ALEGRO HEALTH CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL POSITION

The following management discussion and analysis ("MD&A") dated this 26th day of April, 2005 provides an overview of the consolidated financial condition and results of operations of Alegro Health Corp. ["Alegro", "we", "our", or the "Company"] for the year ended December 31, 2004. This discussion and analysis should be read in conjunction with the information from the consolidated financial statements of the Company and related notes thereto for the year ended December 31, 2004.

The consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ["GAAP'] and all amounts are presented in Canadian dollars.

Caution Concerning Forward-Looking Statements

This document contains forward-looking statements, which reflect the Company's current expectations regarding future events. The forward-looking statements depend on a number of factors and involve risks and uncertainties. When used in this document, the words "anticipate", "believe", "estimate" and "expect" and similar expressions, as they relate to Alegro or its management, are intended to identify forward-looking statements. This MD&A contains forward-looking statements relating to, among other things, regulatory compliance, the sufficiency of current working capital and the estimated cost and availability of funding for future acquisitions. Such statements reflect the current views of Alegro with respect to future events and are subject to certain risks, uncertaintities and assumptions. Many factors could cause the actual results, performance or achievements of Alegro to be materially different from any future results, performances or achievements that may be expressed or implied by such forward- looking statements.

Overview

Alegro Health Corp. was incorporated under the Canada Business Corporations Act on February 2, 2001. On September 4, 2002 the Company completed its initial public offering of 1,833,333 shares of common stock and was listed as a venture company on the TSX Venture Exchange ["TSX-V"]. Alegro is a leading provider of medical, surgical, disability management, and multidisciplinary rehabilitation services to an extensive and diverse customer base. Through its network of facilities and health professionals, Alegro provides screening and prevention, assessment, consultation, and treatment services to over 200 Canadian companies and government agencies.

On June 18, 2003, Alegro issued [i] 2,259,095 common shares in exchange for amounts due to related parties by Work Able Centres Inc. ["Work Able"], a private company incorporated in 1993 under the laws of Ontario, of $451,819; and [ii]11,750,000 common shares to acquire all of the issued and outstanding shares of Work Able. As a result of these transactions, the shareholders of Work Able owned 81.6% of the outstanding common shares of the Company and, accordingly, the purchase of Work Able was accounted for as a reverse takeover transaction.

On August 6, 2004, the Company entered into a twenty-five year management services contract covering all aspects of the operations of Don Mills Surgical Unit Limited ["DMSU"], an accredited private hospital authority licensed by the Ontario Ministry of Health and Long-Term Car ["Ministry of Health"]. The Company will manage and control all of the day-to-day operations of DMSU's healthcare facility. The Company has determined that Accounting Guideline-15, Consolidation of Variable Interest Entities, applies to the transaction as the Company has a controlling financial interest in and is the primary beneficiary of DMSU and has consolidated DMSU's financial results as of December 31, 2004 within the consolidated financial statements.

Alegro's business objectives are to provide a broad range of health care services to individuals and organizations. The Company currently has two lines of business; Work Able. and DMSU.

Work Able

Work Able provides specialized medical assessment and rehabilitation services to individuals disabled as a result of work related or motor vehicle injuries, as well as those suffering short and long term disabilities that affect their ability to function in their occupations.

Work Able has positioned itself as a premiere provider of disability management services. Work Able pioneered the use of work simulation facilities in Canada to support functional recovery and promote return to work. Work Able presently has three facilities (30,000 total square footage) located in Ontario. The facilities are equipped with state of the art assessment, rehabilitation and work simulation tools and systems. Work Able employs a combination of approximately 200 full-time staff and consultants including physicians from across a number of specialty practice areas, psychologists, occupational health nurses, physiotherapists, occupational therapist, cognitive behavioural therapists, kinesiologists, and vocational evaluators.

Clients are referred to Work Able clinics by many sources including insurers, government agencies, independent insurance adjusters, lawyers, employers and independent disability management companies.

Work Able has also established two divisions focused specifically on growth in expanding markets – mental health disability management and third party medical evaluation sectors. These divisions have integrated telecommunications and e-health technologies to maximize service delivery efficiencies, business penetration and growth opportunities.

Work Able's Disability Management Group provides mental health assessment and return to work services to disability managers and insurers, as well as large corporations across Canada. A continuum of mental health resources is available to assist provincial and national customers in managing individuals with depression, anxiety, substance abuse and stress disorders.

Work Able's MedEval division ["MedEval"] delivers specialized medical evaluation services through a network of health professionals who are linked electronically to a central call and service centre. MedEval expedites access for a variety of customers across Canada to evaluators from across a full range of medical specialty areas.

DMSU

DMSU is an accredited, Toronto-based private hospital operated since 1966 under Ontario's Private Hospitals Act. Alegro entered into a management contract to manage and operate the hospital on August 6, 2004.

DMSU specializes in a mix of ambulatory surgical services including:

- Ophthalmology – cataract extraction and lens implants
- Orthopaedics – arthroscopy procedures on knees and other major joints
- Plastic Surgery – reconstructive and cosmetic surgeries

Affiliated surgeons maintain active practices within their specialty areas and are members of the Royal College of Physicians and Surgeons. DMSU provides services in 2 fully equipped operating theatres, 20 in-patient beds, a central nursing station, and physician offices in 8,500 total square feet. DMSU also retains full and part time surgical nursing staff of 20. Surgical bookings are scheduled in a manner that maximizes utilization and revenue opportunities.

DMSU services are funded in three ways:

- Insured Services funded by the Ontario Health Insurance Plan (OHIP) – Services assist the Ministry of Health to minimize waits for surgery for Ontario residents and reduce surgical costs associated with delivery in larger public hospital settings.

- Insured services funded by third party payers – DMSU provides surgical services to injured workers on behalf of the Workplace Safety and Insurance Board (WSIB) to minimize lost work time and reduce claims costs associated with extended waits for ambulatory surgery.
- Private Pay services to individuals from across provincial and national jurisdictions for elective, non-essential surgeries (e.g., elective cosmetic/plastic surgery).

Wait times for surgery are currently a critical focus of provincial and federal health policy in Canada. In particular, the Government of Ontario is targeting two of the insured services in which DMSU is presently involved – ophthalmology surgery (cataract extraction and lens implants) and orthopedic surgery (arthroscopy procedures on knees and other major joints). Although not covered by OHIP, cosmetic plastic surgery is also in great demand. Recent studies [Frasier Institute] have identified that the waiting times for plastic surgery in Ontario have increased significantly. With plastic surgery being an established practice area at DMSU, it is well positioned to respond to the growing demand. DMSU's business plan includes a diversified growth strategy in the area of Insured Services as well as growth in profitable areas of private pay services.

Selected Annual Information

	For the years ended December 31, 2004	December 31, 2003 *Restated*
Revenue	$ 7,142,377	$ 6,833,518
Net Income before discontinued operations	$ 130,611	$ 488,738
Per Share	$ 0.01	$ 0.05
Per Share Diluted	$ 0.01	$ 0.05
Net Income	$ 130,611	$ 488,738
Per Share	$ 0.01	$ 0.05
Per Share Diluted	$ 0.01	$ 0.05
Total Assets	$ 3,921,312	$ 1,944,730

Fiscal 2004 Operating Results

For the year ended December 31, 2004 the pre-tax profit was $433,806 compared to $789,112 for the same period last year. The decrease in pre-tax profit is primarily attributed to a non-cash charge of $278,300 related to options granted to directors and advisors in 2004, compared to a charge of $19,000 in 2003. Total revenue of $7,142,377 increased by $308,864 or 4.5% for the year ended December 31, 2004 compared to $6,833,518 for the year ended December 31, 2003. During 2004 the Company improved its cash position by $1,205,284 from bank indebtedness and bank loans of $589,560 as at December 31, 2003 to cash of $615,724 as at December 31, 2004.

