



## **NIGHTINGALE INFORMATIX CORPORATION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the three month interim period ended June 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 August 14, 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 June 30, 2007.*

## NIGHTINGALE INFORMATIX CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the Three Months Ended June 30, 2007

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*This MD&A provides an overview of significant developments that have affected Nightingale's performance during the three months ended June 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 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](http://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.*

# NIGHTINGALE INFORMATIX CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the Three Months Ended June 30, 2007

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### 1. OVERVIEW

#### ***Business Description***

Nightingale is an application service provider whose principal activities include clinical management solutions and services for outpatient clinics, hospitals and health-care providers. Nightingale operates in a single business segment and its principal activities include the development, marketing and licensing of application software and services to customers in the health-care industry in Canada and the United States.

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

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

During the first quarter of 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 0.b). 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 and provide numerous "cross-selling" opportunities for Nightingale's existing products and services and better access to additional markets across the United States.

#### ***Nightingale's Strategy***

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

With the recent completion of the VantageMed Acquisition, the immediate focus of the business will be on organic growth and improved financial performance to help generate positive adjusted EBITDA (see section 4.b under Non-GAAP Measures) and cash flows from operations. Once the Company has been able to demonstrate this goal, it will continue to seek out additional acquisition candidates to help enhance future growth through acquisitions.

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.

## NIGHTINGALE INFORMATIX CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the Three Months Ended June 30, 2007

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

#### ***Revenue Model***

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

Nightingale's revenue consists of several different products depending on the type of solution being provided. For its software solutions, Nightingale charges up-front licence fees for its software products, with annual support and maintenance fees charged to deliver software updates and support. Alternatively, Nightingale charges a monthly utilization fee for access to the software, without any sale of licence. In addition, Nightingale charges customers for training and implementation services, hardware and any ancillary services utilized. For data management and transcription services, Nightingale charges per report or per minute transcribed. For billing services, Nightingale charges a percentage of the charges billed by the physician to the customer.

#### ***Q1 Fiscal 2008 Summary***

- Revenue of \$6.1 million represents a 105% increase over the \$3.0 million generated in the same quarter ended June 30, 2006 and a 79% increase over the previous fiscal quarter ended March 31, 2007.
- Beginning in this quarter, ended June 30, 2007, the Company has provided a breakdown between recurring and non-recurring revenue, both of which are non-GAAP measures (see definition in section 4.b under Non-GAAP Measures). For the quarter ended June 30, 2007, recurring revenue for the quarter was \$4 million, or 65% of revenue while non-recurring revenue was \$2.1 million, or 35% of revenue.
- Gross profit as a percentage of revenue was 79%, up from 58% in the same quarter last fiscal year and up from 68% in the previous fiscal quarter ended March 31, 2007. The higher gross profit margins during this fiscal quarter is a result of increased support and maintenance revenue due to the VantageMed acquisition and increased software sales, both with typically higher gross profit margins.

## NIGHTINGALE INFORMATIX CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the Three Months Ended June 30, 2007

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- Adjusted EBITDA (see definition in section 4.a. under Non-GAAP Measures ) for the fiscal quarter ended June 30, 2007, was \$0.1 million or 2% of revenue, compared to -\$1.5 million, or -49% of revenue for the same fiscal quarter ended June 30, 2006. .
- Beginning this quarter, the Company has provided further disclosure on its income statement by adding an operating income/ loss section and an other income/ loss section. Operating loss was \$1.1 million, or 18% of revenue and other loss was \$0.05 million, or 1% of revenue, for the three month period ended June 30, 2007. This compares to an operating loss of \$1.9 million, or 62% of revenue, and other income of \$0.09 million, or 3% of revenue, for the same quarter last fiscal year.
- Net loss was \$1.8 million, or 29% of revenue, compared to \$2.3 million, or 78% of revenue, for the same fiscal quarter ended June 30, 2006.
- Following the VantageMed Acquisition, the Company has restructured its operations to capitalize on the experience and in-depth knowledge of key leaders within the Company, and has streamlined the organization to achieve operational cost synergies. The Company expects annualized cost synergies will be approximately \$2.4 million.
- Nightingale has engaged clients from the acquired businesses and has built a respectable pipeline in the US markets.

