

Pareto Corporation

Management's Discussion and Analysis of Results of Operations and Financial Position

Management's Discussion and Analysis of Results of Operations and Financial Position ("MD&A") of Pareto Corporation ("the Company" or "Pareto"), dated March 29, 2007, summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity and cash flows of Pareto for the year ended December 31, 2006. 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, 2006, which are prepared in accordance with Canadian GAAP. Additional information relating to Pareto, including the Annual Information Form dated March 30, 2006, 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, gain on acquisition 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, gain on acquisition and non-controlling interest, all of which are clearly identified on the Company's Statement of Operations and Retained Earnings.

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 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 channel (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 marketing.
- Retail sales and merchandising.
- 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 training and incentive programs.

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

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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. 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.

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. 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. As Elevate revenues directly reflect our clients' sales volume, the timing of those revenues trends toward the end of the year, as client companies are working to ensure they meet their annual sales targets and accordingly offer attractive incentives to their sales channel during this time. 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 2006, Pareto service offerings focused in two areas; Retail Solutions and Channel Solutions. Retail revenues are derived from numerous activities, which include print management, direct mail, fulfillment and distribution, field merchandising and sales representation, consumer promotions and certain customer loyalty programs while Channel revenue activities include corporate events, channel sales and employee incentive programs and certain outsourced sales and marketing management programs. When a marketing activity is aimed at influencing a consumer – whether delivered at a retail location, in their home or elsewhere – we consider it Retail Marketing. When the activity is intended to educate or to incent a business or its employees – even if those employees happen to work in a retail location – it is Channel Marketing. In 2007, the Company plans to group all its services in one area and accordingly will not be presenting revenue on a solution basis.

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. The Company endeavors to sell, to each client, as many of its operational services and products as possible and 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.

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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. Customer contracts are often annual with certain contracts being 2 to 3 years in length. 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 and have been shifting our focus towards more strategic relationships, and away from opportunistic or reactive business. We are striving to build enterprise-wide relationships.

Operating Results for the year ended December 31:

	2006	2005	\$ Change	% Change
Revenue	\$ 51,080,008	\$ 52,950,769	\$ (1,870,761)	(4%)
Operating and administrative expenses	48,330,272	47,444,182	886,090	2%
	\$ 2,749,736	\$ 5,506,587	\$ (2,756,851)	(50)%
Amortization of capital assets	\$ 361,174	\$ 337,214	\$ 23,960	7%
Amortization of intangible assets and deferred costs	268,350	225,643	42,707	19%
Interest and finance charges, net	82,617	277,116	(194,499)	(70%)
Gain on acquisition	(192,042)	-	192,042	100%
Share-based compensation	134,210	101,867	32,343	32%
	654,309	941,840	(287,531)	(31%)
Earnings before income taxes and non-controlling interest	2,095,427	4,564,747	(2,469,320)	(54%)
Income taxes	545,632	1,660,348	(1,114,716)	(67%)
Non-controlling interest	-	(70,633)	70,633	100%
Net earnings	\$ 1,549,795	\$ 2,975,032	\$ (1,425,237)	(48%)
Basic and Diluted earnings per share	\$ 0.04	\$ 0.08	\$ (0.04)	(50%)

Revenue

In 2006, the Company generated \$51.1 million of revenue compared \$53.0 million in 2005, a decline of 4%. For the year Retail revenues increased by 17% while Channel revenues declined 20%. Retail revenue growth resulted from the acquisition of SourceLink Canada in August 2006 and Secom Plus in October 2006 as well as growth in print management and fulfillment and distribution activities offset by a reduction in Retail activities with Ford. The decline in Channel revenues for the year was driven by reduced corporate event and incentive program revenues offset by a \$1.7 million increase in Elevate revenues. As previously disclosed the Company's corporate event revenues in 2006 were negatively impacted by approximately \$6 million of event revenue which occurred in 2005 related to biannual events which did not reoccur in 2006. In spite of the impact event revenues declined only \$3.2 million during the period as new client wins offset some of the impact. Channel incentive program revenues have declined \$4.3 million due to lower client incentive spending and the conversion of some incentive programs to Elevate programs. For the year revenues derived from Ford declined by \$3.8 million to \$8.6 million. Excluding the impact of the non-recurrence of the 2005 biannual events and the decline in Ford business, revenue for the year would have increased by \$4.7 million.

In 2006 Retail activities represented 54% of revenues compared to 45% in 2005 with Channel activities representing 46% versus 55% in 2005. In 2006 the Company's mix of revenues by business model was as follows:

- Fixed fee basis - 66% (68% in 2005)
- Time and materials basis - 22% (23% in 2005)

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- Resale of reward units - 12% (9% in 2005)

Operating and Administrative Expenses

In 2006, operating and administrative expenses increased 2% or \$886,090 to \$48.3 million from \$47.4 million in the prior year. Operating and administrative expenses include project, selling, general, administrative and facilities costs. The increase in operating and administrative expenses resulted from the inclusion of the expenses of the businesses acquired during 2006, decreased efficiencies of Pareto's existing businesses due to the fixed cost portion of existing infrastructure relative to the decline in revenues and approximately \$1.2 million of costs incurred by the Company to reduce its infrastructure including facilities closures and staffing reductions.

