ALEGRO HEALTH CORP.

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

The following management discussion and analysis ("MD&A") dated this 27th day of April, 2006 provides an overview of the consolidated financial condition and results of operations of Alegro Health Corp. ("we", "our", or the "Company") for the year ended December 31, 2005. This MD&A should be read in conjunction with the information from the consolidated financial statements of the Company and the related notes included herein for the year ended December 31, 2005.

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 certain forward-looking information based on management's best estimate and the current operating environment. 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 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. Any forward-looking statements contained in this MD&A represents the Company's views and expectations as of the date of this MD&A. Actual developments with respect to future events are subject to certain risks, uncertainties and assumptions and may differ materially from the results, performance or achievements of the Company contemplated by this MD&A.

Highlights in the Year Ended December 31, 2005 and subsequent events to the date of this MD&A

During August 2005, the Company completed the acquisition of certain case management assets resulting in the expansion of its activities in Ontario and extension of operations to Atlantic Canada. Third and fourth quarter results of 2005 reflect the inclusion of this increased operating activity. During June of 2005, the Company entered into an agreement that enabled it to introduce a new prostate treatment at Don Mills Surgical Unit Limited ("DMSU") resulting in incremental revenues and expenses being included in operating results for the third and fourth quarters of fiscal 2005. On April 7, 2006 a contract with the Workplace Safety and Insurance Board of Ontario ("WSIB"), acquired as part of the August 2005 acquisition was terminated. This is expected to result in reduced revenues and expenses for the third and fourth quarters of 2006, compared to the same period in fiscal 2005, but is not expected to have a significant impact on operating profits as the contract did not generate large margins.

Overall Performance in Fiscal 2005

Net income declined from $131,000 in fiscal 2004 to a loss of $(348,000) in fiscal 2005, primarily as a result of reduced revenues at the Company's Work Able Centres Inc. ("Work Able") subsidiary that adversely impacted margins. The reduced revenues were due to uncertainty in the medical assessment market in Ontario as a result of regulatory changes being phased in, commencing and 2003 and completing in March 2006. Resultant pressure on margins is expected to continue throughout much of fiscal 2006. The Company responded to these changes by improving operating efficiencies with most improvements being achieved during 2004 and seeking opportunities to diversify revenue through acquisitions, while also investing in 2004 and 2005 to strengthen its management team. Cost efficiencies at the Work Able operations were obtained during 2004, prior to the full extent of the revenue reductions impacting margins in fiscal 2005. Acquisitions were completed during August 2004 and August 2005 that are expected to diversify revenues and improve margins as fiscal 2006 progresses. In addition, the Company secured preferred supplier status with most of Canada's large insurance companies during 2005 in order to position itself for renewed growth as the medical assessment market uncertainty declines during fiscal 2006.

Overview

The Company 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 shares and was listed as a venture company on the TSX Venture Exchange ("TSXV"). The Company is a provider of medical, surgical, disability management, case management and multidisciplinary rehabilitation services to an extensive and diverse customer base. Through its network of facilities and health professionals, the Company provides screening and prevention, assessment, consultation, and treatment services to over 200 Canadian companies and government agencies.

On June 18, 2003, the Company issued (i) 2,259,095 common shares in exchange for $461,819 representing the amount due to related parties by Work Able; 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. 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 DSMU, an accredited private hospital authority licensed by the Ontario Ministry of Health and Long-Term Care ("Ministry of Health"). On May 3, 2005, the Company acquired all the outstanding shares of DMSU.

On August 18, 2005, a wholly owned subsidiary of the Company, Direct Health Solutions Inc. ("Direct") 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 increased the scope of the Company's disability and case management operations in Toronto, and extended the Company's reach to Kitchener and Thunder Bay in Ontario, and to Fredericton and Halifax in Atlantic Canada. The primary customers of Direct were workers' compensation boards, employers and insurance companies.

During 2006, the Company learned that its Labour Market Re-entry services ("LMR") contract with the WSIB, acquired as part of the August 18, 2005 acquisition, would end on April 7, 2006 and is not being renewed. The Company is continuing to develop its operations in Eastern Canada as well as services supplied to employers and the insurance industry in Ontario.

The Company's business objectives are to provide a broad range of health care services to individuals and organizations. The Company currently has three primary lines of business, each operated through wholly owned subsidiaries. These consist of disability management centers operated through Work Able Centres Inc., case management services provided by Direct Health Services Inc. and a private hospital providing surgical services, operating as Don Mills Surgical Unit Inc.

Work Able Centers Inc.

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

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 currently occupying a total of 23,000 square feet of leased space in Toronto, Barrie and Mississauga, Ontario. The facilities are equipped with state of the art assessment, rehabilitation and work simulation tools and systems. Work Able employs 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 sources such as insurers, government agencies, independent insurance adjusters, lawyers, employers and independent disability management companies.

Direct Health Solutions Inc.

Direct provides case management services primarily to the insurance industry and employers in Ontario and Eastern Canada. From August 18, 2005 until April 7, 2006 Direct also provided LMR services under contract to the WSIB in the regions of Thunder Bay, Kitchener and Toronto.

