

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 May 11, 2006, summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity and cash flows of Pareto for the quarter ended March 31, 2006. All amounts are in Canadian dollars. This MD&A should be read in conjunction with consolidated financial statements for the year ended December 31, 2005, 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.

Disclosure Controls

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Company's disclosure controls and procedures. They are assisted in this responsibility by other senior managers of the Company and the Company's Disclosure Committee. Based on an evaluation of the Company's disclosure controls and procedures, the Company's Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures operated effectively as of March 31, 2006.

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 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 mail.
- Design, production and coordination of consumer promotions.
- Corporate events and incentive travel management.
- Outsourced sales and marketing program management.
- Customer loyalty programs.

Pareto Corporation

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

- Channel sales and employee training and 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. 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.

Pareto businesses are grouped in two revenue units; Retail Solutions and Channel Solutions. Retail revenues are derived from numerous activities, which include print management, direct mail, fulfillment and distribution, 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 incent a business or its employees – even if those employees happen to work in a retail location – it is Channel Marketing.

Pareto Corporation

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

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.

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. Our business model favours the cultivation of a smaller number of large relationships, where we can become fully ingrained in our customers' marketing operations, rather than a large number of smaller projects.

Operating Results for the quarter ended March 31:

	2006	2005	\$ Change	% Change
Revenue	\$ 9,532,273	\$ 9,141,811	\$ 390,462	4%
Operating and administrative expenses	8,767,726	8,462,923	304,803	4%
	\$ 764,547	\$ 678,888	\$ 85,659	13%
Amortization of capital assets	\$ 71,430	\$ 84,056	\$ (12,626)	(15%)
Amortization of intangible assets and deferred costs	62,938	57,298	5,640	10%
Interest and finance charges, net	33,395	62,704	(29,309)	(47%)
Share-based compensation	66,469	16,464	50,005	303%
	234,232	220,522	13,710	6%
Earnings before income taxes and non-controlling interest	530,315	458,366	71,949	16%
Income taxes	184,163	164,238	19,925	12%
Non-controlling interest	-	(28,302)	28,302	100%
Net earnings	\$ 346,152	\$ 322,430	\$ 23,722	7%
Basic and Diluted earnings per share	\$ 0.01	\$ 0.01	\$ 0.00	0%

Revenue

In the first quarter of 2006 the Company's revenue totaled \$9.5 million up from \$9.1 million in corresponding quarter of 2005, representing a 4% increase. The growth was entirely organic, as the Company had not

Pareto Corporation

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

completed an acquisition in the year prior to the quarter. The revenue growth was due largely to increased revenues from Channel activities including \$1.3 million of revenues derived from Elevate (Pareto's Aeroplan Mile based Channel incentive offering), partially offset by a decline in the level of activity with Ford and the effect of biennial Event project.

With respect to Ford, Pareto was not awarded some anticipated US Ford based work related to trade show management and sponsorship. Historically, Barry Rayner Associates did approximately \$2M of US based work with Ford on an annual basis. The strengthened Canadian dollar, combined with a Ford US strategy to use US based suppliers for their US based marketing initiatives conspired to cost us this business. Fortunately Pareto is focused almost entirely on the Canadian domestic market, and our relationship with Ford Canada remains solid. We are confident that 2006 will be a strong year for our Ford relationship.

As disclosed previously, approximately \$6M of Event revenue which occurred in 2005 and will reoccur in 2007 will not take place in 2006. To date, our Channel sales team has filled over \$4.5M of this hole with balance of year event sales and is confident their pipeline of opportunities will achieve the desired result. New balance of year event sales clients includes BMO Nesbitt Burns, Tech Data, MCAP, and Energy Savings Group.

In the first quarter of 2006 Retail activities represented 51% of revenues compared to 57% in 2005 with Channel activities representing 49% versus 43% in 2004. In 2006 the Company's mix of revenues by business model was as follows:

- Fixed fee basis- 62% (73% in 2005)
- Time and materials basis - 24% (26% in 2005)
- Resale of reward units - 14% (1% in 2005)

Operating and Administrative Expenses

Operating and administrative expenses increased \$300,000 from 2005 to \$8.8 million representing a 4% increase. Operating and administrative expenses include project, selling, general, administrative and facilities costs. The increase in operating and administrative expenses resulted from the corresponding increase in revenue.

Operating and administrative expenses decreased marginally as a percentage of revenue as compared to the prior year with increases in salary costs driven by increased infrastructure to support future growth offset by improvement in production and selling and administrative costs. These improvements resulted from improved purchasing activities and the increase in revenues derived from the resale of reward units which are higher margin activities.

