



NIGHTINGALE INFORMATIX CORPORATION

**CONSOLIDATED FINANCIAL STATEMENTS
For the fiscal year ended March 31, 2007**

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July 27, 2007

**Auditors' Report
To the Shareholders of Nightingale Informatix Corporation**

We have audited the consolidated balance sheet of **Nightingale Informatix Corporation** as at March 31, 2007 and the consolidated statements of operations, deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of **Nightingale Informatix Corporation** as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements of the Company as at March 31, 2006 and for the year then ended were audited by other independent auditors, whose report dated June 6, 2006 (except for note 25 (c) which is as at June 20, 2006) expressed an unqualified opinion on those financial statements.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants, Licensed Public Accountants

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and the other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

NIGHTINGALE INFORMATIX CORPORATION

CONSOLIDATED BALANCE SHEET
AS AT MARCH 31, 2007

	March 31, 2007	March 31, 2006
ASSETS		
Current Assets		
Cash and Cash Equivalents, Note 6	\$ 1,747,660	\$ 373,691
Accounts Receivable	3,018,767	1,371,981
Other Receivables	79,739	145,107
Investment Tax Credits Receivable, Note 7	-	221,191
Prepaid Expenses and Other Assets	265,050	349,559
	<u>5,111,216</u>	<u>2,461,529</u>
Long-Term Assets		
Deferred Costs, Note 8	626,890	372,062
Property and Equipment, Note 9	1,352,739	1,119,552
Proprietary Software, Note 10	1,230,472	771,978
Intangible Assets, Note 3	1,878,099	-
Goodwill, Note 3	7,331,853	4,796,386
	<u>12,420,053</u>	<u>7,059,978</u>
	<u>\$ 17,531,269</u>	<u>\$ 9,521,507</u>
LIABILITIES		
Current Liabilities		
Borrowing under Line of Credit , Note 11	\$ 1,541,733	\$ -
Accounts Payable and Accrued Liabilities	2,770,367	1,808,217
Current Portion of Deferred Revenue	1,829,931	1,159,405
Promissory Note Payable	-	1,000,000
Bank Loan Payable	-	148,782
Current Portion of Capital Lease Obligations, Note 12	258,586	185,012
	<u>6,400,617</u>	<u>4,301,416</u>
Long Term Liabilities		
Deferred Compensation Payable to Employees, Note 13	100,824	403,975
Deferred Revenue	1,716,512	1,185,481
Capital Lease Obligations, Note 12	196,246	206,064
	<u>2,013,582</u>	<u>1,795,520</u>
Total Liabilities	<u>8,414,199</u>	<u>6,096,936</u>
SHAREHOLDERS' EQUITY		
Capital Stock, Note 14	18,553,953	9,160,446
Contributed Surplus, Note 15	1,021,217	742,503
Warrants, Note 16	1,807,749	74,235
Deficit	(12,265,849)	(6,552,613)
	<u>9,117,070</u>	<u>3,424,571</u>
Total Liabilities and Shareholders' Equity	<u>\$ 17,531,269</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
FOR THE YEAR ENDED MARCH 31, 2007**

	March 31, 2007	March 31, 2006
Deficit, Beginning of the Year	\$ (6,552,613)	\$ (3,552,420)
Loss For the Year	<u>(5,713,236)</u>	<u>(3,000,193)</u>
Deficit, End of the Year	<u><u>\$ (12,265,849)</u></u>	<u><u>\$ (6,552,613)</u></u>

NIGHTINGALE INFORMATIX CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2007

