

**NIGHTINGALE INFORMATIX CORPORATION**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2006**

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## AUDITORS' REPORT

### To the Shareholders of Nightingale Informatix Corporation

We have audited the consolidated balance sheets of Nightingale Informatix Corporation as at March 31, 2006 and 2005 and the consolidated statements of income, deficit 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 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Segal LLP*

CHARTERED ACCOUNTANTS

Toronto, Ontario  
June 6, 2006  
(except as to note 25(c) which is as at June 20, 2006)

NIGHTINGALE INFORMATIX CORPORATION

CONSOLIDATED BALANCE SHEETS

	March 31, 2006	March 31, 2005
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents, note 5	\$ 373,691	\$ 188,882
Accounts receivable	1,371,981	1,270,938
Investment tax credits receivable, note 6	221,191	233,805
Prepaid expenses	349,559	74,590
Common share subscriptions receivable	-	250,000
	<u>2,316,422</u>	<u>2,018,215</u>
<b>Long term</b>		
Deferred costs, note 7	372,062	4,820
Other receivables, note 8	145,107	113,125
Goodwill, note 4	4,796,386	-
Property and equipment, note 9	<u>1,891,530</u>	<u>560,202</u>
	<u>7,205,085</u>	<u>678,147</u>
	<u>\$ 9,521,507</u>	<u>\$ 2,696,362</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 1,808,217	\$ 660,799
Current portion of deferred revenue	1,159,405	1,115,701
Promissory note payable, note 10	1,000,000	-
Bank loan payable, note 12	148,782	184,506
Current portion of capital lease obligations, note 13	185,012	-
Due to shareholders, note 11	-	158,640
	<u>4,301,416</u>	<u>2,119,646</u>
<b>Long term</b>		
Deferred compensation payable to employees, note 14	403,975	455,449
Deferred revenue	1,185,481	616,264
Capital lease obligations, note 13	<u>206,064</u>	-
	<u>1,795,520</u>	<u>1,071,713</u>
	<u>6,096,936</u>	<u>3,191,359</u>
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
Capital stock, note 15	9,160,446	2,984,416
Contributed surplus, note 16	816,738	73,007
Deficit	<u>(6,552,613)</u>	<u>(3,552,420)</u>
	<u>3,424,571</u>	<u>(494,997)</u>
	<u>\$ 9,521,507</u>	<u>\$ 2,696,362</u>

Approved on behalf of the board:

"Samer Chebib" Director

"David Atkins" Director

See accompanying notes to the consolidated financial statements

NIGHTINGALE INFORMATIX CORPORATION

CONSOLIDATED STATEMENTS OF DEFICIT  
FOR THE YEAR ENDED

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	March 31, 2006	March 31, 2005
Deficit, beginning of year	\$ (3,552,420)	\$ (2,421,920)
Net loss for the year	<u>(3,000,193)</u>	<u>(1,130,500)</u>
Deficit, end of year	<u>\$ (6,552,613)</u>	<u>\$ (3,552,420)</u>

See accompanying notes to the consolidated financial statements

NIGHTINGALE INFORMATIX CORPORATION

CONSOLIDATED STATEMENTS OF INCOME  
FOR THE YEAR ENDED

	March 31, 2006	March 31, 2005
<b>Revenue</b>	<u>\$ 4,213,039</u>	<u>\$ 1,884,286</u>
<b>Direct costs</b>		
Computer hardware and data management	498,047	226,248
Sales commissions	<u>106,697</u>	<u>157,791</u>
	<u>604,744</u>	<u>384,039</u>
<b>Gross Profit</b>	<u>3,608,295</u>	<u>1,500,247</u>
<b>Expenses</b>		
General and administration	1,697,174	889,044
Sales and marketing	1,752,040	756,146
Research and development, net of investment tax credits	1,431,825	545,476
Implementation and customer support	807,368	248,692
Stock based compensation	566,100	63,212
Interest, note 17	20,371	14,245
Amortization	<u>333,610</u>	<u>113,932</u>
	<u>6,608,488</u>	<u>2,630,747</u>
<b>Net loss for the year</b>	<u>\$ (3,000,193)</u>	<u>\$ (1,130,500)</u>
Basic and fully diluted net loss per common share	<u>\$ (0.11)</u>	<u>\$ (0.17)</u>
Weighted average number of common shares	<u>27,650,877</u>	<u>6,577,695</u>

