



NIGHTINGALE INFORMATIX CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the fiscal year ended March 31, 2007

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

This MD&A, prepared as at July 27, 2007, should be read in conjunction with the Company's March 31, 2007 consolidated annual financial statements and notes.

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This MD&A provides an overview of significant developments that have affected Nightingale's performance during the fiscal year ended March 31, 2007.

The audited 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 consolidated financial statements. All figures herein are expressed in Canadian dollars unless otherwise noted.

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; Nightingale's 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; and the early stage of Nightingale's business. Therefore it is subject to the risks associated with early stage companies, including uncertainty of revenues, markets and profitability and the ability to access debt or equity financing, as necessary. 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. More detailed information about these and other risk factors, as well as additional information, can be found in the Company's Annual Information Form dated July 27, 2007 ("AIF"), under the heading "Risks and Uncertainties", a copy of which has been filed on the Company's SEDAR profile (www.sedar.com).

The Company internally measures its performance and results of initiatives through a number of measures that are not recognized under Canadian generally accepted accounting principles (GAAP) and may not be comparable to similar measures used by other companies. The Company has included an Adjusted EBITDA measurement since it believes that this information would be useful to investors to help evaluate the performance of the Company. Investors should be cautioned, however, that Adjusted EBITDA should not be construed as an alternative to net earnings as determined in accordance with GAAP.

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 is an application service provider whose principal activities include clinical management solutions and services for outpatient clinics, hospitals and health-care providers. Nightingale 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 health-care industry in Canada and the United States.

Nightingale's Internet based Electronic Health Record ("EHR"), Electronic Medical Record ("EMR") and practice management software solutions, as well as its transcription and billing services are designed to help physicians, clinics, hospitals and other health-care organizations more efficiently manage their operations and patient records. Nightingale's solutions enable physicians to automate all business and clinical functions in their practice, including documentation of patient encounters and treatment plans, prescription writing, patient scheduling and claims processing. These solutions allow physicians to migrate from a paper based environment to a secure digital platform, where patient medical records can be more effectively managed.

Nightingale's solutions are currently being utilized by an established client base of physicians, clinics and hospitals across North America, representing over 5,000 physicians and health-care providers that manage over 2.5 million patients.

During fiscal 2007, the Company's expansion of operations in the United States included the integration of the HealthNet Acquisition closed during the previous fiscal year (see HealthNet Acquisition under section 9.a) and the acquisition and integration of the assets of Integrated Healthware Inc. and Physician Strategies LLC (see IHPS Acquisition under section 9.b). In addition, the recently announced VantageMed Acquisition (see VantageMed Acquisition under section 10b) has added approximately 6,000 additional clients in the United States, representing approximately 18,000 physicians and other health-care providers to Nightingale's platform and provide numerous "cross-selling" opportunities for Nightingale's existing products and services and better access to additional markets across the United States.

Nightingale's Strategy

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 health-care software solution or service companies in Canada and the United States.

With the recent completion of the VantageMed Acquisition, the immediate focus of the business will be on organic growth and improved financial performance to help generate positive cash flows from operations. Once the Company has been able to demonstrate this goal, it will continue to seek out additional acquisition candidates to help enhance future growth through acquisitions.

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Nightingale intends to:

- Leverage its successes in the Canadian market and increase its penetration into the US market.
- Capitalize on cross-selling opportunities resulting from a client base acquired through recent acquisitions.
- Leverage its presence and reputation in the US market to further expand its customer base.
- Focus on being a market leader by delivering high quality products that meet increasing customer demands.
- Increase investment in sales and marketing in select US markets.
- Focus on execution capabilities to ensure successful implementations and a high standard of service delivery.
- Invest in enabling technologies to enhance the Company's ability to offer premium products and services.
- Attract good talent at the senior level to insure scalability and maintenance of high quality products.
- Selectively seek, as an integral part of its growth strategy, health-care business management software companies that are accretive and provide the Company with the captive client base to allow it to accelerate the adoption of its clinical products.