During the fall of 2005 the WSIB issued RFP's for all LMR services provided to the WSIB in Ontario, including all services currently provided to the WSIB by Direct. Direct submitted applications for all areas in which it supplied LMR services as well as additional regions that would have provided logical extensions of Direct's current service areas. Direct was not successful in its RFP applications and its contract with the WSIB terminated April 7, 2006. During the period from August 18, 2005 to April 7, 2006, a significant portion of Direct's revenue was generated from the WSIB contract, but it contributed only marginal profits and accordingly, the Company does not expect a significant impact on future income as a result of the termination of this contract.

Direct plans to continue to provide case management services and expand its client base of insurance, corporate and government entities in Ontario and Atlantic Canada.

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

Surgeons affiliated with DMSU maintain active practices within their specialty areas and are members of the Royal College of Physicians and Surgeons. DMSU provides services in two fully equipped operating theatres, one procedure room, 20 in-patient beds, a central nursing station, and physician offices in 8,500 square feet of leased space in Toronto. DMSU retains a 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. Prostate procedures are expected to gradually increase in volume providing DMSU with diversification of its revenue stream. DMSU intends to continue to seek opportunities to diversify its revenue stream, while continuing to support the Ministry of Health in its effort to reduce waiting times.

DMSU services are funded in three ways:

- Insured Services funded by the Ontario Health Insurance Plan (OHIP) – Issued Services assists 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 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 policy focus for provincial and federal governments 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 orthopaedic surgery (arthroscopy procedures on knees and other major joints). DMSU is fully supportive of measures to reduce wait times and in fiscal 2005 has been awarded approximately $50,000 in extra funding for a limited number of additional ophthalmology and orthopaedic procedures.

Although not covered by OHIP, cosmetic plastic surgery is also in demand. Recent studies have identified that the waiting times for plastic surgery in Ontario have increased significantly. DMSU has an established practice with respect to plastic surgery and has the ability to handle any future growth in demand for such services.

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 year ended		
	December 31, 2005	December 31, 2004	December 31, 2003
Revenue	$ 9,421,000	$ 7,142,000	$ 6,834,000
Net Income (loss)	$ (348,000)	$ (131,000)	$ 489,000
Per Share	$ (0.01)	$ 0.01	$ 0.05
Per Share Diluted	$ (0.01)	$ 0.01	$ 0.05
Total Assets	$ 4,337,000	$ 3,921,000	$ 1,945,000

Selected Quarterly Information

	2005 Quarter Ended (000's)			
	March 31	June 30	September 30	December 31
Revenue	1,649	1,905	2,340	3,527
Expenses				
Direct, general and administration	1,724	2,095	2,236	3,495
Stock-based compensation	---	122	---	---
Amortization	76	77	61	97
Total Expenses	1,800	2,294	2,297	3,592
(Loss) Income before income taxes	(151)	(389)	43	(65)
Income taxes	(38)	(92)	0	(84)
Net (loss) income	(113)	(297)	43	19
Per share	-	(0.01)	-	-
Per share diluted	-	(0.01)	-	-

	2004 Quarter Ended (000's)			
	March 31	June 30	September 30	December 31
Revenue	1,735	1,812	1,903	1,693
Expenses				
Direct, general and administration	1,520	1,484	1,598	1,537
Stock-based compensation	---	---	278	---
Interest	13	24	---	8
Amortization	43	43	50	111
Total Expense	1,576	1,551	1,926	1,656

(Loss) income before income taxes	159	261	(23)	37
Income taxes	20	149	128	6
Net (loss) income	139	112	(151)	31
Per share	0.01	0.01	(0.01)	-
Per share diluted	0.01	0.01	(0.01)	-

The Company's quarterly results have been impacted by the effect of acquisitions completed in each of August 2005 and August 2004. In addition, Work Able experiences some seasonality in revenues with slightly stronger revenue generally experienced from January to May and September to November than December and June to August.

Fiscal 2005 Fourth Quarter Operating Results

For the three months ended December 31, 2005 the Company recorded income of $19,000 compared to income of $31,000 for the same period last year. Revenues were $3,527,000 in the three months compared to $1,693,000 recorded in the same period in fiscal 2004, an increase of $1,834,000. Of the increase, $1,696,000 was attributable to revenues generated by Direct's case management operations that commenced activities as a result of an acquisition of certain assets completed on August 18, 2005. Direct's revenue for the three months included $1,063,000 in billings to the WSIB to recover payments to injured workers for out of pocket expenses and payments to secondary service providers on which, under the terms of its agreement with the WSIB, Direct is not allowed to charge any mark-up. DMSU also recorded increased revenue during the three months ended December 31, 2005 compared to the same period in the prior year, as a result of revenue generated by prostate cancer treatments that commenced during June 2005.

Operating expenses, excluding income taxes, amortization and interest, increased by $1,958,000 during the three months ended December 31, 2005 compared to the same period in the prior year. The increase was due to $1,518,000 in expenses incurred by Direct, which was not in operation in fiscal 2004 and an increase of $298,000 in expenses at DMSU as a result of increased activity levels compared to the same period in fiscal 2004.

