



NIGHTINGALE INFORMATIX CORPORATION

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)
For the Three and Nine Months Ended December 31, 2006**

The unaudited consolidated financial statements and notes to financial statements of Nightingale Informatix Corporation (the "Company") have not been reviewed by the Company's auditors.

| INDEX | Page |
|--|-------------|
| Consolidated Balance Sheet | 1 |
| Consolidated Statement of Deficit | 2 |
| Consolidated Statement of Operations | 3 |
| Consolidated Statement of Cash Flows | 4 |
| Notes to the Consolidated Financial Statements | 5 - 13 |

NIGHTINGALE INFORMATIX CORPORATION

**CONSOLIDATED BALANCE SHEET (Unaudited)
AS AT DECEMBER 31, 2006**

| | As at December 31, 2006 | As at March 31, 2006 |
|---|--|-------------------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and Cash Equivalents, Note 6 | \$ 2,085,974 | \$ 373,691 |
| Accounts Receivable | 4,274,320 | 1,371,981 |
| Investment Tax Credits Receivable | 57,830 | 221,191 |
| Prepaid Expenses | 279,814 | 349,559 |
| | <u>6,697,938</u> | <u>2,316,422</u> |
| Long Term Assets | | |
| Deferred Costs | 195,151 | 372,062 |
| Other Receivables | - | 145,107 |
| Property and Equipment, Note 7 | 2,620,078 | 1,891,530 |
| Intangible Assets | 700,325 | - |
| Goodwill | 8,611,402 | 4,796,386 |
| | <u>12,126,956</u> | <u>7,205,085</u> |
| | <u>\$ 18,824,894</u> | <u>\$ 9,521,507</u> |
| LIABILITIES | | |
| Current Liabilities | | |
| Line of Credit, Note 4 | \$ 1,908,606 | - |
| Accounts Payable and Accrued Liabilities | 1,916,961 | 1,808,217 |
| Current Portion of Deferred Revenue | 2,137,914 | 1,159,405 |
| Promissory Note Payable | - | 1,000,000 |
| Bank Loan Payable | - | 148,782 |
| Current Portion of Capital Lease Obligations | 252,341 | 185,012 |
| | <u>6,215,822</u> | <u>4,301,416</u> |
| Long Term Liabilities | | |
| Deferred Compensation Payable to Employees | 86,565 | 403,975 |
| Deferred Revenue | 1,237,548 | 1,185,481 |
| Capital Lease Obligations | 261,087 | 206,064 |
| | <u>1,585,200</u> | <u>1,795,520</u> |
| SHAREHOLDERS' EQUITY | | |
| Capital Stock, Note 8.b | 18,555,962 | 9,160,446 |
| Contributed Surplus, Note 9 | 970,280 | 742,503 |
| Warrants, Note 10 | 1,807,749 | 74,235 |
| Deficit | (10,310,119) | (6,552,613) |
| | <u>11,023,872</u> | <u>3,424,571</u> |
| Total Liabilities and Shareholders' Equity | <u>\$ 18,824,894</u> | <u>\$ 9,521,507</u> |

Approved on behalf of the board:

"Samer Chebib" Director

"David Atkins" Director

NIGHTINGALE INFORMATIX CORPORATION

**CONSOLIDATED STATEMENT OF DEFICIT (Unaudited)
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2006**

| | 3 months ended December 31, 2006 | 3 months ended December 31, 2005 | 9 months ended December 31, 2006 | 9 months Ended December 31, 2005 |
|----------------------------------|---|---|---|---|
| Deficit, Beginning of the Period | \$ (9,957,869) | \$ (3,985,265) | \$ (6,552,613) | \$ (3,552,420) |
| Net Loss For the Period | <u>(352,250)</u> | <u>(471,574)</u> | <u>(3,757,506)</u> | <u>(904,419)</u> |
| Deficit, End of the Period | <u>\$ (10,310,119)</u> | <u>\$ (4,456,839)</u> | <u>\$ (10,310,119)</u> | <u>\$ (4,456,839)</u> |