Revenue Model

Nightingale's revenue model is based primarily on generating revenues from physicians and health-care providers directly or indirectly through their buying groups, such as hospitals, health-care associations and government agencies through the delivery of proprietary software and services.

Nightingale's revenue consists of several different products depending on the type of solution being provided. For its software solutions, Nightingale charges up-front licence fees for its software products, with annual support and maintenance fees charged to deliver software updates and support. Alternatively, Nightingale charges a monthly utilization fee for access to the software, without any sale of licence. 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. For billing services, Nightingale charges a percentage of the charges billed by the physician to the customer.

Fiscal 2007 Summary

- Revenue of \$14.1 million in fiscal 2007 represents a 234% increase over fiscal 2006.
- Gross profit as a percentage of revenue was 69%, down from 86% in fiscal 2006, primarily as a result of a change in product mix following two key acquisitions.
- Adjusted EBITDA (see definition under section 5. Non-GAAP Measures) in fiscal 2007 was -\$3.6 million, or -25% of revenue, versus -\$2.1 million, or -49% of revenue, in the previous fiscal year.
- Net loss in fiscal 2007 was -\$5.7 million, or 41% of revenue, compared to -\$3 million, or 71% of revenue, in Fiscal 2006.
- Working capital increased by \$0.55 million from fiscal 2006.
- The Company signed several major contracts during the year including a contract with The Ottawa Hospital Academic Family Health Team to support more than 80 health-care professionals, a \$3.6 million contract renewal for medical records and data distribution services

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with Kaleida Health for a term of three years and a \$1.6 million EMR contract up-sell to an existing customer acquired through an acquisition.

- Nightingale completed the second phase of Nova Scotia's Primary Health-care Information Management program.
- The Company further accelerated the adoption rate for Nova Scotia physicians and secured new license agreements.
- The Company completed the integration of the HealthNet Acquisition and the IHPS Acquisition and optimized operations across the combined companies.
- Nightingale has engaged clients from the acquired businesses and has built a respectable pipeline in the US markets.
- There has been increased investment in sales, marketing and professional services, along with increased investment in core products.

Fiscal 2006 Highlights

- Revenue of \$4.2 million in fiscal 2006 represented a 124% increase over fiscal 2005.
- Gross profit as a percentage of revenue was 86%, up from 80% in fiscal 2005.
- Expenses totalled \$6,608,488, or 157% of revenue, in fiscal 2006 and were higher as a percentage of revenue versus fiscal 2005, when they were at 140% of revenue.
- Loss for fiscal 2006 was \$3,000,193, or 71% of revenue. This compared to a loss of \$1,130,500, or 60% of revenue, for fiscal 2005.
- The Company began working with the management teams of the HealthNet and the IHPS acquisitions (closed post-fiscal year-end) to develop the sales and marketing strategy for the US target market.
- Nightingale continued to invest in building out its capabilities across the entire organization. There has been increased investment in sales, marketing and professional services, along with increased investment in core products.
- The Company closed the amalgamation with Venquest Capital Corporation and the private placement through Canaccord Capital Corporation.

