ALEGRO HEALTH CORP.

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

The following management discussion and analysis ("MD&A") dated this 18th day of August, 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 and six months ended June 30, 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 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 On May 3, 2005, the Company acquired all the outstanding shares of DMSU.

On August 18, 2005, the Company purchased certain assets and contracts of the Canadian division of Concentra Integrated Services, of Burlington, Massachusetts, USA relating to Concentra's Canadian case management, occupational therapy and medical assessment business. This transaction increases the scope of Alegro's disability and case management operations in Toronto, and extends Alegro's reach to Kitchener and Thunder Bay in Ontario, and to Fredricton and Halifax in Atlantic Canada. The Company will operate these assets as a new business unit, Direct Health Solutions Inc. ("Direct"). The primary customers of Direct will be workers' compensation boards, employers and insurance companies.

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 Centesr operated under its wholly owned subsidiary Work Able and a Surgical Center operated under its wholly owned subsidiary DMSU.

Work Able Centres Inc.

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 feet) 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.

Don Mills Surgical Unit

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
- Ablatherm© prostate cancer treatments

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, 1 procedure room, 20 in-patient beds, a central nursing station, and physician offices in 8,500 square feet of space in Toronto. 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 and during the quarter ended June 30, 2005 DMSU commenced performing prostate treatments.

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 and procedures not covered by OHIP (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 June 30, 2005	For the three months ended June 30, 2004
Revenue	$ 1,904,675	$ 1,812,388
Net Income (loss) before discontinued operations	$ (297,237)	$ 112,951
Per Share	$ (0.01)	$ 0.01
Per Share Diluted	$ (0.01)	$ 0.01
Net Income (loss)	$ (297,237)	$ 112,951
Per Share	$ (0.01)	$ 0.01
Per Share Diluted	$ (0.01)	$ 0.01
Total Assets	$ 3,685,820	$ 2,063,060

Operating Results for the three months ended June 30, 2005

For the three months period ended June 30, 2005 the Company recorded a loss was $297,237 compared to income of $112,951 for the same period last year. The decrease in profit is primarily attributed to a decrease in total revenue of $356,884 and an increase in non-cash stock-based compensation of $122,000, offset by a decrease in the income tax provision.

Revenues

Consolidated revenues for the three months ended June 30, 2005 amounted to $1,904,675, an increase of 5.1% over consolidated revenues in the same period in 2004 of $1,812,388. The increase resulted from $449,171 in additional revenue generated by DMSU which was acquired in August 2004 that more than offset the lower revenue generated from the Company's disability management center.

Disability Management Center Services

Revenues from the disability management center were $1,455,504 for the three months ended June 30, 2005 as compared to $1,812,388 for the three months ended June 30, 2004, a decrease of $356,884 or 19.7%. 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 $449,171 for the three months ended June 30, 2005. Of the total revenue, 69.4% related to the global funding arrangement with the Ministry of Health and 29.8% related to private pay services.

Expenses

Consolidated expenses for the three months ended June 30, 2005 amounted to $2,293,912, an increase of 47.9% over consolidated expenses in the same period in 2004 of $1,550,437. The increase resulted primarily from the inclusion of surgical center expenses of $452,546, an increase in general and administrative expenses of $127,134 and a non-cash stock based compensation expense of $122,000.

Medical Consultants

Medical consultant expenses for the three months ended June 30, 2005 relate to the disability management center services revenues and have decreased 36.7% to $385,322 from $565,710 for the three months ended June 30, 2004. The decrease is attributable to the Company's cost control efforts achieved through resource re-allocation.

Disability Management Center

Disability management center expenses for the three months ended June 30, 2005 and have increased 24.4% to $867,175 from $655,147 for the three months ended June 30, 2004. The increase is attributable to increases in salaries due to additions to the management team, higher insurance premiums and rent increases.