EBITDA

EBITDA (see "Non-GAAP Measures" above) in Q1 2006 increased to \$764,000 or 13% from \$679,000 in the same period last year. EBITDA as a percentage of revenue represented 8.0% in 2006, up 60 basis points from 7.4% in 2005. The increase of \$85,000 in EBITDA represented 21.7% of the revenue increase in the period. The Company has established a long-term EBITDA margin target of 15% of revenue. Traditionally, the first quarter of the year is the lowest revenue quarter for the Company with that lack of scale negatively impacts EBITDA margins due to lower absorption of fixed costs compared to the EBITDA margins realized by the Company in the remainder of the year.

Amortization, Interest and Share-based Compensation

Amortization, interest and share-based compensation increased 6% or \$14,000 during the quarter. The increase resulted from increased amortization of intangible assets and deferred costs and increased share based compensation costs off set by reductions in amortization of capital assets and interest and finance charges. Share-based compensation expense increased as a result of the options and restricted stock units granted during the last nine months of 2005. Interest and finance charges declined by \$29,000 in the year due to the Company's reduction of its long term debt by \$667,000 since March 31, 2005 as well as lower utilization of the Company's working capital facility.

Pareto Corporation

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

Income Taxes

Income tax expense in 2006 represented 35% of earnings before tax. Pareto recorded income tax expense of \$184,000 million in 2006 compared to \$164,000 last year. The Company expects to incur an effective tax rate comparable to the rate experienced in 2006 on an on-going basis.

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

Net earnings for the first quarter of 2006 increased by 7% or \$24,000 to \$346,000 compared to 2005. Excluding the effect of income taxes, earnings before income taxes and non-controlling interest improved to 5.6% of revenue in the year compared to 5.0% in 2005.

Earnings per share

Pareto's basic and diluted earnings per share remain unchanged in the quarter versus 2005 at \$0.01. The year over year 7% improvement in net earnings did not translate into higher diluted earnings per share due to the 5% increase in the number of diluted shares outstanding in the period. The weighted average number of diluted shares outstanding increased as a result of options and restricted stock units issued since March 31, 2005, the 5,000,000 share private placement completed by Pareto in March 2006 and the effect of the increase in the Company's share price over the last year.

Liquidity and Capital Resources

Financial Position

	March 31, 2006	December 31, 2005	\$ Change	% Change
Cash or equivalents	\$ 8,503,797	\$ 5,078,927	\$ 3,424,870	67%
Acquisition notes payable	335,000	335,000	-	-
Long-term debt	1,207,995	1,332,996	(125,001)	(9%)
Total debt	1,542,995	1,667,996	(125,001)	(8%)
Total cash (net debt) position	6,960,802	3,410,931	3,549,871	104%
Shareholders' equity	21,117,932	13,366,917	7,751,015	58%
Total capitalization	\$ 14,157,130	\$ 9,955,986	\$ 4,201,144	42%
Working capital position	\$ 9,615,105	\$ 1,559,342	\$ 7,605,763	488%
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	0.28:1	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.

Pareto Corporation

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

The Company has long-term subordinated debt with a principal amount of \$1.2 million outstanding as at March 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: 2006 - \$374,999; 2007 - \$500,000; and 2008 - \$332,996. The Company may make discretionary prepayments of \$167,000 in November of 2006, and 2007.

Management considers the Company's capital resources adequate to meet the Company's operating, capital expenditure, and financing requirements though the Company is actively considering acquisition opportunities in both the Retail and Channel areas including signing non-disclosure agreements with a number of candidates we are evaluating. 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 a 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 \$3.6 million of cashflow in the first quarter of 2006 compared to utilizing \$1.2 million in 2005. Operating activities before changes in non-cash operating accounts generated \$537,000 in the quarter up from \$518,000 in 2005 driven by the increase in net earnings. Changes in non-cash operating accounts utilized \$4.2 million in the quarter as the Company reduced its accounts payable and accrued liabilities by \$5.0 million offset by a \$1.0 million reduction in accounts receivable. As previously stated the Company intends to utilize excess cash in a number of ways including the improvement of payment terms with suppliers in order to achieve improved pricing. Traditionally, the Company's days sales outstanding measured on a quarterly basis increases at the end of the first quarter. At March 31, 2006, the Company's days sales outstanding stood at 90 days compared to 115 days at March 31, 2005.

Investing activities

Investing activities for the first quarter utilized \$152,000 of cashflow in 2006 down from \$170,000 in 2005 as a result of higher capital and other asset additions offset by a \$100,000 acquisition payment in 2005. In fiscal 2006, the Company expects to incur approximately \$500,000 of capital asset additions primarily resulting from the addition of a new information system for the Retail business unit.

Financing activities

So far in 2006, Pareto's financing activities generated \$7.2 million of cashflow compared to only \$610,000 in 2005. The increase resulted from net proceeds from share issuances of \$7.3 million, including a 5 million share placement at \$1.50 per share completed by the Company in March 2006, compared to \$1.0 million in private placements in the first quarter of 2005. This cashflow was utilized to reduce long term debt by \$125,001 and improve the Company's working capital position.

