ALEGRO HEALTH CORP.

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

The following management discussion and analysis ("MD&A") dated this 30th day of May, 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 three months ended March 31, 2005. 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. On May 3, 2005, the Company acquired all the outstanding shares of DMSU. In connection with the closing of this transaction, the long-term management agreement between DMSU and Alegro has been terminated.

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; Disability Management Center operated under its wholly owned subsidiary Work Able and surgical Center operated under its wholly owned subsidiary 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.

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.

On May 19, 2005, the Company announced that it had completed an agreement to provide Ablatherm© prostate treatments through its surgical center. Revenues from this agreement are expected to commence during the Company's second quarter of fiscal 2005 with a positive contribution to operating results.

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 Quarterly Information

	For the three months ended March 31, 2005	For the three months ended March 31, 2004 *Restated*
Revenue	$ 1,649,331	$ 1,734,707
Net Income (loss) before discontinued operations	$ (112,063)	$ 138,676
Per Share	$ 0.00	$ 0.01
Per Share Diluted	$ 0.00	$ 0.01
Net Income (loss)	$ (112,063)	$ 138,676
Per Share	$ 0.00	$ 0.01
Per Share Diluted	$ 0.00	$ 0.01
Total Assets	$ 3,729,966	$ 1,961,957

Operating Results for the three months ended March 31, 2005

For the year ended March 31, 2005 the pre-tax loss was $150,103 compared to pre-tax income of $158,676 for the same period last year. The decrease in pre-tax profit is primarily attributed to a decrease in total revenue of $400,480 in our disability management center partially offset by a decrease in medical consultants and disability management center expenses.

Revenues

Consolidated revenues for the three months ended March 31, 2005 amounted to $1,649,331, a decrease of 4.9% over consolidated revenues in the same period in 2004 of $1,734,707. The decrease resulted from lower revenue generated from the Company's disability management center offset by $315,104 in additional revenue generated by DMSU which was acquired in August 2004.

Disability Management Center Services

Revenues from the disability management center were $1,334,227 for the three months ended March 31, 2005 as compared to $1,734,707 for the three months ended March 31, 2004, a decrease of $400,480 or 23.1%. The decrease in revenue is largely attributable to the uncertainty surrounding 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 which to date have been partially implemented. In anticipation of these changes, Work Able is focusing on revenue diversification and expanding its client base.

Surgical Center Services

DMSU's revenue contribution was $315,104 for the three months ended March 31, 2005. Of the total revenue, 93.4% was related to the global funding arrangement with the Ministry of Health.

Expenses

Consolidated expenses for the three months ended March 31, 2005 amounted to $1,799,434, an increase of 14.2% over consolidated expenses in the same period in 2004 of $1,576,031. The increase resulted from the inclusion of surgical center expenses of $396,040 offset by saving achieved in the Company's disability management centers.

Medical Consultants

Medical consultant expenses for the three months ended March 31, 2005 relate to the disability management center services revenues and have decreased 21.1% to $339,713 from $430,686 for the three months ended March 31, 2004. The decrease is attributable to the Company's cost control efforts including achieved through resource re-allocation.

Disability Management Center

Disability management center expenses for the three months ended March 31, 2005 and have decreased 11.5% to $703,881 from $795,624 for the three months ended March 31, 2004. The decrease is attributable to the Company's cost control efforts achieved through increasing treatment services that resulted in improved staff utilization and redesigning services in response to changes in product value.

Surgical Center

Surgical center expenses for the three months ended March 31, 2005 were $377,359. The primary components of these expenses are nursing and staffing costs, with the balance comprised of facility operating and rent expenses.

General and Administrative

Consolidated general and administrative ["G&A"] expenses for the three months ended March 31, 2005 increased 3.2% to $302,884 from $293,487 for the three months ended March 31, 2004. The increase reflects an addition to strengthen the Company's management team offset by decreases in professional fees incurred in the first quarter of 2004 that did not recur in the same period of 2005.

Interest Expense

Interest expense was $nil for the three months ended March 31, 2005, compared to $13,463 for the three months ended March 31, 2004, a decrease of $13,463. This decrease is attributable to the repayment of the Company's bank indebtedness and loans in the second quarter of 2004.

Amortization Expense

Amortization expense amounted to $75,597 for the three months ended March 31, 2005, compared to amortization expense of $42,771 for the three months ended March 31, 2004, an increase of $32,826. This increase resulted from the amortization of the equipment acquired in the DMSU transaction.

