ALEGRO HEALTH CORP.

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

The following management discussion and analysis ("MD&A") dated this 14th day of April, 2008 provides an overview of the consolidated financial condition and results of operations of Alegro Health Corp. ("Alegro", "we", "our", or the "Company") for the quarter and year ended December 31, 2007. This discussion and analysis should be read in conjunction with the information from the audited consolidated financial statements of the Company and related notes thereto for the period ended December 31, 2007 and for the year ended December 31, 2006.

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

Certain statements in this MD&A constitute forward-looking statements within the meaning of applicable securities laws. Forward-looking statements include, but are not limited to, statements made under the headings *"Business Outlook and Subsequent Events"* and "*Risks and Uncertainties"* and other statements concerning the Company's 2008 objectives, strategies to achieve those objectives, as well as statements with respect to management's beliefs, plans, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "should", "plans" or "continue", or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those contemplated by such statements. Factors that could cause such differences include the highly competitive nature of the Company's industry, government regulation and funding and other such risk factors described from time to time in the reports and disclosure documents filed by the Company with Canadian securities regulatory agencies and commissions. This list is not exhaustive of the factors that may impact the Company's forward-looking statements. These and other factors should be considered carefully and readers should not place undue reliance on the Company's forward-looking statements. As a result of the foregoing and other factors, no assurance can be given as to any such future results, levels of activity or achievements and neither the Company nor any other person assumes responsibility for the accuracy and completeness of these forward looking statements. The factors underlying current expectations are dynamic and subject to change. Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Certain statements included in this MD&A may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this MD&A. All forward-looking statements in this MD&A are qualified by these cautionary statements. Except as required by applicable law, the Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

This MD&A shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the securities described herein in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to qualification or registration under applicable securities laws of any such jurisdiction.

Highlights for the Quarter Ended and Year Ended December 31, 2007

The financial year highlights were as follows:

- Record increase in profitability for the Company with the consolidated net income before taxation in excess of $1 million being achieved
- Earnings Per Share growth from 0.2 cents to 2.67 cents
- Revenues increased in excess of 15% in an extremely competitive and ever-changing environment

- A strengthening of the company's balance sheet with cash on hand in excess of $4 million
- The introduction of Global Healthcare Investments & Solutions, Inc. ("GHIS") as a strategic partner.

A continued focus on development of the Company's core business activities has driven revenue and income increases in 2007. In addition, management has successfully implemented cost containment across the divisions as well as in certain areas of head office expenditures resulting in improved net income percentages.

As mentioned in the Company Overview below, Alegro received total proceeds of $2,250,000 via a private placement and exercise of its "A" warrants. In addition, the Company established Alegro Health Partners Inc. ("AHP"), a subsidiary of the company, with funding by GHIS Capital, Inc. ("GHIS Capital") of $750,000 to spearhead acquisitions and business development outside of the existing Alegro businesses.

The Company continued to generate increased revenues and net income in the final quarter of 2007 as compared to the same period in 2006 as follows:

- Revenue increased 27.9% to $4,196,000;
- Earnings per share increased by 143.9% to 0.51 cents; and
- An increase in net income to $160,332 from a loss in the prior year's comparable quarter (2006: (292,030)).

Final quarter results were achieved through cost containment activities as well as improved volumes in the independent assessment areas of the business.

Company Overview

Alegro and its subsidiaries (collectively "the Group") are leading providers of medical and surgical services, medical assessment, multidisciplinary rehabilitation, case management and drug trial administration services to an extensive and diverse customer base. Alegro's current operational subsidiary holdings include AHP, Work Able Centres Inc. ("Work Able"), Direct Health Solutions Inc. ("Direct Health"), Don Mills Surgical Unit ("DMSU") and CanAm Research Corp. ("CanAm").

In 2003, Alegro acquired 100% of the outstanding common shares of Work Able in a reverse takeover transaction.

In 2004, the Company entered into a 25 year management services contract covering all aspects of the operations of DMSU. Shortly thereafter the management services contract was cancelled with the simultaneous acquisition of all the outstanding shares of DMSU.

In late 2005, through Direct Health, the Company completed the acquisition of certain assets and contracts of the Canadian division of Concentra Integrated Services of Burlington, Massachusetts. This transaction increased the scope of Alegro's disability and case management operations in Ontario and Atlantic Canada.

On May 23, 2007, Alegro entered into an agreement with Cincero Inc. ("Cincero") to form a clinical site management division operating as CanAm. Alegro holds 60% of CanAm with Cincero holding the remainder of the common shares.

On July 13, 2007 Alegro concluded a significant strategic alliance with GHIS as detailed in news releases of May and July, 2007. GHIS has committed to assist Alegro in achieving its goal of rapid expansion and significant growth. Under the terms of the strategic alliance, GHIS provides both corporate finance expertise and M&A advisory services to Alegro.

On the same date, as part of the strategic alliance, the Company completed a private placement of 6,250,000 units at a price of $0.20 for gross proceeds of $1,250,000. The proceeds of the private placement will primarily be applied to the expansion and improvement of Alegro. GHIS Capital invested $750,000 into AHP for its establishment and expansion, by way of convertible debentures due December 31, 2011 and bearing interest at 7% per annum. The debentures may be converted by GHIS Capital within three months before the maturity date and by AHP at the maturity date, into such number of common shares of AHP as would give GHIS Capital 25% of the issued and outstanding common shares of AHP. In the event of default, GHIS Capital may convert the debentures into such number of common shares of AHP as would give the holder 70% of the issued and outstanding shares of AHP. Neither the debentures nor the shares of AHP are convertible into or exchangeable for common shares or other securities of Alegro.

As part of the above mentioned transactions, the units included series “A” warrants entitling the holders to acquire 5,000,000 common shares in Alegro at $0.20 per share prior to December 31, 2007 as well as series “B” warrants entitling them to acquire 1,250,000 common shares in Alegro at $0.43 per share prior to December 31, 2008.

On December 31 2007, GHIS indicated their further commitment to the Company by exercising their “A” series warrants for gross proceeds of $1,000,000.

Subsidiary Overview

The operational subsidiaries have the following principal functions:

(i) *Work Able and Direct Health*

Alegro’s Disability Management Division (the “Division”) includes Work Able and Direct Health. These have been combined for reporting purposes due to the similar foci of the businesses.

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

Work Able has positioned itself as a premier provider of disability management services. Work Able pioneered the use of work simulated facilities in Canada to support functional recovery and promote return to work and over the past three years has created a formidable catastrophic injury assessment division. Work Able presently has four facilities currently occupying a total of 28,795 square feet of leased space in Toronto, Barrie and Mississauga, Ontario as well as Halifax, Nova Scotia. The facilities are equipped with state of the art assessment, rehabilitation and work simulation tools and systems.