## NIGHTINGALE INFORMATIX CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the Three Months Ended June 30, 2007

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

	Fiscal Year Ended March 31, 2005	Q2 Ended Sept 30, 2005	Q3 ended Dec 31, 2005	Q4 Ended March 31, 2006	Fiscal Year ended March 31, 2006	Q1 Ended June 30, 2006	Q2 ended Sept 30, 2006	Q3 ended Dec 31, 2006	Q4 ended March 31, 2007	Fiscal Year ended March 31, 2007	Q1 Ended June 30, 2007
Revenue	1,884,286	1,168,269	1,204,190	829,290	4,213,039	2,989,106	3,492,882	4,171,239	3,424,253	14,077,480	6,122,213
Gross Profit	1,500,247	1,062,191	1,093,034	585,314	3,608,295	1,746,338	2,512,466	3,063,662	2,330,036	9,652,502	4,815,745
Expenses	2,616,502	1,337,854	1,561,508	2,670,292	6,588,117	3,610,243	3,583,669	3,395,632	4,266,165	14,855,709	5,927,662
Adjusted EBITDA (non-GAAP measure)	-939,111	-71,293	-306,809	-1,582,380	-2,080,112	-1,477,002	-683,611	5,844	-1,623,316	-3,778,085	102,715
Operating Loss for the Period	-1,116,255	-275,663	-468,473	-2,084,979	-2,979,822	-1,863,905	-1,071,203	-331,970	-1,936,129	-5,203,207	-1,111,917
Net Loss for the Period	-1,130,500	-278,818	-471,574	-2,095,775	-3,000,193	-2,321,005	-1,084,251	-352,250	-1,955,730	-5,713,236	-1,753,065
Loss per Common Share	-0.17	-0.01	-0.02	-0.07	-0.11	-0.07	-0.03	-0.01	-0.05	-0.14	-0.02
Weighted Average # of Common Shares	6,577,695	26,468,386	29,610,930	30,171,627	27,650,877	34,551,915	41,817,643	41,945,189	41,925,993	40,119,580	63,345,256
Total Assets	2,696,362	4,620,167	4,757,802	9,521,507	9,521,507	18,550,405	17,825,469	18,824,894	17,531,269	17,531,269	39,535,574
Total Long Term Liabilities	1,071,713	1,538,325	1,590,486	1,795,520	1,795,520	1,826,080	1,571,731	1,585,200	2,013,582	2,013,582	11,397,942

**Revenue:** Revenue of \$6.1 million generated in the quarter represents a 105% increase over the \$3.0 million generated in the same quarter last fiscal year. This overall significant increase in revenue is attributed primarily to additional revenue generated as a result of the VantageMed Acquisition. The acquisition is expected to substantially increase the Company's total revenue and recurring revenue, enhance its earnings potential and expand its U.S. customer base by more than 18,000 healthcare providers. Revenue of \$6.1million generated during the fiscal quarter represents a 79% increase over \$3.4 million generated in the previous fiscal quarter ended March 31, 2007.

With approximately 70% of revenue for the fiscal quarter ended June 30, 2007 generated in the U.S. market, the recent decline in the value of the U.S. dollar has negatively impacted revenue. The exchange rate has dropped from an average of approximately CDN\$1.1386:US\$1 during last fiscal year to an

## NIGHTINGALE INFORMATIX CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the Three Months Ended June 30, 2007

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average of CDN\$1.098:US\$1 for the three month period ended June 30, 2007, representing a 3.6% difference over the respective periods.

Beginning this period, the Company has provided a breakdown of recurring and non-recurring revenue, both of which are non-GAAP measures (see definition in section 4.b under Non-GAAP Measures) to help investors better understand the performance of the business. Recurring revenue is made up of support and maintenance, data management and transcription services, transactional fees and billing and financial management services. Recurring revenue for the quarter ended June 30, 2007 was \$4 million, or 65% of revenue, compared to \$2.5 million or 83% of revenue for the same quarter last fiscal year and \$2.5 million, or 74% of revenue for the previous fiscal quarter ended March 31, 2007.. The increase in recurring revenue is a result primarily of the VantageMed Acquisition, with the additional transactional fees and support and maintenance significantly contributing to this revenue category. Non-recurring revenue is made of one time revenue type elements and includes software, hardware and client services revenue. Non-recurring revenue for the quarter ended June 30, 2007 was \$2.1 million, or 35% of revenue, compared to \$0.58 million, or 17% of revenue for the same quarter last fiscal year and \$0.88 million, or 26% of revenue for the previous fiscal quarter ended March 31, 2007. The increase in non-recurring revenue reflects higher software sales, client services and hardware for the current quarter.