Net Income (Loss)

Net loss was $112,063 or $0.00 per share for the three months ended March 31, 2005 compared to net income of $138,676, or $0.01 per share for the three months ended March 31, 2004. This decrease in net income for the three months ended March 31, 2004 was primarily attributable to a decrease in disability management center services amounting to $400,480 partially offset costs savings achieved through resource reallocation. In addition the Company's surgical center operated at a loss during the quarter as the

Company continued to integrate its operations. Diluted earnings per share for the three months ended March 31, 2005, were $0.00, compared to $0.01 per share for the three months ended March 31, 2004.

Q1 2004 Restatements

The Company has increased the March 31, 2004 bank indebtedness and general and administrative expense by $110,619 and the income taxes payable and the tax provision by $20,000 for the three months ended March 31, 2004. These adjustments were made to correct an error discovered during the fourth quarter of 2004 and to correct the tax provision previously reported. The restatements resulted in a net income decrease of $130,619 or $0.01 per share.

Liquidity and Capital Resources

As at March 31, 2005, the Company had cash of $550,265, a decrease of $65,459 from cash of $615,724 as at December 31, 2004.

In the first quarter of 2005, the Company's operating activities used cash of $14,195 compared to $61,018 generated from operating activities for the three months ended March 31, 2004. The decrease is attributable to costs associated with the integration of the DMSU surgical center into Alegro's operations.

Investing activities during the first quarter of 2005 were financed by the Company's current cash position. The increase in cash flows used in investing activities of $56,964 compared to cash flows used of $33,570 for the three months ended March 31, 2004 relates primarily to expenditures incurred to improve the surgical center facilities. For the three months ended March 31, 2005, financing activities provided cash flows of $5,700 compared to a use of cash of $27,448 for the three months ended March 31, 2004.

Management believes that its cash as at March 31, 2005, 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.

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 quarter that resulted in a requirement for payments under the terms of these agreements.

Share Capital

As at March 31, 2005, the Company had 25,194,762 common shares issued and outstanding compared to 17,175,762 common shares issued and outstanding at March 31, 2004.

As at March 31, 2005, there were a total of 1,611,111 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, warrants to purchase 3,981,000 common shares at an exercise price of $0.30 per common share expire on August 5, 2006 were outstanding. An additional 800,000 broker warrants priced at $0.25 each are exercisable until August 5, 2006 to purchase units consisting of one common share and one half of one common share warrant. Each full warrant obtained on the exercise of the broker warrants may be exercised to purchase one common share at a price of $0.30 per common share until August 5, 2006. During the three month period ended March 31, 2005 19,000 warrants were exercised at a price of $0.30 per common share.

Transactions with Related Parties

The Company's related parties are as follows:

[i] For the three months ended March 31, 2005 and 2004, the Company incurred management fees of $72,000 and $99,500, 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 March 31, 2005, DMG owed the Company $40,000. This amount is non-interest bearing.

[ii] Real World Simulations Systems Inc. ["Real World"] provided $18,000 in web design, advertising and publication services to the Company for the three months ended March 31, 2005 and 2004, 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 $9,000 and $23,970 in financial accounting services to the Company for the three months ended March 31, 2005 and 2004, 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.

Critical Accounting Policies

Our critical accounting policies are disclosed in Note 2 of the “Notes to Consolidated Financial Statements” for the years ended December 31, 2004 and 2003, located in the Company’s 2004 Annual Report.

Recently Adopted Accounting Policies

There were no changes in accounting policies for the first quarter ended March 31, 2005.

Risks and Uncertainties

Economic and sector related risks are the same as those identified in the “Managements’ Discussion and Analysis” contained in the Company’s 2004 Annual Report.

Business Outlook

Disability Management Center

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. Uncertainty relating to proposed changes in provincial legislation is expected to adversely affect revenue over the next few months. Work Able’s disability management centers have been selected as a preferred treatment provider by a number of casualty insurers as they prepare for implementation of the new system and accordingly we expect revenue to improve once the new system is fully implemented.

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. Work Able’s disability management centers are focusing on increasing business with both existing and new employers to assist them in meeting these requirements.

In addition to diversifying the service options available to its customers, Work Able's disability management centers may expand their geographic scope in certain areas across Canada to service expanding customer requirements.

Surgical Center

In addition to expanding services to the Ministry of Health to assist with the provincial waiting list initiative, DMSU's surgical center is pursuing new uninsured service opportunities. On May 19, 2005, the Company announced that it had completed an agreement to provide Ablatherm© prostate treatments through its surgical center. Revenues from this agreement are expected to commence during the Company's second quarter of fiscal 2005 with a positive contribution to operating results.

Subsequent Events

On May 3, 2005 the Company acquired all the outstanding shares of DMSU. In connection with the closing of this transaction, the long-term management agreement between DMSU and Alegro has been terminated. The Company has consolidated the results of operations of DMSU in the March 31, 2005 consolidated financial statements, hence the change in legal ownership will not have an impact on the Company's financial results.