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

Contractual Obligations

The following table provides a summary of Pareto's contractual obligations under various debt and lease agreements as at March 31, 2006:

	Total	Payments due by period			
		Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt	\$ 1,207,995	\$ 500,000	\$ 707,995	\$ -	\$ -
Acquisition notes payable	335,000	335,000	-	-	-
Operating leases	1,564,240	615,029	852,394	96,818	-
Total contractual obligations	\$ 3,107,235	\$ 1,450,029	\$ 1,560,389	\$ 96,818	\$ -

At March 31, 2006, the Company does not have any other significant off-balance-sheet arrangements as all potential earn-out payments relating to acquisitions completed by the Company up to March 31, 2006 have been recognized in the Company's financial statements as at March 31, 2006. On May 2, 2006, the Company acquired the assets of Trajectory Business Performance Inc. ("TBPI"). As part of the purchase, potential future consideration of up to \$1.2 million may be payable by the Company based on the performance of TBPI through 2008.

Outstanding Share Data

At March 31, 2006, an unlimited number of common shares were authorized and 43,522,339 common shares were outstanding. The Company has 2,088,273 options currently outstanding to acquire common shares pursuant to its Option Plan of which 1,414,383 were exercisable. The Company also has 518,334 common share purchase warrants and 333,333 restricted stock units currently outstanding, all convertible to common shares on a one to one basis. See note 3 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.

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

Pareto Corporation

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

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 first quarter of 2006 Pareto generated revenues from three clients representing greater than 10% of revenues (25%, 24% and 19% respectively). In 2005 two clients represented greater than 10% of revenues (31% and 26% 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 28% of consolidated assets at March 31, 2006 (December 31, 2005 – 33%). 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 any new related party transactions in the first quarter of 2006. The Company's related party transactions in 2005 and 2004 are outlined in note 12 of the Company's 2005 annual financial statements.

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

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 2005 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 2005, 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 March 31, 2006.

SUMMARY OF QUARTERLY AND ANNUAL RESULTS

Year Ended

December 31, 2006 March 31

Quarterly information:

Revenue	\$ 9,532,273
EBITDA ¹	764,547
Net earnings	346,152
Basic and diluted earnings per share ²	0.01

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

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	678,888	1,520,915	1,006,194	2,300,590	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

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

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

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 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.

Pareto Corporation Consolidated Balance Sheets

	March 31 2006 (unaudited)	December 31 2005 (audited)
Assets		
Current assets		
Cash or equivalents	\$ 8,503,797	\$ 5,078,927
Accounts receivable	9,568,337	10,760,008
Work in progress	1,808,535	1,954,353
Inventory and other current assets	517,495	513,955
Current future income tax assets	88,379	97,854
	20,486,543	18,405,097
Deferred cost and other assets	1,052,805	1,043,124
Capital assets	1,021,354	990,622
Goodwill and intangible assets	11,453,610	11,479,110
	\$ 34,014,312	\$ 31,917,953
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 5,810,249	\$ 10,841,641
Current portion of deferred revenue	3,606,623	4,151,498
Income taxes payable	529,015	927,065
Current portion of future income tax liabilities	90,551	90,551
Current portion of long-term debt	500,000	500,000
Current portion of acquisition notes payable	335,000	335,000
	10,871,438	16,845,755
Long term deferred revenue	941,444	474,144
Long term future income tax liabilities	375,503	398,141
Long term debt	707,995	832,996
	12,896,380	18,551,036
Shareholders' equity		
Share capital	15,031,125	7,576,707
Contributed surplus	246,184	254,192
Common share purchase warrants	84,907	126,454
Retained earnings	5,755,716	5,409,564
	21,117,932	13,366,917
	\$ 34,014,312	\$ 31,917,953

These financial statements have not been reviewed by the Company's external auditors.

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

Pareto Corporation
Consolidated Statements of Operations and
Retained Earnings

For the quarter ended March 31, (unaudited)	2006	2005
Revenue	\$ 9,532,273	\$ 9,141,811
Operating and administration expenses	8,767,726	8,462,923
	764,547	678,888
Amortization of capital assets	71,430	84,056
Amortization of intangible assets and deferred costs	62,938	57,298
Interest and finance charges, net	33,395	62,704
Share-based compensation	66,469	16,464
	234,232	220,522
Earnings before income taxes and non-controlling interest	530,315	458,366
Income taxes	184,163	164,238
Non-controlling interest	-	(28,302)
Net earnings for the period	346,152	322,430
Retained earnings, beginning of period	5,409,564	2,434,532
Retained earnings, end of period	\$ 5,755,716	\$ 2,756,962
Basic and diluted earnings per share	\$ 0.01	\$ 0.01
Average number of common shares outstanding:		
Basic	37,843,930	36,049,440
Diluted	40,257,050	38,341,373

These financial statements have not been reviewed by the Company's external auditors.
The accompanying significant accounting policies and notes are an integral part of these financial statements.