Year Ended December 31, 2005 compared to Year Ended December 31, 2004

For the year ended December 31, 2005 the Company recorded a net loss of $(348,000) compared to income of $131,000 for the same period last year. The decrease is primarily the result of reduced disability management centre services revenue, resulting in decreased margins during fiscal 2005 compared to fiscal 2004, together with an increased loss from DMSU, partially offset by a positive contribution from Direct's operations that were acquired in August of 2005.

Revenues

Consolidated revenues for the year ended December 31, 2005 amounted to $9,421,000, an increase of approximately 32% over consolidated revenues in fiscal 2004 of $7,142,000. The increase resulted from $1,281,000 in additional revenue generated by DMSU which was acquired in August 2004, as well as, $2,177,000 generated from the operations of Direct that commenced in August 2005 that more than offset the $1,179,000 decline in revenue generated by the Company's disability management centers.

Work Able

Revenues from Work Able's disability management services were $5,447,000 for the year ended December 31, 2005 compared to $6,626,000 for fiscal 2004, a decrease of $1,179,000 or 18%. This 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 were partially implemented during the Company's fiscal 2005 year. The implementation of these changes was completed by March 2006, although transitional services revenues relating to assessments commenced prior to March 2006 are expected to continue until at least May 2006. The related uncertainty from these changes also resulted in a reduction in treatment revenues, which became more pronounced during the latter half of fiscal 2005. During fiscal 2005, Work Able focused on revenue diversification and expanding its client base. As a result, Work Able has been selected as a preferred service provider by several of Canada's largest insurance providers. Revenues from these new relationships began to phase in during the first quarter of the Company's fiscal 2006 year and are expected to increase as the current designated assessment centre structure draws to a close.

Direct

Direct commenced operations on August 18, 2005 after completing the acquisition of certain assets from Concentra Integrated Services and generated a total of $2,177,000 in revenue for the period ending December 31, 2005. A significant portion of Direct's revenue was comprised of billings to the WSIB to recover payments to injured workers for out of pocket expenses and payments to secondary service providers contracted by Direct as part of the LMR program. Under the terms of its agreement with the WSIB, Direct is not allowed to charge a mark-up on these LMR program expenses. During the period ended December 31, 2005, revenue related to LMR expenses amounted to approximately $1,316,000. The contract with the WSIB terminated on April 7, 2006.

DMSU

DMSU's revenue contribution was $1,797,000 for the year ended December 31, 2005. Of the total revenue recorded in fiscal 2005, 68% related to the global funding arrangement with the Ministry of Health and 32% related to other services.

Expenses

Consolidated expenses for the year ended December 31, 2005 amounted to $9,982,000, an increase of 48% over consolidated expenses of $6,709,000 for the same period in 2004. The increase resulted primarily from the inclusion of Direct's expenses of $2,003,000 plus the inclusion of a full year of DMSU's expenses to just under four months' expenses in the same period last year.

Work Able

Direct expenses incurred by Work Able in fiscal 2005 were comparable to the amount recorded in fiscal 2004. Although Work Able's revenue was impacted by changes introduced by the Financial Services Commission of Ontario, case volume in fiscal 2005 increased compared to the volume experienced in fiscal 2004 and as a result, although per case cost efficiencies were achieved, total direct expenses did not decline.

Direct

Direct incurs expenses including staff and consultants to provide case management services to its clients. In addition, Direct incurred $1,316,000 in costs for worker expenses and secondary service providers utilized by Direct in delivering LMR programs to the WSIB. Under the terms of its agreement with the WSIB, Direct cannot charge any premium on these costs to the WSIB.

DMSU

DMSU's expenses for the year ended December 31, 2005 were $1,867,000, compared to $564,000 recorded in the prior year. Results this year include a full year of expenses, compared to just fewer than four months' expenses in the same period last year, from the date of acquisition of August 6, 2004. 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 expenses for the year ended December 31, 2005 increased by 11% to $920,000 from $827,000 for the year ended December 31, 2004. The increase reflects additions to strengthen the Company's management team and costs incurred during the third quarter of 2005 relating to the commencement of operations of Direct.

Interest Expense

The Company had no outstanding bank indebtedness or loans during the year ended December 31, 2005 and accordingly incurred no interest expense in the year. During the first half of fiscal 2004, the Company had outstanding bank indebtedness and incurred $45,000 of interest expense. All outstanding loans and bank indebtedness was repaid during the second quarter of fiscal 2004.

Amortization Expense

Amortization expense amounted to $310,000 for the year ended December 31, 2005, compared to amortization expense of $246,000 recorded in fiscal 2004, an increase of $64,000. The increase in amortization expense resulted primarily from a full year's amortization in fiscal 2005 of equipment acquired in the August 6, 2004 DMSU compared to just under four months recorded in fiscal 2004 transaction as well as investments made to improve the DMSU facility.

Net (Loss) Income

For the year ended December 31, 2005 the Company recorded a net loss of $(348,000), or $(0.01) per share compared to a net income of $131,000 or $0.01 per share for the year ended December 31, 2004. The decrease in net income was primarily attributable to a decrease in revenue earned by Work Able during fiscal 2005, compared to fiscal 2004. DMSU generated a slightly larger loss during 2005, compared to 2004. These decreases were partially offset by a positive contribution from Direct.

