



NIGHTINGALE INFORMATIX CORPORATION

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)
For the three and nine month periods ended December 31, 2007**

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NIGHTINGALE INFORMATIX CORPORATION

INTERIM CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2007
(unaudited)

	3 months ending December 31, 2007	3 months ended December 31, 2006	9 months ending December 31, 2007	9 months ended December 31, 2006
Revenue	\$ 3,942,345	\$ 4,153,822	\$ 14,697,495	\$ 10,602,396
Cost of Sales				
Hardware, Software and Services	1,153,172	993,424	3,539,111	3,105,447
Sales Commissions	129,397	114,153	430,633	225,314
	<u>1,282,569</u>	<u>1,107,577</u>	<u>3,969,744</u>	<u>3,330,761</u>
Gross Profit	<u>2,659,776</u>	<u>3,046,245</u>	<u>10,727,751</u>	<u>7,271,635</u>
Expenses				
General and Administration	950,784	819,399	2,754,353	2,483,233
Sales and Marketing	859,273	576,096	2,494,365	2,164,702
Research and Development	1,221,594	856,463	3,584,011	2,830,936
Client Services	1,427,293	805,861	4,233,159	1,998,365
Stock Based Compensation	241,111	126,264	512,078	506,442
Depreciation and Amortization	759,769	214,759	2,345,364	609,076
	<u>5,459,824</u>	<u>3,398,842</u>	<u>15,923,330</u>	<u>10,592,754</u>
Operating Loss for the Period	<u>(2,800,048)</u>	<u>(352,597)</u>	<u>(5,195,579)</u>	<u>(3,321,119)</u>
Interest, Note 14	719,569	40,511	1,868,387	594,108
Other Loss (Income), Note 15	<u>16,646</u>	<u>(40,858)</u>	<u>169,649</u>	<u>(157,721)</u>
Loss from Continuing Operations	(3,536,263)	(352,250)	(7,233,615)	(3,757,506)
Earnings from discontinued operations, Note 2	<u>245,523</u>	<u>-</u>	<u>795,087</u>	<u>-</u>
Net Loss and Comprehensive Loss for the Period	<u><u>\$(3,290,740)</u></u>	<u><u>\$(352,250)</u></u>	<u><u>\$(6,438,528)</u></u>	<u><u>\$(3,757,506)</u></u>
Basic and Diluted Earnings (Loss) per Common Share				
Loss from Continuing Operations	\$(0.05)	\$(0.01)	\$(0.11)	\$(0.10)
Earnings from Discontinued Operations	<u>0.00</u>	<u>-</u>	<u>0.01</u>	<u>-</u>
Net Loss per Common Share	<u><u>\$(0.05)</u></u>	<u><u>\$(0.01)</u></u>	<u><u>\$(0.10)</u></u>	<u><u>\$(0.10)</u></u>
Weighted Average Number of Common Shares	<u>66,914,490</u>	<u>41,945,189</u>	<u>65,733,398</u>	<u>39,528,391</u>

