



**NIGHTINGALE INFORMATIX CORPORATION**

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)  
For the three month period ended June 30, 2007**

<b>INDEX</b>	<b>Page</b>
Consolidated Balance Sheet	1
Consolidated Statement of Deficit	2
Consolidated Statement of Operations and Comprehensive Loss	3
Consolidated Statement of Cash Flows	4
Notes to the Consolidated Financial Statements	5 – 14

**NIGHTINGALE INFORMATIX CORPORATION**

**INTERIM CONSOLIDATED BALANCE SHEET  
(unaudited)**

	<b>June 30, 2007</b>	<b>March 31, 2007</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 5,543,899	\$ 1,747,660
Accounts Receivable	3,360,021	3,018,767
Other Receivables	41,004	79,739
Inventory	91,859	7,893
Prepaid Expenses	493,656	257,157
	<u>9,530,439</u>	<u>5,111,216</u>
<b>Long-Term Assets</b>		
Deferred Costs, Note 5	226,080	626,890
Property and Equipment	1,459,812	1,352,739
Proprietary Software	1,126,423	1,230,472
Intangible Assets, Note 3	12,185,047	1,878,099
Goodwill, Note 3	15,007,773	7,331,853
	<u>30,005,135</u>	<u>12,420,053</u>
	<u>\$ 39,535,574</u>	<u>\$ 17,531,269</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Borrowing under Line of Credit	\$ -	\$ 1,541,733
Accounts Payable and Accrued Liabilities	4,354,686	2,770,367
Current Portion of Deferred Revenue	5,736,103	1,829,931
Current Portion of Capital Lease Obligations	246,521	258,586
	<u>10,337,310</u>	<u>6,400,617</u>
<b>Long Term Liabilities</b>		
Subordinated Debt, Note 6	9,917,981	-
Deferred Compensation Payable to Employees	1,963	100,824
Deferred Revenue	1,299,666	1,716,512
Capital Lease Obligations	178,332	196,246
	<u>11,397,942</u>	<u>2,013,582</u>
<b>Total Liabilities</b>	<u>21,735,252</u>	<u>8,414,199</u>
<b>SHAREHOLDERS' EQUITY</b>		
Capital Stock, Note 7	27,295,885	18,553,953
Contributed Surplus, Note 9	1,246,340	1,021,217
Warrants, Note 10	3,277,011	1,807,749
Deficit	(14,018,914)	(12,265,849)
	<u>17,800,322</u>	<u>9,117,070</u>
<b>Total Liabilities and Shareholders' Equity</b>	<u>\$ 39,535,574</u>	<u>\$ 17,531,269</u>

Approved on behalf of the board:

\_\_\_\_\_ "Samer Chebib" Director

\_\_\_\_\_ "David Atkins" Director

**NIGHTINGALE INFORMATIX CORPORATION**

**INTERIM CONSOLIDATED STATEMENT OF DEFICIT  
FOR THE THREE MONTH PERIOD ENDED JUNE 30, 2007  
(unaudited)**

	<b>June 30, 2007</b>	<b>June 30, 2006</b>
Deficit, Beginning of the Period	\$ (12,265,849)	\$ (6,552,613)
Net Loss For the Period	<u>(1,753,065)</u>	<u>(2,321,005)</u>
Deficit, End of the Period	<u>\$ (14,018,914)</u>	<u>\$ (8,873,618)</u>

NIGHTINGALE INFORMATIX CORPORATION

INTERIM CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS  
FOR THE THREE MONTH PERIOD ENDED JUNE 30, 2007  
(unaudited)

	June 30, 2007	June 30, 2006
<b>Revenue</b>	<u>\$ 6,122,213</u>	<u>\$ 2,989,106</u>
<b>Cost of Sales</b>		
Hardware, Software and Services	1,157,479	1,175,541
Sales Commissions	148,989	67,227
	<u>1,306,468</u>	<u>1,242,768</u>
<b>Gross Profit</b>	<u>4,815,745</u>	<u>1,746,338</u>
<b>Expenses</b>		
General and Administration	857,799	873,062
Sales and Marketing	943,197	775,472
Research and Development	1,292,882	1,003,163
Client Services	1,619,152	571,643
Stock-Based Compensation	225,123	223,218
Amortization	989,509	163,685
	<u>5,927,662</u>	<u>3,610,243</u>
<b>Operating Loss for the Period</b>	<u>(1,111,917)</u>	<u>(1,863,905)</u>
Interest, Note 11	587,469	548,639
Other Loss (Income), Note 12	53,679	(91,539)
<b>Net Loss and Comprehensive Loss for the Period</b>	<u>(1,753,065)</u>	<u>(2,321,005)</u>
Loss per Common Share, Basic	<u>(0.02)</u>	<u>(0.07)</u>
Weighted Average Number of Common Shares	<u>63,345,256</u>	<u>34,551,915</u>