See accompanying notes to the consolidated financial statements

NIGHTINGALE INFORMATIX CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED

	March 31, 2006	March 31, 2005
<b>Cash flows from operating activities</b>		
Net loss for the year	\$ (3,000,193)	\$ (1,130,500)
Adjustments for:		
Amortization of property and equipment	333,610	113,932
Stock based compensation	<u>566,100</u>	<u>13,187</u>
	(2,100,483)	(1,003,381)
Changes in non-cash working capital balances		
Increase in accounts receivable	(101,043)	(1,197,330)
Decrease (increase) in investment tax credits receivable	12,614	(27,201)
Increase in prepaid expenses	(274,969)	(44,050)
Decrease (increase) in common share subscriptions receivable	250,000	(250,000)
Increase in deferred costs	(118,797)	(4,820)
Increase in other receivables	(126,311)	(113,125)
Increase in accounts payable and accrued liabilities	1,147,418	294,002
Increase in deferred revenue	612,921	1,081,673
Decrease in deferred compensation payable	<u>(72,253)</u>	<u>(332,376)</u>
Cash flows used in operating activities	<u>(770,903)</u>	<u>(1,596,608)</u>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(735,022)	(342,867)
Acquisition of HealtheNet, note 4	(239,724)	-
Increase in deferred costs for acquisition of IHPS	(248,445)	-
Purchase of software	<u>-</u>	<u>272,540</u>
	<u>(1,223,191)</u>	<u>(70,327)</u>
<b>Cash flows from financing activities</b>		
Increase in capital stock	857,613	1,923,304
Amalgamation of Venquest Capital Ltd., note 3	1,515,654	-
Decrease in bank loan payable	(35,724)	(35,724)
Decrease in due to shareholders	<u>(158,640)</u>	<u>(126,941)</u>
	<u>2,178,903</u>	<u>1,760,639</u>
Net increase in cash	184,809	93,704
Cash and cash equivalents, beginning of year	<u>188,882</u>	<u>95,178</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 373,691</u></u>	<u><u>\$ 188,882</u></u>

For supplementary cash flow information, see note 18

See accompanying notes to the consolidated financial statements

# NIGHTINGALE INFORMATIX CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2006 AND 2005

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### 1. BUSINESS DESCRIPTION

Nightingale Informatix Corporation ("Nightingale" or the "Company") is incorporated under the Ontario Business Corporation Act. The Company's principal activities include the development, marketing and licensing of application software and services to customers in the Healthcare industry in Canada and the United States.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Change in accounting policy

Effective April 1, 2005, the Company changed its method of expensing sales commissions. Instead of expensing the commission when paid, commission is allocated and expensed in proportion to various streams of revenues recognized by the Company. Since the necessary financial data for retroactive application of the new accounting policy is not reasonably determinable, the change has been accounted for prospectively. The adoption of this new policy has resulted in a reduction in sales commission expense of \$121,206 in fiscal 2006.

#### (b) Estimates

The preparation of these 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, the disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

#### (c) Principles of consolidation

The financial statements are prepared on a consolidated basis for Nightingale Informatix Corporation and its wholly-owned subsidiaries, VisionMD (2002) Inc., Nightingale HealtheNet Corporation, and Nightingale HealtheNet Canada Corporation.

All significant inter-company balances and transactions have been eliminated on consolidation.

#### (d) Revenue recognition

The Company sells its products and services based on the terms and conditions of customer contracts which, generally, provide for the delivery of multiple elements which may include a license to use the licensed application software, continuing post contract services ('PCS') such as support and maintenance and for computer equipment. The Company recognizes revenue in accordance with the criteria applicable in the CICA Handbook section 3400, EIC 141 and EIC 142.

# NIGHTINGALE INFORMATIX CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2006 AND 2005

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

#### License fees

Revenue from the license fee element is recognized at the inception of the license term, provided the Company has vendor-specific objective evidence ("VSOE") of the fair value of each element of the customer contract and the application software has been delivered. License revenue is deferred if VSOE does not exist for each contract element, or if there are uncertainties about the timing of delivery of specific elements. License revenue that is deferred is recognized when all of the revenue recognition criteria are met with respect to the undelivered elements.

#### Support and maintenance (PCS)

PCS revenue is recognized ratably over the term of the contract, on a straight-line basis.

#### Computer Equipment

Revenue from the resale of computer equipment is recognized when there is an unconditional sales order, the product is delivered, the fee is fixed or determinable, no significant future vendor obligations exist at the time of delivery, and collection is reasonably assured.

#### Hardware products

Revenue from the resale of hardware products is recognized when there is an unconditional sales order, the product is delivered, the fee is fixed or determinable, provided that no significant future vendor obligations exist at the time of delivery, and collectibility is reasonably assured.

#### Other services

Other service revenue is recognized at the time the service is performed.

#### (e) Foreign currency translation

Monetary items denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at exchange rates in effect when the assets were acquired or obligations incurred. Revenue and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in the statement of income.

For integrated foreign operations monetary items are translated into Canadian dollars at exchange rates in effect at the consolidated balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transaction. Foreign exchange gains and losses are included in income.

# NIGHTINGALE INFORMATIX CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2006 AND 2005

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

#### (f) Property and equipment

Property and equipment are recorded at cost. Amortization is provided over their estimated useful lives using the following methods and rates:

Office equipment	- 30% declining balance basis
Furniture and fixtures	- 20% declining balance basis
Proprietary computer software	- 5 years straight line

#### (g) Leases

Leases are classified as either capital or operating. Leases, which transfer substantially all the benefits and risks of ownership, are accounted for as capital leases. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

#### (h) Research and software development costs

Research costs are expensed as incurred. Costs related to the development of software are expensed as incurred unless such costs meet the criteria for capitalization and amortization under Canadian generally accepted accounting principles. The criteria include identifiable costs attributable to a clearly defined product, the establishment of technical feasibility, identification of a market for the software, the Company's intent to market the software, and adequate resources are expected to be available to complete the project. Capitalized software development is evaluated in each reporting period to determine whether it continues to meet the criteria described above. Internally created software costs are amortized over an estimated useful life of five years, commencing in the year when commercial sales of the products commence.

