34% from $6.8 million in the same period in 2003. New business units not included in the 2004 results, the Barry Rayner Associates Division which was acquired in August 2004 and Elevate Incentives which began operations in January 2005 contributed approximately $2.2 million or 25% of the Company's total revenues in the quarter. Pareto's existing business units excluding Event grew revenue organically by approximately 40%, however this significant growth was offset by a $1.7 million decline in Event revenues in the first quarter of 2005 compared to the same period in 2004. The decline in Event revenues resulted from the timing of large client projects which will be completed in the second quarter of 2005 compared to the comparable 2004 client events which were completed in the first quarter in 2004. The revenue growth experienced by Pareto's existing units was derived from both existing and new clients and is driven by the company's effort to expand the number of its clients and expand the number of services provided to each client. Historically, first quarter revenues have represented 15% to 17% of full year revenues.

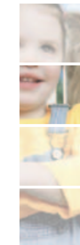
Operating and Administrative Expenses

Operating and administrative expenses, which include project, selling, general, administrative, and facilities expenses, were $8.4 million in Q1 of 2005, up 34% from 2004 figures of $6.3 million. The increase in operating and administrative expenses was largely caused by the inclusion of the operating and administrative expenses of Barry Rayner Associates.

EBITDA

EBITDA (see "Non-GAAP Measures" above) was $678,888 in the first quarter of 2005, up 36% from $498,256 in 2004, consistent with the 34% increase in revenues in the quarter. EBITDA as a percentage of revenue represented 7.4% in Q1 of 2005, up marginally compared to 7.3% in Q1 of 2004.

As has been the case in the previous two years, Pareto's quarterly EBITDA margin percentage increases during the course of the year as Q1 revenues are traditionally lower then the remaining quarters while infrastructure costs are more consistent by quarter.



Amortization, Interest, Income Taxes and Net Earnings

	2005	2004	$ Change	% Change
Amortization of capital assets	$ **84,056**	$ 61,132	$ 22,924	37%
Amortization of intangible assets and deferred costs	**57,298**	22,585	34,713	154%
Interest and finance charges, net	**62,704**	10,237	52,467	513%
Share-based compensation	**16,464**	16,465	0	0%
	220,522	110,419	110,103	100%
Earnings before income taxes and non-controlling interest	**458,366**	387,837	70,529	18%
Income taxes (recovery)	**164,238**	(8,418)	172,656	2051%
Non-controlling interest	**(28,302)**	(35,191)	(6,889)	(20%)
Net earnings	$ **322,430**	$ 431,446	$ (109,016)	(25%)
Basic and diluted earnings per share	$ **0.01**	$ 0.01	$ 0.00	0%

Amortization of Capital Assets

Capital asset amortization increased to $84,056 in Q1 of 2005, up 37% from $61,132 in 2004. This change was primarily caused by the addition of $35,000 of capital amortization in Barry Rayner Associates offset by reductions in the remaining business units.

Amortization of Intangible Assets and Deferred Costs

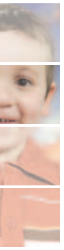
Amortization of intangible and other assets increased to $57,298 in Q1 of 2005, up 154% from $22,585 in Q1 of 2004. The increase was caused by inclusion of amortization related to intangible assets acquired as part of the Barry Rayner Associates acquisition ($14,733) and the new start-up cost amortization relating to Elevate Incentives ($19,677).

Interest and Finance Charges, Net

Interest and finance charges increased by approximately $52,000 to a net expense of $62,704 in Q1 of 2005 due to interest and finance charges relating to long-term debt incurred to fund the acquisition of Barry Rayner Associates in August 2004.

Income Taxes (Recovery)

Pareto recorded income tax expense of $164,238 in Q1 of 2005, an increase in expense of $172,656 from an income tax recovery of $8,418 in Q1 of 2004. The increase was caused by the utilization by Pareto of its unrecognized tax loss carry forwards via its return to a taxable position.



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 affiliates controlled by the Company, changed by $6,889 between the first quarters of 2005 and 2004.