Direct Health provides medical assessment and rehabilitation services to the insurance industry and employers primarily in Ontario and Eastern Canada. It maintains leased offices in Halifax, Nova Scotia, Fredericton, New Brunswick and Toronto, Ontario. Direct Health will continue to provide vocational assessment and rehabilitation services and expand its client base of insurance, corporate and government entities in its current localities.

Work Able and Direct Health employ approximately 300 full-time staff and consultants including physicians from across a number of speciality practice areas, psychologists, occupational health nurses, physiotherapists, occupational therapists, cognitive behavioural therapists, kinesiologists and vocational evaluators.

(ii) *DMSU*

DMSU is an accredited, Toronto-based hospital operated since 1966 under Ontario’s Private Hospitals Act and licensed by the Ontario Ministry of Health and Long-Term Care (“MOH”).

As at December 31 2007, DMSU specialised in a mix of ambulatory surgical services including:

- Ophthalmology – cataract extraction and lens implants
- Orthopaedics – arthroscopic procedures on knees, rotator cuff repair and forefoot reconstruction
- Plastic Surgery – reconstructive and cosmetic surgeries
- Ablatherm© prostrate cancer treatments.

Affiliated surgeons maintain active practices within their specialty areas and are members of the Royal College of Physicians and Surgeons. DMSU provides services from a 7,381 square foot Toronto-based facility that includes two fully equipped operating theatres, one procedure room, 20 overnight stay beds, a central nursing station and physicians` offices. DMSU retains full-time, part-time and casual nursing and administrative staff of 21 people.

DMSU services are funded in three ways:

- Government – money received from the MOH as part of global funding to perform surgical procedures covered by the Ontario Health Insurance Plan ("OHIP")
- Third party – surgical procedures and services paid for by corporations that do not fall under the Canada Health Act, such as Workers Compensation Board
- Direct pay – surgical procedures and services not covered by OHIP and paid for by Ontario residents and surgical procedures and services paid for by residents of national and international jurisdictions.

(iii) *CanAm*

CanAm offers Phase I through Phase IV site management services to the pharmaceutical industry, with emphasis on the comprehensive, pre-approval Phase III trials. Having been established during the course of the financial year, the venture is in its infancy and is currently funded from existing cash flow from Group operations.

Financial Results

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

	For twelve months ended	
In dollars	December 31, 2007	December 31, 2006
Revenue	14,251,045	12,321,116
Expenses	13,176,119	12,040,989
Net Income before income taxes	1,074,926	280,127
Earnings Per Share (cents)	2.67	0.20
Diluted Earnings Per Share (cents)	2.62	0.20
Total Assets	8,654,737	4,302,914

(i) Overall performance

The current year has been extremely successful for the Group. Profitability and earnings per share have grown exponentially in very competitive market conditions over the prior year as follows:

- Revenue has increased by in excess of 15% to $14,251,045 from $12,321,116 in the prior year
- Expense to revenue ratios have fallen from 98% to 92%
- Net Income before income taxes increased by in excess of 280% to $1,074,926 from $280,127 in 2006.

The balance sheet has strengthened as a result of the improved performance as well as the issue of shares and is debt free. The net asset value per share grew by 58% to 14.69 cents from 9.31 cents in 2006.

Cashflow from operations increased to $915,891 from $86,696 in 2006, driven by the improved performance and better working capital management.

(ii) ***Revenue***

Consolidated revenue for the year ended December 31, 2007 increased by approximately $1.9 million to $14,251,045 from $12,321,116 in the prior year as follows:

(a) *Disability Management*

While operating as distinct business units given market purchasing preferences and unique mandates, the Division continued its organic and synergistic growth in the Canadian disability management sector.

The Division recorded a 19% increase to $11,008,992 from $9,216,533 when compared to the Division's 2006 revenue through maintaining and increasing market share in the various areas of business. Total number of files serviced across the Division increased by 50% in 2007 as compared to 2006. Despite fee capitations and a change in industry purchasing preferences resulting in a shift in business mix, the Division maintained a solid average file value across business units.

In 2007, Work Able provided facility-based medical assessment and multidisciplinary rehabilitation and return-to-work services to over 3,300 individuals in Ontario and Nova Scotia. Direct Health extended Alegro's disability management service capacity through the provision of community based medical and vocational assessment and rehabilitation services to over 2,200 individuals across Canada. The business units maintained and expanded their national roster of highly qualified regulated health professional and disability management experts across disciplines in response to the increased demand for disability management services.

The Division's revenue continued to be distributed across its traditional customer base of, *inter alia*, automobile insurers, workers' compensation boards, disability insurers and public and private employers as follows:

- 83% of revenue through medical and multidisciplinary assessment services secured under preferred provider and service agreements
- 11% of revenue from multidisciplinary treatment and return to work programming
- 6% of revenue through vocational assessment and rehabilitation.

The 2007 revenue growth is attributed to:

- Effective divisional marketing and customer service strategies that promoted new and repeat business relationships
- Successful competitive tendering and business presentations that extended the number and scope of divisional preferred provider arrangements and service agreements
- Expanded geographic coverage and medical assessor affiliations that extended the Division's market presence and service capacity in Central and Atlantic Canada
- Focus on specialized assessment and treatment services including catastrophic and complex injury assessment and chronic pain programming
- Commitment to the highest quality clinical and administrative services through investments in qualified and experienced personnel
- Strategic business partnerships and synergies.

(b) *DMSU*

DMSU improved revenue by $116,883 over last year to $3,220,626. The increase was attributable to marginal increases in the volume associated with private pay treatments.

The global funding from MOH remained static over the prior year.

(c) *CanAm and AHP*

CanAm did not generate any revenue in the current year and management is confident that the initiatives currently underway will be realized in the 2008 financial year.

AHP provided minimal interest income to the Group from the cash injection of $750,000 via debentures.

(iii) ***Expenses***

Consolidated costs for the year grew by $1,135,130 over last year's consolidated expenses to $13,176,119. In addition to the divisional analysis of expenditure increases below, head office increases were due to increases in consulting fees, legal expenses and stock based compensation charges.

(a) *Disability Management*

The Division's cost reduced from 83% of revenue in the prior year to 76% of revenue. This is significant given the increase in administrative overhead associated with preferred provider requirements, increased administrative and clinical rate pressures and the opening of a new Work Able Centre in Halifax. In addition, it indicates the efficiencies gained in the increased volumes through the Division.

Cost control targets were achieved through:

- Introduction of new business process and information system efficiencies
- Stability in occupancy, lease and general and administrative overhead
- Rigorous risk management systems
- A dynamic human resource model that maximized shared staffing allocation across the Division.

(b) *DMSU*

Costs increased markedly over the prior year in line with the increased activity in the hospital activity and customary inflationary increases.

(c) *CanAm and AHP*

CanAm had minimal disbursements in the current year which related mainly to salaries.