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

	Fiscal Year Ended March 31, 2005	Q1 ended June 30, 2005	Q2 Ended Sept 30, 2005	Q3 ended Dec 31, 2005	Q4 Ended March 31, 2006	Fiscal Year ended March 31, 2006	Q1 ended June 30, 2006	Q2 ended Sept 30, 2006	Q3 ended Dec 31, 2006	Q4 ended March 31, 2007	Fiscal Year ended March 31, 2007
Revenue	1,884,286	1,011,290	1,168,269	1,204,190	829,290	4,213,039	2,989,106	3,492,882	4,171,239	3,424,253	14,077,480
Gross Profit	1,500,247	867,756	1,062,191	1,093,034	585,314	3,608,295	1,746,338	2,512,466	3,063,662	2,330,036	9,652,502
Expenses	2,630,747	1,021,783	1,341,009	1,564,609	2,681,088	6,608,488	4,067,343	3,596,717	3,415,912	4,285,766	15,365,738
Adjusted EBITDA (non-GAAP measure)	-939,111	-119,530	-71,293	-306,809	-1,582,380	-2,080,112	-1,385,463	-658,287	46,702	-1,588,889	-3,585,937
Loss for the Period	1,130,500	-154,027	-278,818	-471,574	-2,095,775	-3,000,193	-2,321,005	-1,084,251	-352,250	-1,955,730	-5,713,236
Loss per Common Share	-0.17	-0.01	-0.01	-0.02	-0.07	-0.11	-0.07	-0.03	-0.01	-0.05	-0.14
Weighted Average # of Common Shares	6,577,695	24,999,998	26,468,386	29,610,930	30,171,627	27,650,877	34,551,915	41,817,643	41,945,189	41,925,993	40,119,580
Total Assets	2,696,362	2,270,572	4,620,167	4,757,802	9,521,507	9,521,507	18,550,405	17,825,469	18,824,894	17,531,269	17,531,269
Total Long Term Liabilities	1,071,713	1,298,600	1,538,325	1,590,486	1,795,520	1,795,520	1,826,080	1,571,731	1,585,200	2,013,582	2,013,582

Revenue: During the fiscal year ended March 31, 2007, the Company generated revenue of \$14.1 million, a 234% increase over \$4.2 million generated in fiscal 2006. This overall significant increase in revenue is attributed primarily to additional revenue generated as a result of the HealthNet and IHPS acquisitions. With these acquisitions, the Company has expanded its revenue generating offerings to include additional EMR and practice management solutions and related client services, as well as billing and transcription services.

Gross Profit: Gross profit of \$9.7 million for the fiscal year ended March 31, 2007, representing gross profit as a percentage of revenue (or gross profit margin) of 69%, compares to gross profit of \$3.6 million and gross profit margin of 86% for the previous fiscal year ended March 31, 2006. The relatively lower gross profit margins during 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 transaction-based services versus software sales. During the course of the year, the Company has improved gross profit margins of 58% experienced in the first quarter of the fiscal year, to between 68% and 73% in the last three quarters of the fiscal year, with fluctuations dependent on the product and services mix being delivered to customers. The improvement from the first quarter was a result of a more efficient delivery of services and a reduction of direct costs specifically related to the operations of the two recent acquisitions.

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Expenses: During the fiscal year ended March 31, 2007, the Company incurred expenses of \$15.4 million, which represents 109% of total revenue, compared to \$6.6 million or 157% of total revenue last fiscal year. This lower percentage of expenses-to-total revenue was primarily due to operational efficiencies across functional areas and the ability to leverage the Company's infrastructure over a larger revenue base following the HealtheNet and IHPS Acquisitions. As part of its growth strategy, however, the Company continued to invest significantly in new employees over the course of the fiscal year as it expanded its product offering and delivery capabilities to better address the needs of the US market.

In sales and marketing, total expenses of \$2.9 million in fiscal 2007 represents a 64% increase over \$1.8 million during the previous fiscal year. These expenses relate to increasing the number of staff as part of the Company's strategy to focus on penetration into the US market.

In general and administration, total expenses of \$3.6 million in fiscal 2007 represents a 114% increase over \$1.7 million during the previous fiscal year. These expenses relate to combining the operations of Nightingale and the businesses from the HealtheNet and IHPS acquisitions. During the year, the Company has been actively trying to reduce the largest expense component in this category, wages and salaries, by reducing the number of employees focused on general and administration activities. From the first quarter to the fourth quarter of the fiscal year, the Company has reduced quarterly expenses by \$0.08 million. Also included in general and administration are foreign currency gains, which were \$192,148 for the fiscal year ended March 31, 2007.