Investment tax credits for research and development are recognized when earned and when the amount and timing of realization is reasonably determinable. See note 6.

#### (i) Goodwill

Goodwill represents the excess of the purchase price of business acquisitions over the fair value of identifiable net assets acquired in such acquisitions. Goodwill is allocated as at the date of the business combination. Goodwill is not amortized, but is tested for impairment annually or more frequently, if events or changes in circumstances indicate the asset might be impaired.

# NIGHTINGALE INFORMATIX CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2006 AND 2005

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

#### (i) Goodwill (Continued...)

The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit including goodwill is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired, and the second step is considered unnecessary. In the event that the fair value of the reporting unit, including goodwill, is less than the carrying value, the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of the reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the consolidated statements of income and retained earnings.

#### (j) Loss per common share

Basic loss per share has been calculated by dividing the net loss per the financial statements by the weighted average number of shares outstanding during the year. The fully diluted loss per share would be calculated using a common share balance increased by the number of common shares that could be issued under outstanding common share options of the Company. As the company is in a loss position for the year ended March 31, 2006, no dilutive effect would result from the potential increase in common shares.

#### (k) Stock-based compensation and other stock-based payments

The Company accounts for the grant of stock options or other equity instruments under stock-based compensation using the fair value method. For employees, the stock-based compensation expense is amortized over the period from the grant date to the date that the award is vested. For non-employees, the stock-based compensation is recorded in the period in which goods and services are provided by the non-employees.

#### (l) Deferred revenue

Deferred revenue generally results from:

- (a) License revenues deferred relating to customer contracts where the Company has received advance payment and the Company does not have VSOE of fair market value of each contract element necessary to recognize prior to the delivery of all elements of the contracts;
- (b) advance payment of PCS when the service period has not expired;
- (c) Implementation services that have not yet been delivered; and
- (d) Computer equipment that has not yet been delivered.

# NIGHTINGALE INFORMATIX CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2006 AND 2005

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

#### (m) Recent Accounting Pronouncements

(a) In January 2005, the CICA issued Handbook Section 3855, "Financial Instruments - Recognition and measurement". The section prescribes when a financial instrument should be recognized on the balance sheet and at what amount. It also specifies how financial instruments gain and losses are to be presented. This new standard will be effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2006. The company is assessing the impact of this new standard on its consolidated financial statements.

(b) In January 2005, the CICA issued Handbook section 3865, "Hedges". The section provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline AcG - 13 "Hedges Relationships", and the hedging guidance in Section 1650 "Foreign Currency Translation" by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. This new standard will be effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2006. The company is assessing the impact of this new standard on its consolidated financial statements.

(c) In January 2005, the CICA issued Handbook Section 1530, "Comprehensive Income". The section introduces a new requirement to temporarily present certain gains and losses from changes in fair value outside net income, but in a transparent manner. This new standard will be effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2006. The company is assessing the impact of this new standard on its consolidated financial statements.

### 3. AMALGAMATION

#### (a) Amalgamation with Venquest Capital Ltd.

On September 1, 2005, the Company completed an amalgamation with Venquest Capital Ltd. ("Venquest"), resulting in the Company becoming a publicly traded company on the TSX Venture exchange (TSX Venture: NGH). The amalgamation constituted a Qualifying Transaction for Venquest.

Venquest acquired all of the issued and outstanding Common Shares of Nightingale. In exchange the shareholders of Nightingale received Common Shares of Venquest representing approximately 88% of the Common Shares of the combined entity. Immediately subsequent to the acquisition, Venquest amalgamated with Nightingale and continues under the name of Nightingale.

For accounting purposes, the amalgamation of Nightingale and Venquest has been accounted for using the reverse take-over method of purchase accounting. Nightingale is deemed to be the acquirer and is assumed to be purchasing the assets and liabilities of Venquest, since the original shareholders of Nightingale have become owners of more than 50% of the voting shares of Venquest on a fully diluted basis. The results of the operations of Venquest are included from the date of the transaction.

# NIGHTINGALE INFORMATIX CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2006 AND 2005

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### 3. AMALGAMATION (Continued...)