**Gross Profit:** During the fiscal quarter ended June 30, 2007, gross profit was \$4.9 million with gross profit as a percentage of revenue (or gross profit margin) of 79%. This compares to gross profit of \$1.7 million, with gross profit margin of 58%, for the same fiscal quarter ended June 30, 2006 and gross profit of \$2.3 million, with gross profit margin of 68% for the previous fiscal quarter ended March 31, 2007. The higher gross profit margins during this fiscal quarter is a result of increased support and maintenance revenue due to the VantageMed Acquisition and increased software sales, both with typically higher gross profit margins.

**Expenses:** Expenses during the fiscal quarter ended June 30, 2007 were \$5.9 million, or 97% of total revenue, compared to \$3.6 million or 121% of total revenue for the same quarter last fiscal year. This lower percentage of expenses-to-total revenue is largely a result of the Company's ability to leverage its operation over a larger revenue base following the VantageMed Acquisition and the approximately \$2.4 million of annualized cost cuts that the Company implemented earlier this fiscal year. These cost cuts were made in May 2007 and therefore are not fully reflected in the total expenses for the quarter. While the Company has made significant cuts, 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. Like revenues, expenses are also affected by changes in the U.S. dollar exchange rate with approximately 40% of Nightingale's expenses during the quarter generated in the U.S.

Under sales and marketing, total expenses were \$0.94 million in the fiscal quarter ended June 30, 2007, a 22% increase over \$0.78 million during the same fiscal quarter last fiscal year and a 32% increase over \$0.72 million during the previous fiscal quarter. This increase in expense reflects the Company's continued investment in sales and marketing capabilities as it entered the U.S. market and the additional sales and marketing costs added as part of the VantageMed acquisition.

## NIGHTINGALE INFORMATIX CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the Three Months Ended June 30, 2007

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Under general and administration, total expenses of \$0.86 million in the quarter ended June 30, 2007 represents a 2% decrease from \$0.87 million in the quarter ended June 30, 2006 and a 36% decrease from \$1.3 million during the previous quarter ended March 31, 2007. 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 either eliminated certain positions or has moved certain employees to client services roles.

Under research and development, total expenses of \$1.3 million in the fiscal quarter ended June 30 2007 represents a 29% increase over the \$1.0 million incurred in the same quarter last fiscal year and a 31% increase over the \$0.99 million incurred in the previous fiscal quarter. Client services expenses of \$1.6 million in the fiscal quarter ended June 30, 2007 represents a 183% increase over \$0.57 million over the same quarter last fiscal year and a 78% increase over \$0.91 million incurred in the previous fiscal quarter. Increases in both these categories are largely a result of combining the operations of Nightingale and VantageMed. Management estimates that costs from the VantageMed acquisition contributed approximately \$0.5 million to research and development expenses and \$0.6 million to client services expenses.

Stock-based compensation of \$0.23 million for the fiscal quarter ended June 30, 2007 was comparable to the \$0.22 million in the same quarter last fiscal year and higher than the \$0.05 million in the previous fiscal quarter. During the quarter, options and shares were granted to employees and officers of VantageMed and bonus options were granted to existing employees, management and directors.

Amortization of \$0.99 million during the fiscal quarter ended June 30, 2007, was substantially higher than the \$0.16 million over the same quarter last fiscal year and the \$0.26 million during the previous quarter, with this increase over last fiscal quarter primarily as a result of \$0.55 million in charges related to new amortization of intangibles related to the recent acquisition of VantageMed..

**Adjusted EBITDA (non-GAAP measure, see note 4.a for a definition):** Adjusted EBITDA for the quarter ended June 30, 2007, was \$0.1 million or 2% of revenue, compared to -\$1.5 million, or -49% of revenue for the same quarter ended June 30, 2006 and -\$1.6 million, or -47% of revenue, for the previous quarter ended March 31, 2007.