In research and development, total expenses of \$3.8 million in fiscal 2007 represents a 166% increase over \$1.4 million the previous fiscal year, while client services expenses of \$2.9 million in fiscal 2007 represents a \$260% increase over \$0.8 million the previous year. Increases in both these categories reflect the combining of operations of Nightingale and the businesses from the HealtheNet and IHPS acquisitions, but also reflect increased spending in both of these areas. The greater relative rise in client services expenses versus the previous year was caused by the higher client services element required to deliver products and services associated with the two acquisitions.

Stock-based compensation of \$0.56 million in fiscal 2007 was similar to \$0.57 million in the previous year. Interest charges rose substantially, to \$0.7 million in fiscal 2007 from \$0.02 million in the previous year, largely a result of a notional interest charge of \$0.43 million related to the Debt Financing (see section 9.c) and \$0.12 million related to interest on a \$2 million line of credit facility.

Amortization of \$0.87 million during fiscal 2007, was substantially higher than \$0.33 million during the previous year, primarily as a result of \$0.34 million in charges related to new amortization of proprietary software and other intangibles related to the two acquisitions.

Adjusted EBITDA (non-GAAP measure): As of the second quarter of the fiscal year, the Company has been providing an adjusted EBITDA calculation (see section 5) in its MD&A to help investors better understand the performance of the business. Over the fiscal year ended March 31, 2007, adjusted EBITDA was -\$3.6 million, or -25% of revenue, compared to -\$2.1 million, or -49% of revenue, during the previous fiscal year ended March 31, 2006.

Loss: Loss for the fiscal year ended March 31, 2007 was \$5.7 million, or 41% of revenue. This compares to a net loss of \$3.0 million, or 71% of revenue from the previous fiscal year ended March 31, 2006. Therefore, while the relative size of the loss has increased, largely a result of the increased scale of operation across the business following the two recent acquisitions, the Company has reduced the loss

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as a percentage of revenue as it strives toward improving performance with the eventual goal of achieving profitability.

3. DISCUSSION OF FOURTH QUARTER RESULTS

Revenue for the fourth quarter ended March 31, 2007 was \$3.4 million, which is significantly higher than the \$0.83 million generated in the fourth quarter ended March 31, 2006. This increase in revenue signifies the larger scale of operations that the Company has achieved in the last fiscal year, due primarily to the HealthNet and IHPS acquisitions. During the fourth quarter ended March 31, 2007, revenue of \$3.4 million was significantly lower than the \$4.2 million generated during the third quarter ended December 31, 2006. This decrease in revenue is primarily due to additional revenue generated from a large sale in the United States during the third quarter of fiscal 2007. Typically, the fourth quarters of the fiscal years ended March 31, 2007 have produced lower sales than previous quarters and this appears to be a trend in the customer buying cycle.

Gross profit for the fourth quarter ended March 31, 2007 was \$2.3 million, or 68% of revenue, which compares to revenue of \$0.59 million, or 71% for the fourth quarter of the previous fiscal year ended March 31, 2006 and revenue of \$3.1 million or 73% of revenue, for the third quarter ended December 31, 2006. The reduction of gross profit margin versus the last quarter is directly a result of lower new software sales, with much higher inherent margins than the core base of business.

Expenses during the fourth quarter ended March 31, 2007 were \$4.3 million versus \$2.7 million for the fourth quarter ended March 31, 2006. This increase in expenses is primarily due to the larger scale of operations following the acquisitions completed during the year. Expenses increased substantially during the fourth quarter ended March 31, 2007, to \$4.3 million, versus \$3.4 million for the third quarter ended December 31, 2006. Sales and marketing added \$0.14 million as the Company began another round of investment in its capabilities to deliver in the US market, given the pending acquisition of VantageMed. Similarly, in research and development and client services, the Company added \$0.13 million in costs as it planned for the integration of products and readied itself for the delivery of services to the combined customer base following the acquisition of VantageMed. Under general and administration, the largest increase resulted from a \$0.3 million reserve for bad debts as the Company reviewed its outstanding accounts receivable and evaluated past due accounts. Also during the fourth quarter ended March 31, 2007, the Company accrued a number of costs related to the annual process associated with the filing of all documents as a public company.