Although the debentures in AHP attracted interest, on consolidation the interest paid was set off against the minority interests in line with the accounting treatment of the debentures as further explained under the Balance Sheet below.

Amortization Expense

Amortization expense amounted to $284,384 for the current year as compared to $272,168 recorded in the 2006 year.

Balance sheet

With respect to liquidity, the solid cash generated by operations and the implementation of the transaction with GHIS and GHIS Capital, has resulted in the Company cash resources being in excess of $4 million. These cash proceeds will be required for improvements to operating capacity, business development activities and future investments. Management believes that the cash generated by existing operations will be sufficient in the short to medium term for existing general corporate expenditures and working capital purposes.

The improvement in liquidity mentioned above, together with the improved business activity, has resulted in an improved current ratio to 2.55 times (2006: 1.27 times).

Deferred financing charges relate to expenditures incurred in connection with the strategic development of the Group and particularly the investigation of expansion opportunities and the raising of capital, which are expected to be finalized in the future.

The convertible debenture provided by GHIS Capital into AHP has been reflected in minority interests as a result of being classified as equity due to the conversion option available to both GHIS Capital as well as Alegro. For the current period, $26,250 of the interest paid on the convertible debenture has been treated as a distribution of equity and a reduction of minority interest.

Overall Performance in the Three Months Ended December 31, 2007

	For three months ended	
In dollars	December 31, 2007	December 31, 2006
Revenue	4,196,000	3,281,071
Expenses	4,035,668	3,537,102
Net Income (loss) before income taxes	160,332	(292,030)
Earnings (loss) Per Share (cents)	0.51	(1.16)
Diluted Earnings (loss) Per Share (cents)	0.50	(1.15)
Total Assets	8,654,737	4,302,914

The final quarter of 2007 shows managements' efforts in producing record revenues and containing costs. The approximate $915,000 increase in Q4 2007 revenue to $4,196,000 as compared to Q4 2006 is primarily related to the increase in the volume of assessments provided across the Division.

Increased expenses in Q4 2007 relate primarily to legal fees and stock based compensation charges as well as an increased level of corporate expenses compared to the same period in the prior year at a head office level. The increase in operating costs relate primarily to increases in business volumes in Q4 2007 compared to the same period in the prior year.

Included in net income is an amortization expense amounting to $126,052 as well as stock based compensation expenses relating to the fair valuation of options granted under the stock option plan amounting to $118,556 for the three months ended December 31, 2007 respectively.

Business Outlook and Subsequent Events

The board of directors have initiated a strategic review process primarily aimed at enhancing the current business units, diversifying income streams within the healthcare industry and proceeding with the securities offering to Doctors and Dentists in Canada in order to fund strategic expansion opportunities.

Given the potential impact of this strategic review, management and the sub-committee of the Board are diligently researching the regulatory and structural requirements of the opportunities and the capital raise as well as the infrastructural enhancements required to implement its objectives. Shareholders will be kept informed of developments as these are achieved.

Preliminary assessments of current head office infrastructure have indicated that further investment will be required in financial and information technology systems and personnel, human resources and business development in order to further support the operational divisions and create capacity for the outcomes of the strategic process. The current funds on hand will be utilized to invest in the above mentioned infrastructure and certain healthcare initiatives.

(i) *Disability Management*

Revenue and business referrals are expected to continue to increase as a result of maintaining and extending preferred service provider relationships with national insurers. The Division is examining opportunities to expand the Company's geographic scope to better service customer requirements as well as maintaining innovation in growing revenue and the Company's roster of consultants.

As a result of changes in sales mix in the industry, volumes have increased dramatically and are expected to continue to do so albeit at a slower rate. Consequently, during 2008, an investment in further human resources and operating capacity will be required in order to continue the growth shown in prior years. Margins in the Division are expected to reduce unless growth in revenue matches these additional expenditures.

(ii) *DMSU*

In January 2008, a strategic decision was made to terminate the agreement to provide facilities in respect of Ablatherm© prostrate cancer treatments three months prior to the expiry of the contract. Consequently, shareholders should expect minimal revenue from this venture in 2008. In addition, DMSU expects global funding from the Ministry of Health to remain relatively similar to the amount received in fiscal 2007.

As part of the strategic process referred to above, management are pursuing additional opportunities to provide innovative services to supplement the existing revenue and further diversify its revenue streams.

(iii) *CanAm*

CanAm finalized its strategy in Q1 of 2008, with an aggressive marketing campaign for its two business units. In addition to having received approval as a Site Management Organization ("SMO") for Orthopedic drug trials, CanAm is planning further SMO's across the Greater Toronto Area and across southern Ontario.

CanAm's second business unit, the Clinical Research Centre, will be located at DMSU.

(iv) *AHP*

With the implementation of the strategic partnership, management from both companies are working diligently to move the agenda of growth and synergistic partnerships forward. The GHIS alliance has enabled Alegro to partner with individuals who have a proven track record of success in a broad range of healthcare sectors.

Board of Director Appointment and Management Changes

With effect from July 13, 2007, Dr. Jack Shevel was appointed to the Alegro board of directors as a non-executive director. The board of directors has already benefitted from Dr Shevel’s extensive healthcare and corporate governance experience.

Dr. Shevel and Darren Youngleson of GHIS were appointed to the board of directors of AHP along with Alegro’s current directors, Brenda Rasmussen, Gilbert Sharpe and Bob Leshchyshen.

Following the required approvals, further announcements will be made in due course in regard to additional appointments to the Alegro board of directors and its sub-committees in enhancing the Corporate Governance structures in Alegro.

No material changes occurred in the management structures of the Group during the 2007 financial year.

Share Capital

As at December 31, 2007 the Company had 36,524,762 common shares issued and outstanding compared to 25,274,762 common shares issued and outstanding at December 31, 2006 as a result of the GHIS transaction.

As at December 31, 2007, there were a total of 2,050,000 options outstanding to purchase an equivalent number of common shares at an average exercise price of $0.29, expiring at various dates until 2012. For further information on the options, shareholders are referred to note 11 in the annual financial statements for the year ended December 31, 2007.

Transactions with Related Parties

The Company's related party transactions are as follows:

- For the year ended December 31, 2007 and 2006, the Company incurred management fees of $240,000 and $72,000 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, officer and director of the Company. As at December 31, 2007, DMG owed the Company a non-interest bearing amount of $40,000
- GHIS and GHIS Capital received $90,000 and $26,250, respectively, in consulting fees and interest received
- Real World Simulations Systems Inc. (“Real World”) provided $72,000 in web design, advertising and publication services to the Company for the period ended December 31, 2007. Real World is wholly owned by a related party to Ms. Rasmussen, a shareholder and director of the Company.

Accounting Policies

(i) *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.

