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 April, 2007 provides an overview of the consolidated financial condition and results of operations of Alegro Health Corp. ["Alegro", "we", "our", or the "Company"] for the three months ended December 31, 2006. 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 period ended December 31, 2006 and 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.

Highlights in the Period Ended December 31, 2006 and subsequent events to the date of this MD&A

Regulatory changes affecting the medical assessment market in Ontario that had been in process for a period of time were finally fully implemented during March 2006, introducing a tort based system that eliminated the previously existing system of Designated Assessment Centers. Medical assessments continue to be required under the new tort based regulatory system and the Company has achieved preferred provider status with several of Canada's large insurance companies in order to position itself for renewed growth as the medical assessment market uncertainty declines during fiscal 2006. During the second quarter of this fiscal year, the Company announced the formation of a Catastrophic Injury Assessment Division to service expected growth in this area of the Company's business. During the three and twelve month periods ended December 31, 2006, the Company's disability management centres experienced increased volumes in catastrophic injury assessments compared to the same period in the prior year. However, given the limited time frame that the new regulatory environment has been in place, there remains uncertainty as to whether these improved volumes will continue in future reporting periods. During the three months ended December 31, 2006, the Company's surgical unit, Don Mills Surgical Unit Limited ("DMSU"), generated improved revenues and operating results compared to the same period in the prior year as a result of prostate treatments that it commenced offering in the second quarter of 2005.

Overall Performance in the Three Months Ended December 31, 2006

	For three months ended	
	December 31, 2006	December 31, 2005
Revenue	$ 3,281,071	$ 3,526,961
Direct & Operating Costs	3,537,102	3,591,840
Net Income (loss)	($ 292,030)	($ 64,879)
Per Share	$ 0.00	$ 0.00
Per Share Diluted	$ 0.00	$ 0.00
Total Assets	$ 4,302,914	$ 4,336,611

Direct comparisons between Q4 2005 and Q4 2006 are limited. The decrease in Q4 2006 revenue as compared to Q4 2005 is primarily related to WSIB accrual of $366K made at 2005 year end for Direct Health. An increase in catastrophic injury assessment revenue in 2006 compared to the same period in the prior year at the Company's Work Able Centres Inc. ("Work Able") subsidiary and an increased volume of prostate treatments in 2006 performed by DMSU offset the decrease in 2006 revenue at Direct Health with the closure of the WSIB contract.

The Loss in Q4 2006 is mainly due to Legal fees and Stock based Compensation which recorded in Q4 2006, also an increased level of corporate expenses compared to the same period in the prior year.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

	For twelve months ended	
	December 31, 2006	December 31, 2005
Revenue	$ 12,321,116	$ 9,420,988
Direct & Operating Costs	12,040,989	9,982,041
Net Income (loss)	$ 280,127	$ (561,053)
Per Share	$ 0.00	$ (0.01)
Per Share Diluted	$ 0.00	$ (0.01)
Total Assets	$ 4,302,914	$ 4,336,611

Revenue
Consolidated revenue for the twelve months ended December 31, 2006 increased by $2.9 millions as follows:

Work Able
Work Able disability management services generated $1,145K over last year's results mainly due to the increased volumes of catastrophic injury assessments. As a result of steps taken, such as securing preferred service provider relationship with several of Canada's largest insurance providers, and the formation of a new Catastrophic Injury Assessment Division in anticipation of regulatory changes that eliminated Designated Assessment Centers in March 2006.

Direct
Direct Health, despite losing WSIB contract, generated more revenue over last year by $448K, primarily from services provided to insurance companies in Ontario and Eastern Canada.

DMSU
DMSU improved revenue and operating results by $1,307K over last year's revenue. The increase was attributable to increased pricing and volume of prostate cancer treatments that DMSU compared to the same period in fiscal 2005.

Expenses
Consolidated Direct Cost for the year ended December 31, 2006 was $10,552K over consolidated expenses in the same period in 2005 of $1,937K. The increase resulted primarily from prostate cancer treatments costs at DMSU.