Adjusted EBITDA for the fourth quarter ended March 31, 2007 was -\$1.6 million or -46% of revenue compared to -\$1.6 million or -191% of revenue for the quarter ended March 31, 2006. Loss for the fourth quarter ended March 31, 2007 was \$2.0 million, or 57% of revenue compared to \$2.1 million or 253% of revenue for the fourth quarter ended March 31, 2006.

The Company generated positive cash flow from operating activities of \$0.20 million in the fourth quarter ended March 31, 2007 versus cash flow from operating activities of -\$0.5 million in the third quarter ended December 31, 2006 and -\$0.19 million in the fourth quarter ended March 31, 2006. This significant increase in cash flow from operating activities can be primarily attributed to a decrease in accounts receivable of \$1.3 million and an increase in accounts payable of \$0.9 million. The working capital balance decreased \$0.9 million between the third and fourth quarters in fiscal 2007.

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4. LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents available to Nightingale on March 31, 2007 were \$1.7 million.

Cash Flow from Operating Activities: Cash flow used in operating activities in the fiscal year ended March 31, 2007 totalled \$4.6 million, compared to \$1.0 million for the fiscal year ended March 31, 2006. The most significant adjustments of net income to cash flow used in operations included an increase in accounts receivable of \$1.5 million, an increase in accounts payable of \$0.48 million and an increase in deferred revenue of \$0.76 million. The sizable increase in accounts receivable is largely a function of a higher level of revenue being generated versus last year, though the \$3.0 million in accounts receivable (representing 78 days outstanding) versus the \$1.4 million in accounts receivable the previous year (representing 119 days outstanding) shows an improvement in time to cash receipt. The increase in deferred revenue was split evenly between current and long term, resulting in \$1.8 million in total current deferred revenue to be recognized over the following 12 months.

Cash Flow from Investing Activities: During the fiscal year ended March 31, 2007, cash flow used in investing activities was \$3.4 million compared to \$1 million during the previous fiscal year. The largest reason for the increase is \$3.0 million used for the acquisition of IHPS.

Cash Flow from Financing Activities: Cash flow from financing activities in the fiscal year ended March 31, 2007 totalled \$9.4 million, versus \$2.2 million during the previous fiscal year. The largest components included an increase in capital stock of \$9.4 million reflecting the shares issued for the private placement closed on June 20, 2006 and a \$1.64 million repayment of notes payable used by the Company, of which \$1.0 million was paid toward the HealtheNet acquisition, with the remaining \$0.64 million (or US\$0.55 million) paid toward the IHPS acquisition. As well, cash flow from financing activities included proceeds from subordinated debt of \$5 million which was used as interim funding of the acquisitions during the first quarter and subsequently retired during the period on closing of the private placement. The repayment of subordinated debt of \$4.6 million adjusts the \$5.0 million cash repayment and \$0.4 million related to the notional interest (due to the debt purchase warrants, see note 4 of the March 31, 2007 annual financial statements). Other activities include an increase of \$1.54 million in the line of credit facility provided by Greenfield Commercial Credit Inc. (see note 4 of the March 31, 2007 annual consolidated financial statements) and the repayment in full of \$0.15 million in bank loan, required per the terms of the new short term loan. In comparison, in fiscal 2006, cash flows from financing activities totalled \$2.2 million, of which, \$1.5 million was a direct result of new funding provided through the amalgamation of Venquest Capital Ltd. and \$0.85 million as a result of the private placement, both concluded on September 1, 2005.