(ii) Recently Adopted Accounting Policies

The changes in accounting policies are reflected in the notes to the annual financial statements for the year ended December 31, 2007.

Disclosure Controls and Procedures

Disclosure controls and procedures were evaluated at December 31, 2007 by Ms Rasmussen, the Company's Chief Executive Officer and the Acting Chief Financial Officer. Ms Rasmussen 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 her.

Additional Information

Additional information related to the company, including the annual financial statements for the year ended December 31 2007, can be found on SEDAR at www.sedar.com.

Acknowledgements

Alegro acknowledges that these results and the professional care given to the thousands of patients each year are testimony to its people. The Board wishes to extend its sincere appreciation to the staff, health professionals, customers and suppliers for their commitment, passion and dedication.

Risks and Uncertainties

A potential investor should carefully consider the risk factors set forth in deciding whether to invest in the securities of the Company. An investment in the securities of the Company is suitable only to those investors who are willing to risk the loss of their entire investment. The following discussion of certain risk factors relating to the business of the Group is qualified in its entirety by reference to, and must be read in conjunction with, information appearing elsewhere in the annual financial statements for the year ended December 31, 2007.

(i) Competition

The markets for Work Able and Direct Health's products are intensely competitive, subject to rapid change and significantly affected by market activities of other industry participants.

There is little, other than the relationships with the insurance companies, to prevent the entrance into the Disability Management sector for those wishing to provide similar services to those provided by Work Able and Direct Health. Work Able and Direct Health also compete for the provision of consulting services from independent healthcare professionals. Competitors with greater capital and/or experience may enter the market or compete for referrals from insurance companies and the services of available health care professionals. There can be no assurance that Work Able and Direct Health will be able to compete effectively for these referrals and healthcare professionals, that additional competitors will not enter the market, that such competition will not make it more difficult or expensive to provide disability management services or that competitive pressures in the provision of these services in a geographic region will not otherwise adversely affect Alegro.

The drug trial administration market is intensely competitive. As a third party clinical administrator, CanAm competes with larger hospital groups and established SMO's for sponsor contracts. Competitors with greater capital and/or access to pharmaceutical sponsors and physician networks may limit CanAm's ability to gain market share. This, together with the on-going funding of certain of the operating expenses of

CanAm by the rest of the Group, could adversely affect the business, financial condition and results of operations of the Alegro.

(ii) Government Regulation and Funding

Work Able and Direct Health's business operates in an environment in which insurance regulation, policy and funding decisions play a key role. Regulatory and insurance policy related to medical and rehabilitation benefits are largely beyond Work Able and Direct Health's control. Changes in regulation and funding structures related to third party disability management services, or their interpretation and application, could adversely affect the business, financial condition and results of operation of the Division.

Healthcare service providers in Canada are subject to various governmental regulation and licensing requirements and, as a result, DMSU's business operates in an environment in which government regulations play a key role. The level of government funding directly reflects government policy related to healthcare spending, and decisions can be made regarding such funding that are largely beyond the DMSU's control. Any change in governmental regulation and licensing requirements relating to healthcare services, or their interpretation and application, could adversely affect the business, financial condition and results of operations of the Group.

(iii) Acquisition and Integration

The Group hopes to make acquisitions of various sizes that fit particular niches within Alegro's overall corporate strategy. There is no assurance that it will be able to acquire businesses on satisfactory terms or at all. These acquisitions will involve the commitment of capital and other resources, and these acquisitions could have a major financial impact in the year of acquisition and beyond. The speed and effectiveness with which Alegro integrates these acquired companies into its existing businesses can have a significant short-term impact on Alegro's ability to achieve its growth and profitability targets.

The successful integration and management of acquired businesses involves numerous risks that could adversely affect Alegro's growth and profitability, including that:

(a) management may not be able to manage successfully the acquired operations and the integration may place significant demands on management, thereby diverting its attention from existing operations;

(b) operational, financial and management systems may be incompatible with or inadequate to integrate effectively and to manage acquired systems;

(c) acquisitions may require substantial financial resources that could otherwise be used in the development of other aspects of the business;

(d) acquisitions may result in liabilities and contingencies which could be significant to the operations; and

(e) personnel from Alegro's acquisitions and its existing businesses may not be integrated as efficiently or at the rate foreseen.

The acquisition of healthcare-related companies or assets involves a long cost recovery cycle. The sales processes for the products that these companies offer is often subject to lengthy customer approval processes that typically accompany significant capital expenditures. Failures by the Group in achieving signed contracts after the investment of significant time and effort in the sales process could have an adverse impact on the Group's operating results.

(iv) *Referrals*

The success of the Division is currently dependent upon insurance company referrals of patients for assessment and rehabilitation procedures. These referrals come through preferred provider and other service agreements established through competitive tendering processes. If a sufficiently large number of service agreements were discontinued, the business, financial condition and results of operations of Alegro could be adversely affected.

In addition, at DMSU the patient referrals are dependent on the surgical practitioners affiliated thereto. Surgical practitioners have no contractual obligation or economic incentive to refer patients to the hospital. Should surgical practitioners discontinue referring patients or performing operations at DMSU, the business, financial condition and results of operations of Alegro could be adversely affected.

(v) *Shortage of Physicians and Nurses*

As DMSU expands its operations, it may encounter difficulty in securing the necessary professional medical and support staff to support its expanding operations. There is currently a shortage of certain medical specialty physicians and nurses in Canada and this may affect DMSU's ability to hire physicians and nurses in adequate numbers to support its growth plans, which may adversely affect the business, financial condition and results of operations of Alegro.

(vi) *Confidentiality of Personal and Health Information*

Alegro and its subsidiary employees have access, in the course of their duties, to personal information on clients of the Company and specifically their medical histories. There can be no assurance that the Group's existing policies, procedures and systems will be sufficient to address the privacy concerns of existing and future clients. If a client's privacy is violated, or if Alegro is found to have violated any law or regulation, it could be liable for damages or for criminal fines or penalties.

(vii) *Information Technology Systems*

Alegro's business (and in particular Work Able and Direct Health) depends, in part, on the continued and uninterrupted performance of its information technology systems. Sustained system failures or interruptions could disrupt the Group's ability to operate effectively, which in turn could adversely affect the business, results of operations and financial condition.

The Group's computer systems may be vulnerable to damage from a variety of sources, including physical or electronic break-ins, computer viruses and similar disruptive problems. Despite precautions taken, unanticipated problems affecting the information technology systems could cause interruptions for which Alegro's insurance policies may not provide adequate compensation.

(viii) *Key Personnel*

The Group believes that its future success will depend significantly upon its ability to attract, motivate and retain highly skilled executive management. In addition, the success of the Division and DMSU depends on employing or contracting, as the case may be, qualified healthcare professionals. Currently, there is a shortage of such qualified personnel in Canada. The loss of healthcare professionals or the inability to recruit these individuals in Alegro's markets could adversely affect Alegro's ability to operate its business efficiently and profitably.