All of the component costs of operating and administrative expenses increased as a percentage of revenue as compared to the prior year including increased production costs compared to 2005 due a change in mix of revenues and increased salary, selling and administrative cost. This decline in efficiency was in contrast to 2005, when the Company experienced improved operating efficiencies as infrastructure was spread over a larger revenue base compared to 2004.

EBITDA

In 2006, the Company generated \$2.75 million of EBITDA (see "Non-GAAP Measures" above) compared to \$5.50 million in 2005, a reduction of \$2.75 million or 50%. EBITDA as a percentage of revenue represented 5.4% in 2006 from 10.4% in 2005. In dollar terms the change from the EBITDA margin percentage achieved in 2006 compared to 2005 is explained by the \$1.2 million of infrastructure reduction costs incurred in the fourth quarter, \$700,000 of increased production costs resulting primarily from a reduction in certain higher margin businesses compared to 2005 in Pareto's existing units, and approximately \$700,000 of increased salary, selling and administrative costs compared to 2005.

In 2007, the Company expects to achieve EBITDA margin levels consistent with 2005 driven by the exclusion of the infrastructure reduction costs incurred in 2006 and the go forward savings resulting from those actions and improved production efficiency due to improved revenue mix due to the full year inclusion of the higher margin businesses acquired by Pareto in 2006. The Company has established a long-term EBITDA margin target of 15% of revenue.

Amortization, Interest and Share-based Compensation

Amortization, interest and share-based compensation decreased by 10% or \$95,489 during the year. This decline was driven primarily by decreased net interest and finance costs due to a reduction in long-term debt and increased interest income earned on the proceeds of the private placements completed by the Company in March 2006. The decline in interest costs was offset by increases in amortization of capital and intangible assets and share based compensation. The increase in capital amortization resulted from the inclusion of the acquisitions completed during 2006 and amortization related to the capital assets acquired in 2006. The intangible amortization increase resulted from the amortization of intangibles acquired as part of the acquisitions completed in 2006. The Company expects both capital asset and intangible asset amortization to increase in 2007 due the full year effect of the acquisitions and capital assets acquired and further capital expenditures in 2007. Share-based compensation expense increased by 32% reflecting the impact of the options and restricted stock units granted during 2006.

Gain on Acquisition

As set out in note 1(b) of the Company's annual financial statements the Company realized a gain of \$192,042 related to the acquisition of SourceLink Canada. The gain resulted from the fair value of the net assets recognized exceeding the purchase price of the business. The excess fair value resulted from approximately \$3.9 million of future income tax assets recorded. In addition to the assets recognized on the acquisition the Company also acquired a significant amount of machinery and equipment whose value has not been recognized on the Company's financial statements and accordingly in the future the company will only record capital asset amortization with respect to newly acquired capital assets.

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Income Taxes

Income tax expense in 2006 represented 26% of earnings before tax compared to 36% in 2005. Total tax expense declined by \$1.1 million to approximately \$545,000 resulting from the decline in earnings before tax as well as reductions in tax liabilities recorded in prior years no longer required. Of the \$545,000 of income tax expense, the majority \$435,000, was non cash future income tax expense resulting from the partial utilization of the tax asset acquired as part of the SourceLink acquisition at December 31, 2006 the Company has \$3.8 million of future income tax assets still to be utilized. Going forward, the Company expects to incur an effective tax rate of approximately 37%.

Non-controlling interest

Effective September 30, 2005, the Company acquired the remaining minority ownership interest in Pareto Dialogue and accordingly no non-controlling interest was recorded in the Company's 2006 financial statements.

Net earnings

In 2006, the Company generated \$1.55 million of net earnings compared to \$2.975 million in 2005. The decline of \$1.425 million or 48% was consistent with the 50% reduction in EBITDA. Net earnings as a percentage of revenue was 3.0% compared to 5.6% in 2005. Excluding the effect of income taxes, earnings before income taxes and non-controlling interest was 4.1% of revenue in the year compared to 8.6% in 2005.

Earnings per share

Pareto's basic and diluted earnings per share in 2006 were \$0.04 versus \$0.08 for both measures in 2005. The decline in net income of 50% translated into a 50% reduction in diluted earnings per share in spite of the 13% increase in number of diluted shares outstanding in the year. The weighted average number of diluted shares outstanding increased as a result of the two private placements completed in 2006, the shares issued pursuant to the acquisition of Secom Plus in October 2006 offset by the 652,500 shares repurchased for cancellation during the year and the effect of the decrease in the Company's share price over the last year.