NIGHTINGALE INFORMATIX CORPORATION

**INTERIM CONSOLIDATED BALANCE SHEET
(unaudited)**

	As at December 31, 2007	As at March 31, 2007
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 3,749,522	\$ 1,747,660
Accounts Receivable	2,981,901	3,018,767
Other Receivables	-	79,739
Inventory	82,616	7,893
Prepaid Expenses	695,401	257,157
Assets of Discontinued Operations, Note 2	10,908,666	-
	<u>18,418,106</u>	<u>5,111,216</u>
Long-Term Assets		
Deferred Costs, Note 6	184,262	626,890
Property and Equipment, Note 7	1,561,928	1,352,739
Proprietary Software, Note 8	934,549	1,230,472
Intangible Assets	7,782,962	1,878,099
Goodwill	7,375,691	7,331,853
	<u>17,839,392</u>	<u>12,420,053</u>
	<u>\$ 36,257,498</u>	<u>\$ 17,531,269</u>
LIABILITIES		
Current Liabilities		
Borrowing under Line of Credit, Note 9	\$ 1,000,000	\$ 1,541,733
Accounts Payable and Accrued Liabilities	3,665,781	2,770,367
Current Portion of Deferred Revenue	4,328,848	1,829,931
Current Portion of Capital Lease Obligations	239,183	258,586
Liabilities of Discontinued Operations, Note 2	1,398,257	-
	<u>10,632,069</u>	<u>6,400,617</u>
Long Term Liabilities		
Subordinated Debt, Note 10	10,538,885	-
Deferred Compensation Payable to Employees	-	100,824
Deferred Revenue	1,263,007	1,716,512
Capital Lease Obligations	295,343	196,246
	<u>12,097,235</u>	<u>2,013,582</u>
Total Liabilities	<u>22,729,304</u>	<u>8,414,199</u>
SHAREHOLDERS' EQUITY		
Capital Stock, Note 11	27,521,485	18,553,953
Contributed Surplus, Note 12	1,434,075	1,021,217
Warrants, Note 13	3,277,011	1,807,749
Deficit	(18,704,377)	(12,265,849)
	<u>13,528,194</u>	<u>9,117,070</u>
Total Liabilities and Shareholders' Equity	<u>\$ 36,257,498</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 AND NINE MONTHS ENDED DECEMBER 31, 2007
(unaudited)**

	3 months ending December 31, 2007	3 months ended December 31, 2006	9 months ending December 31, 2007	9 months ended December 31, 2006
Deficit, Beginning of the Period	\$ (15,413,637)	\$ (9,957,869)	\$ (12,265,849)	\$ (6,552,613)
Net Loss and Comprehensive Loss for the Period	<u>(3,290,740)</u>	<u>(352,250)</u>	<u>(6,438,528)</u>	<u>(3,757,506)</u>
Deficit, End of the Period	<u>\$ (18,704,377)</u>	<u>\$ (10,310,119)</u>	<u>\$ (18,704,377)</u>	<u>\$ (10,310,119)</u>

NIGHTINGALE INFORMATIX CORPORATION

**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2007
(unaudited)**

	3 months ending December 31, 2007	3 months ended December 31, 2006	9 months ending December 31, 2007	9 months ended December 31, 2006
Cash Flow from Operating Activities				
Loss from continuing operations	\$(3,536,263)	\$(352,250)	\$(7,233,615)	\$(3,757,506)
<i>Adjustments for:</i>				
Depreciation and Amortization	759,769	214,758	2,345,364	609,077
Gain on Sale of Assets	(22,130)	-	(22,130)	-
Stock Based Compensation	241,111	126,264	512,078	506,442
Interest Accretion	222,899	-	616,612	-
	<u>(2,334,614)</u>	<u>(11,228)</u>	<u>(3,781,691)</u>	<u>(2,641,987)</u>
<i>Changes in Non-Cash Working Capital Balances,</i>				
Decrease (Increase) in Accounts Receivable	1,562,223	(1,324,742)	814,470	(2,764,857)
Decrease (Increase) in Investment Tax Credits Receivable	-	163,361	-	163,361
Decrease (Increase) in Prepaid Expenses	57,004	87,916	(251,729)	158,562
Decrease (Increase) in Inventory	33,174	-	(45,892)	-
Decrease (Increase) in Deferred Costs	21,707	(48,288)	425,218	175,104
Decrease (Increase) in Other Receivables	-	-	79,739	145,107
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(650,358)	290,980	(1,474,300)	(356,329)
Increase (Decrease) in Deferred Compensation Payable	-	(30,918)	(100,824)	(317,411)
Increase (Decrease) in Deferred Revenue	(59,584)	374,098	71,540	586,946
Cash flows provided by (used in) operating activities	<u>(1,370,448)</u>	<u>(498,821)</u>	<u>(4,263,469)</u>	<u>(4,851,504)</u>
Cash Flow from Investing Activities				
Purchase of Property and Equipment	(78,315)	(96,719)	(531,999)	(527,411)
IHPS Acquisition, Note 4b	-	-	-	(2,990,880)
VantageMed Acquisition, Note 4a	-	-	(13,533,087)	-
Cash flows provided from (used in) investing activities	<u>(78,315)</u>	<u>(96,719)</u>	<u>(14,065,086)</u>	<u>(3,518,291)</u>
Cash Flow from Financing Activities				
Increase in Capital Stock	-	-	8,741,932	9,424,866
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	-	(165,944)	-	(1,643,500)
Increase (Decrease) in Capital Lease Obligations	192,438	(65,613)	35,352	109,888
Increase (Decrease) in Borrowing under Line of Credit	1,000,000	939,683	(541,733)	1,908,606
Cash flows used in financing activities	<u>1,192,438</u>	<u>708,126</u>	<u>19,325,363</u>	<u>10,082,078</u>
Net Increase (Decrease) in Cash From Continuing Operations	(256,325)	112,586	996,808	1,712,283
Net Increase in Cash From Discontinued Operations, Note 2	348,199	-	1,005,054	-
Net Increase in Cash During the Period	91,874	112,586	2,001,862	1,712,283
Cash and Cash Equivalents, Beginning of Period	<u>3,657,648</u>	<u>1,973,388</u>	<u>1,747,660</u>	<u>373,691</u>
Cash and Cash Equivalents, End of Period	\$ 3,749,522	\$ 2,085,974	\$ 3,749,522	\$ 2,085,974