Details of the net assets (liabilities) acquired at fair values at the date of the acquisition are as follows:

	Amount
Cash	\$ 1,654,806
Less: Current liabilities	<u>(40,431)</u>
	<u>\$ 1,614,375</u>
Purchase Consideration	
Nightingale common shares	\$ 956,500
Assumption of Venquest options	209,155
Transaction costs incurred	<u>448,720</u>
	<u>\$ 1,614,375</u>

#### Details of cash received

	Amount
Cash	\$ 1,654,806
Less: Current liabilities	(40,431)
Less: Transaction costs paid	<u>(98,720)</u>
Cash received	<u>\$ 1,515,655</u>

#### (b) Amalgamation with 2043385 Ontario Inc.

On October 1, 2005, the Company amalgamated its wholly owned subsidiary, 2043385 Ontario Inc. into the parent company. Though the subsidiary did not conduct any business, the amalgamation was completed in order to transfer the assets of the subsidiary into the parent company.

# NIGHTINGALE INFORMATIX CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2006 AND 2005

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### 4. BUSINESS COMBINATION

#### Acquisition of HealthNet

On March 16, 2006, the Company completed the acquisition of the business and assets of Scribes Inc., Scribes (USA) Inc., Healthnet inc. (a Delaware company) and HealthNet Inc., (collectively referred to as HealthNet), providers of data management and transcription services to the healthcare community. The aggregate consideration provided for in this acquisition is \$7,125,000 which is comprised of \$1,000,000 in a promissory note and the issuance of 5,104,167 common shares of the company valued at \$6,125,000 (\$1.20 per common share). Included in the 5,104,167 common shares issued, are 1,666,667 common shares valued at \$2,000,000 which are subject to a performance based escrow whereby the shares may be released subject to the Company meeting earn-out targets over the four fiscal years following the date of the acquisition. Since the outcome of the contingent consideration cannot be determined beyond reasonable doubt, the \$2,000,000 contingent consideration has been excluded in the recorded purchase price. Therefore the aggregate recorded purchase price, including the transaction cost of \$210,224, is \$5,335,224. Once the outcome of the contingency is determinable beyond a reasonable doubt, contingent consideration recognized, if any, will be added to the purchase price.

The acquisition is accounted for by the purchase method whereby the results of operations of Healthnet, from the date of acquisition, are included in the consolidated statements of operations and deficit and cash flows of the Company.

Details of the fair value of net assets acquired at the date of acquisition are as follows:

Current assets	\$ 20,338
Property and equipment	518,500
Assets under capital leases	391,076
Capital lease obligation assumed	(391,076)
Goodwill	<u>4,796,386</u>
Purchase price	<u>\$ 5,335,224</u>
Purchase price consideration:	
Promissory note	\$ 1,000,000
Nightingale common shares	4,125,000
Payment of transaction costs	<u>210,224</u>
	<u>\$ 5,335,224</u>

The goodwill related to this acquisition is expected to be deductible for income tax purposes.

The company has not yet finalized the allocation of the purchase price, as stated above, for the acquisition. The preliminary allocation of the purchase price is based on management's best estimate and information available at the time of preparing these consolidated financial statements and any changes may be material.

# NIGHTINGALE INFORMATIX CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2006 AND 2005

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### 4. BUSINESS COMBINATION (Continued...)

#### Details of cash paid

Assets under capital leases	\$ (391,076)
Goodwill	(4,796,386)
Noncash assets purchases	(538,838)
Capital leases obligation assumed	391,076
Less issue costs of common shares	(29,500)
Issue of promissory note	1,000,000
Issue of common shares	<u>4,125,000</u>
Cash paid on the purchase	<u>\$ (239,724)</u>

### 5. CASH AND CASH EQUIVALENTS

	2006	2005
Cash	\$ 4,659	\$ 188,882
Term deposit	450,000	-
Bank overdraft	<u>(80,968)</u>	<u>-</u>
	<u>\$ 373,691</u>	<u>\$ 188,882</u>

Bearing interest at a bank prime-linked variable rate, the term deposit is cashable until maturity on September 5, 2006.

### 6. INVESTMENT TAX CREDITS RECEIVABLE

The Company recorded scientific research and experimental development tax credits as follows:

	2006	2005
Reduction of development expenses	<u>\$ 221,191</u>	<u>\$ 233,805</u>

### 7. DEFERRED COSTS

Included in the deferred costs is a \$119,000 purchase deposit paid and other costs in the amount of \$129,445 related to the acquisition of IHPS as disclosed in note 25. Subsequent to the year end, the transaction was completed and these amounts were reallocated to the appropriate accounts in accordance with the purchase allocation.

**NIGHTINGALE INFORMATIX CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2006 AND 2005**

**8. OTHER RECEIVABLES**

Included in other receivables is an amount of \$145,107 owed by an officer and director to the Company, which is to be offset against the amount owing to the borrower under the Company's deferred compensation plan as disclosed in note 14.

**9. PROPERTY AND EQUIPMENT**

	Cost	Accumulated Amortization	2006 Net Book Value	2005 Net Book Value
Office equipment	\$ 547,913	\$ 176,947	\$ 370,966	\$ 106,676
Furniture and fixtures	91,767	31,966	59,801	47,499
Proprietary software	1,441,393	319,555	1,121,838	406,027
Assets under capital leases - Office equipment	260,902	39,135	221,767	-
Assets under capital leases - Furniture and fixtures	<u>130,175</u>	<u>13,017</u>	<u>117,158</u>	<u>-</u>
	<u>\$ 2,472,150</u>	<u>\$ 580,620</u>	<u>\$ 1,891,530</u>	<u>\$ 560,202</u>

Amortization recorded for assets under capital leases amounted to \$52,152 for the year (2005 - \$Nil).