	March 31, 2007	March 31, 2006
Revenue	<u>\$ 14,077,480</u>	<u>\$ 4,213,039</u>
Cost of Sales		
Hardware, Software and Services	4,043,824	498,047
Sales Commissions	<u>381,154</u>	<u>106,697</u>
	<u>4,424,978</u>	<u>604,744</u>
Gross Profit	<u>9,652,502</u>	<u>3,608,295</u>
Expenses		
General and Administration	3,633,934	1,697,174
Sales and Marketing	2,881,932	1,752,040
Research and Development	3,814,413	1,431,825
Implementation and Customer Support	2,908,160	807,368
Stock-Based Compensation	557,860	566,100
Interest, Note 17	702,177	20,371
Amortization	<u>867,262</u>	<u>333,610</u>
	<u>15,365,738</u>	<u>6,608,488</u>
Loss for the Year	<u>(5,713,236)</u>	<u>(3,000,193)</u>
Loss per Common Share, Basic	<u>(0.14)</u>	<u>(0.11)</u>
Weighted Average Number of Common Shares	<u>40,119,580</u>	<u>27,650,877</u>

NIGHTINGALE INFORMATIX CORPORATION

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2007**

	March 31, 2007	March 31,r 2006
Cash Flow from Operating Activities		
Loss for the Year	\$ (5,713,236)	\$ (3,000,193)
<i>Adjustments for:</i>		
Amortization	867,262	333,610
Stock-Based Compensation	557,860	566,100
	<u>(4,288,114)</u>	<u>(2,100,483)</u>
<i>Changes in Non-Cash Working Capital Balances:</i>		
Increase in Accounts Receivable	(1,531,313)	(101,043)
Decrease in Investment Tax Credits Receivable	221,191	12,614
Decrease (Increase) in Prepaid Expenses	173,327	(274,969)
Decrease in Common Share Subscription Receivable	-	250,000
Increase in Deferred Costs	(266,667)	(367,242)
Decrease (Increase) in Other Receivables	147,857	(126,311)
Increase in Accounts Payable and Accrued Liabilities	484,613	1,147,418
Decrease in Deferred Compensation Payable	(303,151)	(72,253)
Increase in Deferred Revenue	757,927	612,921
Cash flows used in operating activities	<u>(4,604,330)</u>	<u>(1,019,348)</u>
Cash Flow from Investing Activities		
Purchase of Property and Equipment	(180,913)	(735,022)
Development of Proprietary Software	(205,062)	-
IHPS Acquisition, Note 3.b	(2,990,880)	-
HealthNet Acquisition, Note 3.a	-	(239,724)
Cash flows used in investing activities	<u>(3,376,855)</u>	<u>(974,746)</u>
Cash Flow from Financing Activities		
Increase in Capital Stock	9,422,375	857,613
Amalgamation of Venquest Capital Ltd.	-	1,515,654
Decrease in Bank Loan Payable	(148,782)	(35,724)
Decrease in Due to Shareholders	-	(158,640)
Proceeds from Subordinated Debt Financing	5,000,000	-
Repayment of Subordinated Debt Financing	(4,569,000)	-
Decrease In Promissory Notes Payable	(1,643,500)	-
Repayment of Capital Lease Obligations	(247,672)	-
Increase in Borrowing under Line of Credit	1,541,733	-
Cash flows used in financing activities	<u>9,355,154</u>	<u>2,178,903</u>
Net Increase in Cash During the Year	1,373,969	184,809
Cash and Cash Equivalents, Beginning of Year	<u>373,691</u>	<u>188,882</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,747,660</u></u>	<u><u>\$ 373,691</u></u>

NIGHTINGALE INFORMATIX CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2007

1. BUSINESS DESCRIPTION

Nightingale Informatix Corporation ("Nightingale" or the "Company") is incorporated under the Ontario Business Corporations Act. The Company's 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Estimates

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

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 intercompany balances and transactions have been eliminated on consolidation.

Revenue recognition

License fees

The Company sells products and services, based on the terms and conditions of customer contracts. Certain arrangements provide for the delivery of multiple elements, which may include a license to use the licensed application software, continuing post-contract services (or "PCS") such as support and maintenance and for computer equipment.

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

Support and maintenance (PCS)

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

Hardware products

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

Services

For all services revenue, revenue is recognized at the time the service is performed. Services provided to customers include:

NIGHTINGALE INFORMATIX CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2007

Data Management and Transcription Services: The Company sells data management services to transmit data on behalf of the client and transcription services to convert voice files into a text format.