NIGHTINGALE INFORMATIX CORPORATION

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2007**

1. BASIS OF PREPARATION

The accompanying interim consolidated financial statements of Nightingale Informatix Corporation and its wholly owned 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 and nine months ended December 31, 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 3 below. Certain prior period amounts have been reclassified to conform to the current period's presentation.

2. DISCONTINUED OPERATIONS

During the fiscal quarter ended December 31, 2007, the Company classified its Helper product line as discontinued operations as a result of the decision by management to divest of this business during the fiscal quarter ended December 31, 2007. The Helper product line, which provides healthcare information technology solutions for behavioral health providers and therapists, and acquired as part of the VantageMed acquisition (Note 4a) was determined to be not core to the Company's objectives. The results of Helper operations have been classified as discontinued operations for the three and nine month periods ending December 31, 2007.

Subsequent to the fiscal quarter ended December 31, 2007, the sale of Helper was completed (Note 23).

The following table provides additional information with respect to amounts included in the financial statements as discontinued operations:

Balance Sheet – Discontinued Operations	December 31,2007
Assets	
Current Assets	\$ 54,690
Property, plant and equipment	6,943
Intangibles	3,214,951
Goodwill	7,632,082
	<u>\$ 10,098,666</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 62,690
Deferred revenue	1,335,567
	<u>\$ 1,398,257</u>

NIGHTINGALE INFORMATIX CORPORATION

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2007**

Statement of Operations – Discontinued Operations	3 months ending December 31,2007	9 months ending December 31,2007
Revenue	<u>\$ 1,130,209</u>	<u>\$ 3,441,958</u>
Earnings from discontinued operations	<u>\$ 245,523</u>	<u>\$ 795,087</u>
 Statement Of Cash Flows – Discontinued Operations		
Cash flow from operating activities	\$ 348,199	\$ 1,005,054
Cash flow from investing activities	-	-
Cash flow from financing activities	-	-
Net Increase in cash from discontinued operations	<u>\$ 348,199</u>	<u>\$ 1,005,054</u>

3. 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, Nightingale VantageMed Corporation, Nightingale HealtheNet Corporation, Nightingale HealtheNet Canada Corporation and VisionMD (2002) Inc.

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

Revenue recognition

License fees

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

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

Support and maintenance (PCS)

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

Hardware products

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

NIGHTINGALE INFORMATIX CORPORATION

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2007

Services

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

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

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

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

4. 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 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, currently operates as Nightingale VantageMed Corporation, a 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
	<hr/>
Cash consideration	\$ 14,373,362
Transaction costs	377,198
	<hr/>
	\$ 14,750,560
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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.