**10. PROMISSORY NOTE PAYABLE**

The promissory note is payable to the vendors of HealthNet (note 4) and is non-interest bearing, due 75 days after the closing date of the transaction. This promissory note becomes interest bearing after the due date at a rate equal to the bank prime rate plus 5 percent. Subsequent to year-end, the promissory note was repaid in full.

**11. DUE TO SHAREHOLDERS**

	2006	2005
Amount due to a shareholder and a director, non-interest bearing and due on demand	\$ -	\$ 9,435
Royal Bank line of credit held and secured by a shareholder and a director, due on demand, bearing interest at Royal Bank prime.	<u>-</u>	<u>149,205</u>
	<u>\$ -</u>	<u>\$ 158,640</u>

**NIGHTINGALE INFORMATIX CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2006 AND 2005**

**12. BANK LOAN PAYABLE**

	2006	2005
Interest bearing at prime plus 3% per annum, repayable in monthly principal installments of \$2,977 plus interest, due on demand, maturing February 1, 2010. The loan is secured by a general security agreement and personal guarantee of a director up to 25% of the principal amount of the loan plus interest and certain costs.	<u>\$ 148,782</u>	<u>\$ 184,506</u>

This loan was repaid in full in April 2006.

**13. CAPITAL LEASE OBLIGATIONS**

Capital lease obligations, are repayable in monthly installments totalling \$21,106, including interest at rates ranging from 5.2% to 35.8% per annum, due on various dates up to March 1, 2010 and secured by charges over office equipment and furniture and fixtures.

	2006	2005
Principal amount	\$ 391,076	\$ -
Less: current portion of principal amount	<u>185,012</u>	<u>-</u>
	<u>\$ 206,064</u>	<u>\$ -</u>

Future minimum leases payments are as follows:

2007	\$ 229,446
2008	180,267
2009	34,007
2010	<u>11,452</u>
Total	455,172
Less: Imputed interest	<u>64,096</u>
Principal	<u>\$ 391,076</u>

# NIGHTINGALE INFORMATIX CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2006 AND 2005

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### 14. DEFERRED COMPENSATION PAYABLE

Before April 1, 2005, the Company had a stock-based compensation plan whereby some employees had the option to receive a portion of their compensation earned in the form of a direct grant of common shares.

During 2006, the plan was modified to a cash based compensation plan and accordingly, the option to receive shares was cancelled.

The change in deferred compensation payable during the year is as follows:

- (a) During 2006, deferred compensation of \$134,445 was incurred and \$185,919 was paid out in the form of cash.
- (b) During 2005, deferred compensation of \$100,316 was incurred and \$440,235 was paid out in the form of 818,019 (post consolidation) common shares.

### 15. CAPITAL STOCK

- a) **Authorized**
  - Unlimited Preference shares
  - Unlimited Common shares

- b) **Common shares**

On September 1, 2005, the Company completed a consolidation of common shares, pursuant to which the holders of common shares of the Company received 0.2195125 shares on a post-consolidation basis. In total, 113,888,745 pre-consolidation shares were converted to 24,999,998 post-consolidation shares. All figures are represented on a post-consolidation basis.

	Number	Amount
Balance March 31, 2004	<u>4,776,042</u>	<u>\$ 1,061,112</u>
Proceeds of private placements	2,355,644	\$ 868,125
Issued on conversion of grid promissory note	16,902,459	500,000
Issued on settlement of deferred compensation	818,019	440,235
Issued in settlement of employee bonuses	277,683	63,250
Issued in consideration of consulting fees	56,737	51,694
Common shares cancelled during the year	<u>(186,586)</u>	<u>-</u>
Balance - March 31, 2005	<u>24,999,998</u>	<u>\$ 2,984,416</u>

# NIGHTINGALE INFORMATIX CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2006 AND 2005

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### 15. CAPITAL STOCK (Continued...)

Proceeds of private placements	975,200	\$ 775,448
Issued on amalgamation with Venquest Capital Ltd. including the issue 350,000 shares issued for the settlement of finder fees of \$350,000	3,634,125	1,306,500
Issued on exercise of stock options	62,524	77,360
Issued on exercise of agent options	14,625	15,551
Issued on acquisition of HealtheNet *	<u>3,437,500</u>	<u>4,095,500</u>
	<u>33,123,972</u>	<u>\$ 9,254,775</u>
Share purchase loan **	<u>-</u>	<u>(94,329)</u>
Balance - March 31, 2006	<u>33,123,972</u>	<u>\$ 9,160,446</u>

\* 5,104,167 common shares were issued on the purchase of HealtheNet. Only 3,437,500 common shares are included in the above note because 1,666,667 common shares with value of \$2,000,000 are subject to the performance escrow and have been excluded in the purchase price of the acquisition. See note 4. Including the 1,666,667 common shares issued, the total common shares outstanding at March 31, 2006 is 34,790,639.