Liquidity and Capital Resources

Financial Position

	December 31, 2006	December 31, 2005	\$ Change	% Change
Cash	\$ 5,020,127	\$ 5,078,927	\$ (58,800)	(1%)
Acquisition notes payable	1,450,000	335,000	1,150,000	333%
Long-term debt	665,992	1,332,996	(667,004)	(50%)
Long-term capital leases	1,256,355	-	1,256,355	-
Total debt	3,372,347	1,667,996	1,704,351	102%
Total net cash (debt) position	1,647,780	3,410,931	(1,763,151)	(52%)
Shareholders' equity	23,736,606	13,366,917	10,369,689	78%
Total capitalization	\$ 22,088,826	\$ 9,955,986	\$ 12,132,840	122%
Working capital position	\$ 4,134,294	\$ 1,559,342	\$ 2,574,952	165%

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Net debt:Shareholders' equity	n/a	n/a
Net debt:Total Capitalization	n/a	n/a
Net debt:EBITDA	n/a	n/a
Total debt:EBITDA	1.23:1	0.30:1

Pareto's sources of short-term liquidity include cash provided by operating activities and a \$5.5 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 \$0.7 million outstanding as at December 31, 2006. 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: 2007 - \$500,000; and 2008 - \$165,992. The Company may make a discretionary prepayment of \$167,000 in November of 2007.

Management considers the Company's capital resources adequate to meet the Company's operating, capital expenditure, and financing requirements. However, the Company is actively considering acquisition opportunities. Depending on the size of an acquisition, the Company may need to secure external capital, in the form of debt or share equity, to finance the acquisition.

The Company's balance sheet and financial flexibility presents a number of options. One is the ability to realize greater efficiencies with our suppliers, for example seeking more favourable pricing in exchange for faster payment. The Company may also utilize the available cash for share repurchases under its previously filed Normal Course Issuer Bid should the Board determine it to be in the best interests of the Company. Alternatively the Company may also fund internal start-up ventures, as has been done in the past with Pareto Dialogue and Elevate. The Company may also use its current resources to finance acquisitions. In the long term we do not intend to maintain unnecessarily high cash balances.

Operating activities

Pareto's operating activities utilized \$1.1 million of cash flow in 2006 compared to generating \$4.3 million of cash flow in 2005. Operating activities before changes in non-cash operating accounts generated \$2.6 million of cash flow or \$1.1 million more than the Company's net earnings. This compares to \$3.8 million of cash flow which was \$800,000 more than 2005 net earnings. The 2006 improvement in cash flow in excess of net earnings resulted primarily from an increased proportion of non cash future income taxes. Non-cash operating accounts utilized \$3.7 million of cash flow in 2006 as a significant improvement in cash flow from accounts receivable of \$3.5 million was offset by significant reductions in accounts payable (\$4.3 million) and deferred revenue (\$2.1 million). These reductions in current liabilities allowed the Company to improve its working capital position by 165% to \$4.1 million. The Company's days sales outstanding measured on a quarterly basis stood at 62 days at December 31, 2006 compared to 54 days at December 31, 2005 attributable to the acquisitions completed by the Company in the second half of 2006.

Investing activities

In 2006, Pareto's investing activities utilized \$5.9 million of cash flow, up from \$0.5 million in 2005, as a result of the acquisitions completed by the company in 2006 as well as an increase in capital expenditures. The increased capital expenditures was related to the addition of a new information system for the retail business unit as well as leasehold improvements related to the renewal of the Company's North York office space.

Financing activities

Pareto's financing activities generated \$6.9 million of cashflow in 2006. This resulted from \$8.1 million of net proceeds from share issuances and the collection of \$683,000 of loans receivable offset by \$506,000 total debt repayments and \$750,000 spent to repurchase common shares of the Company pursuant to its normal course issuer bid. The Company intends to expend further funds to repurchase common shares in 2007.

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Contractual Obligations

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

	Payments due by period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt	\$ 665,992	\$ 500,000	\$ 165,992	\$ -	\$ -
Capital leases	1,256,355	264,295	992,060	-	-
Acquisition notes payable	1,450,000	1,350,000	100,000	-	-
Operating leases	6,136,677	1,258,746	2,136,151	1,098,894	1,642,886
Total contractual obligations	\$ 9,509,024	\$ 3,373,041	\$ 3,394,203	\$ 1,098,894	\$ 1,642,886

In May 2006, the Company acquired the assets of Trajectory Business Performance Inc. ("TBPI"). As part of the purchase, potential future consideration of up to \$450,000 may be payable by the Company based on the performance of TBPI through 2008.

In October 2006, the Company acquired the shares of Secom Plus Inc. ("Secom"). As part of the purchase, potential future consideration of up to \$5.0 million may be payable by the Company based on the performance of Secom through 2007.