Net Earnings

Pareto recorded net earnings of $322,430 in Q1 of 2005, down $109,016 from $431,446 in Q1 of 2004. The decrease was primarily caused by the $172,656 increase in income taxes expense, additional amortization expense for capital and intangible assets totaling $34,713, and an increase in net interest and finance charges of $52,467.

Earnings per share

In Q1 of 2005, Pareto's basic and diluted earnings per share were $0.01, unchanged from Q1 of 2004. The weighted average number of diluted shares outstanding increased from 33.2 million in Q1 2004 to 36.2 million in Q1 2005 as a result of the two 1,000,000 private placements completed by Pareto since March 31, 2004 as well as the shares issued pursuant to the acquisition of Barry Rayner Associates.

Liquidity, Contractual Obligations and Capital Resources

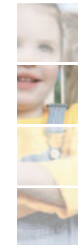
Liquidity

Pareto's cash position decreased at the end of the first quarter in 2005, from $964,056 at December 31, 2004 to $231,742 at March 31, 2005. The decrease was the result of significant changes in non-cash operating accounts, which was partially off-set by cash generated through the issuance of new shares. Deferred revenue and accounts receivable increased significantly at March 31, 2005 compared to December 31, 2004. This was driven by advance billings to clients in the Event Division for projects which will occur in Q2 of 2005. The second quarter will be the largest quarter in 2005 for Event revenues, as a result Q1 work in progress increased by $2.0 million in advance of completion of these projects.

As at March 31, 2005, Pareto had a working capital deficit of $1.4 million, compared to a working capital deficit of $2.5 million at December 31, 2004. The decrease in the deficit was caused by the operational cash flow of $518,738 in the first quarter coupled with proceeds from issuance of shares of $1,005,413.

Pareto's investing activities used $169,727 of cash in the quarter ended March 31, 2005, up from $51,125 in Q1 of 2004. The most significant cash investment in Q1 of 2005 was $100,000 of cash pursuant to the purchase of Managed Solutions.

Pareto's financing activities were able to generate $610,324 in cash compared to expenditures of $1 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 $125,000 and acquisition obligations payments of $265,000.



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	$ 1,874,999	$ 500,000	$ 1,374,999	$ -	$ -
Acquisition notes payable	170,000	170,000	-	-	-
Operating leases	2,069,807	773,986	932,710	363,111	-
Total contractual obligations	$ 4,114,806	$ 1,443,986	$ 2,307,709	$363,111	$ -

Capital Resources

Pareto also has a $2,500,000 operating line of credit which is secured by a general security agreement over the assets of Pareto and its subsidiaries, and which is repayable on demand.

At March 31, 2005, Pareto also had $170,000 in acquisition notes payable of which will be paid by the end of 2005.

At March 31, 2005, Pareto's net debt (long-term debt and acquisition notes payable, net of cash balances) was $1,813,257, compared to $1,470,944 at December 31, 2004. The ratio of net debt to EBITDA at March 31, 2005 is 0.52:1, up from 0.34:1 at March 31, 2004.

In 2005 the company has paid additional cash consideration of $100,000 related to the acquisition of Barry Rayner Associates and amended the purchase agreement to reduce the potential future consideration payable.

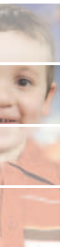
After taking into effect the above change, the Company has:

- $335,000 of acquisition note obligations which may be recognized in future depending on the operating results of Pareto Event in 2005;
- Up to $600,000 depending on the operating results of BRA in 2006;
- Up to $600,000 depending on the operating results of BRA in 2007;
- Up to $600,000 depending on the operating results of BRA in 2008

In each of the above cases, any additional consideration payable in respect of operating results for each of the years will be less than that business unit's earnings before interest, taxes, and amortization during each of those years such that new capital should not be required to fund any future payments.

Under Canadian generally accepted accounting principles, these amounts are recognized as liabilities only upon the acquired business achieving the required operating performance criteria.