Year Ended December 31, 2004 compared to Year Ended December 31, 2003

For the year ended December 31, 2004 the pre-tax profit was $434,000 compared to $789,000 for the same period last year. The decrease in pre-tax profit is primarily attributed to a non-cash charge of $278,000 related to options granted to directors and advisors in 2004, compared to a charge of $19,000 in 2003. Total revenue of $7,142,000 increased by $308,000 or 4.5% for the year ended December 31, 2004 compared to $6,834,000 for the year ended December 31, 2003. During 2004 the Company improved its cash position by $1,206,000 from bank indebtedness and bank loans of $590,000 as at December 31, 2003 to cash of $616,000 as at December 31, 2004.

Revenues

Consolidated revenues for the year ended December 31, 2004 amounted to $7,142,000, an increase of 4.5% over consolidated revenues in 2003 of $6,834,000. The increase resulted from the $516,000 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 $6,626,000 for the year ended December 31, 2004 as compared to $6,834,000 for the year ended December 31, 2003, a decrease of $208,000 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.

DMSU

DMSU's five-month revenue contribution was $516,000 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 funding arrangements in place in 2004 with the Ministry of Health, DMSU receives approximately $1.2 million annually to cover its operating expenses.

Expenses

Direct, general and administrative expenses amounted to $6,138,000 in fiscal 2004 compared to $5,726,000 in fiscal 2003. The increase of $412,000 was due to costs related to the operations of DMSU which were included in the results of operations commencing August 6, 2004. Excluding the effect of DMSU, direct, general and administrative expenses would have declined by $152,000 as a result of cost control strategies implemented in Work Able in response to changes in market conditions as a result of changes introduced by the Financial Services Commission of Ontario in November 2003 and February 2004.

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 $131,000 or $0.01 per share for the year ended December 31, 2004 compared to $489,000, or $0.05 per share for the year ended December 31, 2003, a decrease of $358,000. 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, 2005, the Company had cash of $566,000, a decrease of $50,000 from cash of $616,000 as at December 31, 2004. The Company's capital resources presently are cash generated from operating activities. The Company's cash will fluctuate depending on the results of operations, investing activities such as purchase of fixed assets or acquisitions and financing activities such as raising equity capital.

During fiscal 2005, the Company's operating activities generated cash of $68,000 compared to $852,000 generated from operating activities during fiscal 2004. The decrease is primarily attributable to reduced revenue generated by Work Able, partially offset by cash generated by the operations Direct which commenced operations August 18, 2005.

Investing activities during fiscal 2005 were financed by the Company's cash on hand and cash generated from operating activities. Cash used in investing activities amounted to $148,000 during fiscal 2005 compared to cash used in investing activities last year of $1,371,000. The change is primarily due to the acquisition of DMSU in 2004 at a cost of $1,262,000.

Financing activities provided cash of $30,000 during the year ended December 31, 2005 compared to $1,135,000 during fiscal 2004. During August 2004, the Company completed an equity financing to facilitate the acquisition of DMSU. The $30,000 of cash provided from financing activities during 2005 relates to the exercise of warrants issued as part of the 2004 financing.

It is management's belief that its cash balance as at December 31, 2005 and 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 and equipment under operating leases for the years 2006, 2007, 2008 and 2009 are $228,000, $115,000, $111,000 and $75,000 respectively. The Company will fund these commitments through cash generated from its operations. As at the date of the MD&A, the company does not have any commitments for capital expenditures.

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 2005 that resulted in a requirement for commission payments under the terms of the agreement.

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) There is a claim outstanding whereby a party ("the Plaintiff") commenced an action against the Company, DMSU and other parties for damages for breach of contract and/or confidence in the amount of $10,000,000. Management of the Company believes that the claims are without merit and is defending the action. The Company has cross claimed against two of the parties to the claim for indemnity.

No amount has been recorded in the financial statements with respect to potential losses relating to the claim identified above. A loss, should one occur, will be charged to operations in the year in which such loss is determined.

(c) DMSU participated in the Healthcare Insurance Reciprocal of Canada ("HIROC") until March 2, 2006. 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 each period in which they were members. No assessments were made during the period in which DMSU was a member.

Share Capital

As at March 31, 2005, the Company had 25,274,762 common shares issued and outstanding compared to 25,175,762 common shares issued and outstanding at December 31, 2004.

As at December 31, 2005, there were a total of 2,111,111 options outstanding to purchase an equivalent number of common shares at an average exercise price of $0.32, 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 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 year ended December 31, 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 years ended December 31, 2005 and 2004, the Company incurred management fees of $261,000 and $294,750, 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. .

(ii) As at December 31, 2005, DMG owed the Company a non-interest bearing loan, without stated terms of repayment, in the amount of $40,000.

(iii) Real World Simulations Systems Inc. ("Real World") provided $72,000 and $72,000 in web design, advertising and publication services to the Company for the years ended December 31, 2005 and 2004, respectively. Real World is wholly owned by a related party to Mrs. B. Rasmussen, a shareholder and director of the Company.

(iv) Osborne Group Toronto Inc. ("Osborne Group") provided $15,000 and $129,690 in financial accounting services to the Company for the nine months ended December 31, 2005 and 2004, respectively. Osborne Group is partially owned by Mr. D. Wood, a director of the Company until April 2006.