Revenues

Consolidated revenues for the year ended December 31, 2004 amounted to $7,142,377, an increase of 4.5% over consolidated revenues in 2003 of $6,833,518. The increase resulted from the $516,086 in additional revenue generated by DMSU which was acquired in August 2004, partially offset by a decline in revenues from the Company's Work Able segment.

Work Able
Revenues from Work Able were $6,626,291 for the year ended December 31, 2004 as compared to $6,833,518 for the year ended December 31, 2003, a decrease of $207,227 or 3.0%. The decrease in revenue is largely attributable to the new medical assessment protocols and rate reductions for medical assessments (Designated Assessment Centre assessments) introduced by the Financial Services Commission of Ontario in November 2003 and February 2004.

In anticipation of these system changes being imposed, Work Able's 2004 operational strategies were focused on diversification and increasing business referrals from across sectors. These efforts resulted in an increase in referrals in 2004 of approximately 28.2% compared to 2003. The increased number of referrals largely reduced the impact of the rate reductions introduced by the Ontario government in 2003 and 2004.

DMSU
DMSU's five-month revenue contribution was $516,086 for the year ended December 31, 2004. Of the total revenue, 93.3% was related to the global funding arrangement with the Ministry of Health.

Under the current funding arrangements with the Ministry of Health, DMSU receives approximately $1.2 million annually to cover its operating expenses.

Cost of Sales
2004 cost of sales relate to the Work Able business segment and are 24.5% of revenue or $1,622,292 as compared to 25.7% of revenue or $1,761,970 for the year ended December 31, 2003. Gross margins for 2004 increased to 75.5% from 74.3% in 2003. The decrease in the rate reductions for medical assessments introduced in 2004 did not affect the Company's gross margins as we were able to diversify and increase our business referrals from new sectors in the industry by 28.2%.

General and Administrative Expenses

Consolidated general and administrative ["G&A"] expenses for the year ended December 31, 2004 increased 13.9% to $4,516,011 from $3,964,018 for the year ended December 31, 2003. The increase resulted primarily from expenses of $563,769 incurred by DMSU.

Work Able
G&A expenses for Work Able were $3,673,427 for the year ended December 31, 2004, a decrease of 7.3% from $3,964,018 for the year ended December 31, 2003. While business volume increased and business development efforts broadened in 2004, operating expenses decreased as a result of cost control strategies including additional per capita production capacity achieved through resource re-allocation, increasing treatment services that resulted in improved staff utilization, and redesigning services in response to changes in product value. While these efficiencies will be maintained on a go forward basis, additional human resource capacity will be required to support anticipated future growth in assessment and treatment services.

DMSU
G&A expenses for the year ended December 31, 2004 were $563,769. The primary components of G&A are nursing and staffing costs, with the balance comprised of facility operating and rent expenses. Delays in the Ministry of Health license transfer and superintendent reassignment processes reduced the impact of Alegro's integration strategies in the first five months of operation. Significant cost savings are anticipated in 2005 relating to improved scheduling and staff assignment models, as well as synergies from pooling purchases.

Interest Expense
Interest expense was $45,496 for the year ended December 31, 2004, compared to $111,032 for the year ended December 31, 2003, a decrease of $65,536 or 59.0%. This decrease is attributable to the repayment of the Company's bank indebtedness and loans in the second quarter of 2004 and favorable interest rate movements during 2004.

Amortization Expense

Amortization expense amounted to $246,472 for the year ended December 31, 2004, compared to amortization expense of $154,584 for the year ended December 31, 2003, an increase of $91,888. This increase resulted from the acquisition of additional fixed assets relative to 2003, including the equipment acquired as a result of the acquisition of DMSU and adjustments to the carrying value of our leasehold improvements at the time of renewing leases for certain of our facilities.

Net Income

Net income was $130,611 or $0.01 per share for the year ended December 31, 2004 compared to $488,738, or $0.05 per share for the year ended December 31, 2003, a decrease of $358,127. This decrease in net income relative to 2004 was primarily attributable to the non-cash expense of stock-based compensation and initial expenses incurred in the integration of DMSU into Alegro's operations. Diluted earnings per share for the year ended December 31, 2004, were $0.01, compared to $0.05 per share for the year ended December 31, 2003.

Liquidity and Capital Resources

As at December 31, 2004, the Company had cash of $615,724, an increase of $1,205,284 over bank indebtedness and bank loans of $589,560 as at December 31, 2003.

In 2004, the Company's sources of liquidity included cash provided by operating activities and cash provided by financing activities. In addition, the Company has available two credit facilities totaling $770,000. As at December 31, 2004 the Company had not drawn on their credit facilities.

Cash flows generated from operating activities were $851,656 for the year ended December 31, 2004 compared to $1,046,878 generated from operating activities for the year ended December 31, 2003. The decrease is attributable to costs associated with the integration of DMSU into Alegro's operations and consulting expenses incurred by the Company for business development.

Investing activities during 2004 were financed by cash flows from its operations and by proceeds generated from a private placement completed in August 2004. The increase in cash flows used in investing activities of $1,370,758 compared to cash flows used of $176,030 for the year ended December 31, 2003 is due to the acquisition of DMSU made during 2004. For the year ended December 31, 2004, financing activities provided cash flows of $1,134,826 compared to a use of cash of $870,848 for the year ended December 31, 2003.

Management believes that its cash as at December 31, 2004, its current credit facilities and the cash generated from ongoing operating activities will be sufficient to fund the Company's operations and capital needs for the foreseeable future, although there can be no assurance in this regard. The Company does not intend to raise additional equity capital to finance its continuing operations, but may elect to do so in the context of acquisitions or other similar or extraordinary occurrences.

Restatement of 2003 Consolidated Financial Statements

During the year, the Company identified $396,133 in accrued liabilities which were previously not accrued as at December 31, 2003. The identified accrued liabilities have been recorded on a retroactive basis with restatement of the comparative consolidated financial statements. For the year ended December 31, 2003, the cumulative effect of the restatement is as follows:

	$
Increase in future tax assets	29,000
Increase in accounts payable and accrued liabilities	396,133
Increase in deficit, beginning of period	250,394
Increase in general and administrative expenses	192,059
Decrease in provision for future income taxes	75,320

For the year ended December 31, 2003, the cumulative effect of the accrued liabilities on basic and diluted earnings per common share is a decrease of $0.01 per common share.

Commitments and Off-Balance Sheet Arrangements

The Company has not entered into any off-balance sheet arrangements. Future minimum annual lease payments for facilities under operating leases for premises and equipment for the years 2005, 2006, 2007 and 2008 are $173,135, $105,667, $97,867 and $97,867, respectively. The Company will continue to fund these commitments by cash generated from its operations.