NIGHTINGALE INFORMATIX CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2006

| | 3 months ended December 31, 2006 | 3 months ended December 31, 2005 | 9 months ended December 31, 2006 | 9 months Ended December 31, 2005 |
|---|---|---|---|---|
| Revenue | \$ 4,171,239 | \$ 1,204,190 | \$ 10,653,227 | \$ 3,383,749 |
| Cost of Sales | | | | |
| Hardware, Software and Services | 993,424 | 76,868 | 3,105,447 | 231,877 |
| Sales Commissions | 114,153 | 34,288 | 225,314 | 128,890 |
| | <u>1,107,577</u> | <u>111,156</u> | <u>3,330,761</u> | <u>360,767</u> |
| Gross Profit | <u>3,063,662</u> | <u>1,093,034</u> | <u>7,322,466</u> | <u>3,022,982</u> |
| Expenses | | | | |
| General and Administration | 778,541 | 394,789 | 2,325,512 | 1,003,965 |
| Sales and Marketing | 576,096 | 467,287 | 2,164,702 | 1,155,294 |
| Research and Development | 856,463 | 313,644 | 2,830,936 | 751,784 |
| Implementation and Customer Support | 805,860 | 224,122 | 1,998,365 | 609,570 |
| Stock Based Compensation | 126,264 | 113,433 | 506,442 | 263,226 |
| Interest, Note 11 | 57,929 | 3,101 | 644,939 | 9,575 |
| Amortization | 214,759 | 48,232 | 609,076 | 133,986 |
| | <u>3,415,912</u> | <u>1,564,608</u> | <u>11,079,972</u> | <u>3,927,400</u> |
| Net Loss for the Period | <u>(352,250)</u> | <u>(471,574)</u> | <u>(3,757,506)</u> | <u>(904,418)</u> |
| Net Loss per Common Share, Basic | (0.01) | (0.02) | (0.10) | (0.03) |
| <i>Weighted Average Number of Common Shares</i> | <i>41,945,189</i> | <i>29,610,930</i> | <i>39,528,391</i> | <i>27,028,639</i> |

NIGHTINGALE INFORMATIX CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2006

| | 3 months ended December 31, 2006 | 3 months Ended December 31, 2005 | 9 months ended December 31, 2006 | 9 months ended December 31, 2005 |
|---|---|---|---|---|
| Cash Flow from Operating Activities | | | | |
| Net Loss for the Period | \$ (352,250) | \$ (471,574) | \$ (3,757,506) | \$ (904,418) |
| <i>Adjustments for:</i> | | | | |
| Amortization | 214,759 | 48,232 | 609,076 | 133,986 |
| Stock Based Compensation | 126,264 | 113,433 | 506,442 | 263,226 |
| Notional Interest | - | - | 431,000 | - |
| | <u>341,023</u> | <u>161,665</u> | <u>1,546,518</u> | <u>397,212</u> |
| <i>Changes in Non-Cash Working Capital Balances,</i> | | | | |
| Decrease (Increase) in Accounts Receivable | (1,324,742) | (1,088,116) | (2,902,339) | (466,864) |
| Decrease (Increase) in Investment Tax Credits Receivable | 163,361 | (62,500) | 163,361 | (187,500) |
| Decrease (Increase) in Prepaid Expenses | 87,916 | (8,635) | 69,745 | (91,018) |
| Decrease (Increase) in Inventory | - | - | - | (88,484) |
| Decrease (Increase) in Common Share Subscription Receivable | - | - | - | 250,000 |
| Decrease (Increase) in Deferred Costs | (48,288) | (20,553) | 175,105 | (144,284) |
| Decrease (Increase) in Other Receivables | - | 18,796 | 145,107 | 18,796 |
| Increase (Decrease) in Accounts Payable and Accrued Liabilities | 291,107 | 26,808 | 108,744 | 83,925 |
| Increase (Decrease) in Deferred Compensation Payable | (30,918) | (61,189) | (317,410) | (72,252) |
| Increase (Decrease) in Deferred Revenue | 374,098 | 558,297 | 1,030,576 | 459,646 |
| | <u>(498,695)</u> | <u>(947,001)</u> | <u>(3,738,099)</u> | <u>(745,241)</u> |
| Increase (Decrease) in Working Capital due to IHPS Acquisition | - | - | (682,404) | - |
| Cash flows provided from (used in) operating activities | <u>(498,820)</u> | <u>(947,001)</u> | <u>(4,420,503)</u> | <u>(745,241)</u> |
| Cash Flow from Investing Activities | | | | |
| Purchase of Property and Equipment | (96,719) | (80,921) | (527,412) | (228,870) |
| IHPS Acquisition, Note 3a | - | - | (2,990,880) | - |
| Cash flows provided from (used in) investing activities | <u>(96,719)</u> | <u>(80,921)</u> | <u>(3,518,292)</u> | <u>(228,870)</u> |
| Cash Flow from Financing Activities | | | | |
| Increase in Capital Stock | - | 3,754 | 9,424,866 | 2,416,338 |
| Decrease in Bank Loan Payable | - | (8,931) | (148,782) | (26,794) |
| Decrease in Due to Shareholders | - | (18,640) | - | (158,640) |
| Decrease In Notes Payable | (165,944) | - | (1,643,500) | - |
| Increase in Capital Lease Obligations | (65,613) | - | 109,888 | - |
| Increase in Line of Credit | 939,682 | - | 1,908,606 | - |
| Cash flows provided from (used in) financing activities | <u>708,125</u> | <u>(23,817)</u> | <u>9,651,078</u> | <u>2,230,904</u> |
| Net Increase (Decrease) in Cash | 112,711 | (1,051,739) | 1,712,283 | 1,256,793 |
| Cash (Bank Indebtedness), Beginning of Period | <u>1,973,263</u> | <u>2,497,414</u> | <u>373,691</u> | <u>188,882</u> |
| Cash, End of Period | <u>\$ 2,085,974</u> | <u>\$ 1,445,675</u> | <u>\$ 2,085,974</u> | <u>\$ 1,445,675</u> |