Surgical Center

Surgical center expenses for the three months ended June 30, 2005 were $452,546. 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 June 30, 2005 increased 48.3% to $390,232 from $263,098 for the three months ended June 30, 2004. The increase reflects additions to strengthen the Company's management team, additional legal and professional fees incurred during the second quarter of 2005 relating to the transfer of shares of DMSU that were not incurred in the same period of 2004.

Interest Expense

Interest expense was $nil for the three months ended June 30, 2005, compared to $23,711 for the three months ended June 30, 2004, a decrease of $23,711. 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 $76,637 for the three months ended June 30, 2005, compared to amortization expense of $42,771 for the three months ended June 30, 2004, an increase of $42,771. The increase in amortization expense resulted from the amortization of equipment acquired in the August 6, 2004 DMSU transaction.

Net Income (Loss)

Net loss was $297,237 or $0.01 per share for the three months ended June 30, 2005 compared to net income of $112,951, or $0.01 per share for the three months ended June 30, 2004. This decrease in net income for the three months ended June 30, 2005 was primarily attributable to a decrease in disability management center services amounting to $356,884 and an increase in non-cash non-tax deductible stock-based compensation of $122,000. In addition the Company's surgical center operated at a small loss during the quarter as the Company continued to integrate its operations. Diluted earnings per share for the three months ended June 30, 2005, were $(0.01), compared to $0.01 per share for the three months ended June 30, 2004.

Operating Results for the six months ended June 30, 2005

For the six months period ended June 30, 2005 the pre-tax loss was $539,340 compared to pre-tax income of $420,265 for the same period last year. The decrease in pre-tax profit is primarily attributed to a decrease the Company's disability management center revenue of $757,364 and an increase in non-cash stock-based compensation of $122,000.

Revenues

Consolidated revenues for the six months ended June 30, 2005 amounted remained consistent at $3,554,006 when compared to consolidated revenues in the same period in 2004 of $3,547,095. The Company's disability management center's decrease in revenue of $757,364 was offset by $764,275 in additional revenue generated by DMSU which was acquired in August 2004.

Disability Management Center Services

Revenues from the disability management center were $3,547,095 for the six months ended June 30, 2005 as compared to $2,789,731 for the six months ended June 30, 2004, a decrease 27.1%. 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 $764,275 for the six months ended June 30, 2005. Of the total revenue, 79.3% related to the global funding arrangement with the Ministry of Health and 20.1% related to private pay services.

Expenses

Consolidated expenses for the six months ended June 30, 2005 amounted to $4,093,346, an increase of 30.9% over consolidated expenses in the same period in 2004 of $3,126,830. The increase resulted from the inclusion of surgical center expenses of $829,905 and a non-cash stock based compensation expense of $122,000.

Medical Consultants

Medical consultant expenses for the six months ended June 30, 2005 relate to the disability management center services revenues and have decreased 16.8% to $725,035 from $871,904 for the six months ended June 30, 2004. The decrease is attributable to the Company's cost control efforts achieved through resource re-allocation.

Disability Management Center

Disability management center expenses for the six months ended June 30, 2005 and have remained consistent at 1,571,056 when compared to $1,575,625 for the six months ended June 30, 2004.

Surgical Center

Surgical center expenses for the six months ended June 30, 2005 were $829,905. 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 six months ended June 30, 2005 increased 24.5% to $693,116 from $556,585 for the six months ended June 30, 2004. The increase reflects additions to strengthen the Company's management team, additional legal fees and professional fees incurred during the first half of 2005 relating to the transfer of shares of DMSU that were not incurred in the same period of 2004.

Interest Expense

Interest expense was $nil for the six months ended June 30, 2005, compared to $37,174 for the six months ended June 30, 2004, a decrease of $37,174. 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 $152,234 for the six months ended June 30, 2005, compared to amortization expense of $85,542 for the six months ended June 30, 2004, an increase of $66,692. The increase in amortization expense resulted from the amortization of equipment acquired in the August 6, 2004 DMSU transaction.