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

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 held a variable interest in DMSU from August 6, 2004 until May 2, 2005 at which time it completed the acquisition of all of the outstanding shares of DMSU. The Company accounted for its variable interest in DMSU in accordance with AcG-15 and has consolidated DMSU's financial results since August 6, 2004. At 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 respectively.

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 any 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 the Company will operate, or that any legislative changes will not adversely impact the business and operations of the Company. 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 made regarding funding 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 the Company's activities

Insurance
As a provider of healthcare services, the Company and its subsidiaries are 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. Further, any 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 depends 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 may 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 the Company'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
During fiscal 2006 we intend to continue to pursue growth, making strategic acquisitions when appropriate, while focusing on improving margins in our existing operations. As at the date of the MD&A, there are no proposed transactions that will have an effect on the financial condition of the Company that are considered probable to proceed by management.

Work Able
During March, 2006, the anticipated shift of Ontario's automobile insurance legislation to an open independent medical examination market was implemented. Management believes there will continue to be a demand for

medical assessments as the market moves to a more adversarial based dispute system. Work Able has been selected as a preferred treatment provider by a number of casualty insurers as they commence implementation of the new system and accordingly we expect revenue to improve once the new system is fully implemented.

Work Able's management is continuing to examine opportunities to expand the Company's geographic scope in certain areas across Canada to service expanding customer requirements.

Direct

Direct was not successful in renewing its contract with the WSIB and accordingly the contract terminated April 7, 2006. Although significant revenues were generated from the WSIB contract, margins obtained from this work were small and accordingly, management believes the loss of the contract will not have a significant impact on Direct's future operations. Direct will continue to develop its operations in Atlantic Canada as well as expand its insurance and employer client base for its case management services in Ontario during fiscal 2006.

DMSU

In addition to expanding services to the Ministry of Health to assist with the provincial waiting list initiative, DMSU's surgical center is continuing to pursue new uninsured service opportunities in order to more fully exploit its existing surgical room capacity. 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. Prostrate treatments gradually increased in volume during the latter portion of fiscal 2005 and are expected to continue to gradually increase in volume during fiscal 2006.

Disclosure Controls and Procedures

Disclosure controls and procedures were evaluated at December 31, 2005 by the Company's Chief Executive Officer and the Chief Financial Officer. They concluded that the design and operation of these disclosure controls and procedures were effective to provide reasonable assurance that material information relating to the Company's operations and financial affairs would be made known to them.

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 Corp.

Consolidated Financial Statements

December 31, 2005

Contents

Auditors' Report

To the Shareholders of
Alegro Health Corp.

We have audited the consolidated balance sheets of **Alegro Health Corp.** as at December 31, 2005 and 2004 and the consolidated statements of loss and 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 audit.

We conducted our audit 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 consolidated 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, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2004 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated March 30, 2005.

Grant Thornton LLP

Markham, Canada
April 21, 2006

Chartered Accountants

Alegro Health Corp.
Consolidated Balance Sheets

As at December 31		**2005**		2004
Assets				
Current				
Cash and cash equivalents	**$**	**565,723**	$	615,724
Receivables		**1,135,156**		891,248
Accrued receivables		**535,066**		197,450
Prepaids		**33,152**		29,292
Future tax assets (Note 7)		**55,765**		44,544
		2,324,862		1,778,258
Due from related parties (Note 4)		**40,000**		40,000
Capital assets, net (Note 5)		**707,447**		923,823
Goodwill (Note 6)		**1,193,678**		1,146,815
Future tax assets (Note 7)		**70,624**		32,416
	$	**4,336,611**	$	3,921,312
Liabilities				
Current				
Payables and accruals	**$**	**2,056,886**	$	1,281,658
Income taxes payable		**39,733**		203,274
		2,096,619		1,484,932
Shareholders' Equity				
Share capital (Note 8)		**1,833,497**		1,803,797
Contributed surplus (Note 9)		**902,633**		780,633
Deficit		**(496,138)**		(148,050)
		2,239,992		2,436,380
	$	**4,336,611**	$	3,921,312

Commitments and contingencies (Note 14)

On behalf of the Board

"R.L.Palmer" Director "*B.Rasmussen"* Director

See accompanying notes to the consolidated financial statements.

Alegro Health Corp.
Consolidated Statements of Loss and Deficit

For the Year Ended December 31		2005	2004
Revenue		**$ 9,420,988**	$ 7,142,377
Expenses			
Direct Costs		**8,630,172**	5,311,298
General and administrative		**919,588**	827,005
Stock-based compensation (Note 10)		**122,000**	278,300
Interest		**-**	45,496
Amortization of capital assets		**310,281**	246,472
		9,982,041	6,708,571
(Loss) income before income taxes		**(561,053)**	433,806
Income taxes (Note 7)	- (recovery) current	**(163,536)**	263,974
	- (recovery) future	**(49,429)**	39,221
		(212,965)	303,195
Net (loss) income		**$ (348,088)**	$ 130,611
Basic and diluted (loss) earnings per common share		**(0.01)**	0.01
Deficit, beginning of year		**$ (148,050)**	$ (278,661)
Net (loss) income		**(348,088)**	130,611
Deficit, end of year		**$ (496,138)**	$ (148,050)

See accompanying notes to the consolidated financial statements.