Billing Services: The Company processes billing claims from its clients to insurance companies and regional health authorities.

Other Billable Services: The Company sells other services, including custom product development, customization of existing products, product enhancements, project management and implementation and training services.

Foreign currency translation

Monetary items denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the consolidated balance sheet date and non-monetary items are translated at exchange rates in effect when the assets are acquired or obligations incurred. Revenue and expenses are translated at the average exchange rate during the year. Foreign exchange gains and losses are included in the consolidated statement of operations.

For integrated foreign operations, monetary items are translated into Canadian dollars at exchange rates in effect at the consolidated balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets are acquired or obligations incurred. Revenue and expenses are translated at the average exchange rate for the year incurred. Foreign exchange gains and losses are included in operation.

Research and software development costs

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

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

Goodwill

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

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

Loss per common share

NIGHTINGALE INFORMATIX CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2007

Basic loss per common share has been calculated by dividing the loss from the consolidated financial statements by the weighted average number of common shares outstanding during the year. The fully diluted loss per share would be calculated using a common share balance increased by the number of common shares that could be issued under outstanding common share options of the Company. As the Company is in a loss position for the year ended March 31, 2007, no dilutive effect would result from the potential increase in common shares.

Stock-based compensation and other stock-based payments

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

Deferred revenue

Deferred revenue generally results from:

- (a) license revenues deferred relating to customer contracts where the Company has received advance payment and the Company does not have VSOE of fair market value of each contract element necessary to recognize prior to the delivery of all elements of the contracts;
- (b) payments made in advance of the delivery of implementation and customization services, computer equipment or licenses; and
- (c) advance payments of PCS when the service period has not expired.

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 instruments, 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 year, the Company has not engaged in any such instruments and, as such, there is no effect on the consolidated financial statements. If this changes, the Company will evaluate the effect on its consolidated financial statements.

(b) In January 2005, the CICA issued Handbook section 3865, "Hedges". The section provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline ("AcG") - 13 "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 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 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007

3. BUSINESS COMBINATIONS

a. Acquisition of HealtheNet

On March 16, 2006, the Company completed the acquisition of the business and assets of Scribes Inc., Scribes (USA) Inc., HealtheNet Inc. (a Delaware corporation) and HealtheNet Inc. (an Ontario corporation) (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 \$7,125,000, 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). The promissory note was non-interest-bearing, due 75 days after the closing date of the transaction and was paid in full during fiscal 2007.

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 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. As at March 31, 2007, none of the contingent consideration was payable.

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

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

Current assets	\$ 96,949
Property and equipment	37,000
Assets under capital lease	391,076
Capital leases assumed	(391,076)
Proprietary software	481,500
Intangible assets	628,069
Goodwill	<u>4,091,706</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 HealtheNet 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 five years. The goodwill related to this acquisition is expected to be deductible for income tax purposes.

NIGHTINGALE INFORMATIX CORPORATION

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007**

b. Acquisition of IHPS

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 \$6,801,210 (US\$5,813,000), which included \$2,823,210 (US\$2,413,000) in cash, \$643,500 (US\$550,000) in a promissory note payable, the issuance of 559,211 common shares of Nightingale valued at \$994,500 (US\$850,000, US\$1.52 per common share), and \$2,340,000 (US\$2,000,000) 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 shares and 20% in cash, with the 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 \$2,340,000 (US\$2,000,000) contingent consideration has been excluded in the recorded purchase price. Therefore, the aggregate recorded purchase price, including transaction costs of \$167,670, is \$4,628,880 (US\$3,956,308). Once the outcome of the contingency is determinable beyond a reasonable doubt, contingent consideration recognized, if any, will be added to the purchase price. As at the end of fiscal 2007, no amounts under the earnout were payable.