Amortization Expense
Amortization expense amounted to $272,168 for the year ended December 31, 2006, compared to amortization expense of $310,281 recorded in the year of 2005, decrease of $38,113.

Share Capital

As at December 31, 2006 and December 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, 2006, there were a total of 2,561,111 options outstanding to purchase an equivalent number of common shares at an average exercise price of $0.30, expiring at various dates until 2011. Warrants to purchase 3,901,000 common shares at an exercise price of $0.30 per common share expired on August 5, 2006. An additional 800,000 broker warrants priced at $0.25 each also expired August 5, 2006 as did each full warrant obtained on the exercise of the broker warrants. During the year ended December 31, 2005, 99,000 warrants were exercised at a price of $0.30 per common share. No warrants were exercised during fiscal 2006, prior to their expiry.

Transactions with Related Parties

The Company's related parties are as follows:

[i] For the year ended December 31, 2006 and 2005, the Company incurred management fees of $255,417 and $261,000 respectively. The management services were provided by Brenras Holdings Inc. and The Disability Management Group Inc. [‘DMG’], wholly owned corporations controlled by Ms. Rasmussen, a shareholder and director of the Company. As at December 31, 2006, DMG owed the Company $40,000. This amount is non-interest bearing.

[ii] Real World Simulations Systems Inc. ["Real World"] provided $76,740 in web design, advertising and publication services to the Company for each of the periods ended December 31, 2006 and 2005. Real World is wholly owned by a related party to Ms. Rasmussen, a shareholder and director of the Company.

Accounting Policies

Critical Accounting Estimates

The preparation of financial statements requires the Company to estimate the effect of various matters that are inherently uncertain as of the date of the financial statements. Each of these required estimates varies in regard to the level of judgment involved and its potential impact on the Company’s reported financial results. Estimates are deemed critical when a different estimate could have reasonably been used or where changes in the estimate are reasonably likely to occur from period to period, and would materially impact the Company’s financial condition, changes in financial condition or results of operations.

Recently Adopted Accounting Policies

There were no changes in accounting policies for the year ended December 31, 2006.

Alegro Health Corp.

Consolidated Financial Statements

December 31, 2006 and 2005

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December 31, 2006 and 2005

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Auditors' Report

To the Shareholders of
Alegro Health Corp.

We have audited the consolidated balance sheet of Alegro Health Corp. as at December 31, 2006 and the consolidated statement of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 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, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2005 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated April 21, 2006.

Signed: ***"Moore Stephens Cooper Molyneux LLP"***

Chartered Accountants

Toronto, Ontario
March 12, 2007

Consolidated Balance Sheets
December 31, 2006 and 2005

	2006	2005
Assets		
Current assets		
Cash	**$ 550,400**	$ 565,723
Accounts receivable	**1,556,816**	1,135,156
Accrued receivables	**292,764**	535,066
Prepaid expenses	**46,508**	33,152
Future income taxes *(note 8)*	**19,844**	55,765
	2,466,332	2,324,862
Due from related party *(note 4)*	**40,000**	40,000
Property and equipment *(note 5)*	**537,298**	707,447
Goodwill *(note 6)*	**46,863**	46,863
Intangible asset *(note 7)*	**1,146,815**	1,146,815
Future income taxes *(note 8)*	**65,606**	70,624
	$ 4,302,914	$ 4,336,611
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 1,788,884**	$ 2,056,886
Income taxes payable	**160,070**	39,733
	1,948,954	2,096,619
Shareholders' equity		
Share capital *(note 9)*	**1,833,497**	1,833,497
Contributed surplus *(note 10)*	**967,133**	902,633
Deficit	**(446,670)**	(496,138)
	2,353,960	2,239,992
	$ 4,302,914	$ 4,336,611