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.

ALEGRO HEALTH

Alegro Health Corp., 4 Lansing Square, Suite 102, North York, Ontario, M2J 5A2, Tel: 416-496-6166, Fax: 416-499-3520, www.alegrohealth.com

FINANCIAL RESULTS

FOR

THE THREE MONTHS ENDED

MARCH 31, 2005

(UNAUDITED)

Alegro Health Corp.

CONSOLIDATED BALANCE SHEETS

	March 31, 2005 $	December 31, 2004 $
	(unaudited)	
ASSETS		
Current		
Cash	**550,265**	615,724
Accounts receivable, net	**793,162**	891,248
Unbilled receivables	**162,122**	197,450
Prepaid expenses	**17,412**	29,292
Total current assets	**1,522,961**	1,733,714
Due from related parties *[note 5]*	**40,000**	40,000
Capital assets, net *[note 6]*	**905,190**	923,823
Goodwill *[note 4]*	**1,146,815**	1,146,815
Future tax assets	**115,000**	76,960
	3,729,966	3,921,312
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**1,196,675**	1,281,658
Income taxes payable	**203,274**	203,274
Total current liabilities	**1,399,949**	1,484,932
Shareholders' equity		
Share capital	**1,809,497**	1,803,797
Contributed surplus	**780,633**	780,633
Deficit	**(260,113)**	(148,050)
Total shareholders' equity	**2,330,017**	2,436,380
	3,729,966	3,921,312

See accompanying notes

Alegro Health Corp.

CONSOLIDATED STATEMENTS OF INCOME

Three Months Ended March 31
(unaudited)

	2005 $	2004 $
		(restated)
Revenue		
Disability management center services	**1,334,227**	1,734,707
Surgical center services	**315,104**	—
	1,649,331	1,734,707
Expenses		
Medical consultants	**339,713**	430,686
Disability management center	**703,881**	795,624
Surgical center	**377,359**	—
General and administrative	**302,884**	293,487
Interest	**—**	13,463
Amortization of capital assets	**75,597**	42,771
	1,799,434	1,576,031
Income (loss) before income taxes	**(150,103)**	158,676
Provision for (recovery of) income taxes		
Current	**—**	20,000
Future	**(38,040)**	—
	(38,040)	20,000
Net income (loss) for the period	**(112,063)**	138,676
Basic and diluted earnings per common share		
Basic	**(0.00)**	0.01
Diluted	**(0.00)**	0.01
Weighted Average # of Shares		
Basic	**25,185,306**	17,175,762
Diluted	**27,237,217**	17,253,084

See accompanying notes

Alegro Health Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Three Months Ended March 31
(unaudited)

	2005 $	2004 $
		(restated)
OPERATING ACTIVITIES		
Net income (loss) for the period	**(112,063)**	138,676
Add (deduct) items not involving cash		
Amortization of capital assets	**75,597**	42,771
Future income taxes	**(38,040)**	—
Changes in non-cash working capital items		
Decrease in accounts receivable	**98,086**	55,199
Decrease (increase) in unbilled receivables	**35,328**	(100,627)
Decrease (increase) in prepaid expenses	**11,880**	(10,000)
Increase in accounts payable and accrued liabilities	**(84,983)**	(24,301)
Increase (decrease) in income taxes payable	**—**	(40,700)
Cash provided by (used in) operating activities	**(14,195)**	61,018
INVESTING ACTIVITIES		
Purchase of capital assets	**(56,964)**	(33,570)
Cash used in investing activities	**(56,964)**	(33,570)
FINANCING ACTIVITIES		
Proceeds from (repayment) of bank indebtedness, net	**—**	42,743
Repayment of bank loans	**—**	(70,191)
Proceeds from the exercise of warrants	**5,700**	—
Cash provided by (used in) financing activities	**5,700**	(27,448)
Decrease in cash	**(65,459)**	—
Cash, beginning of period	**615,724**	**—**
Cash, end of period	**550,265**	—
Supplemental cash flow information		
Interest paid	**—**	13,453
Taxes paid	**—**	60,700

See accompanying notes

Alegro Health Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005

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 accounting policies of the interim financial statements are the same as those described in the Company's 2004 Annual Report. The disclosures in the interim financial statements do not conform in all respects to the requirements of the Canadian generally accepted accounting principles for the annual financial statements included in the Company's 2004 Annual Report. The consolidated balance sheet March 31, 2005, consolidated statements of operations for the three months ended March 31, 2005 and 2004, and the consolidated statements of cash flows for the three months ended March 31, 2005 and 2004 are unaudited, but include all adjustments (consisting of normal recurring adjustments) which in the opinion of management are considered necessary for a fair presentation of the position, results of operations and cash flows for the periods presented. The results of operations for the three months ended March 31, 2005 shown herein are not necessarily indicative of the results that may be expected for the year ending December 31, 2005.