\*\* The loan to an officer in the amount of \$94,329 for purchase of common shares is classified as a reduction of shareholders' equity. Loan repayments will result in a corresponding increase in share capital. Non-interest bearing, the loan is secured by 219,513 common shares of the Company. The loan may be repaid at any time prior to maturity on February 27, 2010.

### c) Stock option plan

The Company has adopted a stock option plan that permits the Board of Directors to grant employees, officers, directors and consultants of the Company non-transferable stock options to purchase up to 10% of the common shares issued and outstanding at any time. Under the plan, no individual person may own greater than 5% of the outstanding stock options. The options vest generally over four years and are exercisable for a maximum term of five years.

**NIGHTINGALE INFORMATIX CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2006 AND 2005**

15. **CAPITAL STOCK** (Continued...)

The fair value of the options granted was estimated using the Black-Scholes option pricing model with the following assumptions:

Risk-free rate	3.5%
Expected volatility	50.0%
Expected dividend yield	0.0%
Expected life of option (in years)	2.4 to 4.0

i) **Summarized information relative to the Company's stock option plan**

	Number of Options	Weighted Average Exercise Price
Outstanding - March 31, 2005	302,973	\$ 0.68
Granted	2,585,445	\$ 1.25
Exercised	(62,524)	\$ 0.77
Forfeited / Cancelled	<u>(70,324)</u>	\$ 0.92
Outstanding - March 31, 2006	<u>2,755,570</u>	\$ 1.21

ii) **Summarized information relative to stock options outstanding and exercisable at March 31, 2006**

	Exercise Price	Number Outstanding at March 31, 2006	Exercisable	Remaining Contracted Life (Years)
Outstanding	\$ 0.46	144,326	101,110	1.91
	0.77	265,727	265,727	3.34
	0.91	122,517	32,550	3.89
	1.00	693,500	25,000	4.15
	1.25	185,000	-	3.52
	1.50	<u>1,344,500</u>	<u>250,000</u>	4.61
		<u>2,755,570</u>	<u>674,387</u>	

NIGHTINGALE INFORMATIX CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2006 AND 2005

15. **CAPITAL STOCK** (Continued...)

iii) **Summary of the weighted average grant-date fair value of options granted during the year**

	Number of Options Issued	Weighted Average of Exercise Price	Weighted Average of Fair value of Option
Exercise price equals to the market price of the stock on the grant date	812,695	\$ 1.06	\$ 0.44
Exercise price exceeds the market price of the stock on the grant date	1,344,500	\$ 1.50	\$ 0.58
Exercise price is less than the market price of the stock on the grant date	428,250	\$ 0.82	\$ 0.48

d) **Agent options (broker warrants)**

The Company issued agent options for a private placement during the year. In addition, the Company replaced outstanding agent options from Venquest. The options vest on issue and are exercisable for a maximum term of one and a half years.

The fair value of the options granted during the year ended March 31, 2006 was estimated using the Black-Scholes option pricing model with the following assumptions:

Risk-free rate	3.5%
Expected volatility	50.0%
Expected dividend yield	0.0%
Expected life of option (in years)	0.6 to 1.2

i) **Summarized information relative to agent options**

	Number of Options	Weighted Average Exercise Price
Outstanding - March 31, 2005	-	\$ -
Issued	287,645	\$ 0.85
Exercised	<u>(14,625)</u>	\$ 0.77
Outstanding - March 31, 2006	<u>273,020</u>	\$ 0.85

NIGHTINGALE INFORMATIX CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2006 AND 2005

15. CAPITAL STOCK (Continued...)

ii) Summarized information relative to agent options outstanding and exercisable

	Exercise Price	Number Outstanding at March 31, 2006	Exercisable	Remaining Contracted Life (Years)
Outstanding	\$ 0.77	175,500	175,500	0.21
	1.00	<u>97,520</u>	<u>97,520</u>	0.92
		<u>273,020</u>	<u>273,020</u>	

iii) Summary of the weighted average grant-date fair value of options granted during the year

	Number of Options Issued	Weighted Average of Exercise Price	Weighted Average of Fair value of Option
Exercise price equals to the market price of the stock on the grant date	97,520	\$ 1.00	\$ 0.23
Exercise price is less than the market price of the stock on the grant date	190,125	\$ 0.77	\$ 0.29

# NIGHTINGALE INFORMATIX CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2006 AND 2005

### 16. CONTRIBUTED SURPLUS

Included in contributed surplus is the fair value of common share stock options granted to employees and non-employees at the date of grant using the Black Scholes model on the assumption that 100% of the options granted will be vested. The contributed surplus and the corresponding stock-based compensation will be reduced to reflect any options forfeited or cancelled before they are vested.

Upon exercise of the common stock options, amounts previously credited to contributed surplus are reversed and credited to share capital.