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	\$ 210,169
Property and equipment, net	132,348
Assets under capital lease	9,428
Proprietary software	585,000
Intangible assets	1,372,955
Goodwill	3,240,147
Current liabilities	<u>(921,167)</u>
Purchase price	<u>\$ 4,628,880</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>\$ 4,628,880</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 five years. The goodwill related to this acquisition is expected to be deductible for income tax purposes.

NIGHTINGALE INFORMATIX CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2007

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 were 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 consolidated 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:

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 Unit Warrant's 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., which 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 have 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.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007**

6. CASH AND CASH EQUIVALENTS

	March 31, 2007	March 31, 2006
Cash	\$ 1,152,660	\$ 4,659
Term deposit	595,000	450,000
Bank overdraft	-	-80,968
	<u>\$ 1,747,660</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.

7. INVESTMENT TAX CREDITS RECEIVABLE

The Company recorded \$nil (2006 - \$221,191) of scientific research and experimental development tax credits as a reduction of development expenses.

8. DEFERRED COSTS

Direct and incremental transaction costs incurred in connection with the following have been included in deferred costs as at March 31, 2007: (i) \$63,231 for the issuance of equity as part of the Public Offering (Note 25.a), which will be netted against the proceeds from the offering upon its completion; (ii) \$88,359 of costs related to the acquisition of VantageMed Corporation ("VantageMed") (Note 25.b) to be added to the purchase price upon completion of the acquisition; (iii) \$256,230 of costs related to the Subordinated Debt financing (Note 25.c) to be included as financing costs upon completion of the financing. In addition to the transaction costs, the company had incurred \$219,070 in deferred sales commission costs as at March 31, 2007.

9. PROPERTY AND EQUIPMENT

Property and equipment as at March 31, 2007 are as follows:

	Cost	Accumulated Amortization	March 31, 2007 Net Book Value
Office equipment	\$ 1,011,122	455,404	555,718
Furniture and fixtures	170,191	52,674	117,517
Assets under capital lease - office equipment	584,467	157,569	426,898
Assets under capital lease - furniture and fixtures	124,659	30,263	94,396
Leasehold Improvements	<u>180,558</u>	<u>22,348</u>	<u>158,210</u>
	<u>\$ 2,070,997</u>	<u>718,258</u>	<u>1,352,739</u>

NIGHTINGALE INFORMATIX CORPORATION**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007**

Property and equipment as at March 31, 2006 are as follows:

	Cost	Accumulated Amortization	March 31, 2006 Net Book Value
Office equipment	\$ 938,123	227,496	710,627
Furniture and fixtures	91,767	31,966	59,801
Assets under capital lease - office equipment	272,901	40,935	231,966
Assets under capital lease - furniture and fixtures	<u>130,175</u>	<u>13,017</u>	<u>117,158</u>
	<u>\$ 1,432,966</u>	<u>313,414</u>	<u>1,119,552</u>

10. PROPRIETARY SOFTWARE

As at March 31, 2007, proprietary software is as follows:

	Cost	Accumulated Amortization	March 31, 2007 Net Book Value
Proprietary software	<u>\$ 1,829,245</u>	<u>\$ 598,773</u>	<u>\$ 1,230,472</u>

As at March 31, 2006, proprietary software is as follows:

	Cost	Accumulated Amortization	March 31, 2006 Net Book Value
Proprietary software	<u>\$ 1,039,184</u>	<u>\$ 267,206</u>	<u>\$ 771,978</u>

11. BORROWING UNDER LINE OF CREDIT

On April 21, 2006, the Company signed a revolving credit loan note with Greenfield Commercial Credit Inc. The principal amount of the revolving credit facility is \$2 million, which can be withdrawn both in Canadian and US dollars. The interest rate payable on the outstanding amount in Canadian dollars is the Canadian prime rate plus 2% and on the US amounts is US prime rate plus 2%. The loan is due on the earlier of demand or April 21, 2007. This loan was repaid and retired subsequent to the fiscal year-end.