(ix) *Litigation and Insurance*

Alegro maintains professional malpractice liability insurance, directors' and officers' and general 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.

In recent years, liability insurance coverage has become considerably more expensive and the availability of coverage has been reduced in certain cases. 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.

Due to the nature of the services provided by the Group, general liability and error and omissions claims may be asserted against Work Able and Direct Health with respect to disability management services and malpractice claims against DMSU with respect to healthcare services. Although Alegro carries insurance in amounts that management believes to be standard in Canada for the operation of healthcare facilities, there can be no assurance that Alegro will have obtained coverage of sufficient scope to satisfy any particular liability claim. Alegro believes that it will be able to obtain adequate insurance coverage in the future at acceptable costs, but there can be no assurance that it will be able to do so or that it will not incur significant liabilities in excess of policy limits. Any such claims that exceed the scope of coverage or applicable policy limits, or an inability to obtain adequate coverage, could have a material adverse effect on Alegro's business, financial condition and results of operations.

(x) *Uncertainty of Liquidity and Capital Requirements*

The future capital requirements of Alegro will depend on many factors, including the number and size of acquisitions consummated, rate of growth of its client base, the costs of expanding into new markets, the growth of the market for healthcare services and the costs of administering the Group. In order to meet such capital requirements, Alegro may consider additional public or private financing (including the incurrence of debt and the issuance of additional common shares) to fund all or a part of a particular venture, which could entail dilution of current investors' interest in the Company. 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, Alegro may have to reduce substantially or otherwise eliminate certain expenditures. There can be no assurance that Alegro will be able to raise additional capital if its capital resources are depleted or exhausted. Further, due to regulatory impediments and lack of investor appetite, the ability of the Company to issue additional common shares or other securities exchangeable for or convertible into common shares to finance acquisitions may be restricted.

(xi) *Internal Control Over Financial Reporting and Disclosure Controls and Procedures*

The Company may face risks if there are deficiencies in its internal control over financial reporting and disclosure controls and procedures. The Board of Directors of the Company, in coordination with its audit committee, is responsible for assessing the progress and sufficiency of internal controls over financial reporting and disclosure controls and procedures and will make adjustments as necessary. However, these initiatives may not be effective at remedying any deficiencies in internal control over financial reporting and disclosure controls and procedures. Any deficiencies, if uncorrected, could result in the Company's financial statements being inaccurate and in future adjustments or restatements of its financial statements, which could adversely affect the price of the common shares and its business, financial condition and the results of operations.

(xii) *Dependence on Work Able and Direct Health*

The Group financial results are dependent upon the consolidated operations and assets of Work Able and Direct Health. The actual amount of cash flow will predominantly depend upon numerous factors, including profitability, determination of taxable income and taxes payable by Work Able and Direct Health, fluctuations in working capital, the sustainability of margins and capital expenditures. Whilst management intend diversifying the income streams and cash flows of the Group through expansion into new markets and via acquisition, any material fluctuations in the performance of Work Able and Direct Health could adversely affect the price at which the common shares of Alegro trade.

(xiii) Unpredictability and Volatility of Share Price

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

The securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of the Alegro shares.

(xiv) Leverage

The Group may borrow funds from third parties. The degree to which the Group is leveraged could significantly impact the amount of income to be generated and cash flow from operations. Should Alegro borrow, its ability to make scheduled payments of interest on, or to refinance, its indebtedness will depend on its future cash flow, which is subject to the operations of the business, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control. These factors might inhibit Alegro from refinancing its indebtedness on favourable terms.

In July 2007, AHP issued convertible debentures which mature on December 31, 2011 and are convertible into common shares of AHP. The convertible debentures may be converted by GHIS Capital within 3 months before the maturity date and by AHP at the maturity date, into such number of common shares of AHP as would give GHIS Capital 25% of the issued and outstanding common shares of AHP. In the event of default, GHIS Capital may convert the convertible debentures into such number of common shares of AHP as would give the holder 70% of the issued and outstanding shares of AHP. The conversion of the convertible debentures could result in AHP being held at between 30% and 75% by Alegro with the concomitant reduction in profits to the shareholders of Alegro. Notably, AHP is the entity through which business development in areas not already undertaken by Alegro will occur.

Information concerning the credit facilities and the convertible debentures is included in the Group's annual financial statements for the year ended December 31, 2007.

(xv) Capital Investment

The timing and amount of capital expenditures by the Group will be dependent upon the Group's ability to utilize credit facilities, cash generated from operations, working capital requirements and sell additional common shares in order to accommodate these items. There can be no assurance that sufficient capital will be available on acceptable terms to the Group for necessary or desirable capital expenditures or that the amount required will be the same as currently estimated. Lack of these funds could limit the future growth of Alegro and its subsidiaries and their respective cash flow.

(xvi) Tax Related Risks

The income of Alegro and its subsidiaries must be computed and will be taxed in accordance with Canadian tax laws, all of which may be changed in a manner that could adversely affect the amount of earnings after tax and ultimately the value at which the Alegro common shares trade.

Holding company and subsidiary company structures generally involve a significant amount of inter company transactions, which serve to reduce earnings in one company and increase earnings in another and therefore income tax payable. There can be no assurance that taxation authorities will not seek to challenge the amount and nature of these transactions. If such a challenge were to succeed against any of the Group companies, it could materially adversely affect the value at which the Alegro common shares trade.

Management of the Group believes that these transactions are supportable and reasonable in light of the commercial relationships between the group companies.

Although the Group is of the view that all expenses to be claimed by Alegro and its subsidiaries will be reasonable and deductible and that the cost amount and capital cost allowance claims of such entities' depreciable assets will have been correctly determined, there can be no assurance that the Canadian Revenue Authorities ("CRA") will agree. If CRA successfully challenges the deductibility of such expenses or the correctness of such cost amounts or capital cost allowance claims, the return to shareholders may be adversely affected.

(xvii) Dilution

The By Laws authorize the Company, in certain circumstances, to issue an unlimited number of common shares for the consideration and on those terms and conditions as are established by the directors without the approval of any shareholders. Any further issuance of common shares will dilute the interests of existing shareholders.

(xviii) Significant shareholders

There are significant shareholders of Alegro that may be long-term holders of the common shares in the Company. As such, the trading volumes in the common shares of the Company and liquidity may be low. In addition, relatively low liquidity may adversely affect the price at which the common shares of Alegro trades on the listed market.

Alegro Health Corp.

Consolidated Financial Statements

December 31, 2007 and 2006

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December 31, 2007 and 2006

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Auditors' Report

To the Shareholders of
Alegro Health Corp.