In 2004, the Company entered into an agreement with an agent to act as the Company's fiscal advisor for a two-year period ending in August 2006. The Company has agreed to pay $3,750 on a monthly basis for a one year period with the balance of $45,000 due when mutually agreed upon or before the earlier of [i] the end of the second year period or [ii] the closing of any new equity financing transaction. During the term of the agreement, the Company has also agreed to pay a commission of 2% of the value of any acquisition in which the agent's services are limited to merger and acquisition advisory or 3% of the value of any acquisition that was identified by the agent. No acquisitions were completed during the year that resulted in a requirement for payments under the terms of these agreements.

Share Capital

As at March 31, 2005, the Company had 25,191,762 common shares issued and outstanding compared to 10,727,740 common shares issued and outstanding at December 31, 2003. During August 2004 the Company completed a private placement that raised gross proceeds of $2,000,000. The private placement offered 8,000,000 units with a purchase price of $0.25 per unit. Each unit consisted of one common share and one-half of one common share purchase warrant. Upon completion of the private placement the Company issued 8,000,000 common shares and 4,000,000 warrants to purchase an equivalent number of common shares at an exercise price of $0.30 per share expiring in August 2006.

As at March 31, 2005, there were a total of 1,666,666 options outstanding to purchase an equivalent number of common shares at exercise prices ranging from $0.15 to $0.45 per share, expiring at various dates until 2009. In addition, there were 3,981,000 warrants outstanding to purchase an equivalent number of common shares at an exercise price of $0.30 per share and 1,200,000 warrants outstanding to purchase an equivalent number of common shares at an exercise price of $0.25 per share. Both sets of warrants expire in August 2006.

Transactions with Related Parties

The Company's related parties are as follows:

[i] For the years ended December 31, 2004 and 2003, the Company incurred management fees of $294,750 and $325,000, respectively. The management services were provided by Brenras Holdings Inc. and The Disability Management Group Inc. ['DMG'], wholly-owned corporations controlled by Mrs. B. Rasmussen, a shareholder and director of the Company. As at December 31, 2004, DMG owed the Company $40,000. This amount is non-interest bearing.

[ii] Real World Simulations Systems Inc. ["Real World"] provided $72,000 in web design, advertising and publication services to the Company for the years ended December 31, 2004 and 2003, respectively. Real World is wholly-owned by a related party to Mrs. B. Rasmussen, the controlling shareholder and director of the Company.

[iii] Osborne Group Toronto Inc. ["Osborne Group"] provided $129,690 and $109,050 in financial accounting services to the Company for the years ended December 31, 2004 and 2003, respectively. Osborne Group is partially owned by Mr. D. Wood, a director and officer of the Company.

[iv] DMSU's Director of Clinical Programs is J. Orovan , the spouse of Dr. W. Orovan, a director of the Company.

Accounting Policies

Critical Accounting Estimates

The preparation of financial statements requires the Company to estimate the effect of various matters that are inherently uncertain as of the date of the financial statements. Each of these required estimates varies in regard to the level of judgment involved and its potential impact on the Company's reported financial results. Estimates are deemed critical when a different estimate could have reasonably been used or where changes in the estimate are reasonably likely to occur from period to period, and would materially impact the Company's financial condition, changes in financial condition or results of operations. The Company's significant accounting policies are discussed in Note 2 of the "Notes to Consolidated Financial Statements"; critical estimates inherent in these accounting policies are discussed in the following paragraphs.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in a business acquisition.

In estimating the fair value of a business unit, the Company uses acceptable valuation techniques and makes assumptions and estimates in a number of areas, including future cash flows and discount rates. In estimating future cash flows, the Company uses its internal plans. These plans reflect management's best estimates, however they are subject to change as they have inherent uncertainties that management may not be able to control. Actual results could differ significantly from those estimates.

The Company assesses goodwill for impairment loss annually by comparing the net carrying value of the individual business units, including the related goodwill and licenses, to their fair value. Any write-down of goodwill and licenses arising from impairment in value is recorded in the year for which the impairment is identified.

Our analysis indicated that there is no impairment in the carrying value of goodwill.

Long-Lived Assets

The Company reviews long-lived assets such as property, plant and equipment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

In estimating the fair value of long-lived assets, the Company uses acceptable valuation techniques and makes assumptions and estimates in a number of areas, including future cash flows and discount rates. In estimating future cash flows, the Company uses its internal plans. These plans reflect management's best estimates however they are subject to change as they have inherent uncertainties that management may not be able to control. Actual results could differ significantly from those estimates.

When indicators or impairment of the carrying value of long-lived assets exist, and the carrying value is greater than the net recoverable value, an impairment loss is recognized to the extent that the fair value is below the carrying value. Our analysis indicated that there is no impairment in the carrying value of the Company's long-lived assets.

Income Taxes

The Company follows the liability method whereby future income tax assets and liabilities are determined based on differences between the carrying amount and the tax basis of assets and liabilities. Future income tax assets and liabilities are measured using the enacted or substantively enacted tax rates, as appropriate, that will be in effect when these differences are expected to reverse. Future income tax assets are recognized only to the extent that management determines it is more likely than not that the assets will be realized.

An increase or decrease in these tax rates will increase or decrease the carrying value of future net tax assets resulting in an increase or decrease to net income. The realization of the Company's future tax assets is primarily dependent on generating sufficient taxable income prior to expiration of any loss carry forward balance. Based on the Company's current development, operations and anticipated results, the Company believes it is more likely than not to realize its future income tax assets.

Stock-Based Compensation

In determining the fair value of a stock option, using the Black-Scholes option pricing model, the Company must make estimates of the period in which the holder of the option will exercise the option and the volatility of the Company's stock over that same period. Different estimates would result in different amounts of compensation being recorded in the financial statements.

Recently Adopted Accounting Policies

Impairment of Long-Lived Assets

The Accounting Standards Board (ASB) of the CICA has issued section 3063, "Impairment of Long-Lived Assets", which is effective for fiscal years beginning on or after April 1, 2003. This section establishes standards for recognition, measurement and disclosure of the impairment of non-monetary long-lived assets, including property, plant and equipment, intangible assets with finite useful lives, deferred pre-operating costs and long-term prepaid assets

The implementation of this new standard did not have a significant impact on our consolidated financial statements.

Consolidation of variable interest entities

Accounting Guideline-15, Consolidation of Variable Interest Entities ["AcG-15"], provides guidance on the identification of, and financial reporting for, entities over which control is achieved through means other than voting rights; such entities are known as variable interest entities. The guideline requires variable interest entities to be consolidated by the primary beneficiary of the variable interest entities and expands disclosure requirements for both variable interest entities that are consolidated as well as those of which an enterprise holds a significant variable interest.

The Company has a variable interest in DMSU and has consolidated DMSU's financial results as of December 31, 2004 within the consolidated financial statements. As of December 31, 2004, the combined book value of the assets and liabilities associated with DMSU included in the consolidated balance sheet were $412,511 and $154,412 (which excludes any intercompany payable and receivable that eliminate during consolidation), respectively. For the period from August 6, 2004 to December 31, 2004, revenues and operating costs associated with DMSU included in our consolidated statement of operations were $516,086 and $592,453.

Risks and Uncertainties

This section outlines risks and uncertainties that can have an impact on our operating results and financial position over the course of a year.

Acquisition and integration

During the past several years, the Company has made acquisitions of various sizes. Our acquisition strategy has focused on identifying and purchasing companies that fit specific niches within our overall corporate strategy. These acquisitions involve the commitment of capital and other resources, and large acquisitions will have a major financial impact in the year of acquisition and later. The speed and effectiveness with which we integrate the acquired companies into existing businesses can have a significant short-term impact on our ability to achieve our growth and profitability targets.