NIGHTINGALE INFORMATIX CORPORATION

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007**

12. CAPITAL LEASE OBLIGATIONS

Capital lease obligations are repayable in monthly installments totaling \$21,106, including interest at rates ranging from 5.2% to 23.7% per annum, due on various dates to March 1, 2010 and secured by charges over office equipment and furniture and fixtures.

	March 31, 2007
Principal amount	\$ 454,832
Less: Current portion of principal amount	258,586
	<u>\$ 196,246</u>
Future minimum leases payments are as follows:	
2008	\$ 302,218
2009	167,471
2010	41,284
2011	<u>1,127</u>
Total	512,100
Less: Imputed interest	<u>57,268</u>
Principal	<u>\$ 454,832</u>

13. DEFERRED COMPENSATION PAYABLE TO EMPLOYEES

Before April 1, 2005, the Company had a stock-based compensation plan whereby some employees had the option to receive a portion of their compensation earned in the form of a direct grant of common shares. During fiscal 2006, the plan was modified to a cash-based compensation plan and, accordingly, the option to receive common shares was cancelled.

During 2007, compensation of \$124,749 (2006 - \$134,445) was deferred and \$427,900 (2006 - \$185,919) was paid out in cash. The Company recorded \$100,824 (2006 - \$403,975) in deferred compensation payable to employees.

14. CAPITAL STOCK

a. Authorized

Unlimited	Preference shares
Unlimited	Common shares

NIGHTINGALE INFORMATIX CORPORATION

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007**

b. Common shares issued

	Number	Amount
Balance - March 31, 2005	<u>24,999,998</u>	<u>\$ 2,984,416</u>
Proceeds of private placement	975,200	775,448
Issued on amalgamation with Venquest Capital Ltd., including the issue of 350,000 shares issued for the settlement of finder fees of \$350,000	3,634,125	1,306,500
Issued on exercise of stock options	62,524	77,360
Issued on exercise of agent options	14,625	15,551
Issued on acquisition of HealtheNet (1)	<u>3,437,500</u>	<u>4,095,500</u>
	33,123,972	9,254,775
Share purchase loan (2)	<u>-</u>	<u>(94,329)</u>
Balance as at March 31, 2006 (1)	<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	215,002	256,800
Issued to officers of the Company	135,000	183,600
Issued on private placement	7,700,000	7,776,506
Issued on IHPS acquisition, net of share issue costs	<u>559,211</u>	<u>980,125</u>
Balance as at March 31, 2007 (1)	<u>41,916,685</u>	<u>\$18,553,953</u>

(1) 5,104,167 common shares were issued on the purchase of HealtheNet. Only 3,437,500 common shares are included above 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 as at March 31, 2006 are 34,790,639 and as at March 31, 2007 are 43,583,352 shares.

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

c. Stock Option Plan

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

The fair value of the stock options granted during the 12-month period ended March 31, 2007 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 stock option	4 years

NIGHTINGALE INFORMATIX CORPORATION

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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i. Summarized information relative to the Company's stock option plan

	Number of Stock Options	Weighted Average Exercise Price
Balance as at March 31, 2006	2,762,156	\$ 1.21
Issued	633,500	1.22
Exercised	(215,002)	0.76
Cancelled	<u>(428,664)</u>	<u>1.22</u>
Balance as at March 31, 2007	<u>2,751,990</u>	<u>\$ 1.24</u>

The weighted average grant date fair value of stock options issued during the year was \$0.50.

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

Exercise Price	Number Outstanding at March 31, 2007	Exercisable	Remaining Contracted Life (Years)
\$0.46	135,546	128,824	0.87
0.75	73,000	-	4.86
0.91	87,944	45,481	2.86
1.00	630,000	232,500	3.12
1.25	607,500	106,000	3.96
1.50	<u>1,218,000</u>	<u>485,750</u>	3.66
	<u>2,751,990</u>	<u>998,555</u>	

15. CONTRIBUTED SURPLUS

Included in contributed surplus is the fair value of stock options granted to employees and non-employees at the date of grant valued under the Black-Scholes option pricing model on the assumption that 100% of the stock options granted will be vested. At such date as the stock options are exercised, contributed surplus will be reduced by the previously recognized compensation expenses and a corresponding increase will be made to the value included in the capital stock attributable to common shares.

