



NIGHTINGALE INFORMATIX CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the three and six month interim periods ended September 30, 2007

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

This MD&A, prepared as of November 23, 2007, should be read in conjunction with the Company's Consolidated Annual Financial Statements for the period ended March 31, 2007 as well as with the Company's Consolidated Interim Financial Statements for the period ended September 30, 2007.

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This MD&A provides an overview of significant developments that have affected Nightingale's performance during the three and six months ended September 30, 2007.

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

This MD&A contains "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 and applicable Canadian securities legislation. Generally, forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved".

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of Nightingale to be materially different from those expressed or implied by such forward-looking statements, including but not limited to: risks related to the speculative nature of the medical software industry, which is affected by numerous factors beyond Nightingale's control; the Company's ability to succeed in the US market, a new market for the Company; the existence of present and possible future government regulation; Nightingale's ability to successfully integrate its acquisitions and any liabilities arising as a result of such acquisitions; the significant and increasing competition that exists in the medical software industry; and the early stage of Nightingale's business. The Company is subject to the risks associated with early stage companies, including uncertainty of revenues, markets and profitability and the ability to access debt or equity financing, as necessary. Although Nightingale has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. More detailed information about these and other risk factors, as well as additional information, can be found in the Company's Annual Information Form dated July 27, 2007 ("AIF"), under the heading "Risks and Uncertainties", a copy of which has been filed on the Company's SEDAR profile (www.sedar.com).

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

There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. Nightingale does not undertake to update any forward-looking statements that are incorporated by reference herein, except in accordance with applicable securities laws.

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1. OVERVIEW

Business Description

Nightingale is a provider of healthcare information systems including both application service provider (hosted) arrangements and client server based arrangements whose principal activities include clinical management and practice management solutions and services for outpatient clinics, hospitals and health-care providers. Nightingale operates in a single business segment and its principal activities include the development, marketing and licensing of software and related services to customers in the health-care industry in Canada and the United States.

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

Before the acquisition of VantageMed, Nightingale's solutions were being utilized by an established client base of physicians, clinics and hospitals across North America, representing over 5,000 physicians and health-care providers.

During the first quarter of fiscal 2008, the Company's expansion of operations in the United States included the acquisition and the integration of the assets of VantageMed (see VantageMed Acquisition under section 7.a). This acquisition added approximately 6,000 additional customers in the United States, representing approximately 18,000 physicians and other health-care providers, to Nightingale's platform, providing numerous "cross-selling" opportunities for Nightingale's existing products and services and better access to additional markets across the United States.

Nightingale currently provides services to over 23,000 physicians and health-care providers at 6,000 customers and has over 5 million patients on its systems.

Nightingale's Strategy

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

With the recent completion of the VantageMed Acquisition, the immediate focus of the business is on organic growth and improved financial performance to help generate positive adjusted EBITDA (see section 4.a under Non-GAAP Measures) and positive quarterly cash flows from operations before year end. Once the Company has achieved this goal on a consistent basis, it may continue to seek out additional acquisition candidates to enhance future growth through acquisitions.

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Nightingale intends to:

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

Revenue Model

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

Nightingale's revenue consists of several different products depending on the type of solution being provided. For its software solutions, Nightingale typically charges an up-front licence fee for software licensing but also offers a monthly utilization fee model. Charges for implementation and training services are typically due as services are rendered. Support and maintenance fees are charged monthly, quarterly or annually. For data management and transcription services, Nightingale charges per report or per minute transcribed and for billing services, a percentage of amounts collected. For electronic transactions, Nightingale charges a flat monthly fee per provider or a per claim fee and for statements, a per statement fee.

Q2 Fiscal 2008 Summary

- Revenue of \$7.0 million for the three months ended September 30, 2007 represents a 102% increase over the \$3.5 million generated in the same quarter last year.
- Revenue of \$13.1 million for the six months ended September 30, 2007 represents a 103% increase over the \$6.4 million generated in the six months ended September 30, 2006.
- After subtracting revenue from VantageMed operations, three and six month organic growth rates were 20% and 22% over the same respective periods in the previous fiscal year.
- For the quarter ended September 30, 2007, recurring revenue for the quarter was \$4.4 million, or 63% of revenue, while non-recurring revenue was \$2.6 million, or 37% of revenue. Recurring revenue is revenue derived from software and hardware maintenance, billing and electronic services and non-recurring revenue is revenue generated from sales of software and systems

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and related training, data conversion and installation services. Both of these measures non-GAAP measures (see definition in section 4.0 under Non-GAAP Measures).