Government Regulation and Funding

The healthcare industry is subject to and influenced by changes in the legislative environment in which it operates. There can be no assurances that there will not be any legislative changes, either federally or in any of the provinces in which Alegro will operate, or that any legislative changes will not adversely impact the business and operations of Alegro. Any failure to comply with licensing requirements or violation of any other statutes and regulations may result in civil or criminal sanctions, which may include: (1) the revocation of licenses, certifications and authorizations; and, (2) the denial of the right to conduct business.

DMSU is heavily dependent on government funding. The level of government funding directly reflects government policy related to health care spending, and decisions can be made regarding funding that are largely beyond our control. The level of funding for DMSU can have a material impact on our operating results and cash flows in a year. Any change in governmental regulation and licensing requirements or interpretation and application of same relating to healthcare services could have an adverse impact on Alegro's activities

Insurance

As a provider of healthcare services, the Company and its subsidiaries are be exposed to the risk of litigation during the normal course of business. The Company maintains all risk insurance including professional malpractice liability insurance, general civil liability and tenant liability insurance in amounts it believes are sufficient to cover potential claims arising out of its operations. Some claims, however, could exceed the scope of its coverage or the coverage of particular claims could be denied. There is no assurance that the existing coverage will continue to be sufficient or that, in the future, policies will be available at adequate levels of insurance or at acceptable costs. Litigation could adversely affect the Company's existing and potential client relationships, create adverse public relations and divert management's time and resources from the operation of the business.

Recruitment

The success of the Company's subsidiary operations will depend on the employment of qualified and experienced professionals who can provide quality service. The industry is currently experiencing a shortage of qualified personnel in certain professional sectors. Hiring and retaining professionals in tight labour markets will be difficult due to intense competition for their services. The loss of professionals, the inability to recruit these individuals, or overall wage increases could adversely affect Alegro's ability to operate its business efficiently and profitably.

Relationships

The business of the Company is dependent upon effective customer and client relationships. Given organizational change and consolidation trends in some of the insurance sectors, there can be no assurances that the Company's current relationships can be sustained and changes in these relationships could have an adverse affect on the Company's ability to operate profitably.

Uncertainty of Liquidity and Capital Requirements

The Company's future capital requirements will depend on many factors, including the rate of growth of its client base, the costs of expanding into new markets, the growth of the market for health services and the costs of administering the Company. In order to meet such capital requirements, the Company may consider additional public or private financing (including the incurrence of debt and the issuance of additional equity securities) to fund all or a part of particular programs, which could entail dilution of the net tangible book value of its shares. There can be no assurance that additional funding will be available or, if available, that it will be available on acceptable terms. If adequate funds are not available, the Company may have to reduce substantially or otherwise eliminate certain expenditures, including marketing of its products and services, or obtain funds through arrangements with corporate partners that may require the Company to relinquish rights to certain of its technologies or products. There can be no assurance that the Company will be able to raise additional capital if its capital resources are exhausted.

Volatility of Share Price

Market prices for securities of health services companies may be volatile. Factors such as announcements (publicly made or at conferences) of innovations, new commercial and medical products, patents, the development of proprietary rights by the Company or others, regulatory actions, publications, quarterly financial results or public concerns over health, future sales of securities by the Company or by its current shareholders and other factors could have a significant effect on the market price and volatility of the Company's common shares.

Business Outlook

Work Able

Anticipated regulatory changes in the casualty insurance market may provide for growth opportunities. The anticipated shift of Ontario's automobile insurance legislation to an open independent medical examination market coupled with a move to a more tort-based dispute system will continue to drive future demand for medical assessment. The anticipated direction of regulatory change may also provide growth opportunities in rehabilitation services. In advance of the Ministry of Finance's announcement of regulatory reform affecting the casualty insurance market, Work Able's 2004 business strategies focused on government and customer consultations, as well as preparing its current customer base for the conversion of Designated Assessment Centre assessments to independent medical examinations. In addition, Work Able's MedEval division was introduced to provide provincial access to the Company's medical assessment specialist network. Work Able has also been selected as a preferred treatment provider by a number of casualty insurers as they prepare for implementation of the new system. The government's delay in implementing the revised regulations resulted in a slower than expected rate of business conversion and growth within the casualty insurance sector in 2004. Work Able believes it is well positioned for the transition now anticipated by the end of 2005.

New regulatory and legislative requirements may also provide opportunities within the disability market. Revised legislation has required employers to accommodate sick and injured workers and modify jobs to support early and safe return to work. Employers are also held liable for unsafe work practices. These changes may increase the awareness, interest and spending by Work Able customers on prevention, disability management and return to work services. Work Able's 2004 business strategies resulted in additional business with both existing and new employers across sectors. In response to new business opportunities in the areas of absence management, occupational health, early and safe return to work, and disability management, Work Able believes it has sufficient capacity in its clinical teams in the areas of occupational health nursing, psychiatry, and mental health assessment and treatment services to service growth in this sector.

The major purchasers of Work Able's disability management services, insurance companies and workers' compensation boards, continue to be motivated by reducing costs through purchasing expedited and preferred access to assessment and rehabilitation/retraining services in as timely a manner as possible. In addition to diversifying the service options available to its customers, Work Able's business strategy is focused on facility expansion within geographic areas across Canada that will provide sustainable growth opportunities.

DMSU

In addition to expanding services to the Ministry of Health to assist with the provincial waiting list initiative, DMSU intends to pursue new uninsured service opportunities.

Alegro has identified the following objectives as being key to its growth and the achievement of its corporate goals:

Deliver New Service Offerings To Existing And Prospective Clients

The Company is increasing its sales and marketing efforts in order to further the sales of its traditional service offerings to prospective clients. Management also intends to leverage its significant client base of over 200 corporations to market new services and increase its average revenue per client. In addition to new and innovative technology offerings, the Company will use its strategic position to market more comprehensive solutions tailored to existing clients.

Enter New Growth Markets

Alegro intends to take selective advantage of profitable opportunities to offer additional services to current and future clients, including, but not limited to diagnostic services, surgical services, mental health disability management, and home care. In light of population health data, findings of health policy and evaluation research, priorities within funding systems, and developments in critical care and disability insurance policies, Management believes that there is a market opportunity for these types of services.

Strengthen Alegro’s Position by Consolidating the Fragmented Canadian Disability Management Market

The disability management markets in which Alegro operates are highly fragmented, with a number of smaller providers active on a local or regional scale. Given the structure of the market, management believes that there are multiple opportunities to complete strategic acquisitions. Management believes that through its integrated model, Alegro is positioned to act as the platform for ongoing industry consolidation. Accordingly, building upon its experience in such transactions, Alegro will continue to execute and refine its process for identifying, acquiring and integrating companies that are synergistic and complementary to its strategy.

Obtain Additional Outsourcing Contracts

The Company aims to secure additional outsourcing contracts to provide a comprehensive range of surgical and disability management services to major Canadian corporations and third party insurers. The Company intends to pursue these opportunities through participation in tender processes, sales efforts and business development activities.

Additional Information

We routinely file reports and other information with the SEDAR. SEDAR maintains an Internet site that contains reports, proxy, and information statements, and other information regarding issuers that file electronically with the SEDAR. The address of that site is http://www.sedar.com.

Consolidated Financial Statements

Alegro Health Corp.

December 31, 2004

AUDITORS' REPORT

To the Shareholders of
Alegro Health Corp.

