



PARETO

STRATEGY MEETS EXECUTION

**Pareto Corporation
Q1 2007 Report**

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, 2007, summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity and cash flows of Pareto for the quarter ended March 31, 2007. 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, 2007, can be found at the Company's website at www.pareto.ca and on SEDAR at www.sedar.com.

Forward-looking Statements

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

Non-GAAP Measures

In this discussion and analysis, management uses "EBITDA" (earnings before amortization, net interest and finance charges, share-based compensation, income taxes and gain on acquisition) and pro forma revenue; measures 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 gain on acquisition, all of which are clearly identified on the Company's Statement of Operations and Retained Earnings.

Pro forma revenue is calculated by including the revenue of businesses acquired since the end of the prior year comparative period in the Company's revenue for the corresponding period as if the acquired business was acquired at the beginning of the comparative period.

Management uses other non-GAAP financial measures, including net debt (long-term debt and capital lease obligations 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 clients in a wide range of industries. All of Pareto's operations are located in Canada. 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.

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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.

Retail sales and merchandising as well as 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 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.

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Operating Results for the quarter ended March 31:

	2007	2006	\$ Change	% Change
Revenue	\$ 14,716,308	\$ 9,532,273	\$ 5,184,035	54%
Operating and administrative expenses	13,899,615	8,767,726	5,131,889	59%
	\$ 816,693	\$ 764,547	\$ 52,146	7%
Amortization of capital assets	\$ 102,299	\$ 71,430	\$ 30,869	43%
Amortization of intangible assets and deferred costs	90,217	62,938	27,279	43%
Interest and finance charges, net	74,595	33,395	41,200	123%
Share-based compensation	64,525	66,469	(1,944)	(3%)
	331,636	234,232	97,404	42%
Earnings before income taxes	485,057	530,315	45,258	(9%)
Income taxes	137,513	184,163	46,650	(25%)
Net earnings	\$ 347,544	\$ 346,152	\$ 1,392	-
Basic and Diluted earnings per share	\$ 0.01	\$ 0.01	\$ 0.00	-

Revenue

In the first quarter of 2007, revenues increased 54% or \$5.2 million to \$14.7 million compared to \$9.5 million in the first quarter of 2006. The \$5.2 million increase resulted primarily from the inclusion of the operations of the SourceLink Canada business acquired in August 2006 and the Secom Plus business acquired in October 2006. The overall revenue growth was negatively impacted in the quarter by a \$1.1 million reduction in corporate event revenue as compared to last year. This comparative shortfall will be significantly over recovered in the second quarter of 2007. On a pro forma basis, overall revenue increased by 3%. Excluding corporate events pro forma revenue increased by 13% driven by strong revenue growth in print management services, retail sales and merchandising (Secom Plus) and direct mail (SourceLink Canada).

Operating and Administrative Expenses

Operating and administrative expenses increased 59% or \$5.1 million to \$13.9 million from \$8.8 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 after March 31, 2006. Operating and administrative expenses grew faster than revenues in the quarter as operating efficiencies were negatively impacted by staff costs incurred in advance of the Company's second quarter which is expected to be the Company's largest revenue quarter in 2007.

EBITDA

In Q1 2007, the Company generated \$816,693 of EBITDA (see "Non-GAAP Measures" above) compared to \$764,547 in 2006, an increase of 7%. This growth in EBITDA was not consistent with the significant growth in revenue as the revenue was driven by the inclusion of acquisition revenue rather than organic revenue such that the overall revenue growth was accompanied by the inclusion of the infrastructure costs of the new businesses. EBITDA as a percentage of revenue represented 5.5% in 2007 from 8.0% in 2006. The first quarter of each year is traditionally the weakest of the year for the Company's EBITDA margin percentage performance. Since 2003, the average EBITDA margin percentage achieved in the first quarter has been 6.2% with a range of 5.0% to 8.0%.

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Amortization, Interest and Share-based Compensation

Amortization, interest and share-based compensation increased by 42% or \$97,404 over the same period in 2006. Amortization of capital assets increased by 43% as a result of capital assets acquired by the Company since March 31, 2006. The acquisition of Secom Plus by the Company in October 2006 led to increased amortization of both capital assets and intangible assets. Net interest and finance charges increased by \$41,200 as a result of the inclusion of interest costs on capital lease obligations taken on by the Company as part of the acquisition of SourceLink Canada in August 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 declined slightly as the effect of options and restricted stock units issued since March 31, 2006 was offset by past issuances for which the share based compensation cost had been fully expensed prior to the beginning of the first quarter of 2007.

Income Taxes

Income tax expense in the first quarter of 2007 represented 28% of earnings before tax compared to 35% in Q1 2006. The overall tax rate was reduced as future income tax assets provided a reduction in income tax of \$76,000. At March 31, 2007 the Company has approximately \$3.8 million of future income tax assets still to be utilized. Going forward, the Company expects to incur a long term effective tax rate of approximately 37%.