- Gross profit as a percentage of revenue was 78%, improved from 72% in the same quarter last fiscal year and gross profit was 78% for the six months ended September 30, 2007, up from 66% for the six month period last fiscal year. The higher gross profit margins during this fiscal quarter and in the six month period, versus the same respective periods last fiscal year, are a result of increased software sales, with inherently higher margins.
- Adjusted EBITDA (see definition in section 4.a. under Non-GAAP Measures) for the fiscal quarter ended September 30, 2007, was \$0.33 million or 5% of revenue, compared to an Adjusted EBITDA loss of \$0.7 million, or 20% of revenue for the fiscal quarter ended September 30, 2006.
- Operating loss was \$0.69 million, or 10% of revenue for the three months ended September 30, 2007 compared to an operating loss of \$1.1 million, or 32% of revenue, for the three months ended September 30, 2006.
- Net loss was \$1.4 million or 20% of revenue, compared to a loss of \$1.1 million, or 31% of revenue, for the quarter ended September 30, 2006.
- Change in the value of the U.S. dollar is estimated to have negatively impacted Q2 revenue by approximately 7%, or \$0.4 million versus the same period during the previous fiscal year.
- Following the VantageMed Acquisition, the Company restructured its operations to capitalize on the experience and in-depth knowledge of key leaders within the Company, and streamlined the organization to achieve operational cost synergies.
- Nightingale has engaged with clients from the acquired businesses and continues to work on building its pipeline in the US markets.

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

In Thousands (Except per Share Amounts)	Q3 Ended Dec 31, 2005	Q4 Ended March 31, 2006	Fiscal Year Ended March 31, 2006	Q1 Ended June 30, 2006	Q2 Ended Sept 30, 2006	Q3 Ended Dec 31, 2006	Q4 Ended March 31, 2007	Fiscal Year Ended March 31, 2007	Q1 Ended June 30, 2007	Q2 Ended Sept 30, 2007
Recurring Revenue	108	423	679	2,419	2,524	2,376	2,509	9,828	3,998	4,376
Non-Recurring Revenue	1,088	397	3,513	563	943	1,778	903	4,187	2,083	2,610
Revenue	1,196	820	4,192	2,982	3,467	4,154	3,412	14,014	6,081	6,986
Gross Profit	1,085	576	3,587	1,739	2,486	3,046	2,317	9,589	4,775	5,480
Expenses	1,562	2,670	6,588	3,610	3,584	3,396	4,266	14,856	5,928	6,173
Adjusted EBITDA (non-GAAP measure)	-315	-1,592	-2,101	-1,484	-710	-12	-1,636	-3,841	62	330
Operating Loss for the Period	-477	-2,095	-3,001	-1,871	-1,097	-349	-1,949	-5,267	-1,153	-693
Net Loss for the Period	-472	-2,096	-3,000	-2,321	-1,084	-352	-1,956	-5,713	-1,753	-1,395
Loss per Common Share	-0.02	-0.07	-0.11	-0.07	-0.03	-0.01	-0.05	-0.14	-0.02	-0.02
Weighted Avg. # of Common Shares	29,611	30,172	27,651	34,552	41,818	41,945	41,926	40,120	63,345	66,914
Total Assets	4,758	9,522	9,522	18,550	17,825	18,825	17,531	17,531	39,536	38,557
Total Long Term Liabilities	1,590	1,796	1,796	1,826	1,572	1,585	2,014	2,014	11,398	11,831

(* certain balances have been reclassified to confirm with current quarter classification)

Revenue: For the three and six months ended September 30, 2007, revenue was \$7.0 million and \$13.1 million, respectively. This compares to \$3.5 million and \$6.4 million for the three and six months ended September 30, 2006, representing a 102% and 103% increase over these respective periods.

Revenue attributed to the acquired VantageMed operations totalled \$2.8 million and \$5.3 million for the three and six months ended September 30, 2007. After subtracting revenue from VantageMed operations, revenue from core operations totalled \$4.2 million and \$7.8 million over the three and six months, representing a 20% and 22% organic growth rate versus the same periods last fiscal year.

Revenue of \$7.0 million generated in the quarter represents a 15% increase over \$6.1 million generated in the previous fiscal quarter ended June 30, 2007. Part of this increase can be attributed to the timing of the close on the VantageMed acquisition, having closed 18 days after the start of the previous quarter.