Commitments and contingencies *(note 15)*

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board

Signed: ***"G. Sharpe"***

Gilbert Sharpe, Director

Signed: ***"B. Rasmussen"***

Brenda Rasmussen, Director

Consolidated Statements of Operations and Deficit
for the years ended December 31, 2006 and 2005

	2006	2005
Revenue	**$ 12,321,116**	$ 9,420,988
Expenses		
Direct costs	**10,552,912**	8,615,823
General and administrative *(note 4)*	**1,151,409**	933,937
Stock-based compensation *(note 11)*	**64,500**	122,000
Amortization	**272,168**	310,281
	12,040,989	9,982,041
Income (loss) before provision for (recovery of) income taxes	**280,127**	(561,053)
Provision for (recovery of) income taxes - current *(note 8)*	**189,720**	(163,536)
- future	**40,939**	(49,429)
Net income (loss) for the years	**49,468**	(348,088)
Deficit, beginning of year	**(496,138)**	(148,050)
Deficit, end of year	**$ (446,670)**	$ (496,138)
Basic and diluted income (loss) per common share *(note 9)*	**$ 0.00**	$ (0.01)

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows
for the years ended December 31, 2006

	2006	2005
Cash flow from operating activities		
Net income (loss) for the years	**$ 49,468**	$ (348,088)
Items not affecting cash		
Amortization	**272,168**	310,281
Future income taxes	**40,939**	(49,429)
Stock-based compensation	**64,500**	122,000
	427,075	34,764
Changes in non-cash working capital items		
Accounts receivable	**(421,660)**	(243,908)
Accrued receivables	**242,302**	(337,616)
Prepaid expenses	**(13,356)**	3,015
Accounts payable and accrued liabilities	**(268,002)**	775,228
Income taxes payable	**120,337**	(163,541)
	86,696	67,942
Cash flow from investing activities		
Purchase of property and equipment	**(102,019)**	(81,878)
Acquisition, net of cash acquired *(note 6)*	**-**	(65,765)
	(102,019)	(147,643)
Cash flow from financing activities		
Proceeds from issuance of capital stock	**-**	29,700
Decrease in cash	**(15,323)**	(50,001)
Cash, beginning of year	**565,723**	615,724
Cash, end of year	**$ 550,400**	$ 565,723
Supplemental cash flow information:		
Interest paid	**$ -**	$ -
Income taxes paid	**$ 69,383**	$ -

The accompanying notes are an integral part of these consolidated financial statements.

1. Business of the Company

Alegro Health Corp. ("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

Basis of presentation

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principals ("GAAP") and reflect the following policies:

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its 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 significant intercompany accounts and transactions have been eliminated.

Property and equipment

Property and equipment are recorded at cost. Amortization is provided annually on bases designed to amortize the costs of the assets over their expected 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

Impairment of long-lived assets

The Company reviews long-lived assets such as property and equipment 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 and intangible asset

Goodwill represents the excess of the costs of an acquired business over the fair value of the underlying tangible and intangible net assets acquired. The Company's private hospital licence is an intangible asset with an indefinite life. In accordance with the requirements of CICA handbook section 3062, Goodwill and Other Intangible Assets, the Company does not amortize goodwill or the indefinite-life licence but subjects them to an annual impairment test, or earlier, when circumstances indicate an impairment may exist.

2. Significant Accounting Policies - continued

Goodwill and intangible asset - continued

The need for any write-down of the goodwill and licence due to an impairment in their value is based on the assessment of the fair value of their respective reporting units. The Company estimates the fair value of a reporting unit on a discounted cash flow basis which is then compared to its carrying value. Impairment losses are recorded when the carrying amount of the goodwill and licence exceed their implied fair values. Any write-down of the goodwill and licence arising from an impairment in value is recorded in the period in which the impairment is identified as a charge to earnings.

Management has determined, using the above noted valuation method, that there was no impairment to goodwill or the intangible asset at December 31, 2006 or 2005.

Revenue recognition

Revenue for independent medical assessments is recognized when services 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.