We have audited the consolidated balance sheets of **Alegro Health Corp.** as at December 31, 2004 and 2003 and the consolidated statements of income, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada,
March 30, 2005.

Chartered Accountants

Alegro Health Corp.

CONSOLIDATED BALANCE SHEETS

As at December 31

	2004	2003
	$	$
		[restated - note 3]
ASSETS *[note 7]*		
Current		
Cash	**615,724**	—
Accounts receivable, net	**891,248**	699,397
Unbilled receivables	**197,450**	317,813
Prepaid expenses	**29,292**	25,849
Total current assets	**1,733,714**	1,043,059
Due from related parties *[note 5]*	**40,000**	40,000
Capital assets, net *[note 6]*	**923,823**	722,671
Goodwill *[note 4]*	**1,146,815**	—
Future tax assets *[note 10]*	**76,960**	139,000
	3,921,312	1,944,730
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness *[note 7]*	—	123,484
Accounts payable and accrued liabilities	**1,281,658**	1,142,654
Income taxes payable *[note 10]*	**203,274**	8,654
Bank loans *[note 7]*	—	466,076
Total current liabilities	**1,484,932**	1,740,868
Commitments and contingencies *[note 11]*		
Shareholders' equity		
Share capital *[note 9]*	**1,803,797**	452,190
Contributed surplus *[note 9[d]]*	**780,633**	30,333
Deficit	**(148,050)**	(278,661)
Total shareholders' equity	**2,436,380**	203,862
	3,921,312	1,944,730

See accompanying notes

On behalf of the Board:

Director Director

Donald O. Wood

Alegro Health Corp.

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31

	2004 $	2003 $ *[restated - note 3]*
Revenue	**7,142,377**	6,833,518
Cost of sales	**1,622,292**	1,761,970
	5,520,085	5,071,548
Operating expenses		
General and administrative *[note 5]*	**4,516,011**	3,964,018
Stock-based compensation *[note 9[c]]*	**278,300**	19,000
Interest	**45,496**	111,032
Amortization of capital assets	**246,472**	154,584
Amortization of deferred charges	**—**	33,802
	5,086,279	4,282,436
Income before income taxes	**433,806**	789,112
Provision for income taxes *[note 10]*		
Current	**263,974**	—
Future	**39,221**	300,374
	303,195	300,374
Net income for the year	**130,611**	488,738
Basic and diluted earnings per common share *[note 9[e]]*		
Basic	**0.01**	0.05
Diluted	**0.01**	0.05

See accompanying notes

Alegro Health Corp.

CONSOLIDATED STATEMENTS OF DEFICIT

Years ended December 31

	2004 $	**2003** $ *[restated - note 3]*
Deficit, beginning of year	**(278,661)**	(423,381)
Adjusted for restatements *[note 3]*	—	(250,394)
Deficit, beginning of year, as restated	**(278,661)**	(673,775)
Reverse takeover transaction *[note 2]*	—	(82,291)
Stock-based compensation *[note 9[c]]*	—	(11,333)
Net income for the year	**130,611**	488,738
Deficit, end of year	**(148,050)**	(278,661)

See accompanying notes

Alegro Health Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31

	2004 $	2003 $ *[restated - note 3]*
OPERATING ACTIVITIES		
Net income for the year	**130,611**	488,738
Add (deduct) items not involving cash		
Amortization of capital assets	**246,472**	154,584
Amortization of deferred charges	**—**	33,802
Future income taxes	**39,221**	300,374
Premises improvement allowance	**—**	(24,604)
Stock-based compensation *[note 9[c]]*	**278,300**	19,000
	694,604	971,894
Changes in non-cash working capital items		
Decrease (increase) in accounts receivable	**(186,669)**	169,382
Decrease (increase) in unbilled receivables	**120,363**	(77,123)
Decrease in prepaid expenses	**3,388**	54,024
Increase in accounts payable and accrued liabilities	**25,350**	44,800
Increase (decrease) in income taxes payable	**194,620**	(116,099)
Cash provided by operating activities	**851,656**	1,046,878
INVESTING ACTIVITIES		
Purchase of capital assets	**(108,624)**	(99,043)
Acquisition, net of cash acquired *[note 4]*	**(1,262,134)**	—
Transaction costs incurred on reverse takeover transaction *[note 2]*	**—**	(76,987)
Cash used in investing activities	**(1,370,758)**	(176,030)
FINANCING ACTIVITIES		
Repayment of bank indebtedness, net	**(123,484)**	(665,385)
Repayment of bank loans	**(466,076)**	(282,450)
Proceeds from private placement, net of transaction costs *[note 9[a]]*	**1,724,386**	—
Cash acquired on reverse takeover transaction *[note 2]*	**—**	76,987
Cash provided by (used in) financing activities	**1,134,826**	(870,848)
Cash, end of year	**615,724**	—
Supplemental cash flow information		
Interest paid	**37,174**	106,782
Taxes paid	**69,354**	116,099

See accompanying notes

Alegro Health Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004

1. INCORPORATION AND NATURE OF BUSINESS

Alegro Health Corp. ["Alegro" or the "Company"] was incorporated under the Canada Business Corporations Act on February 2, 2001 and is a venture company on the TSX Venture Exchange ["TSX-V"]. The Company's principal business objective is to be a provider of health care services to its customers.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements conform, in all material respects, to Canadian generally accepted accounting principles. The significant accounting policies of the Company are as follows:

Basis of presentation

These consolidated financial statements include the accounts of Work Able Centres Inc. ["Work Able"], the Company's wholly-owned legal subsidiary acquired in 2003, Don Mills Surgical Unit Ltd. ["DMSU"], under a management services agreement, and Assessment Network Inc., which is a wholly-owned legal subsidiary currently operating as Medeval, which commenced operations during the year. All material intercompany balances and transactions have been eliminated on consolidation.

On June 18, 2003, Alegro issued:

[i] 2,259,095 common shares in exchange for amounts due to related parties by Work Able, a company incorporated under the laws of Ontario, of $451,819; and

[ii] 11,750,000 common shares to acquire all of the issued and outstanding shares of Work Able.

Upon closing of these transactions, the Company's total common shares outstanding were 17,175,762 shares.

As a result of these transactions, the shareholders of Work Able owned 81.6% of the outstanding common shares of the Company and, accordingly, the purchase of Work Able was accounted for as a reverse takeover transaction. The application of reverse takeover accounting results in the following:

[i] the consolidated financial statements of the combined entity are issued under the name of the legal parent, Alegro, but are considered a continuation of the financial statements of Work Able, the legal subsidiary;

[ii] as Work Able is deemed to be the acquirer for accounting purposes, its assets and liabilities are included in the consolidated financial statements at their historical carrying values;

[iii] control of the assets and operations of the Company is deemed to be acquired by Work Able effective on June 18, 2003. For purposes of this transaction, the deemed consideration is $5,304 ascribed to the net liabilities of the Company outstanding immediately prior to the business combination; and

[iv] Work Able became a wholly-owned subsidiary of the Company. For accounting purposes, at June 18, 2003, the outstanding shares of the Company, the continuing consolidated entity, consisted of the number of Alegro shares issued to that date with an assigned value equal to the share capital of the continuing consolidated entity at that date.