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Changes in contributed surplus for the year ended March 31, 2007 are as follows:

	Amount
Balance as at March 31, 2005	<u>\$ 73,007</u>
<i>STOCK OPTIONS</i>	
Expensed- options issued in current year	524,125
Cancelled	(9,012)
Changes in period due to stock options	<u>(29,217)</u>
	485,896
<i>SHARE GRANT (1)</i>	
Shares issued	<u>183,600</u>
Balance as at March 31, 2006	<u>742,503</u>
<i>STOCK OPTIONS</i>	
Expensed- options issued in current year	161,537
Expensed- options issued in previous years	485,061
Cancelled	(88,740)
Exercised	<u>(95,544)</u>
Changes in year due to stock options	462,314
<i>SHARE GRANT (1)</i>	
Shares issued	<u>(183,600)</u>
Balance as at March 31, 2007	<u>\$ 1,021,217</u>

(1) As 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.

16. 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 option pricing model.

i. Summarized information relative to changes in Warrants during the year

Changes in Warrants for the year ended March 31, 2007 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	(183,500)	(53,341)	0.78
Expired	<u>(89,520)</u>	<u>-</u>	<u>1.00</u>
Balance as at March 31, 2007	<u>6,255,000</u>	<u>\$ 1,807,749</u>	<u>\$ 1.54</u>

The weighted average grant date fair value of Warrants issued during the year was \$0.29.

NIGHTINGALE INFORMATIX CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007

ii. Summarized information relative to Warrants outstanding and exercisable

Exercise Price	Number Outstanding as at March 31, 2007	Exercisable	Remaining Contracted Life (Years)
1.30	770,000	770,000	1.22
1.50	1,250,000	1,250,000	1.07
1.60	<u>4,235,000</u>	<u>4,235,000</u>	1.22
	<u>6,255,000</u>	<u>6,255,000</u>	

17. INTEREST

	Year Ended March 31, 2007	Year Ended March 31, 2006
Interest on bank loan	\$ 1,747	\$ 12,661
Interest on capital lease obligations	59,883	1,632
Interest on subordinated debt	82,507	-
Interest on line of credit	124,075	-
Notional interest on subordinated debt warrants	431,000	-
Other interest	<u>2,965</u>	<u>6,078</u>
	<u>\$ 702,177</u>	<u>\$ 20,371</u>

18. SUPPLEMENTARY CASH FLOW INFORMATION

	Year Ended March 31, 2007	Year Ended March 31, 2006
Interest paid	<u>\$ 271,177</u>	<u>\$ 17,804</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>
Non-cash transaction		
Common shares issued as consideration for finder fees related to Venquest transaction	<u>\$ -</u>	<u>\$ 350,000</u>

NIGHTINGALE INFORMATIX CORPORATION

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007**

19. RELATED PARTY TRANSACTIONS

	Year Ended March 31, 2007	Year Ended March 31, 2006
Payments to a company controlled by the spouse of an officer and director (Note 22)	\$ 40,151	\$ 11,039
Interest paid on amounts due to an officer and director	\$ -	\$ 2,017
Included in accounts payable and accrued liabilities:		
Reimbursable expenses of officers and directors	\$ 33,697	\$ 20,225
Included in deferred compensation payable:		
Cash due to an officer and director	\$ 98,861	\$ 402,012

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.

As described in Note 4, 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.

20. 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 US dollars. As at March 31, 2007, net monetary assets in the amount of CDN\$799,076 were denominated in US dollars.

b. Fair value

The book values of the cash and cash equivalents, accounts receivable, investment tax credits receivable, prepaid expenses and other assets, 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 value because management estimates that these debts with variable interest rates have no significant difference between the fair value and carrying value.