We have audited the consolidated balance sheets of Alegro Health Corp. as at December 31, 2007 and 2006 and the consolidated statements of operations, comprehensive income and retained earnings and cash flows for the years then ended. These consolidated 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 audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed: ***"MSCM LLP"***

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
April 1, 2008

Consolidated Balance Sheets

December 31, 2007 and 2006

	2007	2006
Assets		
Current assets		
Cash	**$ 4,028,927**	$ 550,400
Accounts receivable	**1,953,549**	1,556,816
Accrued receivables	**668,446**	292,764
Prepaid expenses	**25,409**	46,508
Future income taxes *(note 7)*	**20,080**	19,844
	6,696,411	2,466,332
Due from related party *(note 4)*	**40,000**	40,000
Property and equipment *(note 5)*	**426,521**	537,298
Goodwill	**46,863**	46,863
Intangible asset *(note 6)*	**1,146,815**	1,146,815
Future income taxes *(note 7)*	**214,903**	65,606
Deferred financing costs	**83,224**	-
	$ 8,654,737	$ 4,302,914
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 2,104,338**	$ 1,748,314
Income taxes payable	**518,250**	160,070
Deferred revenue	**-**	40,570
	2,622,588	1,948,954
Minority interest *(note 8)*	**665,894**	-
Shareholders' equity		
Share capital *(note 9)*	**3,914,050**	1,833,497
Contributed surplus *(note 10)*	**1,246,715**	967,133
Deferred stock-based compensation *(note 11)*	**(102,526)**	-
Retained earnings (deficit)	**308,016**	(446,670)
	5,366,255	2,353,960
	$ 8,654,737	$ 4,302,914

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, Comprehensive Income and Retained Earnings

for the years ended December 31, 2007 and 2006

	2007	2006
Revenue	**$ 14,251,045**	$ 12,321,116
Expenses		
Direct costs	**9,664,459**	9,467,214
General and administrative *(note 4)*	**3,123,240**	2,237,107
Stock-based compensation *(note 11)*	**104,036**	64,500
Amortization	**284,384**	272,168
	13,176,119	12,040,989
Income before provision for (recovery of) income taxes	**1,074,926**	280,127
Provision for (recovery of) income taxes - current *(note 7)*	**469,773**	189,720
- future	**(149,533)**	40,939
Net income and comprehensive income for the years	**754,686**	49,468
Deficit, beginning of year	**(446,670)**	(496,138)
Retained earnings (deficit), end of year	**$ 308,016**	$ (446,670)
Basic and diluted income per common share *(note 9)*	**$ 0.03**	$ -

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

Consolidated Statements of Cash Flows

for the years ended December 31, 2007 and 2006

	2007	2006
Cash flow from operating activities		
Net income for the year	**$ 754,686**	$ 49,468
Items not affecting cash		
Amortization	**284,384**	272,168
Future income taxes	**(149,533)**	40,939
Stock-based compensation	**104,036**	64,500
	993,573	427,075
Changes in non-cash working capital items		
Accounts receivable	**(396,733)**	(421,660)
Accrued receivables	**(375,682)**	242,302
Prepaid expenses	**21,099**	(13,356)
Accounts payable and accrued liabilities	**356,024**	(192,111)
Income taxes payable	**358,180**	120,337
Deferred revenue	**(40,570)**	(75,891)
	915,891	86,696
Cash flow from investing activities		
Purchase of property and equipment	**(173,607)**	(102,019)
Cash flow from financing activities		
Increase in deferred financing costs	**(83,224)**	-
Proceeds from private placement, net of transaction costs	**1,153,573**	-
Proceeds from convertible debenture, net of transaction costs	**665,894**	-
Proceeds from issuance of common shares	**1,000,000**	-
	2,736,243	-
Increase (decrease) in cash	**3,478,527**	(15,323)
Cash, beginning of year	**550,400**	565,723
Cash, end of year	**$ 4,028,927**	$ 550,400

Supplemental cash flow information:		
Income taxes paid	**$ 111,593**	$ 69,383
Interest paid	**$ 26,250**	$ -

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 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. and Work Able Centres North York Inc. (collectively "Work Able"), Don Mills Surgical Unit Ltd. and Don Mills Surgical Centres Ltd. (collectively "DMSU"), Assessment Network Inc. (operating as "MedEval"), Direct Health Solutions Inc. and Direct Health Solutions (2) Inc. (collectively "Direct"), Alegro Health Partners Inc. ("AHP") as well as its 60% controlled subsidiary CanAm Research Corp. ("CanAm"). Although AHP is a wholly-owned subsidiary it has been effectively recorded at 75% (*see note 8*). In addition, a minority interest in respect of CanAm has not been recorded as the losses applicable to the non-controlling interest in CanAm exceed the non-controlling interest in the capital of CanAm. All intercompany balances and transactions have been eliminated on consolidation.

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
Medical equipment	- 5 years straight-line
Automobile	- 30% declining balance

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.

2. Significant Accounting Policies - continued

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.

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, 2007 or 2006.

Deferred financing costs

Legal and other costs directly attributable to financing transactions are reported as deferred financing costs until the transactions are completed, if the completion of the transaction is considered to be more likely than not.

Financial instruments

Effective January 1, 2007, the Company adopted the new recommendations of CICA Handbook Section 3855, "Financial Instruments - Recognition and Measurement", and Section 3861, "Financial Instruments - Disclosure and Presentation". Under the new standards all financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments are included on the balance sheet and are measured at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Held-for-trading financial instruments are subsequently measured at fair value and all gains and losses are included in net income in the period which they arise. Available-for-sale financial instruments are subsequently measured at fair value with revaluation gain and losses included in other comprehensive income until the instrument is derecognized or impaired.

As a result of adoption of these standards, the Company has classified its cash as held-for-trading, accounts receivable, accrued receivables, and due from related party as loans and receivables, and accounts payable and accrued liabilities as other financial liabilities.

The adoption of these standards has not had a material effect on the Company’s consolidated financial statements.

2. Significant Accounting Policies - continued

Comprehensive income and equity

Effective January 1, 2007, the Company adopted the new recommendations of CICA Handbook Section 1530, “Comprehensive Income”, and Section 3251, “Equity”. These sections establish standards for reporting and presenting certain gains and losses normally not included in net earnings or losses, such as unrealized gains and losses related to available-for-sale investments, in a statement of comprehensive income.

The adoption of these standards has not had a material effect on the Company’s consolidated financial statements.

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.

Government assistance from the Ministry of Health and Long-Term Care is 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 substantively 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.

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.

2. Significant Accounting Policies - continued

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. If the award is for future service, 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 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. 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.

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.

Reclassifications

Certain amounts from prior years have been reclassified to conform to the current year's presentation.

3. Future Changes in Accounting Policies

The Company will adopt the following standards on January 1, 2008. The initial impact of the application of these changes is not expected to have a significant effect on the Company's consolidated financial statements.