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In the first quarter of this fiscal year the Company began providing a breakdown of recurring and non-recurring revenue, both of which are non-GAAP measures (see definition in section 4.0 under Non-GAAP Measures) to help investors better understand the performance of the business. Recurring revenue is comprised of support and maintenance, data management and transcription services, transactional fees and billing and financial management services.

Recurring revenue for the three and six months ended September 30, 2007 was \$4.4 million, or 63% of revenue, and \$8.4 million, or 64% of revenue. This compares to \$2.5 million or 73% of revenue and \$4.9 million, or 77% of revenue for the three and six months ended September 30, 2006, representing a 73% and 69% change over these respective periods. The increase in recurring revenue from last fiscal year is primarily a result of the additional transactional fees and support and maintenance significantly contributing to this revenue category, which were a result of the VantageMed Acquisition.

Recurring revenue for the current fiscal quarter was \$4.4 million, or 63% of revenue, which compares to \$4 million, or 65% of revenue for the previous fiscal quarter ended June 30 2007. The difference in total recurring revenue can be mostly attributed to the timing of the close on the VantageMed acquisition, having closed 18 days after the start of the first quarter.

Non-recurring revenue is comprised of revenues generated from sales of software and systems and related training, data conversion and installation services.

Non-recurring revenue for the three and six months ended September 30, 2007 was \$2.6 million, or 37% of revenue, and \$4.7 million, or 36% of revenue, respectively. This compares to \$0.9 million, or 27% of revenue and \$1.5 million, or 23% of revenue for the three and six months ended September 30, 2006, representing a 177% and 212% change over these respective periods.

Non-recurring revenue for the current fiscal quarter was \$2.6 million, or 37% of revenue, which compares to \$2.1 million, or 34% of revenue for the previous fiscal quarter ended June 30, 2007. The increase in non-recurring revenue reflects a greater number of new sales made over the current quarter.

Gross Profit: For the three and six months ended September 30, 2007, gross profit was \$5.5 million, or 78% of revenue (gross profit margin), and \$10.3 million, or 78% revenue (gross profit margin). This compares to \$2.5 million, with gross profit margin of 72%, and \$4.2 million, with gross profit margin of 66%, for the three and six months ended September 30, 2006. The higher gross profit margins are the result of increased support and maintenance revenue due to the VantageMed Acquisition and increased software sales, both with typically higher gross profit margins.

For the current fiscal quarter, gross profit was \$5.5 million, or 78% gross profit margin, which is similar to the fiscal quarter ended June 30, 2007, with gross profit of \$4.8 million and a gross profit margin of 79%.

Expenses: Expenses for the three and six months ended September 30, 2007, were \$6.2 million, or 88% of total revenue, and \$12.1 million, or 93% of total revenue. This compares to \$3.6 million, or 103% of total revenue, and \$7.2 million or 112% of total revenue for the three and six months ended September 30, 2006, representing a 72% and 68% increase over these respective periods. The lower percentage of expenses-to-total revenue is largely a result of the Company's ability to leverage its operations over a larger revenue base following the VantageMed Acquisition and the cost cuts that the Company implemented earlier this fiscal year. It should be noted that as part of its growth strategy, the Company will continue to invest in new employees for select job functions as it expands its product offering and delivery capabilities to better address the needs of the US market.

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Sales and marketing expenses for the three and six months ended September 30, 2007, were \$0.92 million and \$1.9 million. This compares to \$0.81 million and \$1.6 million for the three months and six months ended September 30, 2006, representing a 13% increase, and a 17% increase over the respective periods. These increases reflect the Company's continued investment in sales and marketing capabilities as it entered the U.S. market and the additional sales and marketing costs as a result of the VantageMed acquisition.

For the current fiscal quarter, sales and marketing expenses were \$0.92 million, similar to \$0.94 million for the fiscal quarter ended June 30, 2007, representing a 2% decrease. Following the quarter end, the Company made an investment into several new sales and marketing resources, and the expense associated with these new personnel will be reflected in upcoming quarters.

General and administration expenses for the three and six months ended September 30, 2007, were \$1.2 million and \$2.1 million. This compares to \$0.79 million and \$1.7 million for the three months and six months ended September 30, 2006, representing a \$0.45 million, or 57% increase, and a \$0.44 million, or 26% increase over the respective periods. Though the Company has added general and administration costs due to the VantageMed Acquisition, the Company has also reduced the number of employees focused on general and administration activities and has reallocated these employees to client services roles.