**NIGHTINGALE INFORMATIX CORPORATION**

**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE THREE MONTH PERIOD ENDED JUNE 30, 2007  
(unaudited)**

	June 30, 2007	June 30, 2006
<b>Cash Flow from Operating Activities</b>		
Loss for the Period	\$ (1,753,065)	\$ (2,321,005)
<i>Adjustments for:</i>		
Amortization	989,509	163,685
Stock-Based Compensation	225,123	223,218
Interest Accretion	196,857	-
	<u>(341,576)</u>	<u>(1,934,102)</u>
<i>Changes in Non-Cash Working Capital Balances:</i>		
Decrease (Increase) in Accounts Receivable	485,772	(492,055)
Decrease (Increase) in Prepaid Expenses	(39,493)	(54,421)
Decrease (Increase) in Inventory	(55,135)	-
Decrease (Increase) in Deferred Costs	383,400	248,025
Decrease (Increase) in Other Receivables	38,735	145,107
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(888,034)	(463,819)
Increase (Decrease) in Deferred Compensation Payable	(98,861)	(310,493)
Increase (Decrease) in Deferred Revenue	(222,913)	(82,575)
Cash flows used in operating activities	<u>(738,105)</u>	<u>(2,944,333)</u>
<b>Cash Flow from Investing Activities</b>		
Purchase of Property and Equipment	(148,258)	(126,283)
IHPS Acquisition, Note 3	-	(2,990,880)
VantageMed Acquisition, Net of Cash Received, Note 3	(13,533,087)	-
Cash flows used in investing activities	<u>(13,681,345)</u>	<u>(3,117,163)</u>
<b>Cash Flow from Financing Activities</b>		
Increase in Capital Stock	8,741,932	9,265,370
Decrease in Bank Loan Payable	-	(148,782)
Proceeds from Subordinated Debt Financing	11,089,812	5,000,000
Repayment of Subordinated Debt Financing	-	(4,569,000)
Decrease In Promissory Notes Payable	-	(1,227,920)
Increase (Decrease) in Capital Lease Obligations	(74,322)	62,525
Increase (Decrease) in Borrowing under Line of Credit	(1,541,733)	925,202
Cash flows used in financing activities	<u>18,215,689</u>	<u>9,307,395</u>
Net Increase in Cash During the Period	3,796,239	3,245,899
Cash and Cash Equivalents, Beginning of Period	<u>1,747,660</u>	<u>373,691</u>
<b>Cash and Cash Equivalents, End of Period</b>	<u>\$ 5,543,899</u>	<u>\$ 3,619,590</u>

## NIGHTINGALE INFORMATIX CORPORATION

### NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED JUNE 30, 2007

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#### 1. BASIS OF PREPARATION

The accompanying interim consolidated financial statements of Nightingale Informatix Corporation and its subsidiaries ("Nightingale" or the "Company") have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by Canadian GAAP for annual consolidated financial statements.

The accompanying financial information reflects all adjustments, consisting primarily of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of results for interim periods. Operating results for the three months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2008. The accounting policies used in the preparation of these interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for fiscal 2007.

These interim consolidated financial statements follow the same accounting policies and methods of application as the consolidated financial statements for the year ended March 31, 2007, except as described in Note 2 below. Certain prior period amounts have been reclassified to conform to the current period's presentation.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Principles of consolidation

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

All significant intercompany balances and transactions have been eliminated on consolidation.

