



## **NIGHTINGALE INFORMATIX CORPORATION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the Three and Six Months Ended September 30, 2006**

*Management's Discussion and Analysis ("MD&A") supplements, but does not form part of the consolidated financial statements and notes of Nightingale Informatix Corporation ("Nightingale" or the "Company") for the period.*

*This MD&A, prepared as of November 1, 2006, should be read in conjunction with the Company's Consolidated Annual Financial Statements for the period ended March 31, 2006 as well as with the Company's Consolidated Interim Financial Statements for the period ended September 30, 2006.*

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*This discussion and analysis provides an overview of significant developments that have affected Nightingale's performance during the three and six months ended September 30, 2006.*

*The unaudited interim consolidated financial statements referred to in this MD&A have been prepared in accordance with Canadian generally accepted accounting principles and are consistent with those used in the Company's year-end audited financial statements. All figures herein are expressed in Canadian dollars unless otherwise noted.*

*The Company's Chief Executive Officer and Chief Financial Officer are responsible for maintaining the Company's disclosure controls and procedures. Based on an evaluation of the Company's disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures operated effectively as of March 31, 2006.*

*This MD&A contains "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 and applicable Canadian securities legislation. Generally, forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of Nightingale to be materially different from those expressed or implied by such forward-looking statements, including but not limited to: risks related to the speculative nature of the medical software industry, which is affected by numerous factors beyond Nightingale's control; the existence of present and possible future government regulation; the ability to successfully integrate its acquisitions and any liabilities arising as a result of such acquisitions; the significant and increasing competition that exists in the medical software industry; the early stage of Nightingale's business; and therefore it is subject to the risks associated with early stage companies, including uncertainty of revenues, markets and profitability and the need to raise additional funding. Although Nightingale has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. Nightingale does not undertake to update any forward-looking statements that are incorporated by reference herein, except in accordance with applicable securities laws.*

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### 1. OVERVIEW

#### ***Business Description***

Nightingale Informatix Corporation ("Nightingale" or the "Company") operates in a single business segment and its 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.

Nightingale's Internet-based Electronic Health Record (EHR), Electronic Medical Record (EMR) and practice management solutions are designed to help physicians, clinics, hospitals and other healthcare organizations more efficiently manage their operations and patient records. Nightingale's products and services offer physicians in the United States and Canada leading-edge functionality for clinical documentation, patient scheduling, resource scheduling, billing, transcription, end-to-end coding and claims processing, data management, work flow tools, laboratory interfaces, documentation management and patient portals, along with other real-time services. The Company's proprietary offerings of software include myNightingale, Entity and Physician WorkStation, providing physicians with a fully integrated, simple-to-use system that automates daily tasks and creates a single, accessible source of patient data.

Nightingale's revenue model consists of several different components dependant on the type of solution being provided. For its software solutions, Nightingale either charges up-front license fees for its software products, with annual support and maintenance fees charged to deliver software updates and support, or alternatively Nightingale charges a monthly utilization fee for access to the software, without any sale of license. In addition, Nightingale charges customers for training and implementation services, hardware and any ancillary services utilized. For data management and transcription services, Nightingale charges per report or per minute transcribed and for billing services the Company charges a percentage of the customer charges billed.

Nightingale's solutions are currently being utilized by an established customer base of physicians, clinics and hospitals across North America.

Nightingale intends to continue growing organically in Canada and the U.S. through continued sales to hospitals, health associations, regional health authorities and clinical networks ("Enterprise" customers), and sales to small/ medium sized clinics ("SMB" customers). The Company also intends to grow through an acquisition strategy focused on complementary healthcare software solution or service companies in Canada and the U.S.

#### ***Accomplishments***

During the period, Nightingale:

- Completed the integration of HealtheNet and IHPS and optimized the operations which contributed to the 14% improvement in gross profit margin (from 58% to 72%).
- Engaged clients from the acquired businesses and built a respectable pipeline in the US markets
- Focused on the implementation and roll-out of the large Enterprise contracts

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- Increased investment in sales, marketing and professional services
- Increased investment in core products and planned future products

### *Initiatives and Outlook*

- The healthcare IT market continue to show signs of strong growth in both Canada and the US with many initiatives and new request for proposals (RFPs) announced
- Nightingale's reputation in the Enterprise market well positions the Company as a contender for upcoming healthcare initiatives
- The US market is expected to provide the primary source of growth in Nightingale's revenue in the coming financial periods
- Nightingale demonstrated reduced losses on a quarter over quarter basis during this fiscal year
- The Company expects its new products will receive strong acceptance with new and existing customers