NIGHTINGALE INFORMATIX CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2006

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. BASIS OF PRESENTATION

The accounting policies used in the preparation of these unaudited consolidated financial statements are consistent with those used in the Company's year-end audited financial statements. The note disclosures that follow do not include all disclosures required by Canadian generally accepted accounting principles for annual financial statements, and accordingly should be read in conjunction with the consolidated financial statements for the year ended March 31, 2006.

a. Estimates

The preparation of these financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

b. Principles of consolidation

The financial statements are prepared on a consolidated basis for Nightingale Informatix Corporation and its wholly-owned subsidiaries, Nightingale HealthNet Corporation, Nightingale HealthNet Canada Corporation and VisionMD (2002) Inc. All significant inter-company balances and transactions have been eliminated on consolidation.

c. Comparative amounts

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

d. 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 period. 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 three and nine month periods ended December 31, 2006, no dilutive effect would result from the potential increase in common shares.

3. BUSINESS COMBINATIONS

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 \$7,125,000 which was 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 earn-out targets over the four fiscal years following the date of the acquisition. Since the outcome of the

NIGHTINGALE INFORMATIX CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2006

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 transaction costs 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.

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

| | |
|-------------------------------|---------------------|
| Current assets | \$ 20,338 |
| Property and equipment | 37,000 |
| Assets under capital lease | 391,076 |
| Capital leases assumed | (391,076) |
| Proprietary software | 481,500 |
| Intangible assets | 224,778 |
| Goodwill | <u>4,571,608</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 Company paid \$210,224 in cash for the acquisition of HealthNet for transaction costs. An additional \$29,500 of share issue costs was applied against common shares issued, resulting in total cash paid of \$239,724.

The Company has finalized the allocation of the purchase price for the acquisition as stated above. Intangible assets acquired pursuant to the Healthnet acquisition consist of customer contracts and contractual relationships and are being amortized on a straight-line basis over their estimated useful lives of 5 years. The goodwill related to this acquisition is expected to be deductible for income tax purposes.

b. Acquisition of IHPS

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 \$7,020,000 (US\$6,000,000), which included \$2,823,210 (US\$2,413,000) in cash, \$643,500 (US\$550,000) in a promissory note, the issuance of 559,211 common shares of Nightingale valued at \$994,500 (US\$850,000, \$1.52 per common share) and \$2,340,000 (US\$2,000,000) 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 \$2,340,000 (US\$2,000,000) contingent consideration has been excluded in the recorded purchase price. Therefore the aggregate recorded purchase price is \$4,578,210 (US\$3,913,000). 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.