NIGHTINGALE INFORMATIX CORPORATION

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2007

b. 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 \$6,801,210 (US\$5,813,000), which included \$2,823,210 (US\$2,413,000) in cash, \$643,500 (US\$550,000) in a promissory note payable, the issuance of 559,211 common shares of Nightingale valued at \$994,500 (US\$850,000, US\$1.52 per common share), and \$2,340,000 (US\$2,000,000) in the form of a performance-based earn-out. The promissory note, with payments due in multiple installments during fiscal 2007, was paid in full during the period.

The earn-out is contingent on certain revenue targets over a three-year period and will be paid on a basis of 80% in shares and 20% in cash, with the share price of these earn-out shares based on the 20-day average closing price of Nightingale's common shares, prior to the release of the fiscal 2007, 2008 and 2009 consolidated financial statements. Since the outcome of the contingent consideration cannot be determined beyond reasonable doubt, the \$2,340,000 (US\$2,000,000) contingent consideration has been excluded in the recorded purchase price. Therefore, the aggregate recorded purchase price, including transaction costs of \$167,670, is \$4,628,880 (US\$3,956,308). Once the outcome of the contingency is determinable beyond a reasonable doubt, contingent consideration recognized, if any, will be added to the purchase price. As at the end of fiscal 2007, no amounts under the earn-out were payable.

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

Current assets	\$ 210,169
Property and equipment, net	132,348
Assets under capital lease	9,428
Proprietary software	585,000
Intangible assets	1,372,955
Goodwill	3,240,147
Current liabilities	<u>(921,167)</u>
Purchase price	<u>\$ 4,628,880</u>
Purchase price consideration:	
Promissory note	\$ 643,500
Nightingale common shares	994,500
Cash	2,823,210
Payment of transaction costs	<u>167,670</u>
	<u>\$ 4,628,880</u>

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

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

5. 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

NIGHTINGALE INFORMATIX CORPORATION**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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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.

6. DEFERRED COSTS

Deferred costs as at December 31, 2007 and March 31, 2007 includes \$184,262 and \$219,070, respectively, in deferred sales commission costs that will be recognized as commission expense as the related revenues are recognized. In addition, at March 31, 2007 deferred costs included : (i) \$63,231 for the issuance of equity as part of the Public Offering (Note 5), which was netted against the proceeds from the offering upon its completion; (ii) \$88,359 of costs related to the acquisition of VantageMed Corporation ("VantageMed") (Note 4a) which was added to the purchase price upon completion of the acquisition; (iii) \$256,230 of costs related to the Subordinated Debt financing (Note 10) which was included as financing costs upon completion of the financing.

7. PROPERTY AND EQUIPMENT

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

	Cost	Accumulated Amortization	December 31, 2007 Net Book Value
Office equipment	\$ 1,022,568	\$ 391,757	\$ 630,811
Furniture and fixtures	202,513	74,298	128,215
Assets under capital lease - office equipment	867,466	281,369	586,097
Assets under capital lease - furniture and fixtures	124,659	45,687	78,972
Leasehold Improvements	193,413	55,580	137,833
	<u>\$ 2,410,619</u>	<u>\$ 848,691</u>	<u>\$ 1,561,928</u>

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

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

NIGHTINGALE INFORMATIX CORPORATION**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2007****8. PROPRIETARY SOFTWARE**

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

	Cost	Accumulated Amortization	December 31, 2007 Net Book Value
Proprietary software	<u>\$ 1,830,383</u>	<u>\$ 895,834</u>	<u>\$ 934,549</u>

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

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

9. BORROWING UNDER LINE OF CREDIT

On April 19, 2007, the Company signed a US\$2 million credit facility with a bank. Accounts receivable have been provided as collateral for this facility. This loan facility carries an interest rate of prime plus 0.25% and has a term to April 18, 2008.

10. 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"). On November 23, 2007, certain terms and covenants of the subordinated debt were amended. The credit facility is a secured 29-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 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 and the November 2007 amendment totaled \$1,160,188 which includes a commitment fee equal to 3.75% of the available facility and a \$250,000 amendment fee bearing interest at the rate of 12.75%, payable on November 23, 2008.