Net Income (Loss)

Net loss was $409,300 or $0.02 per share for the six months ended June 30, 2005 compared to net income of $251,265, or $0.02 per share for the six months ended June 30, 2004. This decrease in net income for the six months ended June 30, 2005 was primarily attributable to a decrease in disability management center services amounting to $757,364 and an increase in non-cash stock-based compensation of $122,000. In addition the Company's surgical center operated at a loss as the Company continued to integrate its operations. Diluted earnings per share for the six months ended June 30, 2005, were $(0.02), compared to $0.02 per share for the six months ended June 30, 2004.

Q1 2004 Restatements

The Company has increased the June 30, 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 June 30, 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 June 30, 2005, the Company had cash of $432,651, a decrease of $183,073 from cash of $615,724 as at December 31, 2004.

In the first six months of 2005, the Company's operating activities used cash of $137,897 compared to $382,520 generated from operating activities for the first half of 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 half of 2005 were financed by the Company's current cash position. The increase in cash flows used in investing activities of $74,876 compared to cash flows used of $45,155 for the six months ended June 30, 2004 relates primarily to expenditures incurred to improve the surgical center facilities. For the six months ended June 30, 2005, financing activities provided cash flows of $29,700 compared to a use of cash of $337,365 for the six months ended June 30, 2004.

Management believes that its cash as at June 30, 2005 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 2006, 2007 and 2008 are $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 ending in August 2005 with the balance of $45,000 due when mutually agreed upon or before 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 first six months of 2005 that resulted in a requirement for payments under the terms of these agreements.

Share Capital

As at June 30, 2005, the Company had 25,274,762 common shares issued and outstanding compared to 17,175,762 common shares issued and outstanding at June 30, 2004.

As at June 30, 2005, there were a total of 2,011,111 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 2010. In addition, warrants to purchase 3,901,000 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 six month period ended June 30, 2005, 99,000 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 six months ended June 30, 2005 and 2004, the Company incurred management fees of $147,000 and $166,750, 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 June 30, 2005, DMG owed the Company $40,000. This amount is non-interest bearing.

[ii] Real World Simulations Systems Inc. ["Real World"] provided $36,000 and $42,420 in web design, advertising and publication services to the Company for the six months ended June 30, 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 $15,000 and $249,620 in financial accounting services to the Company for the six months ended June 30, 2005 and 2004, respectively. Osborne Group is partially owned by Mr. D. Wood, 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 June 30, 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 and commenced performing the prostate treatments during the quarter ended June 30, 2005.

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.

June 30, 2005

Alegro Health Corp.

CONSOLIDATED BALANCE SHEETS

	June 30, 2005 $	December 31, 2004 $
	(unaudited)	
ASSETS		
Current		
Cash	**432,651**	615,724
Accounts receivable, net	**753,984**	891,248
Unbilled receivables	**206,450**	197,450
Prepaid expenses	**52,455**	29,292
Total current assets	**1,445,540**	1,733,714
Due from related parties *[note 3]*	**40,000**	40,000
Capital assets, net	**846,465**	923,823
Goodwill	**1,146,815**	1,146,815
Future tax assets	**207,000**	76,960
	3,685,820	3,921,312
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**1,303,766**	1,281,658
Income taxes payable	**203,274**	203,274
Total current liabilities	**1,507,040**	1,484,932
Shareholders' equity		
Share capital	**1,833,497**	1,803,797
Contributed surplus	**902,633**	780,633
Deficit	**(557,350)**	(148,050)
Total shareholders' equity	**2,178,780**	2,436,380
	3,685,820	3,921,312

See accompanying notes

Alegro Health Corp.