NIGHTINGALE INFORMATIX CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2006

Details of the fair value of net assets acquired at the date of acquisition (converted at an exchange rate of \$1.17) are as follows, in Canadian dollars:

| | |
|-------------------------------|----------------------------|
| Current assets | \$ 226,301 |
| Property and equipment, net | 132,348 |
| Assets under capital lease | 9,428 |
| Proprietary software | 585,000 |
| Intangible assets | 557,176 |
| Goodwill | 4,039,794 |
| Current liabilities | <u>(921,167)</u> |
| | |
| Purchase price | <u><u>\$ 4,628,880</u></u> |
| | |
| Purchase price consideration: | |
| Promissory note | \$ 643,500 |
| Nightingale common shares | 994,500 |
| Cash | 2,823,210 |
| Payment of transaction costs | <u>167,670</u> |
| | <u><u>\$ 4,628,880</u></u> |

The Company paid \$2,990,880 in cash for the acquisition of IHPS, including transaction costs. An additional \$14,375 of share issue costs was applied against common shares issued, resulting in total cash paid of \$3,005,255.

The Company has finalized the allocation of the purchase price for the acquisition as stated above. Intangible assets acquired pursuant to the IHPS acquisition consist of customer contract and contractual relationships and are being amortized on a straight-line basis over their estimated useful lives of 5 years. The goodwill related to this acquisition is expected to be deductible for income tax purposes.

4. DEBT FINANCING

On April 27, 2006, Nightingale closed a \$7,000,000 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 \$5,000,000 in subordinated debt and a \$2,000,000 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 1,250,000 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 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 \$5,000,000 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 \$5,000,000 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, \$4,569,000 was allocated to subordinated debt and \$431,000 was allocated to warrants. The \$431,000 was recorded as notional interest in the statement of operations since the debt was fully repaid during the three months ended June 30, 2006.

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

NIGHTINGALE INFORMATIX CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2006

| | |
|----------------------------|-----------|
| Risk-free rate | 3.97% |
| Expected volatility | 50.0% |
| Expected dividend yield | 0.0% |
| Estimated life of Warrants | 1.6 years |

5. 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 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 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. A director of the Company is a director of Clarus Securities Inc. The Compensation Options were determined to have a fair value of \$371,410 using the Black-Scholes option pricing model with the same assumptions as the Warrants described in Note 4.

Net proceeds of \$8,764,451 received from the issuance of the Units has been allocated based on the relative fair value of the common shares and Unit Warrants, with \$7,780,006 allocated to common shares and \$984,445 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.

6. CASH AND CASH EQUIVALENTS

| | December 31, 2006 | March, 31, 2006 |
|----------------|------------------------------|----------------------------|
| Cash | \$ 1,492,936 | \$ 4,659 |
| Term deposit | 595,000 | 450,000 |
| Bank overdraft | <u>(1,962)</u> | <u>(80,968)</u> |
| | <u>\$ 2,085,974</u> | <u>\$ 373,691</u> |

The term deposit bears interest at a bank prime-linked variable rate and is cashable until maturity on or before June 21, 2007.

NIGHTINGALE INFORMATIX CORPORATION

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2006**

7. PROPERTY AND EQUIPMENT

| | | | December 31, 2006 Net Book Value | March 31, 2006 Net Book Value |
|--|---------------------|-------------------------------------|---|--|
| | Cost | Accumulated Amortization | | |
| Office equipment | \$ 586,750 | 245,799 | 340,951 | \$370,966 |
| Furniture and fixtures | 152,238 | 44,022 | 108,216 | 59,801 |
| Proprietary software | 2,238,672 | 641,048 | 1,597,624 | 1,121,838 |
| Assets under capital lease - Office equipment | 553,683 | 138,953 | 414,730 | 221,767 |
| Assets under capital lease - Furniture and fixtures | 130,175 | 31,483 | 98,692 | 117,158 |
| Assets under capital lease - Software | 18,784 | 2,113 | 16,671 | - |
| Leasehold Improvements | 46,036 | 2,842 | 43,194 | - |
| | <u>\$ 3,726,338</u> | <u>1,106,260</u> | <u>2,620,078</u> | <u>\$1,891,530</u> |