Alegro Health Corp.
Consolidated Statements of Cash Flows

Year Ended December 31	2005	2004
Increase (decrease) in cash		
Operating activities		
Net (loss) income	**$ (348,088)**	$ 130,611
Add (deduct) items not involving cash		
Amortization of capital assets	**310,281**	246,472
Future income taxes	**(49,429)**	39,221
Stock-based compensation (Note 10)	**122,000**	278,300
	34,764	694,604
Changes in non-cash operating working capital items		
Receivables	**(243,908)**	(186,669)
Accrued receivables	**(337,616)**	120,363
Prepaids	**3,015**	3,388
Payables and accruals	**775,228**	25,350
Income taxes payable	**(163,541)**	194,620
	67,942	851,656
Financing activities		
Capital stock issuance	**29,700**	-
Repayment of bank indebtedness, net	**-**	(123,484)
Repayment of bank loans	**-**	(466,076)
Proceeds from private placement, net of transaction costs (Note 8)	**-**	1,724,386
	29,700	1,134,826
Investing activities		
Purchase of capital assets	**(81,878)**	(108,624)
Acquisition, net of cash acquired (Note 3)	**(65,765)**	(1,262,134)
	(147,643)	(1,370,758)
Net (decrease) increase in cash	**(50,001)**	615,724
Cash, beginning of year	**615,724**	-
Cash, end of year	**$ 565,723**	$ 615,724

Supplemental cash flow information		
Interest paid	**$ -**	$ 37,174
Taxes paid	**$ -**	$ 69,354

See accompanying notes to the consolidated financial statements.

1. Incorporation and nature of business

Alegro Health Corp ("Alegro" of 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 financials statements are in accordance with Canadian generally accepted accounting principles. The significant accounting policies of the Company are as follows:

Basis of accounting

These consolidated financial statements include the accounts of the Company's wholly-owned subsidiaries Work Able Centres Inc. ("Work Able"), Don Mills Surgical Unit Ltd. ("DMSU"), Direct Health Solutions Inc. ("Direct"), and Assessment Network Inc. 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. Accrued 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 and case management services, 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.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand and other highly liquid short-term investments, which may be settled on demand or within a maximum 90-day period.

2. Significant accounting policies (continued)

Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on the 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. Future income tax assets and liabilities are measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is recognized to the extent that the recoverability of future income tax assets is not considered more likely than not.

Capital assets

Capital assets are recorded at cost. Amortization is provided annually on bases designed to amortize the costs 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 not amortized. Goodwill is tested for impairment on an annual basis or more frequently if warranted. The Company tests its goodwill by comparing the fair value of a reporting unit measured on a discounted cash flow analysis to its carrying value. Impairment losses are recorded when the carrying amount of goodwill exceeds its implied fair value. Such impairment losses are recorded as a charge to earnings. During the current fiscal year, the Company completed the annual assessment and found no impairment of goodwill.

2. Significant accounting policies (continued)

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 held a variable interest in DMSU from August 6, 2004 to May 2, 2005 and consolidated DMSU's financial results from the date of acquiring the variable interest, August 6, 2004. On May 2, 2005, the Company completed the acquisition of all of the outstanding shares of DMSU and accordingly continued to account for the transaction according to the purchase method.

Stock-based compensation

The Company has a stock option plan for directors, officers, employees and consultants as described in Note 10. Under the fair value based method, compensation expense for stock options is measured at fair value at the date of the grant using the Black-Scholes option pricing model. The compensation cost of 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, as is any related amount in contributed surplus.

2. Significant accounting policies (continued)

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

The Company's financial instruments consist of cash, receivables, accrued receivables, due from related parties, payables and accruals, and income taxes payable.

Fair value

Due to the short term to maturity, the fair value of financial instruments approximates their carrying value unless otherwise noted.

It is not practical to determine the fair value of the amounts due from related parties.

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.

3. Acquisitions

On August 18, 2005, Direct Health Solutions Inc., a wholly owned subsidiary of the Company acquired certain assets and contracts of the Canadian division of Concentra Integrated Services of Burlington, Massachusetts.

The results of Direct Health Solutions Inc. have been included since operations commenced on August 18, 2005. The details of the identifiable net assets acquired are as follows:

Current assets	**$ 6,875**
Capital assets	**12,026**
Intangibles	**1**
Goodwill (Note 6)	**46,863**
Cash consideration	**$ 65,765**

On August 6, 2004, the Company entered into a 24-year management services contract covering all aspects of the operations of DMSU. On May 2, 2005 the Company acquired all outstanding shares of DMSU, resulting in DMSU becoming a wholly-owned subsidiary. The Company determined that AcG-15 applies to the transaction and period from August 6, 2004 to May 2, 2005 as the Company held a controlling financial interest in and was 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:

	2004
Current assets	$ 149,879
Capital assets	339,000
Goodwill (Note 6)	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.

4. 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. Brenras and DMG provided management services to the Company during the years ended December 31, 2005 and 2004.