**Operating Loss:** As of this fiscal quarter the Company will provide an operating loss measure on its income statement. For the fiscal quarter ended June 30, 2007, operating loss was \$1.1 million or 18% of revenue, which compares to an operating loss of \$1.9 million or 62% of revenue for the same quarter last fiscal year and \$1.9 million or 57% of revenue for the previous fiscal quarter ended March 31, 2007.

**Interest and Other Income/ Loss:** Interest charges rose substantially to \$0.59 million in the fiscal quarter ended June 30 2007, slightly higher than the \$0.54 million in the same quarter last fiscal year and up from \$0.06 million in the previous quarter, with this increase over last fiscal quarter largely as a result of interest on subordinated debt of \$0.31 million and interest accretion of \$0.19 million, both related to the Debt Financing (see section 0.d).

As of this fiscal quarter the Company will provide an other income/ loss measure on its income statement. Included in other income/ loss are foreign currency adjustments related to monetary translations. For the fiscal quarter ended June 30, 2007, other loss was \$0.05 million or 1% of revenue, which compares to other income of \$0.09 million or 3% of revenue for the same quarter last fiscal year and other income of \$0.03 million or 1% of revenue for the previous fiscal quarter ended March 31, 2007.

# NIGHTINGALE INFORMATIX CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the Three Months Ended June 30, 2007

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**Net Loss:** During the quarter ended June 30, 2007, net loss was \$1.8 million, or 29% of revenue. This compares to a net loss of \$2.3 million, or 78% of revenue, for the same fiscal quarter ended June 30, 2006 and a net loss of \$2.0 million, or 57% of revenue, for the previous fiscal quarter ended March 31, 2007. This represents an 11% decrease in net loss over the last fiscal quarter. 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.

### 3. LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents available to Nightingale on June 30, 2007 were \$5.5 million.

**Cash Flow from Operating Activities:** Cash flow used in operating activities in the fiscal quarter ended June 30, 2007 totalled \$0.74 million, compared to \$2.9 million for the quarter ended June 30, 2006. The most significant adjustments of net income to cash flow used in operations included a decrease in accounts receivable of \$0.49 million, a decrease in accounts payable of \$0.89 million and a decrease in deferred revenue of \$0.22 million. The decrease in accounts receivable is largely a function of collections on large sales generated over the last fiscal quarter.

**Cash Flow from Investing Activities:** During the fiscal quarter ended June 30, 2007, cash flow used in investing activities was \$13.7 million compared to \$3.1 million during the same quarter last fiscal year. The largest reason for the increase is \$13.5 million used towards the VantageMed Acquisition.

**Cash Flow from Financing Activities:** Cash flow from financing activities in the quarter ended June 30, 2007 totalled \$18.2 million, versus \$9.3 million during the same quarter last fiscal year. The largest components included an increase in capital stock of \$8.7 million reflecting the shares issued for the public offering, closed on April 13, 2007 and proceeds from the subordinated debt of \$11.1 million. The proceeds from subordinated debt includes \$12 million of proceeds, with \$0.9 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 June 30, 2007, current assets increased by \$4.4 million to \$9.5 million while current liabilities increased by \$3.9 million to \$10.3 million, resulting in an increase in total working capital of \$0.48 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 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.

# NIGHTINGALE INFORMATIX CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the Three Months Ended June 30, 2007

### 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 June 30, 2007	Fiscal Quarter Ended June 30, 2006
Adjusted EBITDA	Net Income/Loss	-1,753,065	-2,321,005
	<i>Adjustments for:</i>		
	Other Loss (Income)	53,679	-91,539
	Interest	587,469	548,639
	Taxes	-	-
	Depreciation and Amortization	989,509	163,685
	Stock-based Compensation	225,123	223,218
	Adjusted EBITDA	102,715	-1,477,002

#### b. Recurring and Non-Recurring Revenue

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

## NIGHTINGALE INFORMATIX CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the Three Months Ended June 30, 2007

Name	Definition	Fiscal Quarter Ended June 30, 2007	Fiscal Quarter Ended June 30, 2006
Non-Recurring Revenue	Software Revenue Hardware Revenue Client Services Revenue		
Recurring Revenue	Non-Recurring Revenue Support and Maintenance Revenue Data Management and Transcription Services Transactional Fees Billing and Financial Management Services	2,124,086	2,463,409
Revenue	Recurring Revenue	3,998,127	525,697
		6,122,213	2,989,106