Over the fiscal year ended March 31, 2007, current assets increased by \$2.6 million to \$5.1 million while current liabilities increased by \$2.1 million to \$6.4 million, resulting in an increase in total working capital of \$0.55 million.

As at March 31, 2007, the Company had cash and cash equivalents of \$1.7 million. Subsequent to the year-end, the Company concluded a public offering and subordinated debt offering (see Subsequent Events under section 10) in which additional proceeds were raised to help finance the VantageMed acquisition and for general corporate purposes. Based on these additional funds raised subsequent to the year end, the Company believes that under its current business plan it has sufficient cash to sustain its operations for the foreseeable future. It should be noted however, that to date, Nightingale has not consistently generated positive cash flow from operating activities and is still highly dependent on new sales 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 on a consistent basis, the

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Company faces risk in utilizing its existing cash resources and potentially requiring further cash infusions from investors to maintain its operations.

5. NON-GAAP MEASURES

The Company internally measures its performance and results of initiatives through a number of measures that are not recognized under Canadian generally accepted accounting principles (GAAP) and may not be comparable to similar measures used by other companies.

The Company has included an Adjusted EBITDA measurement since it believes that this information would be useful to investors to help evaluate the performance of the Company. Investors should be cautioned, however, that Adjusted EBITDA should not be construed as an alternative to net earnings as determined in accordance with GAAP. The following provides a reconciliation of Adjusted EBITDA to Net Income/ Loss:

Name	Definition	Fiscal year ended March 31, 2007	Fiscal year ended March 31, 2006
Adjusted EBITDA	Net Income/Loss	-5,713,236	-3,000,193
	+ Interest	702,177	20,371
	+ Taxes	-	-
	+ Depreciation and Amortization	867,262	333,610
	+ <u>Stock-based Compensation</u>	<u>557,860</u>	<u>566,100</u>
	=Adjusted EBITDA	-3,585,937	-2,080,112

6. CONTRACTUAL OBLIGATIONS

Nightingale continued its primary facilities lease obligation, as per its lease dated March 29, 2005, (amended on August 21, 2006) with RedCliff Realty Management Inc. for the lease of its head office at Suite 100, 3762 Fourteenth Avenue, Markham, Ontario L3R 0G7. In addition, there are a number of capital and operating leases held by the Company, including the lease of several facilities across Canada and the United States.

In the fourth quarter of fiscal 2006, as part of the HealthNet acquisition, the Company took over \$391,076 in existing capital leases for computer equipment, furniture and fixtures. In the first and second quarters of fiscal 2007, the Company purchased \$118,683 and \$177,828, respectively, under capital leases for computer equipment.

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

Fiscal Year	Amount
2008	\$ 746,242
2009	\$ 603,790
2010	\$ 379,295
2011	\$ 385,015
2012	\$ 332,528

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2013 and thereafter	\$ 417,099
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The minimum lease commitments payable under capital leases for all equipment are as follows:

Fiscal Year	Amount
2008	\$ 302,218
2009	\$ 167,471
2010	\$ 41,284
2011 and thereafter	\$ 1,127

7. SHARE CAPITAL STRUCTURE

The Company is authorized to issue an unlimited number of common shares without par value and an unlimited number of preferred shares without par value.

	Authorized	Issued as at March 31, 2007
Common Shares (1)	Unlimited	41,916,685
Preferred Shares	Unlimited	-
Stock Options – Issued and Outstanding		2,751,990
Warrants – Issued and Outstanding		6,255,000

(1) 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-based escrow and have been excluded in the purchase price of the acquisition. Including the 1,666,667 common shares issued, the total common shares outstanding as at March 31, 2007 is 43,583,352 common shares.

8. 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 the terms 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 \$69,099, resulting in monthly payments of \$3,346 and interest paid of \$7,788 during fiscal 2007. In addition, during the fiscal year, outstanding accounts payable to officers and directors at year-end totalled \$33,697 and the Company decreased deferred compensation due to officers and directors, resulting in a balance at the end of the period of \$0.1 million due to officers and directors. This amount was paid in cash to settle previous deferred compensation.