(ii) Real World Simulations Systems Inc. ("Real World") is wholly-owned by a related party to the controlling shareholder and director of the Company. Real World provided web design, advertising and publication services to the Company for the years ended December 31, 2005 and 2004.

(iii) Osborne Group Toronto Inc. ("Osborne Group") is partially owned by a former director and officer of the Company. Osborne Group provided financial accounting services to the Company for the years ended December 31, 2005 and 2004.

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

	2005	2004
Amounts due from related parties		
Disability Management	**$ 40,000**	$ 40,000
General and administrative expenses		
Real World	**72,000**	72,000
Brenras	**195,000**	226,750
Disability Management	**66,000**	68,000
Osborne Group	**15,000**	129,690

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.

5. Capital assets

	Cost	Accumulated Amortization	**2005 Net Book Value**	2004 Net Book Value
Office furniture, fixtures and equipment	$ 423,878	$ 385,837	**$ 38,041**	$ 59,685
Work simulation and facility equipment	1,262,339	1,022,323	**240,016**	366,242
Computer equipment and software	645,186	516,069	**129,117**	171,229
Leasehold improvements	121,327	121,327	**-**	9,542
Medical equipment	408,481	108,208	**300,273**	317,125
	$ 2,861,211	$ 2,153,764	**$ 707,447**	$ 923,823

The net book value of capital assets which have been removed from service and are included in office furniture, fixtures and equipment is $ nil (2004 - $36,428) and work simulation and facility equipment is $ nil (2004 - $360,232).

6. Goodwill

	2005	2004
Net book value, beginning of year	**$ 1,146,815**	$ -
Additions related to acquisition of business assets (Note 3)	**46,863**	1,146,815
Net book value, end of year	**$ 1,193,678**	$ 1,146,815

On August 6, 2004, the Company acquired a controlling financial interest in DMSU resulting in goodwill acquired of $1,146,815.

On August 18, 2005, Direct, a wholly owned subsidiary of the Company, acquired certain assets and contracts of the Canadian division of Concentra Integrated Services, resulting in goodwill acquired of $46,863.

7. 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:

	2005	2004
(Loss) income before income taxes	**$ (561,053)**	$ 433,806
Expected income tax rate	**36%**	36%
Expected income tax expense (recovery) based on statutory tax rate	**$ (201,979)**	$ 156,170
Increase (decrease) resulting from:		
Losses not deductible for tax purposes	**-**	32,956
Non-deductible expense for stock-based compensation	**43,920**	100,188
Tax benefit of losses not previously recorded	**(32,956)**	-
Other	**(21,950)**	13,881
Provision for income taxes (recovery)	**$ (212,965)**	$ 303,195

The Company has non-capital losses available to offset future income for tax purposes of approximately $165,000, of which $55,000, expire in 2014 and $110,000, expire in 2015.

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:

	2005	2004
Future income tax asset (liability)		
Capital assets	**$ (121,516)**	$ (197,895)
Non-capital losses carried forward	**59,565**	21,357
Financing costs	**59,533**	79,377
Accrued liabilities deductible when paid	**128,807**	174,121
Future tax assets	**$ 126,389**	$ 76,960
Current	**$ 55,765**	$ 44,544
Long term	**$ 70,624**	**$** 32,416

8. Share capital

Common shares

Share capital consists of an unlimited number of common shares. The number of common shares issued and outstanding is as follows:

	Number of shares	Amount
Issued and outstanding, December 31, 2003	17,175,762	$ 452,190
Issuance of private placement, net	8,000,000	1,351,607
Issued and outstanding, December 31, 2004	25,175,762	1,803,797
Shares issued in private placement,	99,000	29,700
Issued and outstanding, December 31, 2005	25,274,762	$ 1,833,497

During the year, 99,000 share purchase warrants were exercised for proceeds of $29,700.

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.

Escrowed shares

Under the requirements of the Alberta Securities Commission and the TSX-V, in relation to Alegro becoming a publicly traded company in 2002, certain of the Company's common shares were held in escrow during 2004. One half of these escrowed shares were released from escrow on June 18, 2004 with the balance being released on December 18, 2004.

8. Share capital (continued)

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:

	2005	2004
Basic weighted average number of common shares outstanding	**25,246,072**	20,432,593
Dilutive effect of stock options	**1,175,334**	1,306,061
Diluted weighted average number of common shares outstanding	**26,421,406**	21,738,654

9. Contributed surplus

Contributed surplus represents the value attributed to options and warrants issued in the current and prior year to employees under the company's stock-based compensation plan, to warrants issued as part of the August 2004 private placement and to warrants issued to agents for a portion of their fees as part of the August 2004 private placement.