#### 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	\$ 937,290
2009	\$ 961,597
2010	\$ 525,703
2011	\$ 393,271
2012	\$ 332,528
2013 and thereafter	\$ 417,099

## NIGHTINGALE INFORMATIX CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the Three Months Ended June 30, 2007

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

Fiscal Year	Amount
2008	\$ 219,118
2009	\$ 185,537
2010	\$ 56,948
2011	\$ 8,392
2012	\$ 1,515

#### 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 \$47,237, resulting in monthly payments of \$3,346 and interest paid of \$1,398 during the first quarter of fiscal 2008. In addition, during the fiscal quarter, outstanding accounts payable to officers and directors at year-end totalled \$9,280 and the Company decreased deferred compensation due to officers and directors, resulting in a balance at the end of the period of \$1,963 due to officers and directors. This amount was paid in cash to settle previous deferred compensation.

#### 7. SIGNIFICANT EVENTS

The following significant events impacted the Company during the fiscal quarter ended June 30, 2007.

##### a. IHPS Acquisition

On April 1, 2006, the Company completed its purchase of the assets of Integrated Healthware Inc., a health-care software provider for the US market and its affiliate, Physician Strategies LLC, a Massachusetts-based practice management firm focused on providing claims processing services to US physicians (collectively referred to as "IHPS"). The agreement to acquire IHPS was originally announced on January 12, 2006. IHPS shareholders received total consideration of \$6.8 million (US\$5.8 million), which included \$2.8 million (US\$2.4 million) in cash, \$0.64 million (US\$0.55 million) in a promissory note, the issuance of 559,211 common shares of Nightingale valued at \$1.0 million (US\$0.85 million, \$1.52 per common share) and \$2.3 million (US\$2.0 million) in the form of a performance-based earn-out. The promissory note with payments due in multiple installments during fiscal 2007 was paid in full during the period. The earn-out is contingent on certain revenue targets over a three-year period and will be paid on a basis of 80% in common shares and 20% in cash, with share price of these earn-out shares based on the 20-day average closing price of Nightingale's common shares prior to the release of the fiscal 2007, 2008 and 2009 consolidated financial statements. Since the outcome of the contingent consideration cannot be determined beyond reasonable doubt, the \$2.3 million (US\$2 million) contingent consideration has been excluded from the recorded purchase price. Therefore, the aggregate recorded purchase price, including \$0.17 million transaction cost, is \$4.6 million (US\$4.0 million). Once the outcome of the contingency is determinable beyond a reasonable doubt, any contingent consideration recognized, if any, will be added to the purchase price. As at the end of fiscal 2007, none of the earn-out was payable.

## NIGHTINGALE INFORMATIX CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the Three Months Ended June 30, 2007

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The Company paid \$3.0 million in cash for the acquisition of IHPS, including transaction costs. An additional \$0.01 million of share issue costs was applied against common shares issued, resulting in total cash paid of just over \$3.0 million.

#### **b. VantageMed Acquisition**

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

This acquisition will be accounted for by the purchase method. Effective April 19, 2007, the Company 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 June 30, 2007 interim consolidated financial statements and notes reflects a preliminary allocation of the purchase price of the assets and liabilities acquired.

#### **c. Public Offering**

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

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

#### **d. 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.

## **NIGHTINGALE INFORMATIX CORPORATION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the Three Months Ended June 30, 2007**

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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 June 30, 2007.

#### **9. DISCLOSURE AND INTERNAL CONTROLS**

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

Management is also responsible for the design of internal controls over financial reporting ("ICOFR") within the Company in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with Canadian GAAP. Management has evaluated whether there were changes to its ICOFR during the quarter ended March 31, 2007 that have materially affected, or are reasonably expected to materially affect, its ICOFR and no such changes were identified. There have been no significant changes to the Company's internal controls over financial reporting that occurred during the most recent period that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

#### **10. ADDITIONAL INFORMATION**

Additional information on Nightingale can be found at [www.sedar.com](http://www.sedar.com) under Nightingale Informatix Corporation.