## 2. DISCUSSION OF OVERALL PERFORMANCE, RESULTS OF OPERATIONS AND FINANCIAL CONDITION

**Revenue:** During the three month period ended September 30, 2006, the Company generated revenue of \$3.5 million, a 17% increase over \$3 million generated in the previous three month period ended June 30, 2006. This increase is attributed primarily to higher software sales revenue from new sales in the period. Revenue of \$3.5 million and \$6.5 million over the three and six month respective periods ended September 30, 2006 represents a 199% and 197% increase over \$1.2 million and \$2.2 million generated over the same respective periods in fiscal 2006. This overall significant increase in revenue is attributed primarily to additional revenue generated from the operations of the two recently completed acquisitions of IHPS and HealthNet.

**Gross Profit:** Gross profit of \$2.5 million for the quarter ended September 30, 2006, representing a gross profit margin of 72%, was a significant improvement over the previous quarter ended June 30, 2006, which had a gross profit of \$1.8 million and a gross profit margin of 58%. This significant improvement resulted from two factors: 1) Nightingale has undertaken a number of initiatives to promote more efficient delivery of services and a reduction of direct costs specifically related to the operations of the two recent acquisitions, and 2) The Company benefited from higher new software sales revenue, with inherently higher gross profit margins, during the period. Gross profit of \$2.5 million and \$4.3 million, representing gross profit margins of 72% and 66%, over the three and six month respective periods ended September 30, 2006 is a 137% and 121% increase over \$1.1 million and \$1.9 million, representing gross profit margins of 91% and 89%, generated over the same respective periods in fiscal 2006. The relatively lower gross margins during the three and six month periods this fiscal year versus last fiscal year are a direct result of lower gross profit margins generated in the operations of the newly acquired businesses, implicit in their higher mix of services versus software sales.

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	Fiscal Year ended March 31, 2005	Q1 ended June 30, 2005	Q2 ended September 30, 2005	Q3 ended December 31, 2005	Q4 ended March 31, 2006	Fiscal Year ended March 31, 2006	Q1 ended June 30, 2006	Q2 ended September 30, 2006
<b>Revenue</b>	1,884,286	1,011,290	1,168,269	1,204,190	829,290	4,213,039	2,989,106	<b>3,492,882</b>
<b>Gross Profit</b>	1,500,247	867,756	1,062,191	1,093,034	585,314	3,608,295	1,746,338	<b>2,512,466</b>
<b>Expenses</b>	2,630,747	1,021,783	1,341,009	1,564,609	2,681,088	6,608,488	4,067,343	<b>3,596,717</b>
<b>Adjusted EBITDA (non-GAAP measure)</b>	-939,111	-119,530	-71,293	-306,809	-1,582,380	-2,080,112	-1,385,463	<b>-658,287</b>
<b>Net Loss for the Period</b>	-1,130,500	-154,027	-278,818	-471,574	-2,095,775	-3,000,193	-2,321,005	<b>-1,084,251</b>
<b>Net Loss per Common Share</b>	-0.17	-0.01	-0.01	-0.02	-0.07	-0.11	-0.07	<b>-0.03</b>
<b>Weighted Average # of Common Shares</b>	6,577,695	24,999,998	26,468,386	27,049,117	30,171,627	27,650,877	34,551,915	<b>41,817,643</b>
<b>Total Assets</b>	2,696,362	2,270,572	4,620,167	4,757,802	9,521,507	9,521,507	18,550,405	<b>17,825,469</b>
<b>Total Long Term Liabilities</b>	1,071,713	1,298,600	1,538,325	1,590,486	1,795,520	1,795,520	1,826,080	<b>1,571,731</b>

**Expenses:** During the three month period ended September 30, 2006, the Company incurred expenses of \$3.6 million which represents a 12% decrease in expenses over the \$4.1 million over the previous three month period ended June 30, 2006. This cost savings was primarily due to the elimination of notional interest expense on the interim debt financing used for the recent acquisitions. Expenses of \$3.6 million and \$7.7 million, at 103% and 118% of revenue, for the three and six month periods ended September 30, 2006 is consistent with expenses of \$1.3 million and \$2.4 million, at 115% and 108% of revenue, in the same periods of fiscal 2006 on a percentage basis.