Revenue from patient services is recorded at the time when the services are performed. Patient services paid in advance are recorded as deferred revenue and recognized as revenue once the procedure has been performed.

The Company 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.

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 tax 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.

2. Significant Accounting Policies - continued

Employee benefit plans

The Company 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.

Stock-based compensation

The Company has a stock option plan for directors, officers, employees and consultants as described in Note 11. Under the fair value based method, compensation expense for stock options is measured at fair value at the date of 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 it 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 are 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 are 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.

Earnings per share

Earnings per share are calculated based on the 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 the stock options is determined using the treasury stock method.

2. Significant Accounting Policies - continued

Measurement uncertainty

The preparation of financial statements in conformity 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 date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Future Changes in Accounting Policies

Financial Instruments - Recognition and Measurement

In January 2005, the CICA released new Handbook Section 3855, "Financial Instruments - Recognition and Measurement", effective for annual and interim periods beginning on or after October 1, 2006. This new section prescribes when a financial instrument is to be recognized on the balance sheet and at what amount, sometimes using fair value and other times using cost-based measures. It also specifies how financial instrument gains and losses are to be presented and defines financial instruments to include accounts receivable and payable, loans, investments in debt and equity securities, and derivative contracts. The Corporation is prepared to adopt this standard on January 1, 2007.

Comprehensive Income and Equity

In January 2005, the CICA released new Handbook Section 1530, "Comprehensive Income", and Section 3251, "Equity", effective for annual and interim periods beginning on or after October 1, 2006. Section 1530 establishes standards for reporting comprehensive income. This section does not address issues of recognition or measurement for comprehensive income and its components. Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements in this section are in addition to Section 1530. The Corporation is prepared to adopt these standards on January 1, 2007.

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 Disability Management provided management services to the Company during the years ended December 31, 2006 and 2005.

(ii) Real World Simulations Systems Inc. ("Real World") is wholly-owned by an individual related 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, 2006 and 2005.

(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, 2006 and 2005.

4. Related Party Transactions - continued

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

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

	2006	2005
Amount due from related party:		
Disability Management	**$ 40,000**	$ 40,000
General and administrative expenses:		
Real World	**$ 76,740**	$ 72,000
Brenras	**183,417**	195,000
Disability Management	**72,000**	66,000
Osborne Group	**2,607**	15,000
	$ 334,764	$ 348,000

The amount due from related party is non-interest bearing.

5. Property and Equipment

			2006
	Cost	**Accumulated Amortization**	**Net Book Value**
Office furniture, fixtures and equipment	**$ 424,659**	**$ 405,124**	**$ 19,535**
Work simulation and facility equipment	**1,262,339**	**1,148,564**	**113,775**
Computer equipment and software	**745,567**	**563,491**	**182,076**
Medical equipment	**410,576**	**188,664**	**221,912**
	$ 2,843,141	**$ 2,305,843**	**$ 537,298**

5. Property and Equipment - continued

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

6. Acquisition

On August 18, 2005, Direct acquired certain assets and contracts of the Canadian division of Concentra Integrated Services of Burlington, Massachusetts.

The results of Direct have been included since the date of acquisition. The details of the identifiable net assets acquired are as follows:

Current assets	$ 6,875
Equipment	12,026
Intangibles	1
Goodwill	46,863
Cash consideration	$ 65,765

7. Intangible Asset

On August 6, 2004, the Company acquired a controlling financial interest in DMSU. The private hospital licence held by DMSU was recognized as an intangible asset with an indefinite life. The value allocated to the licence acquired was $1,146,815.