For more complete financial information, these financial statements, and notes thereto, should be read in conjunction with audited consolidated financial statements for the year ended December 31, 2004.

Basis of consolidation

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

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.

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.

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 for the three month period ending March 31, 2005 within the consolidated financial statements. As of March 31, 2005, the combined book value of the assets and liabilities associated with DMSU included in the consolidated balance sheet were $402,641 and $190,589 (which excludes any intercompany payable and receivable that eliminate during consolidation), respectively.

Reclassifications

Certain prior year amounts have been reclassified on the accompanying Consolidated Financial Statements to conform to the 2005 presentation. The Company has reclassified its financial statements in order to present its center operating expenses.

Restatements

The Company has increased the March 31, 2004 bank indebtedness and general and administrative expense by $110,619 and the income taxes payable and the tax provision by $20,000 for the three months ended March 31, 2004. These adjustments were made to correct an error discovered during the fourth quarter of 2004 and to correct the tax provision previously reported. The restatements resulted in a net income decrease of $130,619 or $0.01 per share.

3. RELATED PARTY TRANSACTIONS

Certain related parties provide services to the Company either directly or through companies, which they control. Fees charged by such related parties for consulting fees for the three months ended March 31, 2005 were $121,500 (2004 - $139,470). These transactions with related parties have occurred in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

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

	2005 $	**2004** $
Expenses		
Real World	**18,000**	18,000
Brenras	**54,000**	75,500
Disability Management	**18,000**	22,000
Osborne Group	**9,000**	23,970
J. Orovan	**22,500**	—
	121,500	139,470
Amounts due from related parties		
Disability Management	**40,000**	40,000

Amounts due from related parties are non-interest bearing .

4. SHARE CAPITAL

[a] Common shares

Share capital consists of unlimited Alegro common shares authorized.

	#	$
Number of Alegro common shares issued and outstanding		
Issued and outstanding, December 31, 2004	25,175,762	1,803,797
Issued on exercise of warrants	19,000	5,700
Issued and outstanding, March 31, 2005	**25,194,762**	**1,809,497**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005

[b] Escrowed shares

Under the requirements of the Alberta Securities Commission and the TSX-V, 15,356,429 of the Company's common shares were held in escrow at the date of the reverse takeover [June 18, 2003]. As the date March 31, 2005 and December 31, 2004 all shares have been released from escrow.

[c] Stock-based compensation plan

As at March 31, 2005 options to purchase 1,611,111 shares at an average exercise price of $0.30 per common share with varying expiring dates were outstanding. During the three month period ended March 31, 2005 no options were granted, exercised or expired.

[d] Warrants

As at March 31, 2005, warrants to purchase 3,981,000 common shares at an exercise price of $0.30 per common share expire on August 5, 2006 were outstanding. An additional 800,000 broker warrants priced at $0.25 each are exercisable until August 5, 2006 to purchase units consisting of one common share and one half of one common share warrant. Each full warrant obtained on the exercise of the broker warrants may be exercised to purchase one common share at a price of $0.30 per common share until August 5, 2006. During the three month period ended March 31, 2005 19,000 warrants were exercised at a price of $0.30 per common share.

[d] Contributed surplus

Contributed surplus of $780,000 at March 31, 2005 and December 31, 2004 consists of employee and non-employee stock-based compensation expense and the value of warrants issued.

5. 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.

	2005			
	Work Able	**DMSU**	**Corporate**	**Total**
	$	$	$	$
Revenue	**1,334,227**	**315,104**	**—**	**1,649,331**
Operating expenses	**1,350,379**	**396,040**	**53,015**	**1,799,434**
Total assets	**2,009,892**	**1,555,326**	**164,748**	**3,729,966**

During the three months ended March 31, 2004, the Company operated under one reportable segment, being Work Able, with revenue, operating costs and operating profit of $1,734,707, $1,075,245 and $158,676, respectively.

6. SUBSEQUENT EVENTS

On May 3, 2005 the Company acquired all the outstanding shares of DMSU. In connection with the closing of this transaction, the long-term management agreement between DMSU and Alegro has been terminated. The Company has consolidated the results of operations of DMSU in the March 31, 2005 consolidated financial statements, hence the change in legal ownership will not have an impact on the Company's financial results.

7. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited consolidated financial statements for the period ended March 31, 2005 and March 31, 2004.