##### Changes in accounting policies

As required by the Canadian Institute of Chartered Accountants ("CICA"), on April 1, 2007, the Company adopted CICA Handbook Section 1530, *Comprehensive Income*; Section 3251, *Equity*; Section 3855, *Financial Instruments – Recognition and Measurement*; Section 3861, *Financial Instruments – Disclosure and Presentation* and Section 3865, *Hedges*. The prospective adoption of these new standards resulted in changes in the accounting and presentation for financial instruments. The principal changes in the accounting for financial instruments due to the adoption of these accounting standards are described below.

##### a) Section 1530, Comprehensive Income

Section 1530 requires a statement of comprehensive income, which consists of net income and other comprehensive income ("OCI"). The Company did not have OCI during the three months ended June 30, 2007 and its comprehensive loss comprised its net loss.

##### b) Section 3251, Equity

Section 3251 describes the changes in how to report and disclose equity and changes in equity as a result of the new requirements of Section 1530, including the changes in equity for the period arising from OCI. Accumulated changes in OCI are included in accumulated other comprehensive income ("AOCI") and are presented as a separate component of shareholders' equity. The Company did not have a balance of AOCI at June 30, 2007.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED JUNE 30, 2007

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**c) Section 3855, Financial Instruments – Recognition and Measurement  
Section 3861, Financial Instruments – Disclosure and Presentation**

Under the new standards, all financial instruments were classified into the following categories: held for trading held to maturity investments, loans and receivables, available for sale financial assets or other liabilities. All financial instruments within the scope of the standard are included in the consolidated financial statements and are initially measured at fair value. Subsequently, all financial instruments are re-measured to fair value at each reporting period except for loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost. Held for trading financial investments are subsequently measured at fair value and all gains and losses as a result of measurement are included in net income in the period in which they arise. Available for sale financial instruments are subsequently measured at fair value with revaluation gains and losses included in other comprehensive income until the instrument is derecognized or impaired.

As a result of the adoption of this standard, the Company has elected to classify each of its significant categories of financial instruments outstanding during the three months ended June 30, 2007 as follows:

- Cash and cash equivalents are classified as held-for-trading. Changes in fair value for the period are recorded in earnings as interest income.
- Accounts receivable and other receivables are classified as loans and receivables.
- Borrowings under line of credit, accounts payable and accrued liabilities and capital lease obligations are classified as other financial liabilities
- Subordinated debt is classified as other financial liabilities and recorded at amortized cost using the effective interest method.

Debt issuance and transaction costs related to other financial liabilities are added to the carrying value of the debt and amortized over the term of the debt using the effective interest method.

**d) Section 3865, Hedges**

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value hedges and cash flow hedges. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale of early termination of the hedged item. The Company did not have any hedges during the three months ended June 30, 2007.

**Recent accounting pronouncements**

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.

## NIGHTINGALE INFORMATIX CORPORATION

### NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED JUNE 30, 2007

#### 3. BUSINESS COMBINATIONS

##### a. VantageMed Acquisition

On April 18, 2007, the Company completed its acquisition of all the outstanding shares of VantageMed, a provider of practice management software and services to the healthcare industry in the U.S. market. 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 OTC Bulletin Board, will operate as VantageMed Corporation, a Delaware-based wholly-owned subsidiary of Nightingale.

The preliminary allocation of the purchase price to the fair value of 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		7,675,920
		<hr/>
	\$	14,750,560
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Cash consideration	\$	14,373,362
Transaction costs		377,198
		<hr/>
	\$	14,750,560
		<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 has consolidated the operations of VantageMed in its consolidated financial statements.

The Company paid \$14,750,560 in cash for the acquisition of VantageMed, including transaction costs. Cash of \$1,217,473 was included in the assets of VantageMed, resulting in net cash paid of \$13,533,087.

##### b. IHPS Acquisition

On April 1, 2006, the Company completed its purchase of the assets of Integrated Healthcare Inc., a healthcare 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

## NIGHTINGALE INFORMATIX CORPORATION

### NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED JUNE 30, 2007

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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		3,823,210
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.

#### 4. PUBLIC OFFERING

On April 13, 2007, Nightingale completed an equity financing 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 and net proceeds of \$8,719,932. 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 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.

#### 5. DEFERRED COSTS

Deferred costs as at June 30, 2007 includes \$226,080 in deferred sales commission costs.