The transaction was accounted for as a capital transaction, with the results of operations included in the consolidated financial statements from the date of acquisition. Details of the Company's net liabilities acquired are as follows:

	$
Cash	76,987
Other current assets	14,567
	91,554
Current liabilities	(96,858)
Assigned fair value of net liabilities	(5,304)

Details of the direct charge to deficit as a result of the reverse takeover transaction are as follows:

	$
Assigned fair value of net liabilities	5,304
Transaction costs incurred, up to the extent of the cash received	76,987
Charge to deficit	82,291

Revenue recognition

Revenue is recognized when services for independent medical assessments have been completed, the price is fixed or determinable, and collection is reasonably assured. Unbilled receivables represent an accrual for revenue recognized on completed and unbilled assessments. The estimated costs incurred to complete the assessments are included in accrued liabilities. Other services, such as work conditioning treatments, are billed when these services are rendered, the price is fixed or determinable, and collection is reasonably assured.

DMSU follows the deferral method of accounting for unrestricted contributions from the Ministry of Health and Long-Term Care. Unrestricted contributions are recognized as revenue when received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured.

Employee benefit plans

Alegro accrues its obligations under employee benefit plans and the related costs. Some employees of DMSU are eligible to be members of the Hospitals of Ontario Pension Plan ["HOOPP"], which is a multi-employer, defined benefit pension plan. Defined contribution accounting is applied to HOOPP, whereby contributions are expensed when due, as DMSU has insufficient information to apply defined benefit plan accounting.

Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases. This method also requires the recognition of future tax benefits such as operating loss carryforwards, to the extent that realization of such benefits is more likely than not.

Capital assets

Capital assets are recorded at cost. Amortization is provided annually on bases designed to amortize the cost of the assets over their estimated useful lives as follows:

Office furniture, fixtures and equipment	5 and 10 years straight-line
Work simulation and facility equipment	10 years straight-line
Computer equipment and software	30% declining balance
Leasehold improvements	Over the term of the lease
Medical equipment	5 years straight-line

Capital assets which have been removed from service are not amortized

Impairment of long-lived assets

The Company reviews long-lived assets such as capital assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When indicators of impairment of the carrying value of long-lived assets exist, and the carrying value is greater than the net recoverable value, an impairment loss is recognized to the extent that the fair value is below the carrying value.

Goodwill

Goodwill is recorded when the cost of an acquisition exceeds the fair market value of the net tangible and identifiable intangible assets acquired. Goodwill is tested for impairment on an annual basis or more frequently if warranted. Impairment losses are recorded when the carrying amount of goodwill exceeds its implied fair value. Such impairment losses are recorded as part of income from continuing operations. During the fourth quarter of 2004, the Company completed the annual assessment and found no impairment of goodwill.

Consolidation of variable interest entities

Accounting Guideline-15, *Consolidation of Variable Interest Entities* ["AcG-15"], provides guidance on the identification of, and financial reporting for, entities over which control is achieved through means other than voting rights; such entities are known as variable interest entities. The guideline requires variable interest entities to be consolidated by the primary beneficiary of the variable interest entities and expands disclosure requirements for both variable interest entities that are consolidated as well as those of which an enterprise holds a significant variable interest.

The Company has a variable interest in DMSU and has consolidated DMSU's financial results as of December 31, 2004 within the consolidated financial statements. As of December 31, 2004, the combined book value of the assets and liabilities associated with DMSU included in the consolidated balance sheets were $412,511 and $154,412 (which excludes any intercompany payable and receivable that eliminate during consolidation), respectively. For the period from August 6, 2004 to December 31, 2004, revenues and operating costs associated with DMSU included in our consolidated statements of operations were $516,086 and $592,453.

Stock-based compensation

The compensation cost for a stock-based award to employees is recognized, over the period in which the related employee services are rendered, by a charge to compensation cost if the award is for future service. If the service period is not defined as an earlier or shorter period, the service period is presumed to be the period from the grant date to the date that the award is vested and its exercisability does not depend on continued employee service. If an award is for past services, the related compensation cost is recognized in the period in which it is granted.

Stock options awarded to non-employees are measured using the fair value method and are recognized as an expense. Under the fair value based method, stock-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measured. The fair value of stock-based payments to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the period and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. The cost of stock-based payments to non-employees that are fully vested and non-forfeitable at the grant date is measured and recognized at that date.

Consideration paid on the exercise of stock options is credited to share capital.

Earnings per share

Earnings per share are calculated based on net income attributable to common shareholders. Basic earnings per share are calculated using the weighted average number of common shares outstanding during the year. The computation of diluted earnings per share assumes the basic weighted average number of common shares outstanding during the year is increased to include the number of additional common shares that would have been outstanding if the dilutive-potential common shares had been issued. The dilutive effect of stock options is determined using the treasury stock method.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Financial instruments

Fair value

The fair value of financial instruments approximates their carrying value unless otherwise noted.

Credit risk

The Company is exposed to credit risk to the extent that its customers become unable to meet their payment obligations. The Company's exposure to concentrations of credit risk is limited. Accounts receivable are from the Workplace Safety and Insurance Board, government agencies, employers and insurance companies, none of which individually comprise more than 10% of the total balance outstanding.

3. RESTATEMENT

During the year, the Company identified $396,133 in accrued liabilities which were previously not accrued as at December 31, 2003. The identified accrued liabilities have been recorded on a retroactive basis with restatement of the comparative consolidated financial statements. For the year ended December 31, 2003, the cumulative effect of the restatement is as follows:

	$
Increase in future tax assets	29,000
Increase in accounts payable and accrued liabilities	396,133
Increase in deficit, beginning of period	250,394
Increase in general and administrative expenses	192,059
Decrease in provision for future income taxes	75,320

For the year ended December 31, 2003, the cumulative effect of the accrued liabilities on basic and diluted earnings per common share is a decrease of $0.01 per common share.

4. BUSINESS COMBINATIONS

On August 6, 2004, the Company entered into a 25-year management services contract covering all aspects of the operations of DMSU. The Company has determined that AcG-15 applies to the transaction as the Company has a controlling financial interest in and is the primary beneficiary of DMSU. In accordance with AcG-15, the Company has accounted for the transaction according to the purchase method and has included results of DMSU's operations from August 6, 2004. The details of the identifiable net assets acquired are as follows:

	$
Current assets	**149,879**
Capital assets	**339,000**
Goodwill	**1,146,815**
	1,635,694
Current liabilities	**235,694**
Cash consideration	**1,400,000**

Included in current assets, above, is $137,866 of cash.

5. RELATED PARTY TRANSACTIONS

The Company's related parties are as follows:

[i] Brenras Holdings Inc. ["Brenras"] and The Disability Management Group Inc. ["Disability Management"] are wholly-owned by the controlling shareholder and director of the Company.

[ii] Real World Simulations Systems Inc. ["Real World"] is wholly-owned by a related party to the controlling shareholder and director of the Company.

[iii] Osborne Group Toronto Inc. ["Osborne Group"] is partially owned by a director and officer of the Company.

[iv] J. Orovan is a spouse of a director of the Company.

A summary of balances and transactions with related parties are as follows:

	2004 $	2003 $
Amounts due from related parties		
Disability Management	**40,000**	40,000
General and administrative expenses		
Real World	**72,000**	72,000
Brenras	**226,750**	265,000
Disability Management	**68,000**	60,000
Osborne Group	**129,690**	109,050
J. Orovan	**19,709**	—
	516,149	506,050

These transactions have been measured at the respective exchange amounts, being the consideration established and agreed to by the related parties.

Amounts due from related parties are non-interest bearing.