At March 31, 2005, an unlimited number of common shares were authorized and 35,175,959 were outstanding. On January 11, 2005, 1,000,000 common shares were issued in a private placement transaction at an issue price of $1.00 per share for gross proceeds of $1,000,000. Further information on the Company's outstanding share capital is provided in note 4 to the consolidated financial statements.



On May 2, 2005, the company announced a normal course issuer bid to potentially acquire up to 1.5 million of its common shares over the year ended May 1, 2006.

Management considers the current level of net debt reasonable and the Company's capital resources adequate to meet the Company's operating, capital expenditure, and financing requirements.

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

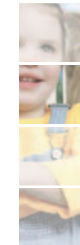
While the Company expects to generate positive cash flow from operations in the year, the Company may raise capital to fund its future growth, either from the incurrence of short-term or long-term indebtedness or the issuance of equity securities. Although the Company has been able to obtain such financing 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. In the first quarter of 2005, the Company's two largest clients contributed 31% and 26% of revenue. The Company expects that these clients will contribute approximately 50% of total revenue in 2005. 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 39.8% of consolidated assets at March 31, 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 did not have transactions with related parties in the first quarter of 2005. Please refer to note 12 of the Company's 2004 consolidated financial statements for further information on transactions with related parties in 2004.

Off-balance-sheet Arrangements

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

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

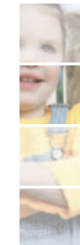
Pareto engages in transactions in foreign currencies, most commonly involving the U.S. dollar and the euro. From time to time, Pareto will use currency forward contracts to fix the exchange rate for known future transactions. No such contracts were outstanding at March 31, 2005.

Seasonality

Because of the project-based nature of certain of the Company's business units which recognize revenue using the completed contract method, the Company's results can be significantly impacted in a quarterly period depending on the timing of the completion of significant projects. This impact, which is particularly pronounced in the Event business, does not follow a predetermined seasonal pattern 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.



Summary of Quarterly and Annual Results

Year Ended December 31, 2005

	March 31
Quarterly information:	
Revenue	$ 9,141,811
Gross profit	3,768,600
EBITDA[1]	678,888
Net earnings	322,430
Basic and diluted earnings per share[2]	0.01

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
Gross profit	2,106,978	2,208,860	2,765,023	5,926,404	13,007,265
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	

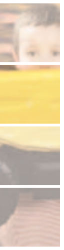
Year Ended December 31, 2003

	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".



Pareto Corporation — Consolidated Balance Sheets

	March 31,2005 (unaudited)	December 31, 2004 (audited)
Assets		
Current assets		
Cash	$ **231,742**	$ 964,056
Accounts receivable	**11,744,222**	8,265,330
Income taxes recoverable	**254,276**	403,753
Work in progress	**3,276,140**	1,161,067
Inventory and other current assets	**422,817**	540,127
Current future income tax assets	**281,507**	359,532
	16,210,704	11,693,865
Deferred costs and other assets	**858,860**	869,839
Capital assets	**1,122,120**	1,158,899
Goodwill and intangible assets	**11,318,933**	11,244,166
	$ **29,510,617**	$ 24,966,769
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ **7,518,964**	$ 8,004,616
Current portion of deferred revenue	**9,298,063**	5,168,782
Current future income tax liabilities	**82,784**	82,784
Current portion of acquisition notes payable	**170,000**	435,000
Current portion of long-term debt	**500,000**	500,000
	17,569,811	14,191,182
Long-term future income tax liabilities	**427,880**	448,576
Long-term debt	**1,374,999**	1,500,000
	19,372,690	16,139,758
Non-controlling interest	**133,331**	161,633
Shareholders' equity		
Share capital (note 4)	**6,867,916**	5,867,592
Contributed surplus	**202,278**	185,814
Special warrants	**46,400**	46,400
Common share purchase warrants	**131,040**	131,040
Retained earnings	**2,756,962**	2,434,532
	10,004,596	8,665,378
	$ **29,510,617**	$ 24,966,769