Balance, December 31, 2003	$ 30,333
2004 Stock Options	278,300
2004 Purchase Warrants	280,000
2004 Agent Warrants	192,000
Balance, December 31, 2004	780,633
2005 Stock Options (Note 10)	122,000
Balance, December 31, 2005	$ 902,633

10. Stock options

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 trading price on the date the options are granted 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, 2003	544,444	0.16
Granted	1,250,000	0.34
Expired	(183,333)	0.15
Outstanding, December 31, 2004	1,611,111	0.30
Granted	500,000	0.37
Outstanding and exercisable, December 31, 2005	2,111,111	0.32

Stock options outstanding at December 31, 2005 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	$ 1.60	361,111	361,111
$0.21 - $0.37	0.34	3.80	1,650,000	1,650,000
$0.45	0.45	3.60	100,000	100,000

On May 16, 2005, Alegro granted 500,000 stock options to an officer and director of the Company to purchase an equivalent number of common shares at an exercise price of $0.37 per share. The stock options vested immediately on granting and will expire five years from the date of issue.

During July and August 2004, a total of 1,250,000 stock options were granted to a director of the Company and consultant 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.

10. Stock options (continued)

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:

	2005	2004
Risk-free interest rate	**3.46%**	4.10%
Expected dividend yield	**-**	-
Expected volatility	**0.80**	0.80
Expected option life	**5 years**	5 years

The fair value for the 2005 and 2004 stock options of $122,000 and $278,300, respectively, were estimated on the date of grant using the Black-Scholes option pricing model and the above assumptions. These amounts have been recognized as an employee stock-based compensation expense and an increase in contributed surplus in 2005 and 2004, respectively.

11. Share purchase warrants

During the years ended December 31, 2005 and 2004, share purchase warrants were issued and exercised as follows:

	Number of Warrants	Exercise Price	Expiry Date
Balance – December 31, 2003	Nil		
Warrants issued and outstanding	4,000,000	$ 0.30	August 5, 2006
Warrants issued and outstanding (agent)	800,000	0.25	August 5, 2006
Balance – December 31, 2004	4,800,000		
Warrants exercised	(99,000)		
Balance – December 31, 2005	4,701,000		

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. These warrants expire on August 5, 2006.

On August 5, 2004, Alegro granted 800,000 warrants to the private placement agent, where each 2004 warrant can be exercised at $0.25 for one common share and one-half 2004 purchase warrant. These warrants expire on August 5, 2006.

12. Bank indebtedness and bank loans

In 2004, Alegro entered into a $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, 2005, the Company had not drawn on and had no amounts available under these credit facilities.

On May 18, 2004, the Company repaid three business improvement loans in full and on May 20, 2004, the Company repaid a non-revolving demand instalment loan in full, all of which related to credit facilities entered into by the Company in 2003. These credit facilities were 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.

13. 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 year ending December 31, 2005 amounted to $34,103 (2004 - $15,317). The most recent actuarial valuation of HOOPP as at December 31, 2002 indicates that HOOPP is fully funded.

14. Commitments and contingencies

Commitments

(a) Future minimum annual lease payments for premises under operating leases for premises and equipment are as follows:

	Premises	Equipment	**Total**
2006	$ 211,169	$ 17,136	**$ 228,305**
2007	97,872	17,136	**115,008**
2008	97,872	12,852	**110,724**
2009	74,868	-	**74,868**
	$ 481,781	$ 47,124	**$ 528,905**

14. Commitments and contingencies (continued)

(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 commission 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) There is a claim outstanding whereby a party (“the Plaintiff”) commenced an action against the Company, DMSU and other parties for damages for breach of contract and/or confidence in the amount of $10,000,000. Management of the Company believes that the claims are without merit and is defending the action. The Company has cross claimed against two of the parties to the claim for indemnity.

No amount has been recorded in the financial statements with respect to potential losses relating to the claim identified above. A loss, should one occur, will be charged to operations in the year in which such loss is determined.

(c) DMSU participated in the Healthcare Insurance Reciprocal of Canada ("HIROC") until March 2, 2006. 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 each period in which they were members. No assessments were made during the period in which DMSU was a member.

15. 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 three reportable operating segments, Work Able, DMSU, and Direct.

15. Segmented reporting (continued)

For the year ending December 31, 2005

	Work Able	DMSU	Direct	Corporate	**Total**
Revenue	$ 5,446,951	$ 1,796,659	$ 2,177,378	$ -	**$ 9,420,988**
Direct costs	4,793,367	1,868,626	1,968,179	-	**8,630,172**
General and administrative	-	-	-	919,588	**919,588**
Stock based compensation	-	-	-	122,000	**122,000**
Amortization	228,067	80,769	1,445	-	**310,281**
Net (loss) income before income taxes	$ 425,517	(152,736)	207,754	(1,041,588)	**(561,053)**
Total assets	$ 1,562,113	$ 1,423,032	$ 728,278	$ 623,188	**$ 4,336,611**

For the year ending December 31, 2004

	Work Able	DMSU	Direct	Corporate	Total
Revenue	$ 6,626,291	$ 516,086	$ -	$ -	$ 7,142,377
Direct costs	4,747,529	563,769	-	-	5,311,298
General and administrative	-	-	-	827,005	827,005
Stock-based compensation	-	-	-	278,300	278,300
Interest	37,174	-	-	8,322	45,496
Amortization	217,788	28,684	-	-	246,472
Net (loss) income before income taxes	1,623,800	(76,367)	-	(1,113,627)	433,806
Total assets	$ 2,141,294	$ 1,600,085	$ -	$ 179,933	$ 3,921,312

16. Comparative consolidated financial statements

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2005 consolidated financial statements.