#### 6. SUBORDINATED DEBT

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 also provided the lenders with 7,994,186 special warrants ("Warrants"). Each

## NIGHTINGALE INFORMATIX CORPORATION

### NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED JUNE 30, 2007

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 Warrants and, as applicable, the warrants and common shares, are subject to a four-month hold period, pursuant to securities laws. The transaction costs related to the subordinated debt financing totaled \$910,188 and included a commitment fee equal to 3.75% of the available facility.

The proceeds and costs were allocated to the debt and warrants based on the relative fair value of debt and the Warrants. The fair value of the Warrants was determined to be \$1,574,855 using the Black-Scholes option pricing model with the following assumptions:

Warrant exercise price	\$0.43
Market value of common shares on date of issuance of Warrants	\$0.43
Risk-free rate	3.95%
Expected volatility	50.0%
Expected dividend yield	0.0%
Estimated life of Warrants	4 years

The fair value of the subordinated debt of \$10,425,145 was determined by discounting the future contractual cash flows of the subordinated debt using an interest rate of 21%. Based on the relative fair values of the subordinated debt and Warrants, proceeds of \$10,425,145 and transaction costs of \$804,595 was allocated to the subordinated debt and proceeds of \$1,574,855 and transaction costs of \$105,593 was allocated to the Warrants.

The subordinated debt is subject to a number of covenants including quarterly and cumulative financial covenants, as amended subsequent to the period. 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 the terms of the covenants.

#### 7. CAPITAL STOCK

##### a. Authorized

Unlimited	Preference shares
Unlimited	Common shares

##### b. Common shares issued

	Number	Amount
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>
Issued on Public Offering	<u>25,000,000</u>	<u>8,741,932</u>
Balance as a June 30, 2007 (1)	<u>66,916,685</u>	<u>\$27,295,885</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

**NIGHTINGALE INFORMATIX CORPORATION**

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED JUNE 30, 2007**

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, 2007 are 43,583,352 shares and as at June 30, 2007 are 68,583,352 shares.

**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 3 month period ended June 30, 2007 was estimated using the Black-Scholes option pricing model with the following assumptions:

Risk-free rate	3.95%
Expected volatility	50.0%
Expected dividend yield	0.0%
Life of stock option	4 years

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

	Number of Stock Options	Weighted Average Exercise Price
Balance as at March 31, 2007	2,751,990	\$ 1.24
Issued	1,780,849	0.45
Cancelled	<u>(179,585)</u>	<u>1.45</u>
Balance as at June 30, 2007	<u>4,353,254</u>	<u>\$ 0.91</u>

**ii. Summarized information relative to stock options outstanding and exercisable**

Exercise Price	Number Outstanding at June 30, 2007	Exercisable	Remaining Contracted Life (Years)
\$0.45	1,780,849	511,164	4.92
0.46	128,961	122,239	0.66
0.75	73,000	-	4.61
0.91	87,944	46,030	2.59
1.00	628,000	232,000	2.87
1.25	603,500	130,500	3.71
1.50	<u>1,051,000</u>	<u>444,000</u>	3.41
	<u>4,353,254</u>	<u>1,485,933</u>	

**NIGHTINGALE INFORMATIX CORPORATION**

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED JUNE 30, 2007**

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**8. RESTRICTED SHARE GRANTS**

In May 2007, the Company granted 1,128,100 restricted common shares to certain officers related to the VantageMed Acquisition. These shares are expected to be issued in the second quarter of this fiscal year and are pending final approval from the TSX Venture Exchange. The awards were granted at nil cost to the employees and have restricted terms based on continued employment over a three year period. The cost of these shares shall be expensed as such over the same three year vesting period.

**9. CONTRIBUTED SURPLUS**

Included in contributed surplus is the expense related to 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. 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.

Changes in contributed surplus for the period ended June 30, 2007 are as follows:

	<b>Amount</b>
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	<u>462,314</u>
<i>SHARE GRANT (1)</i>	
Shares issued	<u>(183,600)</u>
Balance as at March 31, 2007	\$ 1,021,217
<i>STOCK OPTIONS AND RESTRICTED SHARE GRANTS</i>	
Expensed- options issued in current period	113,480
Expensed- options issued in previous periods	96,931
Cancelled	<u>(22,888)</u>
Changes in period due to stock options	187,523
Expensed – restricted share grants (Note 0)	<u>37,600</u>
Balance as at June 30, 2007	<u>\$ 1,246,340</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.