8. CAPITAL STOCK

a. Authorized

| | |
|-----------|-------------------|
| Unlimited | Preference shares |
| Unlimited | Common shares |

b. Common shares

| | Number | Amount |
|--|-------------------|---------------------|
| Balance as at March 31, 2006* | <u>33,123,972</u> | <u>\$9,160,446</u> |
| Issued on exercise of warrants | 183,500 | 196,476 |
| Issued on exercise of stock options | 210,612 | 255,309 |
| Issued to officers of the Company | 135,000 | 183,600 |
| Issued on private placement | 7,700,000 | 7,780,006 |
| Issued on IHPS acquisition, net of share issue costs | <u>559,211</u> | <u>980,125</u> |
| Balance as at December 31, 2006* | <u>41,912,295</u> | <u>\$18,555,962</u> |

* 5,104,167 common shares were issued on the purchase of HealthNet. 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. Including the 1,666,667 common shares issued, the total common shares outstanding on March 31, 2006 are 34,790,639 and on December 31, 2006 are 43,578,962 shares.

NIGHTINGALE INFORMATIX CORPORATION

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2006**

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. Generally, the options vest over four years and are exercisable for a maximum term of five years.

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

| | |
|-------------------------|------------|
| Risk-free rate | 3.84-4.44% |
| Expected volatility | 50.0% |
| Expected dividend yield | 0.0% |
| Life of option | 4 years |

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

| | Number Of Options | Weighted Average Exercise Price |
|---------------------------------|-------------------------|--|
| Balance as at March 31, 2006 | <u>2,762,156</u> | <u>\$ 1.21</u> |
| Issued | 560,500 | 1.28 |
| Exercised | (210,612) | 0.77 |
| Forfeited / Cancelled | <u>(166,542)</u> | <u>1.22</u> |
| Balance as at December 31, 2006 | <u><u>2,945,502</u></u> | <u><u>\$ 1.25</u></u> |

ii. Summarized information relative to stock options outstanding and exercisable, excluding warrants

| | Exercise Price | Number Outstanding at December 31, 2006 | Exercisable | Remaining Contracted Life (Years) |
|-------------|-------------------|--|-----------------------|--|
| Outstanding | \$0.46 | 137,741 | 132,665 | 1.13 |
| | 0.77 | 62,524 | 62,524 | 2.58 |
| | 0.91 | 91,237 | 37,387 | 3.12 |
| | 1.00 | 657,000 | 239,250 | 3.38 |
| | 1.25 | 654,500 | 92,250 | 4.19 |
| | 1.50 | <u>1,342,500</u> | <u>325,000</u> | 3.90 |
| | | <u><u>2,945,502</u></u> | <u><u>889,076</u></u> | |

9. CONTRIBUTED SURPLUS

Included in contributed surplus is the fair value of 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. At such date as the stock options are exercised, contributed surplus will be reduced by the previously

NIGHTINGALE INFORMATIX CORPORATION

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2006**

recognized compensation expenses and a corresponding increase will be made to the value included in the capital stock attributable to common shares.

Changes in contributed surplus for the nine month period ended December 31, 2006 are as follows:

| | Amount |
|---|--------------------------|
| Balance as at March 31, 2006 | <u>\$ 742,503</u> |
| <i>STOCK OPTIONS</i> | |
| Expensed – options issued in current period | 130,218 |
| Expensed – options issued in previous periods | 428,995 |
| Cancelled | (52,771) |
| Exercised | <u>(95,065)</u> |
| Changes in period due to stock options | \$ 411,377 |
| <i>SHARE GRANT ⁽¹⁾</i> | |
| Shares issued | <u>\$(183,600)</u> |
| Balance as at December 31, 2006 | <u><u>\$ 970,280</u></u> |

(1) At March 31, 2006, the Company owed 135,000 common shares to officers in lieu of cash bonuses. These shares were issued in April 2006.