Capital disclosures

CICA Handbook Section 1535, "Capital Disclosures", requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

Financial instruments - disclosure and presentation

CICA Handbook Sections 3862, "Financial Instruments – Disclosures" and 3863, "Financial Instruments – Presentation", replace Section 3861, "Financial Instruments – Disclosure and Presentation" revising and enhancing its disclosure requirements and carrying forward unchanged its presentation requirements. These standards are effective for interim and annual financial statements relating to fiscal periods beginning on or after October 1, 2007.

4. Related Party Transactions and Balances

In the normal course of operations, the Company has entered into certain related party transactions which 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:

	2007	2006
Amount due from related party:		
Disability Management (i)	**$ 40,000**	$ 40,000
General and administrative expenses:		
Real World (ii)	**$ 72,000**	$ 76,740
Brenras (i)	**240,000**	183,417
Disability Management (i)	**72,000**	72,000
GHIS (iii)	**90,000**	-
Osborne Group (iv)	**-**	2,607
	$ 474,000	$ 334,764

The amount due from related party is non-interest bearing with no fixed terms of repayment.

4. Related Party Transactions and Balances - continued

(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, 2007 and 2006.

(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, 2007 and 2006.

(iii) Global Healthcare Investments & Solutions, Inc. ("GHIS") owns approximately 11% of the issued and outstanding common shares of the Company as at December 31, 2007. GHIS provided strategic and business development consulting services to the Company for the year ended December 31, 2007.

(iv) 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 year ended December 31, 2006.

(v) GHIS Capital Inc. ("GHIS Capital") is related to GHIS by common control. During the year, the Company paid interest of $26,250 to GHIS Capital on the outstanding convertible debenture *(see note 8)*.

5. Property and Equipment

			2007
	Cost	**Accumulated Amortization**	**Net Book Value**
Office furniture, fixtures and equipment	**$ 481,428**	**$ 427,696**	**$ 53,732**
Work simulation and facility equipment	**1,267,987**	**1,257,179**	**10,808**
Computer equipment and software	**830,437**	**636,148**	**194,289**
Medical equipment	**422,432**	**270,387**	**152,045**
Automobile	**18,408**	**2,761**	**15,647**
	$ 3,020,692	**$ 2,594,171**	**$ 426,521**

5. Property and Equipment - continued

			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

6. 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.

7. 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:

	2007	2006
Income before income taxes	**$ 1,074,926**	$ 280,127
Expected income tax expense based on statutory tax rate	**$ 386,973**	$ 100,846
Increase (decrease) resulting from:		
Non-deductible expense for stock-based compensation	**37,578**	23,297
Other expenses not deductible for income tax purposes	**66,278**	43,059
Tax benefit of prior year losses utilized	**(17,980)**	(50,888)
Prior year reassessments	**-**	73,406
Other	**(3,076)**	-
Provision for income taxes	**$ 469,773**	$ 189,720

7. Income Taxes - continued

The Company has non-capital losses available to offset future income for tax purposes of approximately $49,500 which expire in 2027.

In 2007, a full valuation allowance was applied against these loss carryforwards in recognition of the uncertainty that such tax benefits would be realized.

The components of future tax assets are as follows:

	2007	2006
Future income tax asset (liability)		
Capital assets	**$ (31,550)**	$ (123,364)
Non-capital losses carried forward	**-**	17,069
Financing costs	**60,476**	39,688
Accrued liabilities deductible when paid	**206,057**	152,057
Future tax assets	**$ 234,983**	$ 85,450
Current	**$ 20,080**	$ 19,844
Long-term	**$ 214,903**	$ 65,606

8. Minority interest

Minority interest represents a $750,000 convertible debenture issued to GHIS Capital by AHP bearing interest at 7% per annum, due December 31, 2011. The debenture may be converted by GHIS Capital within three months before the maturity date and by AHP at the maturity date into such number of common shares of AHP as would give GHIS Capital 25% of the issued and outstanding shares of AHP. As a result, the debenture has been accounted for as equity by AHP which results in minority interest upon consolidation.

As at December 31, 2007, the balance of minority interest consists of the following:

Convertible debenture (i)	**$ 750,000**
Less: interest (ii)	**(26,250)**
Less: transaction costs (iii)	**(57,856)**
	$ 665,894

(i) In the event of default, GHIS Capital may convert the debenture into such number of common shares in AHP as to give the holder 70% of issued and outstanding shares of AHP.

(ii) Interest paid on the convertible debenture during the year has been treated by AHP as a distribution of equity which results in a reduction of minority interest upon consolidation of AHP.

(ii) Transaction costs consist of legal fees relating to the issuance of the convertible debenture.

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, 2005 and 2006	25,274,762	$ 1,833,497
Shares issued in private placement (i)	6,250,000	691,645
Exercise of Warrants (ii)	5,000,000	1,388,908
Issued and outstanding, December 31, 2007	**36,524,762**	**$ 3,914,050**

(i) On July 13, 2007 the Company completed a private placement of 6,250,000 units at a price of $0.20 per unit, consisting of one common share, four-fifths series A common share purchase warrants and one-fifth of series B common share purchase warrants for gross proceeds of $1,250,000. Each whole series A warrant entitled the holder to acquire one common share at $0.20 per share until December 31, 2007. Each whole series B warrant entitles the holder to acquire one common share at $0.43 per share until December 31, 2008. The fair value of all warrants issued was estimated at $461,928 using the Black-Scholes pricing model. Share issue costs relating to the private placement totaled $96,427.

(ii) On December 31, 2007, the 5,000,000 outstanding series A common share purchase warrants were exercised for gross proceeds of $1,000,000. The estimated fair value of the series A warrants of $388,908 was reallocated to common shares from contributed surplus upon exercise.

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:

	2007	2006
Basic weighted average number of common shares outstanding	**28,216,543**	25,274,762
Dilutive effect of stock options	**605,405**	79,365
Diluted weighted average number of common shares outstanding	**28,821,948**	25,354,127

10. Contributed Surplus

Contributed surplus represents the value attributed to options issued under the Company's stock-based compensation plan and warrants issued in connection with private placements.

Balance, December 31, 2005	$ 902,633
Stock-based compensation *(note 11)*	64,500
Balance, December 31, 2006	967,133
Stock-based compensation *(note 11)*	206,562
Warrants issued in connection with private placement *(note 9(i))*	461,928
Amounts reclassified to share capital on exercise of warrants *(note 9(ii))*	(388,908)
Balance, December 31, 2007	**$ 1,246,715**

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:

	2007		2006	
	Number of Options	**Weighted-Average Exercise Price**	Number of Options	Weighted-Average Exercise Price
Outstanding, beginning	**2,561,111**	**$ 0.30**	2,111,111	$ 0.32
Granted (i), (ii) and (iii)	**1,300,000**	**0.32**	450,000	0.21
Expired (iv)	**(1,811,111)**	**0.32**	-	-
Outstanding, ending	**2,050,000**	**$ 0.29**	2,561,111	$ 0.30

(i) On May 1, 2007, the Company granted 800,000 stock options to a consultant of the Company. Each option entitles the holder to purchase one common share of the Company at a price of $0.20 per common share. These options have a period of 5 years, expiring May 1, 2012.