In addition, as disclosed in Note 9.c, and 9.d below, a director of the Company is a related party in several material transactions that took place during the fiscal year.

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9. SIGNIFICANT EVENTS

The following significant events impacted the Company during the fiscal year ended March 31, 2007.

a. **HealtheNet Acquisition** (completed in fiscal 2006)

On March 16, 2006, the Company completed the acquisition of the business and assets of Scribes Inc., Scribes (USA) Inc., HealtheNet Inc. (a Delaware company) and HealthNet Inc., (collectively referred to as HealtheNet), providers of data management and transcription services to the health-care community. The aggregate consideration paid by the Company was \$7.1 million, which was comprised of a \$1.0 million in promissory note and the issuance of 5.1 million common shares of the Company valued at \$6.1 million (\$1.20 per common share). The promissory note was non-interest bearing and due 75 days after the closing date of the transaction and was paid in full during fiscal 2007. Included in the 5.1 million common shares issued, are 1.67 million common shares valued at \$2.0 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 \$2.0 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 will be added to the purchase price. As at March 31, 2007, none of the contingent consideration was payable.

The Company paid \$0.21 million in cash for the acquisition of HealtheNet 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. **IHPS Acquisition**

On April 1, 2006, the Company completed its purchase of the assets of Integrated Healthware Inc., a health-care software provider for the US market and its affiliate, Physician Strategies LLC, a Massachusetts-based practice management firm focused on providing claims processing services to US physicians (collectively referred to as "IHPS"). The agreement to acquire IHPS was originally announced on January 12, 2006. IHPS shareholders received total consideration of \$6.8 million (US\$5.8 million), which included \$2.8 million (US\$2.4 million) in cash, \$0.64 million (US\$0.55 million) in a promissory note, the issuance of 559,211 common shares of Nightingale valued at \$1.0 million (US\$0.85 million, \$1.52 per common share) and \$2.3 million (US\$2.0 million) in the form of a performance-based earn-out. The promissory note with payments due in multiple installments during fiscal 2007 was paid in full during the period. The earn-out is contingent on certain revenue targets over a three-year period and will be paid on a basis of 80% in common shares and 20% in cash, with share price of these earn-out 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 consolidated 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 from the recorded purchase price. Therefore, the aggregate recorded purchase price, including \$0.17 million transaction cost, is \$4.6 million (US\$4.0 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. As at the end of fiscal 2007, none of the earn-out was payable.

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The Company paid \$3.0 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 \$3.0 million.

c. Debt Financing

On April 27, 2006, Nightingale closed a \$7.0 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 \$5.0 million in subordinated debt and a \$2.0 million 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 an interest 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 short term loan has a 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 \$5.0 million in subordinated 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 \$5.0 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 consolidated 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 issued under the debt financing (described in note 4 of the March 31, 2007 annual consolidated financial statements).

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 (described in note 4 of the March 31, 2007 annual consolidated financial statements).

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10. SUBSEQUENT EVENTS

a. Public Offering

On April 13, 2007, Nightingale completed an equity financing, in conjunction with its proposed acquisition of VantageMed, comprised of a total of \$25 million Subscription Receipts (the "Subscription Receipts") of the Company at a price of \$0.40 per Subscription Receipt for aggregate gross proceeds of \$10 million. Each Subscription Receipt entitled the holder thereof to acquire one Nightingale common share for no additional consideration. On April 19, 2007, in conjunction with the closing of the VantageMed Acquisition, the Subscription Receipts were converted into common shares of the Company.