**NIGHTINGALE INFORMATIX CORPORATION**

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED JUNE 30, 2007**

**10. WARRANTS**

Included in Warrants is the fair value of Warrants granted at the date of grant using the Black-Scholes option pricing model.

**i. Summarized information relative to changes in Warrants during the period**

Changes in Warrants for the period ended June 30, 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	6,255,000	\$ 1,807,749	\$ 1.54
Issued - subordinated debt	<u>7,994,186</u>	<u>1,469,262</u>	<u>0.43</u>
Balance as at June 30, 2007	<u><u>14,249,186</u></u>	<u><u>\$ 3,277,011</u></u>	<u><u>0.68</u></u>

**ii. Summarized information relative to Warrants outstanding and exercisable**

Exercise Price	Number Outstanding as at June 30, 2007	Exercisable	Remaining Contracted Life (Years)
0.43	7,994,186	7,994,186	4.79
1.30	770,000	770,000	0.97
1.50	1,250,000	1,250,000	0.82
1.60	<u>4,235,000</u>	<u>4,235,000</u>	0.97
	<u><u>14,249,186</u></u>	<u><u>14,249,186</u></u>	

**11. INTEREST**

	Period Ended June 30, 2007	Period Ended June 30, 2006
Interest on bank loan	\$ -	\$ 1,747
Interest on capital lease obligations	12,954	14,255
Interest on subordinated debt	310,193	82,507
Interest on line of credit	63,156	19,130
Interest accretion	196,857	431,000
Other interest	<u>4,309</u>	<u>-</u>
	<u><u>\$ 587,469</u></u>	<u><u>\$ 548,639</u></u>

**NIGHTINGALE INFORMATIX CORPORATION**

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED JUNE 30, 2007**

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**12. OTHER LOSS (INCOME)**

	<b>Period Ended June 30, 2007</b>	<b>Period Ended June 30, 2006</b>
Foreign Currency Loss (Gains)	<u>\$ 53,679</u>	<u>\$ (91,539)</u>

**13. SUPPLEMENTARY CASH FLOW INFORMATION**

	<b>Period Ended June 30, 2007</b>	<b>Period Ended June 30, 2006</b>
Interest paid	<u>\$ 390,612</u>	<u>\$ 117,639</u>
Income taxes paid	<u>\$ -</u>	<u></u>

**14. RELATED PARTY TRANSACTIONS**

	<b>Period Ended June 30, 2007</b>	<b>Year Ended March 31, 2007</b>
Payments to a company controlled by the spouse of an officer and director (Note 17)	<u>\$ 10,038</u>	<u>\$ 40,151</u>
Included in deferred compensation payable: Cash due to an officer and director	<u>\$ -</u>	<u>\$ 98,861</u>

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

**15. 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 June 30, 2007, net monetary assets in the amount of CDN\$1,324,593 were denominated in US dollars.

**NIGHTINGALE INFORMATIX CORPORATION****NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED JUNE 30, 2007****16. SEGMENTED INFORMATION**

During the period ended June 30, 2007, the Company operated within a single operating segment across two geographical regions. Information with respect to geographic areas is as follows:

	<b>Period Ended June 30, 2007</b>	<b>Period Ended June 30, 2006</b>
<b>Revenue</b>		
Canada	\$ 1,394,017	\$ 628,205
United States	4,728,196	2,360,901
	<u>\$ 6,122,213</u>	<u>\$ 2,989,106</u>
	<b>As at June 30, 2007</b>	<b>As at March 31, 2007</b>
<b>Property and equipment and goodwill</b>		
Canada	\$ 2,001,341	\$ 1,606,647
United States	14,466,244	7,077,945
	<u>\$ 16,467,585</u>	<u>\$ 8,684,592</u>

**17. 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:

<b>Fiscal Year</b>	<b>Amount</b>
2008 (remaining portion)	\$ 937,290
2009	961,597
2010	525,703
2011	393,271
2012	332,528
2013 and thereafter	417,099

**18. 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.