CONSOLIDATED STATEMENTS OF INCOME

Three Months Ended June 30
(unaudited)

	2005	2004
	$	$
Revenue		
Disability management center services	**1,455,504**	1,812,388
Surgical center services	**449,171**	—
	1,904,675	1,812,388
Expenses		
Medical consultants	**385,322**	565,710
Disability management center	**867,175**	655,147
Surgical center	**452,546**	—
General and administrative	**390,232**	263,098
Stock-based compensation	**122,000**	—
Interest	**—**	23,711
Amortization of capital assets	**76,637**	42,771
	2,293,912	1,550,437
Income (loss) before income taxes	**(389,237)**	261,951
Provision for (recovery of) income taxes		
Current	**—**	149,000
Future	**(92,000)**	—
	(92,000)	149,000
Net income (loss) for the period	**(297,237)**	112,951
Basic and diluted earnings per common share		
Basic	**(0.01)**	0.01
Diluted	**(0.01)**	0.01
Weighted Average # of Shares		
Basic	**25,247,949**	17,175,762
Diluted	**27,428,394**	17,310,484

See accompanying notes

Alegro Health Corp.

CONSOLIDATED STATEMENTS OF INCOME

Six Months Ended June 30,
(unaudited)

	2005 $	2004 $ *(restated)*
Revenue		
Disability management center services	**2,789,731**	3,547,095
Surgical center services	**764,275**	—
	3,554,006	3,547,095
Expenses		
Medical consultants	**725,035**	871,904
Disability management center	**1,571,056**	1,575,625
Surgical center	**829,905**	—
General and administrative	**693,116**	556,585
Stock-based compensation	**122,000**	—
Interest	**—**	37,174
Amortization of capital assets	**152,234**	85,542
	4,093,346	3,126,830
Income (loss) before income taxes	**(539,340)**	420,265
Provision for (recovery of) income taxes		
Current	**—**	169,000
Future	**(130,040)**	—
	(130,040)	169,000
Net income (loss) for the period	**(409,300)**	251,265
Basic and diluted earnings per common share		
Basic	**(0.02)**	0.02
Diluted	**(0.02)**	0.02
Weighted Average # of Shares		
Basic	**25,216,906**	17,175,762
Diluted	**27,354,626**	17,290,248

See accompanying notes

Alegro Health Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Six Months Ended June 30,
(unaudited)

	2005 $	**2004** $ *(restated)*
OPERATING ACTIVITIES		
Net income (loss) for the period	**(409,300)**	251,265
Add (deduct) items not involving cash		
Amortization of capital assets	**152,234**	85,542
Future income taxes	**(130,040)**	—
Stock-based compensation	**122,000**	—
Changes in non-cash working capital items		
Decrease in accounts receivable	**137,264**	124,210
Increase in unbilled receivables	**(9,000)**	(242,647)
Increase in prepaid expenses	**(23,163)**	(69,280)
Increase in accounts payable and accrued liabilities	**22,108**	133,784
Increase (decrease) in income taxes payable	**—**	99,646
Cash provided by (used in) operating activities	**(137,897)**	382,520
INVESTING ACTIVITIES		
Purchase of capital assets	**(74,876)**	(45,155)
Cash used in investing activities	**(74,876)**	(45,155)
FINANCING ACTIVITIES		
Proceeds from (repayment) of bank indebtedness, net	**—**	(230,088)
Repayment of bank loans	**—**	(107,277)
Proceeds from the exercise of warrants	**29,700**	—
Cash provided by (used in) financing activities	**29,700**	(337,365)
Decrease in cash	**(183,073)**	—
Cash, beginning of period	**615,724**	**—**
Cash, end of period	**432,651**	—
Supplemental cash flow information		
Interest paid	**—**	37,174
Taxes paid	**—**	69,354

See accompanying notes

Alegro Health Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 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 provides health care services through its wholly-owned subsidiaries.

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 June 30, 2005, consolidated statements of operations for the three and six months ended June 30, 2005 and 2004, and the consolidated statements of cash flows for the six months ended June 30, 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 and six months ended June 30, 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 the Company's wholly-owned legal subsidiaries; Work Able Centres Inc. ["Work Able"], Don Mills Surgical Unit Ltd. ["DMSU"], and Assessment Network Inc. (operating as "MedEval"). All 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.