Alegro Health Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004

6. CAPITAL ASSETS

Capital assets consist of the following:

	2004		
	Cost $	**Accumulated amortization** $	**Net book value** $
Office furniture, fixtures and equipment	**271,241**	**211,556**	**59,685**
Work simulation and facility equipment	**1,262,339**	**896,097**	**366,242**
Computer equipment and software	**612,289**	**441,060**	**171,229**
Leasehold improvements	**121,327**	**111,785**	**9,542**
Medical equipment	**344,573**	**27,448**	**317,125**
	2,611,769	**1,687,946**	**923,823**

	2003		
	Cost $	**Accumulated amortization** $	**Net book value** $
Office furniture, fixtures and equipment	254,881	199,099	55,782
Work simulation and facility equipment	1,262,339	842,090	420,249
Computer equipment and software	536,620	366,156	170,464
Leasehold improvements	266,528	190,352	76,176
	2,320,368	1,597,697	722,671

The net book value of capital assets which have been removed from service and are included in office furniture, fixtures and equipment is $36,428 [2003 - $36,428] and work simulation and facility equipment is $360,232 [2003 - $360,232].

7. BANK INDEBTEDNESS AND BANK LOANS

During the year, Alegro entered into a new $770,000 credit facility consisting of a $750,000 non-revolving operating facility and a $20,000 corporate credit card facility. The operating facility bears interest at prime plus 1.25% per annum with interest paid monthly. The credit facilities are collateralized by a general security agreement on Alegro's assets and a guarantee and postponement of claim from Work Able. As at December 31, 2004, the Company had not drawn on these credit facilities.

On August 20, 2003, Alegro renewed its credit facilities, which provided for the following:

[i] A revolving operating facility equal to the lesser of $700,000 or 75% of qualifying accounts receivable. The facility bears interest at prime plus 3.00% per annum. As at December 31, 2003, Work Able had utilized $110,619 of this facility. This amount was included in bank indebtedness.

[ii] A non-revolving demand instalment loan which bears interest at 13.00% per annum and is repayable at the earlier of November 3, 2005 in blended principal and interest payments of $18,064 per month or on demand. As at December 31, 2003, the balance outstanding was $361,076.

[iii] A corporate credit card facility of up to $10,000. As at December 31, 2003, Alegro had not utilized any of this facility.

[iv] A cheque credit facility of up to $20,000. As at December 31, 2003, Alegro had not utilized any of this facility.

[v] Three business improvement loans which bear interest at 2.25% per annum. One of the loans is repayable at the earlier of July 1, 2004 in blended principal and interest payments of $3,000 per month or on demand. The remaining two loans are repayable at the earlier of March 17, 2005 in blended principal and interest payments of $3,000 per month each or on demand. As at December 31, 2003, the total balance outstanding was $105,000.

The credit facilities are collateralized by a general security agreement on Work Able's assets, a guarantee and postponement of claim from a director of the Company for unlimited liability and a guarantee and postponement of claim for limited liability by Alegro as supported by a securities pledge agreement assigning all issued and outstanding shares of Work Able.

As at December 31, 2003, Work Able was in default of its covenants with respect to the current ratio, effective net worth and debt to effective net worth. On May 18, 2004, the three business improvement loans were repaid in full and on May 20, 2004, the non-revolving demand instalment loan was repaid in full.

8. EMPLOYEE BENEFIT PLANS

Certain DMSU employees are members of HOOPP, which is a multi-employer, defined benefit pension plan. HOOPP is accounted for as a defined contribution plan. DMSU's contributions made to HOOPP during the period from August 6, 2004 to December 31, 2004 amounted to $15,317. These amounts are included in general and administrative expense in the consolidated statements of income. The most recent actuarial valuation of HOOPP as of December 31, 2002 indicates that HOOPP is fully funded.

9. SHARE CAPITAL

[a] Common shares

Share capital consists of unlimited Alegro common shares authorized *[note 9[b]]*. As a result of the reverse takeover transaction *[note 2]*, for accounting purposes, the outstanding shares of the continuing consolidated entity as at June 18, 2003 consisted of the number of Alegro common shares issued and outstanding to that date with an ascribed value equal to the share capital of Work Able as follows:

	#
Number of Alegro common shares issued and outstanding	
Issued and outstanding, December 31, 2002	3,166,667
Shares issued in reverse takeover transaction *[note 2]*	
Amounts due to related parties by Work Able	2,259,095
Acquisition of all the issued and outstanding shares of Work Able	11,750,000
Issued and outstanding, June 18, 2003 and December 31, 2003	17,175,762
Shares issued in private placement, August 5, 2004	8,000,000
Issued and outstanding, December 31, 2004	**25,175,762**

	$
Ascribed value of share capital	
Balance, December 31, 2002	371
Amount due to related parties exchanged in reverse takeover transaction *[note 2]*	451,819
Balance, June 18, 2003 and December 31, 2003	452,190
Issuance of private placement, net	1,351,607
Balance, December 31, 2004	**1,803,797**

On August 5, 2004, the Company completed a private placement of 8,000,000 units at a price of $0.25 per unit to raise gross proceeds of $2,000,000. Each unit consisted of one common share and one-half of one common share purchase warrant. The warrants have a two-year term and are immediately exercisable to purchase one common share of the Company's common stock at $0.30 per purchase warrant. The placement agent was granted investment rights to purchase 800,000 units that consist of one common share and one-half of one common share purchase warrant at $0.25 per unit. The warrants have a two-year term and are exercisable to purchase one common share of the Company's common stock at $0.25 per full warrant. The $472,000 estimated value of the warrants has been allocated to contributed surplus and the balance of $1,528,000 has been credited to common shares. Issue costs, net of taxes, relating to the private placement totalled $176,393.

[b] Escrowed shares

Under the requirements of the Alberta Securities Commission and the TSX-V, 15,356,429 of the Company's common shares are held in escrow. At the date of the reverse takeover [June 18, 2003], 25% of the escrowed shares were released and an additional 25% were released six months thereafter on December 16, 2003. Of the remaining shares, half of these were released on June 18, 2004 with the balance being released on December 18, 2004.

Shares held in escrow are as follows:

	#
Issued and outstanding shares held by officers and directors	1,347,334
Shares issued in reverse takeover transaction *[note 2]*	
Amounts due to related parties by Work Able	2,259,095
Acquisition of all the issued and outstanding shares of Work Able	11,750,000
Shares initially held in escrow	15,356,429
Shares released from escrow in 2003	(7,678,215)
Shares released from escrow in 2004	(7,678,214)
Shares to be released from escrow	—

[c] Stock-based compensation plan

Pursuant to the Stock Option Plan [the "Plan"], the Board of Directors of the Company may allocate non-transferable options to purchase common shares of the Company to directors, officers and key employees of the Company and to consultants retained by the Company. Under the Plan, the aggregate number of shares reserved for issuance upon the exercise of options granted may not exceed 10% of the issued shares of the Company at the time of granting the options. Options issued pursuant to the Plan must have an exercise price not less than that from time to time permitted by the stock exchange on which the shares are listed and may be exercisable for a period not exceeding five years. The Board of Directors determines the vesting terms and conditions at the time of the grant.