For the current fiscal quarter, general and administration expenses were \$1.2 million, compared to \$0.86 million for the fiscal quarter ended June 30, 2007, representing a \$0.39 million or 45% increase. The largest change in the consecutive periods is due to a \$0.18 million increase in allowances for doubtful accounts related to certain aged receivables.

Research and development expenses for the three and six months ended September 30, 2007, were \$1.4 million and \$2.7 million. This compares to \$0.97 million and \$2 million for the three months and six months ended September 30, 2006, representing a \$0.40 million, or 41% increase, and a \$0.69 million, or 35% increase over the respective periods.

For the current fiscal quarter research and development expenses were \$1.4 million, compared to \$1.3 million for the fiscal quarter ended June 30, 2007, representing a 6% increase.

Client services expenses for the three and six months ended September 30, 2007, were \$1.6 million and \$3.2 million. This compares to \$0.62 million and \$1.2 million for the three months and six months ended September 30, 2006, representing a \$0.99 million, or 160% increase, and a \$2.0 million, or 171% increase over the respective periods. These increases are primarily the result of combining the operations of Nightingale and VantageMed.

For the current fiscal quarter, client services expenses were \$1.6 million, which is similar to \$1.6 million for the fiscal quarter ended June 30, 2007. Versus the same quarter last fiscal year, management estimates that costs from the VantageMed acquisition contributed approximately \$0.69 million to client services expenses, with the balance of this increase attributed to an increase in investment in client services by the Company.

Stock-based compensation for the three and six months ended September 30, 2007, was \$0.07 million and \$0.3 million. This compares to \$0.16 million and \$0.38 million for the three months and six months ended September 30, 2006.

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Depreciation and amortization for the three and six months ended September 30, 2007, was \$0.95 million and \$1.9 million. This compares to \$0.23 million and \$0.39 million for the three months and six months ended September 30, 2006. These increases can be mostly attributed to the acquisition of VantageMed and associated amortization of those intangible assets.

Adjusted EBITDA (non-GAAP measure, see note 4.a for a definition): Adjusted EBITDA for the three and six months ended September 30, 2007, was \$0.33 million, or 5% of revenue, and \$0.39 million, or 3% of revenue. This compares to a loss of \$0.71 million, or 20% of revenue, and a loss of \$2.2 million, or 34% of revenue, for the three months and six months ended September 30, 2006.

Operating Loss: For three and six months ended September 30, 2007, operating loss was \$0.69, or 10% of revenue, and \$1.8 million, or 14% of revenue. This compares to \$1.1 million or 32% of revenue and \$3 million or 46% of revenue, for the three and six months ended September 30, 2006.

Interest and Other Income/ Loss: Interest charges for the three and six months ended September 30, 2007 were \$0.6 million and \$1.1 million. This compares to \$0.01 million and \$0.55 million for the three months and six months ended September 30, 2006. This increase is largely a result of interest on subordinated debt of \$0.43 million and interest accretion of \$0.2 million, both related to the Debt Financing (see section 7.c). In the previous fiscal quarter interest charges were \$0.58 million, slightly lower than the \$0.6 million in the current quarter.

Included in other income/loss are foreign currency adjustments related to monetary translations. For the three and six months ended September 30, 2007, other loss was \$0.10 million, or 1% of revenue, and \$0.15 million or 1% of revenue. This compares to other income of \$0.03 million, or 1% of revenue, and \$0.12 million, or 2% of revenue, for the three months and six months ended September 30, 2006.

Other loss was \$0.10 million, or 1% of revenue for the current quarter which compares to other loss of \$0.05 million or 1% of revenue for the previous fiscal quarter ended June 30, 2007.

Net Loss: For the three and six months ended September 30, 2007, net loss was \$1.4 million, or 20% of revenue and \$3.1 million, or 24% of revenue. This compares to a net loss of \$1.1 million, or 31% of revenue, and a net loss of \$3.4 million, or 53% of revenue, for the three months and six months ended September 30, 2006. This improvement can be primarily attributed to operational synergies resulting from the VantageMed Acquisition and to the increased scale of operation across the business following the recent acquisition. The Company has reduced the loss as a percentage of revenue as it continues to strive towards improving financial performance.

Net loss was \$1.4 million for the current fiscal quarter, or 20% of revenue, which compares to \$1.8 million, or 29% of revenue, for the previous fiscal quarter ended June 30, 2007. This represents a 29% improvement in net loss over the last fiscal quarter.