**Adjusted EBITDA (non-GAAP measure):** Beginning in this period's MD&A, the Company will provide an Adjusted EBITDA calculation (see 4. Non-GAAP Measures to understand definition and reconciliation to Net Income) to help investors better understand the performance of the business. Over the three and six month periods ended September 30, 2006, Adjusted EBITDA was -\$0.66 million and -\$2 million respectively. Adjusted EBITDA of -\$0.66 million in this quarter ended September 30, 2006 was a significant improvement over Adjusted EBITDA of -\$1.4 million in the last fiscal quarter ended June 30, 2006, primarily as a result of improved gross profit. In fiscal 2006, Adjusted EBITDA for the three and six month periods ended September 2006 was -\$0.72 million and -\$0.19 million respectively.

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	3 months ended September 30, 2006	6 months ended September 30, 2006
<b>Adjusted EBITDA Calculation</b>		
Net Income/ Loss	\$ (1,084,251)	\$ (3,405,256)
+ Interest,	38,371	587,010
+ Taxes,	-	-
+ Depreciation and Amortization	230,633	394,318
+ Stock-based Compensation	<u>156,960</u>	<u>380,178</u>
= Adjusted EBITDA	\$ (658,287)	\$ (2,043,750)

**Net Loss:** Net loss for the three months ended September 30, 2006 was \$1.1 million, or 31% of revenue. This compares to a net loss of \$2.3 million, or 78% of revenue for the previous quarter ended June 30, 2006. Net loss of \$1.1 million, and \$3.4 million, for the three month and six month periods ended September 30, 2006, is significantly higher than the net loss of \$0.28 million and \$0.43 million for the same three and six month period last fiscal year, largely a result of the increased scale of operation across the business following the two recent acquisitions.

### 3. LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents available to Nightingale on September 30, 2006 was \$2 million.

**Cash Flow from Operating Activities:** Cash flow used in operations in the three months ended September 30, 2006 totalled \$1.4 million, compared to \$0.25 million for the same quarter last fiscal year. The most significant areas adjusting net income to cash flow used in operations included an increase in accounts receivable of \$0.94 million, a decrease in accounts payable of \$0.18 million, and an increase in deferred revenue of \$0.30 million. The sizable increase in accounts receivable is the result of a higher proportion of new sales generated in the last two weeks of the quarter. For the six months ended September 30, 2006, cash flow used in operations totalled \$3.9 million, versus \$0.20 million of cash provided from operations for the same period in fiscal 2006. During the period ended September 30, 2006, areas adjusting net income to cash flow used in operations included an increase in accounts receivable of \$1.6 million, an adjustment for notional interest relating to the debt financing of \$0.43 million, an increase in deferred revenue of \$0.66 million, and a decrease in deferred compensation payable of \$0.29 million. Also included is an adjustment for a decrease in working capital of \$0.68 million related to the IHPS acquisition, since this did not actually contribute to cash flows of the Company.

**Cash Flow from Investing Activities:** During the three months ended September 30, 2006, cash flow used in investing activities was \$0.30 million compared to \$0.06 million for the same quarter of last fiscal year. Cash flow used in investing activities over the six month period ending September 30, 2006 was \$3.4 million, compared to \$0.15 million for the same period in fiscal 2006. Included in this amount, for the six month period ended September 30, 2006, was \$3 million used for the purchase of IHPS and \$0.43 million used for the purchase of property and equipment.

**Cash Flow from Financing Activities:** Cash flow from financing activities in the three months ended September 30, 2006 totalled \$0.07 million, with the largest components being an increase in capital stock

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of \$0.16 million and a decrease in notes payable of \$0.25 million. Cash flow from financing activities in the six months ended September 30, 2006 totalled \$8.9 million, with the largest components being an increase in capital stock of \$ 9.4 million, reflecting the shares issued for the private placement closed on June 20, 2006 through Clarus Securities Inc. Also included in cash flow from financing activities, over the six month period, is a \$1.5 million repayment of notes payable used by the Company, of which \$1 million was paid on the HealtheNet acquisition, with the remaining \$0.48 million (or US\$0.40 million) paid on the IHPS acquisition. Other activities include an increase of \$0.97 million in the line of credit provided by Greenfield Commercial Credit Inc. (see note 4 of the September 30, 2006 interim financial statements) and the repayment in full of \$0.15 million in bank loan, required as per the terms of the new line of credit. Not reflected under financing activities is the \$5 million in subordinated debt which was used as interim funding of the acquisitions during the previous fiscal quarter and subsequently retired during the period on closing of the private placement, hence having no overall impact on cash flow from financing. In comparison, over the same three and six months in fiscal 2006, cash flows from financing totalled \$2.3 million and \$2.3 million respectively, of which, \$2.4 million was a direct result of new funding provided through the amalgamation of Venquest Capital Ltd. and the private placement concluded on September 1, 2005.