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 June 30, 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 six months ended June 30, 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 for the six months ended June 30, 2004.

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 six months ended June 30, 2005 were $198,000 (2004 - $258,790). 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	**36,000**	42,420
Brenras	**111,000**	132,750
Disability Management	**36,000**	34,000
Osborne Group	**15,000**	49,620
	198,000	258,790

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	99,000	29,700
Issued and outstanding, June 30, 2005	**25,274,762**	**1,833,497**

[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 on June 18, 2003. As the date June 30, 2005 and December 31, 2004 all shares have been released from escrow.

[c] Stock-based compensation plan

As at June 30, 2005 options to purchase 2,111,111 shares at an average exercise price of $0.32 per common share with varying expiring dates were outstanding. During the three month period ended June 30, 2005 no options were exercised or expired.

On May 16, 2005, the Company granted 500,000 options to an officer and director of the Company. The stock options vested immediately on granting and will expire on May 16, 2010. The Company has recorded a stock-based compensation expense and an increase in contributed surplus of $122,000 representing the fair value of the options granted. The fair value of the options granted was estimated on the date of grant using the Black-Scholes option pricing model.

[d] Warrants
As at June 30, 2005, warrants to purchase 3,901,000 common shares at an exercise price of $0.30 per common share that 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 June 30, 2005, 80,000 warrants were exercised at a price of $0.30 per common share.

[d] Contributed surplus
Contributed surplus consists of employee and non-employee stock-based compensation expense and the value of warrants issued as follows:

	$
Balance, December 31, 2004	780,633
Options granted	122,000
Issued and outstanding, June 30, 2005	**902,633**

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 (including MedEval) and DMSU.

	Three months ended June 30, 2005			
	Work Able $	**DMSU** $	**Corporate** $	**Total** $
Revenue	**1,455,504**	**449,171**	**—**	**1,904,675**
Operating expenses	**1,567,715**	**476,466**	**249,731**	**2,293,912**

June 30, 2005

Total assets	**1,810,255**	**1,462,431**	**413,134**	**3,685,820**

During the three months ended June 30, 2004, the Company operated under one reportable segment, being Work Able, with revenue, operating costs and operating profit of $1,812,388, $1,550,437 and $261,951, respectively.

	Six months ended June 30, 2005			
	Work Able	**DMSU**	**Corporate**	**Total**
	$	$	$	$
Revenue	**2,789,731**	**764,275**	**—**	**3,554,006**
Operating expenses	**2,918,094**	**872,506**	**302,746**	**4,093,346**
Total assets	**1,810,255**	**1,462,431**	**413,134**	**3,685,820**

During the six months ended June 30, 2004, the Company operated under one reportable segment, being Work Able, with revenue, operating costs and operating profit of $3,547,095, $3,126,830 and $420,265, respectively.

6. DON MILLS SURGICAL UNIT

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 its consolidated financial statements since august 6, 2004 when it entered into a long-term management agreement for DMSU, hence the change in legal ownership does not have an impact on the Company's financial results.

7. BANKING FACILITY

Alegro's credit line and banking facilities contain various terms and conditions that could affect the Company's ability to borrow under these facilities. These include maximum debt to tangible net worth ratio, current assets to current liabilities ratio, a borrowing base calculation and other general restrictions. As at June 30, 2005, no amounts were owing or available under the Company's bank facilities.

8. SUBSEQUENT EVENT

On August 18, 2005 the Company purchased certain assets and contracts of the Canadian division of Concentra Integrated Services, of Burlington, Massachusetts. The Company will operate these assets as a new business unit, Direct Health Solutions Inc. ("Direct"). The primary customers of Direct will be workers' compensation boards, employers and insurance companies.

9. 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 June 30, 2005 and June 30, 2004.