Outstanding Share Data

At December 31, 2006, an unlimited number of common shares were authorized and 45,058,204 (44,566,775 at March 29, 2007) common shares were outstanding. The Company had 1,385,516 options (1,376,945 at March 29, 2007) outstanding to acquire common shares pursuant to its Option Plan of which 864,775 (931,720 at March 29, 2007) were exercisable. The Company also had 238,333 restricted stock units currently outstanding, all convertible to common shares on a one to one basis. See note 8 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, 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.

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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 year Pareto generated revenues from two clients representing greater than 10% of revenues (23% and 17% respectively). In 2005 two clients represented greater than 10% of revenues (23% and 22% respectively). 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 endeavors to reduce 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 27% of consolidated assets at December 31, 2006 (2005 – 34%). 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's related party transactions in 2006 and 2005 are outlined in note 13 of the Company's 2006 annual financial statements.

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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 2006 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. For the fourth quarter of 2006, 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 impairment losses related to goodwill and intangible assets were to be recognized in future periods, the losses 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 December 31, 2006.

Recent Accounting Developments

The Canadian Institute of Chartered Accountants (CICA) has published three new accounting standards: Section 3855 "Financial Instruments – Recognition and Measurement", Section 3865 "Hedges" and Section 1530 "Comprehensive Income" that are effective for fiscal periods beginning on or after October 1, 2006. These accounting standards introduce new requirements for the recognition and measurement of financial instruments, the application of hedge accounting and the reporting of comprehensive income that are designed to harmonize Canadian accounting standards with US and International Financial Reporting Standards. The new standards will require the presentation of a separate statement of comprehensive income. Derivative financial instruments will be recorded in the balance sheet at fair value and the changes in fair value of derivatives designated as cash flow hedges will be reported in comprehensive income.

The Corporation does not expect these new accounting pronouncements to have a significant impact on its financial statements.

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

Pareto's management, including the President and Chief Executive Officer and the Chief Financial Officer, has reviewed and evaluated the effectiveness of the Corporation's disclosure controls and procedures (as defined in Multilateral Instrument 52-109 issued by the Canadian Securities Administrators) as of December 31, 2006. Management has concluded that, as of December 31, 2006, the disclosure controls and procedures were effective to provide reasonable assurance that material information relating to the Corporation and its consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which this report is being prepared.

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Management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Management has not assessed the design of internal controls over financial reporting for operating units acquired during 2006. While management is not aware of any material deficiency in the design of such internal controls in these acquired units, such a material deficiency may exist.

There have been no changes in the Corporation's internal controls over financial reporting that occurred during the fourth quarter of 2006, the most recently completed interim period, that have materially affected or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

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SUMMARY OF QUARTERLY AND ANNUAL RESULTS

Year Ended					
December 31, 2006	March 31	June 30	September 30	December 31	Total

Quarterly information:

Revenue	\$ 9,532,273	\$ 13,036,822	\$ 10,316,477	\$ 18,194,436	\$ 51,080,008
EBITDA ¹	764,547	1,236,293	708,050	40,846	2,749,736
Net earnings	346,152	713,047	464,347	26,249	1,549,795
Basic and diluted earnings per share ²	0.01	0.02	0.01	0.00	0.04

Annual Information:

Total assets					44,807,361
Total long-term financial liabilities					3,372,347
Cash dividends declared					0.00

Year Ended					
December 31, 2005	March 31	June 30	September 30	December 31	Total

Quarterly information:

Revenue	\$ 9,141,811	\$ 15,278,951	\$ 10,645,812	\$ 17,884,195	\$ 52,950,769
EBITDA ¹	458,366	1,520,915	1,006,194	2,521,112	5,506,587
Net earnings	322,430	868,860	528,130	1,255,612	2,975,032
Basic and diluted earnings per share ²	0.01	0.02	0.01	0.03	0.08

Annual Information:

Total assets					31,917,953
Total long-term financial liabilities					1,667,996
Cash dividends declared					0.00

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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	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

Pareto Corporation
Management's Discussion and Analysis of Results of Operations and Financial Position

Year Ended						
December 31, 2002	March 31	June 30	September 30	December 31		Total
Quarterly information:						
Revenue	\$ 845,293	\$ 2,594,870	\$ 3,408,648	\$ 3,913,600		\$10,762,411
EBITDA ¹	(399,257)	52,063	139,964	112,306		(94,924)
Net earnings ³	(419,468)	(46,696)	(124)	(47,110)		(513,398)
Loss per share ²	(0.02)	0.00	0.00	0.00		(0.02)
Annual Information:						
Total assets						10,496,214
Total long-term financial liabilities						1,722,410
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 in the Event business, does not follow a predetermined seasonal pattern though the fourth quarter 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.