NIGHTINGALE INFORMATIX CORPORATION**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007****21. SEGMENTED INFORMATION**

During the year ended March 31, 2007, the Company operated within a single operating segment across two geographical regions. Information with respect to geographic areas is as follows:

	Year ended March 31, 2007	Year ended March 31, 2006
Revenue (CDN\$)		
Canada	\$ 4,120,652	\$ 3,419,812
United States	9,956,828	793,227
	<u>\$ 14,077,480</u>	<u>\$ 4,213,039</u>
	As at March 31, 2007	As at March 31, 2006
Property and equipment and goodwill, net (CDN\$)		
Canada	\$ 1,606,647	\$ 1,570,513
United States	7,562,945	4,345,425
	<u>\$ 9,169,592</u>	<u>\$ 5,915,938</u>

22. COMMITMENTS

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
2013 and thereafter	417,099

NIGHTINGALE INFORMATIX CORPORATION**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007****23. INCOME TAXES**

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

	Year Ended March 31, 2007	Year Ended March 31, 2006
Future income tax assets (liabilities)		
Non-capital losses	\$ 3,679,199	\$ 2,097,501
Deductible share issue costs	737,278	219,658
Excess of book value of property and equipment over tax value	<u>(122,489)</u>	<u>(44,078)</u>
	4,293,988	2,273,081
Valuation allowance	<u>\$ (4,293,988)</u>	<u>\$ (2,273,081)</u>
Net future tax assets	<u> -</u>	<u> -</u>

In assessing the realizability of future income tax assets, management considers whether it is more likely than not that some portion or all of the future income tax assets will not be realized. The ultimate realization of future income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. A valuation allowance was provided against the net future income tax assets as at March 31, 2007 and 2006 due to the uncertainty as to their ultimate realization.

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

Fiscal Year	Amount
2008	\$ 503,965
2012	1,714,384
2013	1,106,513
2014	253,197
2016	2,083,137
2017	5,481,853

24. LEGAL

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

25. SUBSEQUENT EVENTS**a. Public Offering**

On April 13, 2007, Nightingale completed an equity financing, in conjunction with its proposed acquisition of VantageMed, comprised of a total of 25,000,000 Subscription Receipts (the "Subscription Receipts") of the Company at a price of \$0.40 per Subscription Receipt for aggregate gross proceeds of \$10,000,000. Each

NIGHTINGALE INFORMATIX CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2007

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 Corporation.

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 CDN\$14.4 million (US\$13.0 million or US\$0.75 per share) for all of the outstanding shares. VantageMed, a Delaware-based corporation listed on the NASDAQ exchange was purchased into VantageMed, a new, Delaware-based wholly-owned subsidiary of Nightingale.

The preliminary allocation of the purchase price the assets and liabilities acquired is as follows (in CDN \$):

Current assets	\$	2,270,337
Property and equipment		61,189
Assets under capital leases		23,967
Accounts payable and other liabilities		(2,472,353)
Current deferred revenue		(3,712,239)
Capital lease obligations		(44,344)
Intangibles		10,948,083
Goodwill		7,737,441
		<hr/>
	\$	14,812,081
		<hr/>
Cash consideration	\$	14,373,362
Transaction costs		438,719
		<hr/>
	\$	14,812,081
		<hr/>

This allocation is preliminary and will be finalized upon receipt of a completed report by an independent valuator. This acquisition will be accounted for by the purchase method. From April 19, 2007 onward, the Company will consolidate the operations of VantageMed in its consolidated financial statements.

c. Subordinated Debt Financing

On April 19, 2007, Nightingale closed a \$12 million subordinated debt financing. The 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.

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The subordinated debt is subject to a number of covenants including quarterly and cumulative financial covenants. Management expects to meet these covenants. If the Company is in breach of any of the covenants over the term of the subordinated debt, management intends to work with the lenders to obtain a waiver or renegotiate terms of the covenants.

26. COMPARATIVE AMOUNTS

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