Net Earnings

The Company generated \$348,000 of net earnings compared to \$346,000 in Q1 2006 as the improvement in EBITDA and reduction in income taxes were offset by increased amortization and interest expense. Net earnings as a percentage of revenue was 2.3% compared to 3.6% in 2006. Excluding the effect of income taxes, earnings before income taxes was 3.3% of revenue in the period compared to 5.6% in 2006.

Earnings per share

Basic and diluted earnings per share remained constant at \$0.01 in Q1 2007, consistent with the equal levels of net income derived in the quarters. The consistency was achieved in spite of the 13% increase in number of diluted shares outstanding in the period. The weighted average number of diluted shares outstanding increased as a result of the two private placements completed in 2006 and the shares issued pursuant to the acquisition of Secom Plus in October 2006, offset by the 1.4 million shares repurchased for cancellation during the year and the effect of the decrease in the Company's share price compared to the same period last year.

Financial Outlook

The Company expects the second quarter of 2007 to be the Company's largest revenue quarter in 2007 partial driven by the corporate event first quarter shortfall which will be significantly over recovered in the second quarter of 2007.

For the year in 2007, the Company expects to achieve EBITDA margin levels consistent with 2005, when EBITDA margin was 10.4%. The improvement is expected to be 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. This will be achieved due to improved revenue arising from 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.

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Liquidity and Capital Resources

Financial Position

	March 31, 2007	December 31, 2006	\$ Change	% Change
Cash	\$ 121,961	\$ 5,020,127	\$ (4,898,166)	(98%)
Acquisition notes payable	200,000	1,450,000	(1,250,000)	(86%)
Long-term debt	540,991	665,992	(125,001)	(19%)
Long-term capital leases	1,190,565	1,256,355	(65,790)	(5%)
Total debt	1,931,556	3,372,347	(1,440,791)	(43%)
Total net cash (debt) position	(1,809,595)	1,647,780	(3,457,375)	(210%)
Shareholders' equity	23,329,628	23,736,606	(406,978)	(2%)
Total capitalization	\$ 25,139,223	\$ 22,088,826	\$ 3,050,397	14%
Working capital position	\$ 3,418,993	\$ 4,134,294	\$ (715,301)	(17)%
Net debt:Shareholders' equity	0.08:1	n/a		
Net debt:Total Capitalization	0.07:1	n/a		
Net debt:EBITDA	0.65:1	n/a		
Total debt:EBITDA	0.69:1	1.23:1		

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 \$0.5 million outstanding as at March 31, 2007. 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 - \$375,003; and 2008 - \$165,998. 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. The Company is however 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.

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Operating activities

Consistent with prior years, in the first quarter of the year Pareto's operating activities utilize cash flow. In Q1 2007 \$2.2 million of cash flow was utilized compared to \$3.6 million of cash flow utilized in the same period in 2006, an improvement of \$1.4 million. Operating activities before changes in non-cash operating accounts generated \$564,000 of cash flow or 62% more than the Company's net earnings. This compares to \$537,000 of cash flow which was 55% more than Q1 2006 net earnings. The majority of the improvement in operating activity cash flow utilization resulted from non-cash operating accounts utilizing only \$2.3 million of cash flow compared to \$3.6 million in the first quarter of 2007. In 2007 cash flow generated from increased deferred revenue was offset by a \$3.3 million reduction in accounts payable and a \$2.4 million increase in inventory and work in progress. Both the increase in deferred revenue and increase in inventory and work in progress relate to project work done in advance of the Corporation's second quarter. The Company's days sales outstanding measured on a quarterly basis stood at 76 days at March 31, 2007 compared to 62 days at December 31, 2006 and 90 days at March 31, 2006.

Investing activities

To March 31, 2007, Pareto's investing activities utilized \$295,000 of cash flow, up from \$153,000 in the same period of 2006, as a result of increased capital expenditures. The increased capital expenditures primarily related to leasehold improvements and machinery and equipment.

Financing activities

Pareto's financing activities utilized \$2.3 million of cash flow in Q1 2007. The Corporation reduced debt by \$1.5 million and utilized \$857,000 to repurchase common shares of the Company pursuant to its normal course issuer bid. The Company may expend further funds to repurchase common shares in 2007. This compares to \$7.2 million of cash flow generated in Q1 2006 resulting from the net proceeds from share issuances.

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	\$ 540,991	\$ 500,000	\$ 40,991	\$ -	\$ -
Capital leases	1,190,565	262,537	928,028	-	-
Acquisition notes payable	200,000	100,000	100,000	-	-
Operating leases	5,748,296	1,105,855	1,448,082	1,098,842	2,095,517
Total contractual obligations	\$ 7,679,852	\$ 1,968,392	\$ 2,517,101	\$ 1,098,842	\$ 2,095,517

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.