Over the three month period ended September 30, 2006, current assets decreased by \$0.83 million to \$5.5 million while current liabilities increased by \$0.30 million to \$5 million resulting in a decrease in total working capital of \$1.1 million.

With cash of \$2 million, the Company believes that under its current business plan it has sufficient cash to sustain its operations for the foreseeable future however, it should be noted that Nightingale is currently not yet generating positive cash flows from its operations and is still highly dependent on new sales every period to minimize and eventually eliminate its cash usage. Up until the point where the Company is able to generate and predict continued positive cash flows from recurring revenue, the Company faces risk in utilizing its existing cash resources and potentially requiring further cash infusions from investors to maintain its operations.

#### 4. NON-GAAP MEASURES

The Company internally measures its performance and results of initiatives through a number of non-GAAP measures. We have included the measure below in this MD&A since we believe that this information would be useful to investors to help evaluate the performance of the Company.

Name	Definition
Adjusted EBITDA	Net Income/ Loss + Interest, + Taxes, + Depreciation and Amortization <u>+ Stock-based Compensation</u>  = Adjusted EBITDA

#### 5. CONTRACTUAL OBLIGATIONS

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

Fiscal Year	Amount
2007 (remaining portion of year)	\$206,382
2008	313,523
2009	217,544
2010	123,604
2011	59,246

#### 6. TRANSACTIONS WITH RELATED PARTIES

The Company continued to make payments on four year leases held by a related party, Asadi Lewis & Associates, for equipment utilized by Nightingale. These leases, with a term from October 15, 2004 to September 15, 2008 are for computer hardware utilized as part of Nightingale's production infrastructure, with a total obligation of \$0.16 million, resulting in monthly payments of \$3,346 and interest paid of \$2,265 during the period. The Company also increased deferred compensation due to an officer and director, resulting in a balance at the end of the period of \$0.12 million due to the officer and director. This amount was not paid in cash as compensation but was deferred for payment in future payments.

Item	3 months ended September 30, 2006
Interest paid to a company controlled by the spouse of an officer and director	2,057
Increase in deferred compensation payable: Cash due to officers and directors	24,000

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.

In addition, as disclosed in Note 7.c and Note 7.d, a director of the Company is a related party in several material transactions that took place during the period.

#### 7. SIGNIFICANT EVENTS

The following significant events impacted the Company during the six month interim period ended September 30, 2006.

##### a. Acquisition of HealthNet (completed in fiscal 2006)

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 paid by the Company was \$7.1 million which was comprised of \$1 million in

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a promissory note and the issuance of 5.1 million common shares of the Company valued at \$6.1 million (\$1.20 per common share). Included in the 5.1 million common shares issued, are 1.7 million common shares valued at \$2 million which are subject to a performance based escrow whereby the shares may be released subject to 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 million contingent consideration has been excluded in the recorded purchase price. Therefore the aggregate recorded purchase price, including transaction costs of \$0.21 million, is \$5.3 million. 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 Healthenet, from the date of acquisition, are included in the consolidated statements of operations and deficit and cash flows of the Company. The goodwill related to this acquisition is expected to be deductible for income tax purposes.

The Company paid \$0.21 million in cash for the acquisition of HealthNet for transaction costs. An additional \$0.03 million of share issue costs was applied against common shares issued, resulting in total cash paid of \$0.24 million.

#### **b. Acquisition of IHPS**

On April 1, 2006, the Company completed its purchase of the assets of Integrated Healthcare 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 \$7 million (US\$6 million), which included \$2.8 million (US\$2.4 million) in cash, \$0.70 million (US\$0.60 million) in a promissory note, the issuance of 0.59 million common shares of Nightingale valued at \$1 million (US\$0.90 million @ \$1.52 per common share) and \$2.3 million (US\$2 million) in the form of a performance-based earnout. The earnout is contingent on certain 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. Since the outcome of the contingent consideration cannot be determined beyond reasonable doubt, the \$2.3 million (US\$2 million) contingent consideration has been excluded in the recorded purchase price. Therefore the aggregate recorded purchase price is \$4.6 million (US\$3.9 million). Once the outcome of the contingency is determinable beyond a reasonable doubt, any 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 IHPS, from the date of acquisition, are included in the consolidated statements of operations and deficit and cash flows of the Company. The goodwill related to this acquisition is expected to be deductible for income tax purposes.