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

NIGHTINGALE INFORMATIX CORPORATION

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2007**

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.

In February 2008, the term of the subordinated debt was extended to March 2010 and following receipt of a waiver for certain quarterly and cumulative financial covenants they were amended. Management expects to meet these amended covenants over the remaining term of the debt agreement. If the Company is in breach of any of the covenants over the remaining term of the subordinated debt, management intends to work with the lenders to obtain a waiver or renegotiate the terms of the covenants.

11. 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	25,000,000	8,741,932
Issued to officer of the Company	564,050	225,600
Cancelled shares	<u>(2,195)</u>	<u>-</u>
Balance as a December 31, 2007 (1)	<u><u>67,478,540</u></u>	<u><u>\$ 27,521,485</u></u>

(1) 5,104,167 common shares were issued on the purchase of HealtheNet. Only 3,437,500 common shares are included above because 1,666,667 common shares with value of \$2,000,000 are subject to the performance escrow and have been excluded in the purchase price of the acquisition. In May 2007, the Company granted 1,128,100 restricted common shares to certain officers related to the VantageMed Acquisition. These shares have restricted terms based on continued employment over a three year period. During the quarter the Company released 564,050 shares from restriction as part of the terms of the agreement related to the departure of one of the officers. Including the 1,666,667 common shares issued on the HealtheNet acquisition and the remaining restricted shares of, 564,050, the total common shares outstanding as at March 31, 2007 are 43,583,352 shares and as at December 31, 2007 are 69,709,257 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.

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The fair value of the stock options granted during the 9 month period ended December 31, 2007 was estimated using the Black-Scholes option pricing model with the following assumptions:

Risk-free rate	3.95%-4.17%
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	2,230,849	0.45
Cancelled / Expired	<u>(444,205)</u>	<u>1.06</u>
Balance as at December 31, 2007	<u>4,538,634</u>	<u>\$ 0.87</u>

ii. Summarized information relative to stock options outstanding and exercisable

Exercise Price	Number Outstanding at December 31, 2007	Exercisable	Remaining Contracted Life (Years)
\$0.45	2,202,849	1,061,164	4.52
0.46	19,756	19,756	0.91
0.75	38,000	-	4.11
0.91	72,029	47,368	2.12
1.00	618,500	359,250	2.36
1.25	587,500	281,125	3.20
1.50	<u>1,000,000</u>	<u>431,250</u>	2.84
	<u>4,538,634</u>	<u>2,199,913</u>	

12. 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.

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Changes in contributed surplus for the period ended December 31, 2007 are as follows:

	Amount
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	223,249
Expensed- options issued in previous periods	236,901
Cancelled	<u>(103,692)</u>
Changes in period due to stock options	<u>356,458</u>
<i>SHARE GRANT (2)</i>	
Expensed – restricted share grants	94,000
Transfer to common shares on release of restrictions on restricted stock	<u>(37,600)</u>
Balance as at December 31, 2007	<u>\$ 1,434,075</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.

(2) In May 2007, the Company granted 1,128,100 restricted common shares to certain officers related to the VantageMed Acquisition. The awards were granted at nil cost to the employees and have restricted terms based on continued employment over a three year period. During the quarter the Company released 564,050 shares from restriction as part of the terms of the agreement related to the departure of one of the officers.

13. WARRANTS

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

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

Changes in Warrants for the period ended December 31, 2007 are as follows:

	Number	Amount	Weighted Average Exercise Price
Balance as at March 31, 2006	273,020	\$ 74,235	\$ 0.85
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	(89,520)	-	1.00
Balance as at March 31, 2007	6,255,000	\$ 1,807,749	\$ 1.54
Issued - subordinated debt	7,994,186	1,469,262	0.43
Balance as at December 31, 2007	<u>14,249,186</u>	<u>\$ 3,277,011</u>	<u>0.68</u>

ii. Summarized information relative to Warrants outstanding and exercisable

Exercise Price	Number Outstanding at December 30, 2007	Exercisable	Remaining Contracted Life (Years)
0.43	7,994,186	7,994,186	4.28
1.30	770,000	770,000	0.47
1.50	1,250,000	1,250,000	0.32
1.60	4,235,000	4,235,000	0.47
	<u>14,249,186</u>	<u>14,249,186</u>	