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Outstanding Share Data

At March 31, 2007, an unlimited number of common shares were authorized and 44,417,175 (44,592,175 at May 11, 2007) common shares were outstanding. The Company had 1,165,834 options (1,499,168 at May 11, 2007) outstanding to acquire common shares of which 802,778 (816,112 at May 11, 2007) were exercisable. The Company also has 616,666 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 existing client relationships and to obtain new clients and assignments. Competitive factors include account management and creative capabilities and reputation, management, personal relationships, quality and reliability of service, and expertise in particular niche areas of the marketplace. As the Company continues to expand through strategic acquisitions or organic growth, this may reduce the number of competitors in the market, however the success achieved may be a springboard for other companies to enter the market, therefore the competitive landscape is ever fluctuating and difficult to predict.

Dependence Upon a Limited Number of Clients

Although the Company has a significant number of clients, a relatively small number of them contribute the majority of the Company's revenue and gross profit. During the quarter Pareto generated revenues from one client representing greater than 10% of revenues (33%). In the first quarter of 2006 three clients represented greater than 10% of revenues (25%, 24% and 19% 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 29% of consolidated assets at March 31, 2007. 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.

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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.

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 March 31, 2007.

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.

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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.

Internal Control Over Financial Reporting

Internal control over financial reporting is designed 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 control over financial reporting that occurred during the first quarter of 2007, the most recently completed interim period, that have materially affected or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Seasonality

Because of the project-based nature of certain of the Company's business units which recognize revenue using the completed contract method, the Company's results can be significantly impacted in a quarterly period depending on the timing of the completion of significant projects. This impact, which is particularly pronounced with respect to corporate event revenues, 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**Management's Discussion and Analysis of Results of Operations and Financial Position****Summary of Quarterly and Annual Results**

Year Ended					
December 31, 2007	March 31	June 30	September 30	December 31	Total

Quarterly information:

Revenue \$ 14,716,308

EBITDA¹ 816,693

Net earnings 347,544

Basic and diluted earnings
per share² 0.01

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

EBITDA¹ 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 share² 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

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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

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

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".

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Consolidated Balance Sheets

March 31, 2007
(unaudited)

December 31, 2006

	March 31, 2007 (unaudited)	December 31, 2006
Assets		
Current assets		
Cash	\$ 121,961	\$ 5,020,127
Accounts receivable	12,452,764	12,399,746
Inventory and work in progress	4,824,402	2,457,361
Other current assets	650,044	540,698
Current future income tax assets	2,960,902	2,903,293
	21,010,073	23,321,225
Loans receivable	616,667	616,667
Long-term future income tax assets	804,050	850,590
Deferred costs	549,433	513,708
Capital assets	1,839,262	1,722,298
Goodwill and intangible assets	17,730,095	17,782,873
	\$ 42,549,580	\$ 44,807,361
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 10,772,090	\$ 14,059,056
Current portion of deferred revenue	5,416,659	2,607,264
Income taxes payable	408,569	275,091
Current future income tax liabilities	131,225	131,225
Current portion of acquisition notes payable	100,000	1,350,000
Current portion of long-term debt	500,000	500,000
Current portion of capital lease obligations	262,537	264,295
	17,591,080	19,186,931
Long-term future income tax liabilities	593,186	625,772
Long-term debt	40,991	165,992
Long-term capital lease obligations	928,028	992,060
Long-term acquisition notes payable	66,667	100,000
Total liabilities	19,219,952	21,070,755
Shareholders' equity		
Share capital	17,096,181	17,176,172
Contributed surplus	321,841	268,895
Retained earnings	5,911,606	6,291,539
Total shareholders' equity	23,329,628	23,736,606
	\$ 42,549,580	\$ 44,807,361

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 statements.

Pareto Corporation

Consolidated Statements of Operations and Retained Earnings

For the quarter ended March 31 (unaudited)	2007	2006
Revenue	\$ 14,716,308	\$ 9,532,273
Operating and administrative expenses	13,899,615	8,767,726
	816,693	764,547
Amortization of capital assets	102,299	71,430
Amortization of intangible assets and deferred costs	90,217	62,938
Interest and finance charges, net	74,595	33,395
Share-based compensation	64,525	66,469
	331,636	234,232
Earnings before income taxes and non-controlling interest	485,057	530,315
Income taxes	137,513	184,163
Net earnings for the period	347,544	346,152
Retained earnings, beginning of period	6,291,539	5,409,564
Excess price paid over carrying value on repurchase of common shares	(727,477)	-
Retained earnings, end of period	\$ 5,911,606	\$ 5,755,716
Basic and diluted earnings per share	\$ 0.01	\$ 0.01
Average number of common shares outstanding:		
Basic	44,646,385	37,843,930
Diluted	45,466,938	40,257,050

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 statements.