The Company paid \$3 million in cash for the acquisition of IHPS, including transaction costs. An additional \$0.01 million of share issue costs was applied against common shares issued, resulting in total cash paid of just over \$3 million.

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#### c. Debt Financing

On April 27, 2006, Nightingale closed a \$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 a \$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 had a two-year term at a rate of 10% and included the issuance of 1.25 million common share purchase warrants ("Warrant"). 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 described below, the \$5 million in subordinate debt was fully repaid. A director of the Company is a director of both The Vimy Ridge Group Ltd. and Greenfield Financial Group Inc., parent to Greenfield Commercial Credit Inc.

The \$5 million in proceeds received from the issuance of the subordinated debt and Warrants has been allocated based on the relative fair value of the subordinated debt and Warrants. As a result, \$4.6 million was allocated to subordinated debt and \$0.43 million was allocated to warrants. The \$0.43 million was recorded as notional interest in the statement of operations since the debt was fully repaid during the three months ended June 30, 2006.

#### d. Private Placement

On June 20, 2006, Nightingale completed a private placement financing (the "Offering") comprised of a total of 7.7 million units (the "Units") of the Company at a price of \$1.30 per Unit for aggregate gross proceeds of \$10 million. Each Unit consists of one common share of the Company and one half of one common share purchase warrant (the "Unit Warrant"), with each whole Unit 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 0.77 million 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. A director of the Company is a director of Clarus Securities Inc. The Compensation Options were determined to have a fair value of \$0.37 million using the Black-Scholes option pricing model with the same assumptions as the Warrants, described above.

Net proceeds of \$8.8 million received from the issuance of the Units has been allocated based on the relative fair value of the common shares and Unit Warrants, with \$7.8 million allocated to common shares and \$0.99 million allocated to the Unit Warrants. The fair value of the Unit Warrants were determined using the Black-Scholes option pricing model and the same assumptions as the Warrants issued under the Debt Financing.

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#### 8. RISKS AND UNCERTAINTIES

- a. The market for Nightingale's products and services has only recently begun to develop. As is typical for a new and rapidly evolving industry, demand and market acceptance for recently introduced services and products are subject to a high level of uncertainty. There is no assurance that Nightingale's sales will continue to increase or that it will even be able to maintain current levels. Market conditions will determine Nightingale's success in the future. There is also no assurance that Nightingale will earn profits in the future or that any profitability will be sustained.
- b. Direct competition among providers of medical software products and services is likely to increase as demand for these products increases. Increased competition is likely to result in price reductions, reduced gross margins, longer sales cycles and loss of market share, any of which would seriously harm Nightingale's business and results of operations. Management of Nightingale cannot be certain that Nightingale will be able to compete successfully against current or future competitors or that competitive pressure will not seriously harm its business.
- c. Some of Nightingale's potential competitors are larger than Nightingale and have greater financial, sales, marketing, technical, manufacturing and other resources. These competitors may be able to respond more rapidly to new or emerging products and changes in customer requirements or devote greater resources to the development, promotion and sale of their products than Nightingale can. Furthermore, some of these competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties in the industry to increase their ability to rapidly gain market share by addressing the needs of prospective customers.
- d. Nightingale, like any other business, faces an inherent risk of exposure to product and service liability claims in the event that the use of its products and services results in loss of a customer's data or ability to effectively operate their own business. Although Nightingale believes it has sufficient liability insurance coverage in accordance to the standards of its industry, such coverage is subject to standard limitations and exclusions. Product liability claims could have a material adverse effect on Nightingale. The successful assertion or settlement of any uninsured claim, a significant number of insured claims or a claim exceeding Nightingale's insurance coverage could have a material adverse effect on Nightingale.
- e. Nightingale is dependent on its management. This dependence can be expected to continue over the short and medium term as Nightingale's business expands and matures. Nightingale's ability to develop, market and sell its products and services and to maintain its competitive position depends on its ability to attract, retain and motivate highly skilled technical, sales and marketing and other personnel. Nightingale plans to expand its sales and marketing efforts, particularly in Canada, in order to increase market awareness. Nightingale also plans to increase its research and development personnel to develop new products, and to increase its customer service and support personnel in North America to support the growth of its business. There are a limited number of people with the necessary technical skills and understanding, and competition for their services is intense. If Nightingale fails to recruit or retain these personnel, its ability to develop new products, obtain new customers and provide an acceptable level of customer service could suffer.
- f. The healthcare information technology industry is susceptible to technological advances and the introduction of new technologies. Further, this industry is also subject to changing industry standards, market trends and customer preferences and to competitive pressures which can,