8. Income Taxes

Total provision for income taxes varies from the amounts that would be computed by applying the statutory income tax rate of approximately 36% to income before income taxes as follows:

	2006	2005
Income (loss) before income taxes	**$ 280,127**	$ (561,053)
Expected income tax expense (recovery) based on statutory tax rate	**$ 100,846**	$ (201,979)
Increase (decrease) resulting from:		
Non-deductible expense for stock-based compensation	**23,297**	43,920
Other expenses not deductible for income tax purposes	**43,059**	16,473
Tax benefit of prior year losses utilized	**(50,888)**	-
Prior year reassessments	**73,406**	-
Other	**-**	(21,950)
Provision for income taxes (recovery)	**$ 189,720**	$ (163,536)

The Company has non-capital losses available to offset future income for tax purposes of approximately $47,000 which expire in 2014.

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:

	2006	2005
Future income tax asset (liability)		
Capital assets	**$ (123,364)**	$ (121,516)
Non-capital losses carried forward	**17,069**	59,565
Financing costs	**39,688**	59,533
Accrued liabilities deductible when paid	**152,057**	128,807
Future tax assets	**$ 85,450**	$ 126,389
Current	**$ 19,844**	$ 55,765
Long-term	**$ 65,606**	$ 70,624

9. 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, 2004	25,175,762	$ 1,803,797
Shares issued in private placement (i)	99,000	29,700
Issued and outstanding, December 31, 2005 and 2006	25,274,762	$ 1,833,497

(i) During 2005, 99,000 common share purchase warrants were exercised for proceeds of $29,700.

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. Diluted earnings per share, for both years presented, were calculated using the weighted average number of common shares outstanding during each year as follows:

	2006	2005
Basic weighted average number of common shares outstanding	**25,274,762**	25,246,072
Dilutive effect of stock options	**79,365**	1,175,334
Diluted weighted average number of common shares outstanding	**25,354,127**	26,421,406

10. 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, 2004	**$ 780,633**
2005 Stock options *(note 11)*	**122,000**
Balance, December 31, 2005	**902,633**
2006 Stock options *(note 11)*	**64,500**
Balance, December 31, 2006	**$ 967,133**

11. 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 the options granted may not exceed 10% of the issued shares of the Company at the time of granting the option. 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:

	2006		2005	
	Number of Options	**Weighted-Average Exercise Price**	Number of Options	Weighted-Average Exercise Price
Outstanding, beginning	**2,111,111**	**$ 0.32**	1,611,111	$ 0.30
Granted (i) and (ii)	**450,000**	**0.21**	500,000	0.37
Outstanding, ending	**2,561,111**	**$ 0.30**	2,111,111	$ 0.32

(i) On November 15, 2006, the Company granted 450,000 stock options to a consultant and two directors of the Company to purchase an equivalent number of common shares at an exercise price of $0.21 per share. The stock options vested immediately on granting and will expire five years from the date of issue.

(ii) On May 16, 2005, the Company 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.

The weighted-average remaining contractual life and weighted-average exercise price of options outstanding and of options exercisable as at December 31, 2006 are as follows:

	Options Outstanding			**Options Exercisable**	
Range of Exercise Prices	**Number Outstanding**	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Life (years)**	**Number Exercisable**	**Weighted-Average Exercise Price**
$0.15-$0.20	361,111	$ 0.160	0.62	361,111	$ 0.160
$0.21-$0.37	2,100,000	$ 0.310	3.25	2,100,000	$ 0.310
$0.45	100,000	$ 0.450	2.60	100,000	$ 0.450
	2,561,111	$ 0.300	2.85	2,561,111	$ 0.300

11. 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:

	$ **2006**	$ 2005
Risk free interest rate	**3.89%**	3.46%
Expected stock volatility	**83%**	80%
Expected life	**5 years**	5 years
Dividend yield	**NIL**	NIL

The fair value for the 2006 and 2005 stock options of $64,500 and $122,000, 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 2006 and 2005, respectively.