(ii) On July 13, 2007, the Company granted 500,000 stock options were granted to GHIS as part of Company's agreement with GHIS. Each option entitles the holder to purchase one common share of the Company at a price of $0.50 per share. These options have a period of five years, expiring July 13, 2012.

11. Stock Options - continued

(iii) 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.

(iv) During the year ended December 31, 2007, no options were exercised and 1,811,111 have expired.

The weighted-average remaining contractual life and weighted-average exercise price of options outstanding and of options exercisable as at December 31, 2007 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**
$0.20-$0.50	2,050,000	$ 0.29	3.76	1,550,000	$ 0.23

The following assumptions were used to determine the fair value of the options:

	2007	2006
Risk free interest rate	**4.63% - 4.79%**	3.89%
Expected stock volatility	**86%**	83%
Expected life	**1- 5 years**	5 years
Dividend yield	**NIL**	NIL

The estimated fair values of the 2007 stock options on the respective grant dates using the Black-Scholes option pricing model and the above assumptions totaled $206,562, resulting in an increase to contributed surplus. For the year ending December 31, 2007 $104,036 of this amount has been recognized as an employee stock-based compensation expense while the remaining balance of $102,526 has been reflected in equity as deferred stock-based compensation.

The fair value of the 2006 stock options were estimated at $64,500 on the date of grant using the Black-Scholes option pricing model and the above assumptions. In 2006, this amount was recognized as an employee stock-based compensation expense and an increase in contributed surplus.

12. Share Purchase Warrants

During the years ended December 31, 2007 and 2006, share purchase warrants were issued, exercised and expired as follows:

	Number of Warrants	**Price/Warrant**	**Expiry Date**
Balance, December 31, 2005	4,701,000	$0.25-$0.30	August 5, 2006
Warrants expired	(4,701,000)		
Balance, December 31, 2006	-		
Series A warrants issued *(note 9(i))*	5,000,000	$0.20	December 31, 2007
Series B warrants issued *(note 9(i))*	1,250,000	$0.43	December 31, 2008
Series A warrants exercised *(note 9(ii))*	(5,000,000)	$0.20	December 31, 2007
Balance, December 31, 2007	**1,250,000**		

In 2007, the following assumptions were used to determine the fair value of the warrants:

Risk free interest rate	**4.69%**
Expected stock volatility	**86%**
Expected life	**0.5 - 1.5 years**
Dividend yield	**NIL**

13. Bank Indebtedness

During the year, the Company obtained a non-revolving 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, with interest paid monthly. The credit facilities are collateralized by a general security agreement on the Company's assets.

As at December 31, 2007, the Company had not drawn on these credit facilities.

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, 2007 amounted to $21,947 (2006 - $21,249).

15. Commitments and Contingencies

Commitments

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

	Premises	Equipment	Total
2008	$ 1,033,431	$ 44,238	**$ 1,077,669**
2009	612,189	34,219	**646,408**
2010	336,200	28,730	**364,930**
2011	210,060	10,822	**220,882**
2012	52,515	-	**52,515**
	$ 2,244,395	$ 118,009	**$ 2,362,404**

Contingencies

(a) During the ordinary course of business activities, the Company may be contingently liable for litigation and may be 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) In a prior year a claim was brought against the Company for breach of contract and/or confidence for an unspecified amount including related declaratory relief plus interest and legal costs. Management of the Company believes that the claim is without merit.

Subsequent to year end, the court dismissed the action against the Company.

(c) During the year, 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 its 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 party, 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 party as the cash flow streams are not known.

16. Financial Instruments - continued

Credit risk

The Company is exposed to credit risk to the extent that its clients 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 three reportable operating segments, Work Able, DMSU, and Direct. For comparative purposes, to the extent required, the general and administrative costs included in the Other column have not been allocated to the three reportable operating segments.

The Company's reportable segments are strategic business units that offer different products and services.

For the year ending December 31, 2007:

	Work Able	DMSU	Direct	Other	Total
Revenue	$ 8,268,990	$ 3,220,626	$ 2,740,002	$ 21,427	**$ 14,251,045**
Direct costs	(4,915,368)	(2,921,792)	(1,827,299)	-	**(9,664,459)**
General and administrative	(1,378,134)	-	-	(1,745,106)	**(3,123,240)**
Stock-based compensation	-	-	-	(104,036)	**(104,036)**
Amortization	(190,656)	(82,707)	(11,021)	-	**(284,384)**
Net income (loss) before income taxes	$ 1,784,832	$ 216,127	$ 901,682	$ (1,827,715)	**$ 1,074,926**
Total assets	$ 3,069,893	$ 1,591,535	$ 1,236,729	$ 2,756,580	**$ 8,654,737**

For the year ending December 31, 2006:

	Work Able	DMSU	Direct	Other	Total
Revenue	$ 6,590,690	$ 3,103,743	$ 2,625,843	$ 840	$ 12,321,116
Direct costs	(4,354,862)	(2,785,017)	(2,327,335)	-	(9,467,214)
General and administrative	(770,523)	-	-	(1,466,584)	(2,237,107)
Stock-based compensation	-	-	-	(64,500)	(64,500)
Amortization	(185,461)	(80,290)	(6,417)	-	(272,168)
Net income (loss) before income taxes	$ 1,279,844	$ 238,436	$ 292,091	$ (1,530,244)	$ 280,127
Total assets	$ 1,785,412	$ 1,563,100	$ 641,030	$ 313,372	$ 4,302,914

18. Subsequent Event

In January 2008, the Company amended its site services agreement with an unrelated party in relation to a certain medical procedure at DMSU. The original agreement, expiring on April 30, 2008, was amended to expire at the earliest of the completion of eight procedures or January 31, 2008. As a result of the amendment, the Company received $61,000 as compensation in 2008 and estimates that the net financial effect of the amendment will not have a material effect on its financial results in 2008.

Management is currently in the process of initiating alternative business arrangements and revenue streams to replace the vacancy resulting from the expiry of this agreement.

During the year, the Company recognized the following amounts in relation to these procedures:

	2007	2006
Revenue	**$ 1,927,425**	$ 1,772,834
Direct costs (i)	**$ 1,517,222**	$ 1,350,168

(i) Direct costs do not include the shared overhead of DMSU as the Company is in the process of defining and implementing activity based costing for procedures.