Changes in contributed surplus up to March 31, 2006 are as follows:

	Number	Amount
<b>Common share stock option</b>		
Balance March 31, 2004	278,232	\$ 59,820
Issued	233,278	51,116
Forfeited / cancelled	<u>(208,537)</u>	<u>(37,929)</u>
Balance March 31, 2005	302,973	\$ 73,007
<b>Stock options plan</b>		
Issued	2,585,445	\$ 465,282
Exercised	(62,524)	(29,217)
Forfeited / cancelled	(70,324)	(9,012)
<b>Agent options plan</b>		
Issued	287,645	137,368
Exercised	<u>(14,625)</u>	<u>(4,290)</u>
Stock options - balance at March 31, 2006	<u><u>3,028,590</u></u>	\$ 633,138
<b>Share Grant</b>		
Common shares to be issued *	<u>135,000</u>	<u>\$ 183,600</u>
Balance March 31, 2006		<u><u>\$ 816,738</u></u>

\* At the year end the Company owed 135,000 common shares to officers as bonuses in lieu of cash compensation. These shares were subsequently issued in April 2006.

# NIGHTINGALE INFORMATIX CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2006 AND 2005

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### 17. INTEREST

	2006	2005
Interest on bank loan	\$ 12,661	\$ 14,245
Interest on capital lease obligations	1,632	-
Other interest	<u>6,078</u>	<u>-</u>
	<u>\$ 20,371</u>	<u>\$ 14,245</u>

### 18. SUPPLEMENTARY CASH FLOW INFORMATION

	2006	2005
Interest paid	<u>\$ 17,804</u>	<u>\$ 14,245</u>
Income tax paid	<u>\$ -</u>	<u>\$ -</u>
Non-cash transaction		
Common shares issued as consideration for finder fees related to Venquest transaction as described in note 3	<u>\$ 350,000</u>	<u>\$ -</u>

### 19. RELATED PARTY TRANSACTIONS

The following table summarized the Company's related party transactions during the year:

	2006	2005
Interest paid to a company controlled by the spouse of an officer and director	<u>\$ 11,039</u>	<u>\$ 6,773</u>
Interest paid on amounts due to an officer and director	<u>\$ 2,017</u>	<u>\$ 5,980</u>
Sales to a company owned by related individuals	<u>\$ -</u>	<u>\$ 250,935</u>
Advances for common shares receivable from officers of the Company	<u>\$ -</u>	<u>\$ 113,125</u>
Common shares issued on conversion of a grid promissory note due to a company with a director and shareholder in common	<u>\$ -</u>	<u>\$ 500,000</u>
Included in accounts payable and accrued liabilities: Reimbursable expenses of officers and directors	<u>\$ 20,225</u>	<u>\$ -</u>
Included in deferred compensation payable: Cash due to an officer and director	<u>\$ 402,012</u>	<u>\$ 291,845</u>

These transactions were recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties, which approximates market rates in management's opinion.

# NIGHTINGALE INFORMATIX CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2006 AND 2005

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### 20. FINANCIAL INSTRUMENTS

#### (a) Credit risk

The company is exposed to credit risk on the accounts receivable from its customers. In order to reduce its credit risk, the company has adopted credit policies which include the analysis of the financial position of its customers and the regular review of their credit limits. As at March 31, 2006 approximately 15% of the balance of trade receivables was from one Ontario-based hospital.

#### (b) Foreign exchange risk

The Company is exposed to foreign exchange risk as a result of transactions in currencies other than its functional currency, the Canadian dollar. Portions of the revenues and expenses were denominated in U.S. dollars. At March 31, 2006, net monetary assets in the amount of \$215,000 were denominated in U.S. dollars.

#### (c) Fair value

The book values of the cash, accounts receivable, investment tax credit receivable, bank indebtedness, accounts payable and accrued liabilities, shareholder advances, and current portion of long-term debt approximate their respective fair values due to the short-term nature of these instruments.

The book value of the bank loan, loan payable and equipment loan included in long-term debt approximates their fair values because management estimates that these loans with variable interest rates have no significant differences between their fair value and their carrying value, based on rates currently available to the Company on loans with similar terms and remaining maturity.

# NIGHTINGALE INFORMATIX CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2006 AND 2005

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### 21. SEGMENTED INFORMATION

During the year ended March 31, 2006, the Company operated within a single operating segment across two geographical regions. Information with respect to geographic areas is as follows:

	2006	2005
<b>Revenue (Cdn \$)</b>		
Canada	\$ 3,419,812	\$ 1,884,286
United States	<u>793,227</u>	<u>-</u>
	<u>\$ 4,213,039</u>	<u>\$ 1,884,286</u>
<b>Capital assets and goodwill net (Cdn \$)</b>		
Canada	\$ 1,881,330	\$ 560,203
United States	<u>4,806,586</u>	<u>-</u>
	<u>\$ 6,687,916</u>	<u>\$ 560,203</u>

### 22. COMMITMENTS

The minimum rentals payable under long-term operating leases for equipment and premises, exclusive of certain operating costs for which the Company is responsible, are as follows:

2007	\$ 219,213
2008	\$ 232,230
2009	\$ 220,081
2010	\$ 212,279
2011	\$ 160,389

Commitments with respect to capital leases are disclosed in note 13.