14. INTEREST

	3 months ending December 31, 2007	3 months ending December 31, 2006	9 months ending December 31, 2007	9 months ending December 31, 2006
Interest on capital lease obligations	\$ 7,285	\$ 14,624	\$ 30,314	\$46,195
Interest on subordinated debt	437,632	-	1,179,279	82,507
Interest on line of credit	856	43,706	11,780	81,623
Transaction costs on line of credit	73,663	-	125,895	-
Interest accretion on subordinated debt	222,899	-	616,612	-
Notional interest on subordinated debt warrants	-	-	-	431,000
Interest income	(25,228)	(17,417)	(104,424)	(50,831)
Other interest	2,462	(402)	8,931	3,614
	<u>\$ 719,569</u>	<u>\$ 40,511</u>	<u>\$1,868,387</u>	<u>\$594,108</u>

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15. OTHER LOSS (INCOME)

	3 months ending December 31, 2007	3 months ending December 31, 2006	9 months ending December 31, 2007	9 months ending December 31, 2006
Foreign Currency Loss (Gains)	<u>\$ 16,646</u>	<u>\$ (40,858)</u>	<u>\$ 169,649</u>	<u>\$ (157,721)</u>

16. SUPPLEMENTARY CASH FLOW INFORMATION

	3 months ending December 31, 2007	3 months ending December 31, 2006	9 months ending December 31, 2007	9 months ending December 31, 2006
Interest paid	<u>\$ 520,828</u>	<u>\$ 58,331</u>	<u>\$1,355,128</u>	<u>\$ 213,939</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

17. RELATED PARTY TRANSACTIONS

	9 months ending December 31, 2007	year ended March 31, 2007
Payments to a company controlled by the spouse of an officer and director (Note 20)	<u>\$ 10,038</u>	<u>\$ 40,151</u>
Consulting fees paid to VRG Capital, to a company related to a Director	<u>\$ 30,000</u>	<u>\$ -</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.

18. FINANCIAL INSTRUMENTS

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 December 31, 2007, net monetary assets in the amount of CDN\$ 1,488,638 were denominated in US dollars.

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19. SEGMENTED INFORMATION

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

	3 months ending December 31, 2007	3 months ending December 31, 2006	9 months ending December 31, 2007	9 months ending December 31, 2006
Revenue from continuing operations				
Canada	\$ 884,373	\$ 1,100,546	\$ 4,416,989	\$ 2,826,027
United States	<u>3,057,972</u>	<u>3,053,276</u>	<u>10,280,506</u>	<u>7,776,369</u>
	<u>\$ 3,942,345</u>	<u>\$ 4,153,822</u>	<u>\$ 14,697,495</u>	<u>\$10,602,396</u>
			As at December 31, 2007	As at March 31, 2007
Property and equipment and goodwill from continuing operations				
Canada			\$ 2,076,728	\$ 1,606,647
United States			<u>\$ 6,860,891</u>	<u>7,077,945</u>
			<u>\$ 8,937,619</u>	<u>\$ 8,684,592</u>

Financial Results for Discontinued Operations (Note 2) were limited to the United States geographic region.

20. COMMITMENTS

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

Fiscal Year	Amount
2008 (remaining portion)	\$ 237,154
2009	800,734
2010	553,346
2011	541,070
2012	414,866
2013 and thereafter	480,262

21. 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.

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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 December 31, 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 December 31, 2007.

**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 December 31, 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 December 31, 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

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will adopt this new standard effective April 1, 2008 and is assessing the impact of this new standard on its consolidated financial statements.

22. 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.

23. SUBSEQUENT EVENTS

Sale of Helper

Subsequent to the quarter ended December 31, 2007, the Company completed the disposition of the Helper product line through an asset sale for gross proceeds of approximately \$12.0 million (US \$12.3 million) less approximately \$1.3 million (US \$1.3 million) in deferred revenue collected by the Company prior to closing.