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among other things, necessitate revisions in pricing strategies, price reductions and reduced profit margins. The success of Nightingale will depend, in part, on its ability to secure technological superiority in its products and operations and maintain such superiority in the face of new technologies. No assurance can be given that further modification of product offerings of Nightingale will not be required in order to meet demands or to make changes necessitated by developments made by competitors that might render services and operations of Nightingale less competitive. The future success of Nightingale will be influenced by its ability to continue to adapt its products. Although Nightingale has committed resources to improve its products, there can be no assurance that these efforts will increase profits.

- g. Nightingale may experience fluctuations in future quarterly operating results that may be caused by many factors, including: (i) variability of sales to new and existing customers, (ii) changes in the level of marketing and other operating expenses to support future growth, (iii) competitive factors; and (iv) the timing of delivery. Consequently, Nightingale believes that period-to-period comparisons of its operating results will not necessarily be meaningful and should not be relied upon as an indication of future performance. It is likely that Nightingale's future quarterly operating results from time to time will not meet the expectations of securities analysts or investors, which may have a material adverse effect on the market price of the Company Common Shares.
- h. Nightingale is currently not generating positive cash flows from its operations and is still highly dependent on new sales every period to minimize its cash usage. Up until the point where the Company is able to generate and predict continued positive cash flows from recurring revenue, the Company faces risk in utilizing its existing cash resources and potentially requiring further cash infusions from investors to maintain its operations.
- i. The sales cycle of Nightingale's products and services is lengthy and unpredictable. While customers are evaluating Nightingale's product offering, Nightingale may incur expenses and expend management effort. The result of making these expenditures, with no corresponding revenue in any given quarter, could further exacerbate fluctuations of the quarterly operating results of Nightingale.
- j. Nightingale plans to further increase its presence in the United States. Its efforts may not be successful to the degree that management expects. Further, international operations are influenced by numerous inherent risks, including: unexpected changes in regulatory requirements, tax rate or tariffs that make Nightingale's products and services more expensive and therefore less attractive to potential customers; longer accounts receivable payment cycles and possible difficulties in collecting payments that may increase its operating costs and impair its financial performance; political and economic instability; and fluctuations in currency exchange rates and the imposition of currency exchange controls.
- k. The adoption of medical software may occur at a much slower rate than current market data suggests. With rapid growth currently expected due to the industry's evolution from early adopters to the mainstream market, the slowdown in growth would have an adverse effect on companies attempting to sell their products and services to this audience. Therefore, a slowdown in the adoption rate could potentially result in reduced revenues and sales for healthcare information technology suppliers in this space, including Nightingale.
- l. Nightingale completed two significant acquisitions over the last 12 months. As with any acquisition, there is a risk that either or both of these acquisitions may not be successful in terms of

## NIGHTINGALE INFORMATIX CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the Three and Six Months Ended September 30, 2006

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providing increased sales opportunities and providing cost reduction opportunities. In addition, the integration of these acquisitions may take longer to complete than expected, resulting in an increased cost burden on the organization. There is also a possibility that either of these acquisitions may introduce new unknown liabilities to the Company.

- m. Security is always a major concern for any software system dealing with confidential records. Security risks include unauthorized access to confidential information, such as patient records and a customer's enterprise data. If either of these events occur to Nightingale, its reputation in the marketplace would be damaged, potentially resulting in lost sales of new or existing customers.
- n. If Nightingale's system is unavailable for any significant period of time, physicians and healthcare providers will be unable to access critical patient records and other information required to perform daily duties. Nightingale may have its reputation in the marketplace damaged, potentially resulting in lost sales of new or existing customers.
- o. In Canada and the United States, government funding programs are helping to fuel the market for Nightingale's solutions. There is a risk that if funding commitments from eHealth initiatives are halted, then the demand for EMR, clinical and practice management could significantly decrease, which could have a material adverse effect

#### 9. ADDITIONAL INFORMATION

Additional information on Nightingale can be found disclosed at [www.sedar.com](http://www.sedar.com) under Nightingale Informatix Corporation.