The equity financing was underwritten by a syndicate of underwriters who were granted an over-allotment option, exercisable for a period of 30 days following the closing date, to purchase up to an additional 3,750,000 Subscription Receipts of the Company on the same terms and conditions as the original Subscription Receipts. The over-allotment expired unexercised.

b. VantageMed Acquisition

On April 18, 2007, the Company completed its acquisition of all the outstanding shares of VantageMed. The agreement to acquire VantageMed was originally announced on February 19, 2007. Total consideration for the transaction was CAD\$14.4 million (US\$13.0 million, or US\$0.75 per share) for all outstanding shares. VantageMed, a Delaware-based corporation listed on the NASDAQ exchange, was purchased into VantageMed Corporation, a new Delaware-based wholly owned subsidiary of Nightingale.

This acquisition will be accounted for by the purchase method. Effective April 19, 2007, the Company will consolidate the operations of VantageMed in its consolidated financial statements.

See the March 31, 2007 annual consolidated financial statements for a preliminary allocation of the purchase price of the assets and liabilities acquired.

c. Subordinated Debt Financing

On April 19, 2007, Nightingale closed a \$12 million subordinated debt financing. The subordinated debt financing was led by Wellington Financial LP and included Export Development Canada, a Limited Partner in Wellington Financial Fund III (the "Lenders"). The credit facility is a secured 24-month term loan facility, with an interest rate of 12.75% per annum.

Nightingale paid the Lenders a commitment fee equal to 3.75% of the available facility and 7,994,186 special warrants. Each special warrant is convertible into common share purchase warrants, each entitling the holder to purchase one common share of Nightingale at a price of \$0.43 per share for five years from the date of closing. These special warrants, and as applicable, the warrants and common shares, are subject to a four-month hold period pursuant to securities laws.

Conditions of the subordinated debt include a number of quarterly and cumulative financial covenants. While management expects to meet these covenants, there is always a risk that a covenant may be breached, given the dependency on new sales in each quarterly sales cycle and timing of integration activities associated with the acquisition of VantageMed Corporation. If an individual covenant is breached, management expects to be able to work with the lenders to obtain a waiver related to the breach or to revise the covenants so that rights under a default may be waived.

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11. RECENT ACCOUNTING PRONOUNCEMENTS

(a) In January 2005, the Canadian Institute of Chartered Accountants ("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 instrument gains 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. During the fiscal year, the Company has not engaged in any such instruments and, as such, there is no effect on the consolidated financial statements. At any point that this changes, the Company will evaluate the effect on its financial statements.

(b) In January 2005, the CICA issued Handbook section 3865, "Hedges". The section provides alternative treatments to Section 3855 for entities that choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline AcG-13 "Hedging 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. During the period, the Company has not engaged in any such instruments and, as such, there is no effect on the financial statements. At any point that this changes, the Company will evaluate the effect 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.

(d) In December 2006, CICA issued Section 1535, "Capital Disclosures", which establishes the standards for disclosing information about an entity's capital and how it is managed. CICA Section 1535 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after October 1, 2007. The Company will adopt this new standard effective April 1, 2008 and is assessing the impact of this new standard on its consolidated financial statements.

12. DISCLOSURE AND INTERNAL CONTROLS

The Chief Executive Officer and the Chief Financial Officer of the Company have evaluated the effectiveness of the Company's disclosure controls and procedures as at the end of the fiscal year ended March 31, 2007 and have concluded that these disclosure controls and procedures, as defined in Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, are effective and that material information relating to the Company was made known to them and was recorded, processed, summarized and reported within the time periods specified under applicable securities legislation.

Management is also responsible for the design of internal controls over financial reporting ("ICOFR") within the Company in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with Canadian GAAP. Management has evaluated whether there were changes to its ICOFR during the

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quarter ended March 31, 2007 that have materially affected, or are reasonably expected to materially affect, its ICOFR and no such changes were identified. There have been no significant changes to the Company's internal controls over financial reporting that occurred during the most recent period that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

13. ADDITIONAL INFORMATION

Additional information on Nightingale can be found at www.sedar.com under Nightingale Informatix Corporation.