US Dollar Exchange Rate Impact: Over the three and six months ended September 30, 2007, the Company generated 78% and 70% of revenue from the U.S. market. With the recent decline in the value of the U.S. dollar relative to the Canadian dollar, the Company estimates that revenue was negatively impacted by a difference of approximately 7%, or \$0.36 million over the three months versus the same period during the previous fiscal year. Over the six month period ended September 30, 2007, the change in the value of the U.S. dollar is estimated to have negatively impacted revenue by approximately 5%, or \$0.46 million versus the same period during the previous fiscal year.

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Over the six months ended September 2007, approximately 53% of the Company's expenses (including cost of goods sold) were incurred in the US, providing the Company with a natural hedge position that has helped offset some of effects of the reduction in value of the US dollar. The Company estimates that after these offsets, the reduction in the value of the US dollar over the six months ended September 30, 2007 has negatively impacted adjusted EBTIDA by \$0.1 million when compared to the same period in the previous fiscal year.

Going forward, the continued drop in the value of the US dollar since the end of the second fiscal quarter and an expected increased in revenue from the US market over the coming quarters is expected to have a greater impact on the Company's financial results.

3. LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents available to Nightingale on September 30, 2007 were \$3.7 million.

Cash Flow from Operating Activities: Cash flow used in operating activities in the fiscal quarter ended September 30, 2007 totalled \$1.5 million, compared to \$1.4 million for the quarter ended September 30, 2006. The most significant adjustments of net income to cash flow used in operations included an increase in accounts receivable of \$1.2 million, an increase in prepaid expenses of \$0.27 million and an increase in deferred revenue of \$0.11 million. For the six month period ended September 30, 2007, cash flow used in operating activities totalled \$2.2 million, compared to \$4.4 million for the six months ended September 30, 2006. The most significant adjustments of net income to cash flow used in operations included an increase in accounts receivable of \$0.74 million, a decrease in accounts payable of \$0.86 million and a decrease in deferred revenue of \$0.12 million.

Cash Flow from Investing Activities: During the fiscal quarter ended September 30, 2007, cash flow used in investing activities was \$0.31 million, similar to \$0.30 million during the same quarter last fiscal year. For the six month period ended September 30, 2007, cash flow used in investing activities was \$14 million compared to \$3.4 million during the same period last fiscal year. The largest reason for this increase is \$13.5 million used towards the VantageMed Acquisition.

Cash Flow from Financing Activities: Cash flow from financing activities in the quarter ended September 30, 2007 totalled -\$0.08 million, versus \$0.07 million during the same quarter last fiscal year. This includes a decrease in capital lease obligations of \$0.08 million. Cash flow from financing activities for the six months ended September 30, 2007 totalled \$18.1 million, versus \$9.4 million during the six month period last fiscal year. The largest components included an increase in capital stock of \$8.7 million reflecting the shares issued for the public offering which closed on April 13, 2007, and proceeds from the subordinated debt of \$11.1 million. The proceeds from subordinated debt include \$12 million of proceeds, with \$0.91 million of transaction costs adjusting the total proceeds. In addition, the Company made a \$1.54 million repayment towards the retirement of the Greenfield line of credit facility.

Over the fiscal quarter ended September 30, 2007, current assets decreased by \$0.3 million to \$9.1 million while current liabilities decreased by \$0.4 million to \$10.3 million, resulting in a decrease in total working capital of \$0.3 million.

The Company believes that under its current business plan it has sufficient cash to sustain its operations for the foreseeable future. It should be noted however, that to date, Nightingale has not consistently

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generated positive cash flow from operating activities and is still highly dependent on new sales to minimize and eventually eliminate its cash usage. Up until the point where the Company is able to generate and predict continued positive cash flows from recurring revenue on a consistent basis, the Company may face risk in utilizing its existing cash resources and potentially requiring further cash infusions from investors to maintain its operations.

4. NON-GAAP MEASURES

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

a. Adjusted EBITDA

The Company has included an Adjusted EBITDA measurement since it believes that this information would be useful to investors to help evaluate the performance of the Company. Investors should be cautioned, however, that Adjusted EBITDA should not be construed as an alternative to net earnings as determined in accordance with GAAP. The Company's method of calculating adjusted EBITDA may differ from the methods used by other companies and, accordingly, it may not be comparable to similarly titled measures used by other companies.