12. Share Purchase Warrants

During the years ended December 31, 2006 and 2005, share purchase warrants were exercised and expired as follows:

	Number of Warrants	**Price/Warrant**	**Expiry Date**
Balance, December 31, 2004	4,800,000	$0.25-$0.30	August 5, 2006
Warrants exercised	(99,000)		
Balance, December 31, 2005	4,701,000		
Warrants expired	4,701,000		
Balance, December 31, 2006	-		

13. Bank Indebtedness and Bank Loans

In 2004, the Company 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 bore interest at prime plus 1.25% per annum with interest paid monthly. The credit facilities were collateralized by a general security agreement on the Company's assets and a guarantee and postponement of claim from Work Able. During the year, the Company had not drawn on and had no amounts available under these credit facilities and as a result the arrangements were terminated.

Subsequent to year end, the Company obtained a new operating credit facility (see note 19).

14. Employee Benefit Plans

Certain DMSU employees are members of HOOPP, which is a multi-employer, defined benefit pension plan. The Company, as an employer of HOOPP members, is required to make monthly contributions based on a percentage of qualifying salaries. Contributions made to HOOPP during the year ending December 31, 2006 amounted to $40,845 (2005 - $34,103).

15. Commitments and Contingencies

Commitments

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

	Premises	Equipment	Total
2007	$ 802,797	$ 29,601	**$ 832,398**
2008	842,808	28,528	**871,336**
2009	423,471	13,320	**436,791**
2010	345,036	6,972	**352,008**
	$ 2,414,112	$ 78,421	**$ 2,492,533**

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) On January 4, 2007, immediately subsequent to year end, a former employee of the Company commenced an action for wrongful dismissal in the Ontario Superior Court of justice in the amount of $87,000. The Company served it's statement of defence on February 9, 2007. Management and legal council feel that this is a frivolous and overstated claim.

The Company further remains of the view that the resolutions of all litigation should not have a significant negative impact on the Company's financial position or results of operations.

16. Financial Instruments

The Companies financial instruments consist of cash, accounts receivable, accrued receivables, due from related parties, and accounts payable and accrued liabilities.

Fair value

Due to their short term maturities, 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.

17. Segmented Reporting

The operations of the Company and its consolidated subsidiaries are comprised of four reportable operating segments, Work Able, DMSU, Direct, and Corporate.

The Company's reportable segments are strategic business units that offer different products and services, with the exception of Corporate. Corporate provides support to the three reporting segments, and manages the Company's public reporting and compliance activities.

For the year ending December 31, 2006:

	Work Able	DMSU	Direct	Corporate	Total
Revenue	$ 6,591,530	$ 3,103,743	$ 2,625,843	$ -	**$ 12,321,116**
Direct costs	5,440,560	2,785,017	2,327,335	-	**10,552,912**
General and administrative	251,410	-	-	899,999	**1,151,409**
Stock based compensation	-	-	-	64,500	**64,500**
Amortization	185,461	80,290	6,417	-	**272,168**
Net (loss) income before income taxes	$ 714,099	$ 238,436	$ 292,091	$ (964,499)	**$ 280,127**
Total assets	$ 1,743,532	$ 1,652,930	$ 624,225	$ 282,227	**$ 4,302,914**

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	4,744,140	1,868,626	2,003,057	-	8,615,823
General and administrative	584,773	-	-	349,164	933,937
Stock based compensation	-	-	-	122,000	122,000
Amortization	228,067	80,769	1,445	-	310,281
Net (loss) income before income taxes	$ (110,029)	$ (152,736)	$ 172,876	$ (471,164)	$ (561,053)
Total assets	$ 1,408,479	$ 1,504,536	$ 738,209	$ 685,387	$ 4,336,611

18. Comparative Consolidated Financial Statements

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2006 consolidated financial statements.

19. Subsequent Event

In January 2007, the Company obtained a demand operating credit facility to a maximum of $1,000,000, including letters of guarantee to a maximum of $250,000. Interest on the borrowing options available are at prime plus 0.5% and 2% per annum, respectively. The credit facilities are collateralized by a general security agreement on the Company's assets and an unlimited guarantee of advances from certain subsidiaries ("guarantors") supported by a general security agreement against each guarantors' assets.