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

For the quarter ended March 31, (unaudited)	2005	2004
Revenue	$ **9,141,811**	$ 6,811,555
Operating and administrative expenses	**8,462,923**	6,313,299
	678,888	498,256
Amortization of capital assets	**84,056**	16,464
Amortization of intangible assets and deferred costs	**57,298**	22,585
Interest and finance charges, net	**62,704**	10,237
Share-based compensation	**16,464**	16,465
	220,522	110,419
Earnings before income taxes and non-controlling interest	**458,366**	387,837
Income taxes (recovery)	**164,238**	(8,418)
Non-controlling interest	**(28,302)**	(35,191)
Net earnings for the period	**322,430**	431,446
Retained earnings (deficit), beginning of period	**2,434,532**	(51,535)
Retained earnings, end of period	$ **2,756,962**	$ 379,911
Basic and diluted earnings per share	$ **0.01**	$ 0.01
Average number of common shares outstanding:		
Basic	**36,049,440**	33,179,906
Diluted	**38,341,373**	34,125,552

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

Pareto Corporation
Consolidated Statements of Cash Flows

For the quarter ended March 31, (unaudited)	2005	2004
Cash provided by (used in)		
Operating activities		
Net earnings for the period	**$ 322,430**	$ 431,446
Items not involving cash:		
Amortization of capital assets	**84,056**	61,132
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	**16,464**	16,465
Non-controlling interest	**(28,302)**	35,191
Change in future income taxes	**57,329**	(8,418)
	518,738	493,575
Changes in non-cash operating accounts	**(1,691,649)**	206,153
	(1,172,910)	699,728
Investing activities		
Capital asset additions	**(47,277)**	(34,110)
Other asset additions	**(22,450)**	(17,015)
Acquisitions, net of cash acquired	**(100,000)**	0
	(169,727)	(51,125)
Financing activities		
Change in acquisition notes payable	**(265,000)**	(336,250)
Repayment of long-term debt	**(125,001)**	(700,000)
Issuance of shares	**1,005,413**	33,500
Share issue costs	**(5,089)**	0
	610,323	(1,002,750)
Increase in cash for the period	**(732,314)**	(354,147)
Cash and cash equivalents, beginning of period	**964,056**	947,441
Cash and cash equivalents, end of period	**$ 231,742**	$ 593,294

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

Pareto Corporation
Notes to Consolidated Financial Statements

March 31, 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, all disclosures required for annual financial statements have not 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 March 31, 2005 and for the three-month periods ended March 31, 2005 and March 31, 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. The further additional consideration potentially payable based on future operating results has been reduced, with the amounts potentially payable based on results now as follows, and if paid would be accounted for as an increase to goodwill.

2006	$ up to 600,000
2007	up to 600,000
2008	up to 600,000

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	200,000
Shares issued on exercise of stock options	15,467	5,413
Share issue costs	0	(5,089)
Balance, March 31, 2005	**36,175,959**	**$ 6,867,916**

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	34,167	0.90
Exercised in 2005	(15,467)	0.35
Cancelled in 2005	(0)	0
Options outstanding, March 31, 2005	**3,221,986**	**$ 0.33**
Options exercisable, March 31, 2005	**2,169,486**	**$ 0.30**
Options exercisable, December 31, 2004	1,882,096	$ 0.28

As at March 31, 2005, the Company had the following options outstanding pursuant to the Plan:

Number of Options	**Exercise Price Per Share**	**Expiry Date**
208,000	$0.35	March 31, 2006
366,248	$0.35	November 30, 2006
608,571	$0.35	February 15, 2007
570,000	$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
40,000	$0.88	December 13, 2009
34,167	$0.90	March 7, 2010

(d) 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

(e) 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 232,000 special warrants was $46,400 at March 31, 2005.

(f) Common share purchase warrants:

In 2004, the Company issued 800,000 common share purchase 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 March 31, 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

Clint Becker
Chief Financial Officer

Don Brommet
Elevate

Michael Collins
Managed Solutions

Georgia Curtis
Human Resources

Dave Houston
Incentive Solutions

Sandy Matheson
Pareto Dialogue

Mari-Lynn Misener
Client Services

Kim Naylor
Event Solutions

David Rose
Retail Solutions

Jonathan Silver
Business Development

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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