Adjusted EBITDA is a non-GAAP measure that management believes is a useful supplemental measure of operating performance prior to other loss (income), interest, income taxes, depreciation, amortization, and stock-based compensation. Management believes it is useful to exclude these items as they are either non-cash expenses, items that cannot be influenced by management in the short term, or items that do not impact core operating performance, and Management uses this information internally for forecasting and budgeting purposes.

The following provides a reconciliation of Adjusted EBITDA to Net Income/ Loss:

Name	Definition	Fiscal Quarter Ended September 30, 2007	Fiscal Quarter Ended September 30, 2006	Six Months Ended September 30, 2007	Six Months Ended September 30, 2006
Adjusted EBITDA	Net Income/Loss	\$-1,394,723	\$-1,084,251	\$-3,147,788	\$-3,405,256
	<i>Adjustments for:</i>				
	Other Loss (Income)	99,331	-25,324	153,010	-116,863
	Interest	602,380	12,227	1,148,818	553,597
	Depreciation and Amortization	952,923	230,633	1,942,432	394,318
	Stock-based Compensation	70,431	156,960	295,554	380,178
	Adjusted EBITDA (Loss)	\$330,342	\$-709,755	\$392,026	\$-2,194,026

Recurring and Non-Recurring Revenue

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The Company has included a Recurring Revenue and a Non-Recurring Revenue measurement since it believes that this information would be useful to investors to help evaluate the performance of the Company. Investors should be cautioned, however, that Recurring Revenue and Non-Recurring Revenue should not be construed as an alternative to revenue as determined in accordance with GAAP.

Non-recurring revenue includes software, hardware and client services revenue. Recurring revenue consists of support and maintenance revenue, data management and transcription services, billing and financial management services and transactional fees.

The following provides a reconciliation of Recurring Revenue and Non-Recurring Revenue to Revenue:

Name	Definition	Fiscal Quarter Ended September 30, 2007	Fiscal Quarter Ended September 30, 2006	Six Months Ended September 30, 2007	Six Months Ended September 30, 2006
	Non-Recurring Revenue	2,609,927	942,768	4,692,915	1,505,863
	Recurring Revenue	4,375,790	2,523,972	8,373,983	4,942,711
Revenue		\$ 6,985,717	\$3,466,740	\$13,066,898	\$6,448,574

5. CONTRACTUAL OBLIGATIONS

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

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

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

Fiscal Year	Amount
2008 (Remaining)	\$ 458,896
2009	803,513
2010	554,791
2011	542,366
2012	415,549
2013 and thereafter	480,786

The minimum lease commitments payable under capital leases for all equipment are as follows:

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Fiscal Year	Amount
2008 (Remaining)	\$ 141,135
2009	171,355
2010	60,419
2011	6,535
2012	1,636

6. TRANSACTIONS WITH RELATED PARTIES

The Company continued to make payments on four-year leases held by a related party, Asadi Lewis & Associates, for equipment utilized by Nightingale. These leases, with the terms from October 15, 2004 to September 15, 2008 are for computer hardware utilized as part of Nightingale's production infrastructure, with a total obligation of \$37,199, resulting in monthly payments of \$3,346 and interest paid of \$1,166 during the second quarter of fiscal 2008. In addition, during the fiscal quarter, outstanding accounts payable to officers and directors at year-end totalled \$5,536.

7. RECENT EVENTS

The following significant events impacted the Company during the six months ended September 30, 2007.

a. VantageMed Acquisition

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

This acquisition was accounted for by the purchase method. Effective April 19, 2007, the Company consolidated the operations of VantageMed in its 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.

The September 30, 2007 interim consolidated financial statements and notes reflects a preliminary allocation of the purchase price of the assets and liabilities acquired.

b. Public Offering

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

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additional consideration. On April 19, 2007, in conjunction with the closing of the VantageMed Acquisition, the Subscription Receipts were converted into common shares of the Company.

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

c. Subordinated Debt Financing

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

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

Conditions of the subordinated debt include a number of quarterly and cumulative financial covenants. 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.

8. RECENT ACCOUNTING PRONOUNCEMENTS

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 in Note 2 of the Company's Consolidated Interim Financial Statements for the period ended September 30, 2007.

9. DISCLOSURE AND INTERNAL CONTROLS

Management has evaluated whether there were any changes to its internal controls over financial reporting during the quarter ended August 31, 2007 that have materially affected, or are reasonably expected to materially affect, its internal controls over financial reporting. No such changes were identified.

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10. ADDITIONAL INFORMATION

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