Pareto Corporation
Consolidated Statements of Cash Flows

For the quarter ended March 31 (unaudited)	2007	2006
Operating activities		
Net earnings for the period	\$ 347,544	\$ 346,152
Items not involving cash:		
Amortization of capital assets	102,299	71,430
Amortization of intangible assets and deferred costs	90,217	62,938
Non-cash interest and finance charges	3,281	3,281
Share-based compensation	64,525	66,649
Future income tax provision	(43,655)	(13,163)
	<u>564,211</u>	<u>537,107</u>
Changes in non cash operating accounts	(2,873,498)	(4,173,068)
	<u>(2,309,287)</u>	<u>(3,635,961)</u>
Investing activities		
Capital asset additions	(219,263)	(102,162)
Other asset additions	(76,445)	(50,400)
	<u>(295,708)</u>	<u>(152,562)</u>
Financing activities		
Repayment of acquisition notes payable	(1,283,333)	-
Repayment of long-term debt	(125,001)	(125,001)
Repayment of capital lease obligations	(65,790)	-
Issuance of shares	37,999	8,009,366
Share issue costs	-	(670,972)
Repurchase of common shares	(857,046)	-
	<u>(2,293,171)</u>	<u>7,213,393</u>
Increase (decrease) in cash for the period	(4,898,166)	3,424,870
Cash and cash equivalents, beginning of period	5,020,127	5,078,927
Cash and cash equivalents, end of period	\$ 121,961	\$ 8,503,797

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 statements.

Pareto Corporation

Notes to Consolidated Financial Statements

March 31, 2007 (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, 2007 and for the three-month period ended March 31, 2007 is 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. Share capital

- b) Authorized:
- Unlimited common shares
 - Unlimited special shares issuable in series

- b) Issued common shares:

	Number of Shares	Amount
Balance, December 31, 2006	45,058,204	\$ 17,176,172
Shares issued on exercise of stock options	108,571	49,578
Shares repurchased for cancellation	(749,600)	(129,569)
Balance, March 31, 2007	<u>44,417,175</u>	<u>\$ 17,096,181</u>

Pareto Corporation

Notes to Consolidated Financial Statements

March 31, 2007 (unaudited)

3. Share capital (continued)

a) 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, 2006	1,385,516	\$ 0.67
Granted in 2007	-	-
Exercised in 2007	(108,571)	0.35
Cancelled in 2007	(111,111)	1.30
Options outstanding, March 31, 2007	1,165,834	\$ 0.63
Options exercisable, March 31, 2007	802,778	\$ 0.36
Options exercisable, December 31, 2006	864,775	\$ 0.37

The weighted average grant date fair value of the options granted in 2006 was \$0.41.

Pareto Corporation

Notes to Consolidated Financial Statements

March 31, 2007 (unaudited)

3. Share capital (continued)

As at March 31, 2007 the Company had the following options outstanding pursuant to the plan:

Number of Options	Exercise Price Per Share	Expiry Date
195,000	\$ 0.20	August 1, 2007
45,000	\$ 0.20	November 4, 2007
300,000	\$ 0.25	June 23, 2008
166,667	\$ 0.43	February 10, 2009
35,000	\$ 0.86	July 19, 2009
30,000	\$ 0.88	December 13, 2009
34,167	\$ 0.90	March 7, 2010
40,000	\$ 0.90	April 26, 2010
50,000	\$ 1.53	March 30, 2011
90,000	\$ 1.47	May 15, 2011
100,000	\$ 1.21	August 8, 2011
30,000	\$ 1.15	August 11, 2011
50,000	\$ 1.15	October 3, 2011

d) Restricted stock units:

During 2005, the Company implemented a long-term incentive plan (LTIP) for employees, consultant, 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. At March 31, 2007, 238,333 restricted stock units were outstanding pursuant to the LTIP (238,333 to December 31, 2006)

e) Common share purchase warrants:

In 2006, pursuant to the acquisition of Trajectory, the Company issued 258,065 common share purchase warrants, each of which provide the holder with the right to purchase one common share of the Company for \$1.55. The warrants expire on May 20, 2008. The exercise of the warrants is conditional upon the future operating results of Trajectory. All of the warrants are outstanding at December 31, 2006.

Pareto Corporation
Notes to Consolidated Financial Statements

March 31, 2007 (unaudited)

3. Share capital (continued)

f) Share-based compensation:

The fair value of stock 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 3.9% to 4.2%
Expected option life 2 to 4 years

The fair value of restricted stock units granted in 2006 was estimated to equal the market price of a Pareto common share on the date of grant.

In 2007, \$64,525 (2006: \$66,469) of share based compensation was added to contributed surplus with \$11,579 (2006: \$74,477) of contributed surplus reallocated to share capital as a result of options exercised in the period.