The outstanding and exercisable stock options are as follows:

	Number of options #	Weighted average exercise price $
Outstanding, December 31, 2002	—	—
Reverse takeover transaction *[note 2]*	499,999	0.15
Granted	100,000	0.20
Outstanding, December 31, 2003	599,999	0.16
Granted	1,250,000	0.34
Expired	(183,333)	0.15
Outstanding and exercisable, December 31, 2004	**1,666,666**	**0.24**

Stock options outstanding at December 31, 2004 comprise the following:

Range of exercise prices	Weighted average exercise price $	Weighted average remaining life [years]	Options outstanding #	Options exercisable #
$0.15 - $0.20	0.16	2.62	416,666	416,666
$0.21 - $0.40	0.33	4.55	1,150,000	1,150,000
$0.45	0.45	4.60	100,000	100,000

On March 4, 2002, Alegro reserved 316,666 common shares at a price of $0.15 per share for stock options to its directors and officers ["2002 Director Options"] subject to regulatory approval and conditional on Alegro's common shares being listed on the TSX-V. The stock options vested immediately on granting and will expire on March 4, 2007.

On March 4, 2002, Alegro reserved 183,333 common shares at a price of $0.15 per share for stock options to its initial public offering agent ["2002 Agent Options"]. On March 4, 2004, these options expired.

On October 17, 2003, the Company granted 100,000 stock options to a director ["2003 Director Options"]. The stock options vested immediately on granting and will expire on October 17, 2008.

During July and August 2004, a total of 1,250,000 options were granted to a director of the Company and consultant ["2004 Director Options"] to purchase an equivalent number of common shares at exercise prices ranging from $0.28 to $0.45 per share. The stock options vested immediately on granting and will expire five years from the date of issue.

On August 5, 2004, Alegro granted 4,000,000 warrants for an equivalent number of common shares at an exercise price of $0.30 per common share to its private placement investors ["2004 Purchase Warrants"]. These warrants expire on August 5, 2006.

On August 5, 2004, Alegro granted 800,000 warrants to the private placement agent ["2004 Agent Warrants"], where each 2004 Agent Warrant can be exercised at $0.25 for one common share and one-half 2004 Purchase Warrant. These warrants expire on August 5, 2006.

Effective January 1, 2003, the Company adopted the recommendations of The Canadian Institute of Chartered Accountants, Handbook Section 3870, *Stock-Based Compensation and Other Stock-Based Payments*. The following assumptions were used to determine the fair value of the options:

	2004	**2003**
Risk-free interest rate	4.10%	4.12%
Expected dividend yield	—	—
Expected volatility	0.80	0.80
Expected option life	5 years	5 years

A total employee and non-employee expense of $11,333 has been recognized as an increase in contributed surplus *[note 9[d]]* and a direct charge to deficit on June 18, 2003 as a result of the reverse takeover transaction. The fair value for the 2004 and 2003 Director Options of $278,300 and $19,000, respectively, were estimated on the date of grant using the Black-Scholes option pricing model and the above assumptions. The entire amounts of $278,300 and $19,000 have been recognized as an employee stock-based compensation expense and an increase in contributed surplus *[note 9[d]]* in 2004 and 2003, respectively.

[d] Contributed surplus

Contributed surplus consists of employee and non-employee stock-based compensation expense as follows:

	$
Balance, December 31, 2002	—
Amount charged against deficit	11,333
2003 Director Options *[note 9[c]]*	19,000
Balance, December 31, 2003	30,333
2004 Director Options *[note 9[c]]*	278,300
2004 Purchase Warrants *[note 9[a]]*	280,000
2004 Agent Warrants *[note 9[a]]*	192,000
Balance, December 31, 2004	**780,633**

[e] Earnings per share

Earnings per share have been calculated on the basis of net income for the year divided by the weighted average number of common shares outstanding during each year. Earnings per share, for both years presented, were calculated using the weighted average number of common shares outstanding during each year as follows:

	2004 \#	**2003** \#
Basic weighted average number of common shares outstanding	**20,432,593**	10,727,740
Dilutive effect of stock options	**1,306,061**	15,240
Diluted weighted average number of common shares outstanding	**21,738,654**	10,742,980

10. INCOME TAXES

Total provision for income taxes varies from the amounts that would be computed by applying the statutory income tax rate to income before income taxes as follows:

	2004 $	**2003** $ *[restated - note 3]*
Expected income tax expense based on statutory tax rate	**156,170**	284,080
Increase resulting from:		
Losses not deductible for tax purposes	**32,956**	—
Non-deductible expense for stock-based compensation	**100,188**	6,840
Other	**13,881**	9,454
Provision for income taxes	**303,195**	300,374

The Company has non-capital losses available to offset future income for tax purposes of approximately $59,000, which expire in 2011.

The tax benefit of the non-capital losses has been recognized in the consolidated financial statements.

The components of future tax assets are as follows:

	2004 $	**2003** $ *[restated - note 3]*
Future income tax asset (liability)		
Capital assets	**(197,895)**	(79,827)
Losses not deductible for tax purposes	**21,357**	96,558
Financing costs	**79,377**	—
Accrued liabilities deductible when paid	**174,121**	122,269
Future tax assets	**76,960**	139,000

11. COMMITMENTS AND CONTINGENCIES

Commitments

[a] Future minimum annual lease payments for facilities under operating leases for premises and equipment are as follows:

	Premises $	Equipment $	Total $
2005	164,335	8,800	173,135
2006	97,867	7,800	105,667
2007	97,867	—	97,867
2008	97,867	—	97,867
Thereafter	—	—	—
	457,936	16,600	474,536

[b] In 2004, the Company entered into an agreement with an agent to act as the Company's fiscal advisor for a two-year period ending in August 2006. The Company has agreed to pay $3,750 on a monthly basis for a one year period with the balance of $45,000 due when mutually agreed upon or before the earlier of [i] the end of the second year period or [ii] the closing of any new equity financing transaction. During the term of the agreement, the Company has also agreed to pay a commission of 2% of the value of any acquisition in which the agent's services are limited to merger and acquisition advisory or 3% of the value of any acquisition that was identified by the agent.

No acquisitions were completed during the year that resulted in a requirement for payments under the terms of these agreements.

Contingencies

[a] During the ordinary course of business activities, the Company may be contingently liable for litigation and a party to claims. Management believes that adequate provisions have been made in the accounts where required. Although it is not possible to estimate the extent of potential costs and losses, if any, management believes that the ultimate resolution of such contingencies will not have an adverse effect on the financial position of the Company.

[b] DMSU participates in the Healthcare Insurance Reciprocal of Canada ["HIROC"]. HIROC is a pooling of the public liability insurance risks of its hospital members. All members of the HIROC pool pay annual premiums, which are actuarially determined. All members are subject to assessments for losses, if any, experienced by the pool for the years in which they were members. No assessments have been made during the period from August 6, 2004 to December 31, 2004.

12. SEGMENTED REPORTING

The Company's reportable segments are strategic business units that offer different products and services. The operations of the Company and its consolidated subsidiaries are comprised of two reportable operating segments, Work Able and DMSU.

	2004			
	Work Able $	**DMSU** $	**Corporate** $	**Total** $
Revenue	**6,626,291**	**516,086**	**—**	**7,142,377**
Cost of sales	**1,622,292**	**—**	**—**	**1,622,292**
Operating expenses	**3,928,389**	**592,453**	**565,437**	**5,086,279**
Total assets	**2,141,294**	**1,600,085**	**179,933**	**3,921,312**

In 2003, the Company operated under one reportable segment, being Work Able, with revenue, operating costs and operating profit of $6,833,518, $4,282,436 and $789,112, respectively.

13. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2004 consolidated financial statements.