# NIGHTINGALE INFORMATIX CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2006 AND 2005

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### 23. INCOME TAXES

The tax effect of temporary differences that give rise to significant components of the Company's future tax assets and future tax liabilities at March 31 are presented below:

	2006	2005
Future tax assets (liabilities)		
Non-capital losses	\$ 2,097,501	\$ 1,289,637
Deductible share issue costs	219,658	-
Excess of book value of capital assets over tax value	<u>(44,078)</u>	<u>(7,914)</u>
	2,273,081	1,281,723
Valuation allowance	<u>(2,273,081)</u>	<u>(1,281,723)</u>
Net future tax assets	<u>\$ -</u>	<u>\$ -</u>

In assessing the realizability of future income tax assets, management considers whether it is more likely than not that some portion or all of the future income tax assets will not be realized. The ultimate realization of future income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. A valuation allowance was provided against the net future income tax assets at March 31, 2006 due to the uncertainty as to their ultimate realization.

The Company has non-capital income tax losses available to reduce the future taxable income. These losses expire as follows:

2008	\$ 517,834
2012	1,714,384
2013	1,106,513
2014	253,197
2016	<u>2,218,323</u>
	<u>\$ 5,810,251</u>

## NIGHTINGALE INFORMATIX CORPORATION

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2006 AND 2005

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#### 24. LEGAL

In the normal course of business, the Company is exposed to various claims and possible claims, the outcome of each is unpredictable. In management's opinion, the settlement of these claims, if any, should not have a significant impact on the Company's financial position.

#### 25. SUBSEQUENT EVENTS

##### a) Acquisition

On April 1, 2006, the Company completed its purchase of the assets of Integrated Healthware Inc., a healthcare software provider for the U.S. market and its affiliate, Physician Strategies LLC, a Massachusetts-based practice management firm focused on providing claims processing services to U.S. physicians (collectively referred to as "IHPS"). The agreement to acquire IHPS was originally announced on January 12, 2006. IHPS shareholders received total consideration of US\$6 million, which included US\$2.5 million in cash, US\$0.6 million in a promissory note, US\$0.9 million in common shares of Nightingale and US\$2 million in the form of a performance-based earnout. The earnout is contingent on meeting revenue targets over a three-year period and will be paid on a basis of 80% in shares and 20% in cash, with share price of these earnout shares based on the 20-day average closing price of Nightingale's common shares prior to the release of the fiscal 2007, 2008 and 2009 financial statements.

IHPS generated revenue as of year ending December 31, 2005, of US\$3.7 million, based on its audited financial statements.

##### b) Debt Financing

On April 27, 2006, Nightingale closed a non-brokerage \$7 million debt financing. The financing was led by VRG Capital, a division of the Vimy Ridge Group Ltd., representing a syndicate of lenders, and consisted of \$5 million in subordinated debt and \$2 million line of credit facility provided by Greenfield Commercial Credit Inc., both of which were secured against assets of the Company and its subsidiaries. The subordinated debt has a two-year term at a rate of 10% with no rights and included the issuance of 1.25 million common share purchase warrants ("Warrants"). Each Warrant entitles the holder to purchase one common share of Nightingale for a purchase price of \$1.50 per common share for up to two years from the date of closing. The line of credit has a maximum one year term at floating prime rate plus 2%. The proceeds of the financing will be used to fund the IHPS acquisition and for general working capital purposes. Subsequent to the private placement below, the \$5 million in subordinate debt was fully repaid.

A director of the Company is a director of both Vimy Ridge Group Ltd., and Greenfield Commercial Credit Inc.

## NIGHTINGALE INFORMATIX CORPORATION

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2006 AND 2005

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#### 25. **SUBSEQUENT EVENTS** (Continued...)

##### c) **Private Placement**

On June 20, 2006, Nightingale completed a private placement financing (the "Offering") comprised of a total of 7,700,000 Units (the "Units") of the Company at a price of \$1.30 per Unit for aggregate gross proceeds of \$10,010,000. Each Unit consists of one common share (the "Common Shares") of the Company and one half of one common share purchase warrant (the "Warrants"), with each whole Warrant being exercisable to acquire an additional Common Share at a price of \$1.60 for a period of 24 months following the closing of the Offering. All securities issued under the Offering were subject to hold periods until October 21, 2006.

The Offering was underwritten by Clarus Securities Inc. who was paid a cash commission of 7% on closing of the Offering and granted 770,000 compensation options (the "Compensation Options"). Each Compensation Option entitles the holder to acquire one Unit under the same terms and conditions as the Offering, for a period of 24 months following the closing of the Offering.

The net proceeds of the offering were to be used by the Company for working capital, retirement of debt and general corporate purposes.

A director of the Company is a director of Clarus Securities Inc.

#### 26. **COMPARATIVE AMOUNTS**

Certain of the prior year figures have been reclassified to conform with the current year's presentation.