Pareto Corporation Consolidated Statements of Cash Flows

For the quarter ended March 31, (unaudited)	2006	2005
Cash provided by (used in)		
Operating activities		
Net earnings for the period	\$ 346,152	\$ 322,430
Items not involving cash:		
Amortization of capital assets	71,430	84,056
Amortization of intangible assets and deferred costs	62,938	57,298
Non-cash interest and finance charges	3,281	9,464
Share-based compensation	66,649	16,464
Non-controlling Interest	-	(28,302)
Future income tax provision	(13,163)	57,329
	537,107	518,738
Changes in non-cash operating accounts	(4,173,068)	(1,691,649)
	(3,635,961)	(1,172,910)
Investing activities		
Capital asset additions	(102,162)	(47,277)
Other asset additions	(50,400)	(22,450)
Acquisitions, net of cash acquired	-	(100,000)
	(152,562)	(169,727)
Financing activities		
Payment of acquisition notes payable	-	(265,000)
Repayment of long-term debt	(125,001)	(125,001)
Issuance of shares	8,009,366	1,005,413
Share issue costs	(670,972)	(5,089)
	7,213,393	610,324
Increase (decrease) in cash for the period	3,424,870	(732,314)
Cash or equivalents beginning of period	5,078,927	964,056
Cash or equivalents end of period	\$ 8,503,797	\$ 231,742

These financial statements have not been reviewed by the Company's external auditors.
The accompanying significant accounting policies and notes are an integral part of these financial statements.

Pareto Corporation

Notes to Consolidated Financial Statements

March 31, 2006
(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, 2006 and for the three-month periods ended March 31, 2006 and March 31, 2005 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.

Pareto Corporation

Notes to Consolidated Financial Statements

March 31, 2006
(Unaudited)

3. 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	37,328,102	\$ 7,576,707
Shares issued pursuant to private placement (i)	5,000,000	7,500,000
Shares issued upon conversion of common share purchase warrants	253,666	295,213
Shares issued on exercise of stock options	940,571	330,177
Share issue costs		(670,972)
Balance, March 31, 2006	43,522,339	\$ 15,031,125

(i) On March 30, 2006 Pareto issued 5,000,000 common shares pursuant to a private placement at an issue price of \$1.50 per common share for net proceeds of \$6,829,028.

(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, 2005	3,045,510	\$ 0.45
Granted in 2006	50,000	1.53
Exercised in 2006	(940,571)	0.27
Cancelled in 2006	(66,666)	0.43
Options outstanding, March 31, 2006	2,088,273	\$ 0.55
Options exercisable, March 31, 2006	1,414,383	\$ 0.32
Options exercisable, December 31, 2005	2,214,676	\$ 0.29

Pareto Corporation
Notes to Consolidated Financial Statements

March 31, 2006
(Unaudited)

3. Share capital (continued)

As at March 31, 2006, the Company had the following options outstanding pursuant to the Plan:

Number of Options	Exercise Price Per Share	Expiry Date
305,534	\$0.35	November 30, 2006
158,571	\$0.35	February 15, 2007
323,333	\$0.20	August 1, 2007
75,000	\$0.20	November 4, 2007
400,000	\$0.25	June 23, 2008
203,334	\$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, 2005
333,334	\$1.30	October 11, 2005
50,000	\$1.53	March 30, 2006

(d) Restricted stock units:

During 2005, the Company implemented 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. To March 31, 2006, 333,333 restricted stock units have been granted pursuant to the LTIP (333,333 to December 31, 2005).

(e) 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 518,334 of the warrants were outstanding at March 31, 2006 (772,000 at December 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.

Pareto Corporation

Notes to Consolidated Financial Statements

March 31, 2006
(Unaudited)

3. Share capital (continued)

(f) Share-based compensation:

The fair value of share options granted in 2006 was estimated using the Black-Scholes option-pricing model with the following assumptions:

Dividend yield	0%
Expected volatility	40%
Risk-free interest rate	4.0% to 4.2%
Expected option life	2 to 4 years

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	3.0% to 3.6%
Expected option life	2 to 4 years

4. Subsequent event

On, May 2, 2006, the Company acquired the assets of Trajectory Business Performance Inc. ("TBPI") for initial cash consideration of \$400,000. In addition, as part of the purchase, potential future cash consideration of up to \$1.2 million may be payable by the Company based on the performance of TBPI through 2008. The vendors have been granted 258,065 warrants to acquire up to 258,065 common shares of Pareto at an exercise price of \$1.55 per share with a maximum of \$400,000 of the above performance based cash consideration if received.