10. WARRANTS

Included in warrants is the fair value of warrants granted at the date of grant (including all previously defined 'agent options') using the Black-Scholes model.

i. Summarized information relative to changes in warrants during the period

Changes in warrants for the nine month period ended December 31, 2006 are as follows:

| | Number | Amount | Weighted Average Exercise Price |
|---------------------------------|-------------------------|---------------------------|--|
| Balance as at March 31, 2006 | <u>273,020</u> | <u>\$74,235</u> | <u>\$0.85</u> |
| Issued – subordinated debt | 1,250,000 | 431,000 | 1.50 |
| Issued – private placement | 5,005,000 | 1,355,855 | 1.55 |
| Exercised | <u>(183,500)</u> | <u>(53,341)</u> | <u>0.78</u> |
| Balance as at December 31, 2006 | <u><u>6,344,520</u></u> | <u><u>\$1,807,749</u></u> | <u><u>\$1.54</u></u> |

NIGHTINGALE INFORMATIX CORPORATION

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2006**

ii. Summarized information relative to warrants outstanding and exercisable

| | Exercise Price | Number Outstanding at December 31, 2006 | Exercisable | Remaining Contracted Life (Years) |
|-------------|---------------------------|--|--------------------|--|
| Outstanding | \$1.00 | 89,520 | 89,520 | 0.08 |
| | 1.30 | 770,000 | 770,000 | 1.47 |
| | 1.50 | 1,250,000 | 1,250,000 | 1.32 |
| | 1.60 | <u>4,235,000</u> | <u>4,235,000</u> | 1.47 |
| | | <u>6,344,520</u> | <u>6,344,520</u> | |

11. INTEREST

| | 3 months ended December 31, 2006 | 9 months ended December 31, 2006 | Fiscal year Ended March 31, 2006 |
|---|---|---|---|
| Interest on bank loan | - | 1,747 | 12,661 |
| Interest on capital lease obligations | 14,625 | 46,195 | 1,632 |
| Interest on subordinated debt | - | 82,507 | - |
| Interest on line of credit with Greenfield | 43,706 | 81,623 | - |
| Notional interest on subordinated debt warrants | - | 431,000 | - |
| Other interest | <u>(402)</u> | <u>1,867</u> | <u>6,078</u> |
| | <u>57,929</u> | <u>644,939</u> | <u>20,372</u> |

12. FINANCIAL INSTRUMENTS

a. 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 revenues and expenses were denominated in U.S. dollars. At December 31, 2006, net monetary assets in the amount of \$1,874,924 (CDN\$) were denominated in U.S. dollars.

b. Fair value

The book values of the cash, accounts receivable, investment tax credit receivable, prepaid expenses, line of credit, accounts payable and accrued liabilities and current portion of capital lease obligations approximate their respective fair values due to the short-term nature of these instruments.

The book value of the capital lease obligations included in long-term debt approximates its fair values because management estimates that these debts with variable interest rates have no significant differences between the fair value and carrying value.

NIGHTINGALE INFORMATIX CORPORATION

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2006**

13. SEGMENTED INFORMATION

During the three and nine month period ended December 31, 2006, the Company operated within a single operating segment across two geographical regions. Information with respect to geographic areas is as follows:

| | 3 months ended December 31, 2006 | 9 months ended December 31, 2006 | Fiscal year ended March 31, 2006 |
|--|---|---|---|
| Revenue (CDN\$) | | | |
| Canada | \$1,117,963 | \$2,876,858 | \$3,419,812 |
| United States | <u>3,053,276</u> | <u>7,776,369</u> | <u>793,227</u> |
| | <u>\$4,171,239</u> | <u>\$10,653,227</u> | <u>\$4,213,039</u> |
| | | As at December 31, 2006 | As at March 31, 2006 |
| Capital assets and goodwill net (CDN\$) | | | |
| Canada | | \$1,972,332 | \$1,881,330 |
| United States | | <u>9,259,148</u> | <u>4,806,586</u> |
| | | <u>\$11,231,480</u> | <u>\$6,687,916</u> |

14. COMMITMENTS

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 fiscal year) | \$ 82,295 |
| 2008 | 416,382 |
| 2009 | 314,360 |
| 2010 | 128,207 |
| 2011 | 59,313 |