



## **NIGHTINGALE INFORMATIX CORPORATION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the three and nine month interim periods ended December 31, 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 February 29, 2008, should be read in conjunction with the Company's Audited Consolidated Annual Financial Statements for the period ended March 31, 2007 as well as with the Company's Unaudited Consolidated Interim Financial Statements for the period ended December 31, 2007.*

## NIGHTINGALE INFORMATIX CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the Three and Nine Months Ended December 31, 2007

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*This MD&A provides an overview of significant developments that have affected Nightingale's performance during the three and nine months ended December 31, 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. 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.*

*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. Measures such as Adjusted EBITDA and Recurring and Non-Recurring Revenue are used by the Company, as it believes this information would be useful to investors to help evaluate the performance of the Company. Investors should be cautioned, however, that Adjusted EBITDA and Recurring and Non-Recurring Revenue should not be construed as an alternative to net earnings as determined in accordance with GAAP (see section 4 under Non-GAAP Measures for more information).*

# NIGHTINGALE INFORMATIX CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the Three and Nine Months Ended December 31, 2007

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### 1. OVERVIEW

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

Nightingale is a provider of healthcare information systems including both application service provider (ASP or 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.

#### ***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).

With the completion of the VantageMed Acquisition, the ongoing focus of the business will be on organic growth, leveraging the complementary product lines and customer relationships of the acquired business and improving financial performance to help generate positive adjusted EBITDA (see section 4.a under Non-GAAP Measures) and positive quarterly cash flows from operations. Once the Company has been able to demonstrate these goals, it may 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.
- 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.

## NIGHTINGALE INFORMATIX CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the Three and Nine Months Ended December 31, 2007

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- Selectively seek, as an integral part of its growth strategy, health-care business management software companies that are accretive and provide the Company with a 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 has typically charged an up-front licence fee for software licensing with support and maintenance fees charged monthly, quarterly or annually. The Company also offers a utilization fee model which combines software license, support and maintenance fees in a single monthly fee. Charges for implementation and training services apply under both licensing models and are typically due as services are rendered. 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.

#### ***Q3 Fiscal 2008 Highlights***

- During the quarter ended December 31, 2007, the Company classified its Helper product line as discontinued operations. The Helper product line, which provides healthcare information technology solutions for behavioural health providers and therapists, and acquired as part of the VantageMed Acquisition in April 2007, was no longer considered to be core to the Company's objectives and the Company commenced discussions with a third party regarding a potential sale. The results of the Helper operations have been classified as discontinued operations and prior quarterly comparative figures of the current fiscal year have been reclassified to conform to this presentation.
- Subsequent to December 31, 2007, the Company completed the sale of its Helper product line for gross proceeds of approximately \$12.0 million (US \$12.3 million) less \$1.3 million (US \$1.3 million) in deferred revenue collected by the Company prior to closing. It is the Company's intention to use these proceeds to pay down a substantial portion of its subordinated debt, lowering its interest expense, and to fund ongoing working capital requirements.
- Revenue of \$3.9 million for the three months ended December 31, 2007 represents a 5% decrease over the \$4.2 million generated in the same quarter last year.
- Revenue of \$14.6 million for the nine months ended December 31, 2007 represents a 39% increase over the \$10.6 million generated in the nine months ended December 31, 2006.
- Absent the contribution from VantageMed continuing operations, revenues would have decreased 41% and 4% over the three and nine periods in the previous fiscal year due primarily to a reduction in the number of license sales and to a lesser extent a decrease in transcription revenues.
- For the quarter ended December 31, 2007, Recurring Revenue was \$3.2 million, or 82% of revenue, while Non-Recurring Revenue was \$0.71 million, or 18% of revenue. This compares to Recurring Revenue of \$2.4 million or 57% and Non-Recurring Revenue of \$1.8 million or 43% in the prior year quarter. Recurring Revenue is revenue derived from software and hardware

## NIGHTINGALE INFORMATIX CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the Three and Nine Months Ended December 31, 2007

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maintenance contracts, billing services, transcription and electronic services. Non-Recurring Revenue is revenue generated from sales of software and systems and related training, data conversion and installation services. Both of these revenue measures are considered non-GAAP measures (see definition in section 4.b under Non-GAAP Measures).

- Gross profit as a percentage of revenue was 67%, lower than the 73% in the same quarter last fiscal year. Gross profit was 73% for the nine months ended December 31, 2007, up from 69% for the nine month period last fiscal year. The lower gross profit margins during this fiscal quarter are a result of decreased software sales, which have inherently higher margins.
- Adjusted EBITDA (see definition in section 4.a. under Non-GAAP Measures) for the fiscal quarter ended December 31, 2007, was a loss of \$1.8 million or 46% of revenue, compared to a loss of \$0.01 million, or 0.3% of revenue for the fiscal quarter ended December 31, 2006.
- Operating loss was \$2.8 million, or 71% of revenue for the three months ended December 31, 2007 compared to an operating loss of \$0.35 million, or 8% of revenue, for the three months ended December 31, 2006.
- Net loss from continuing operations was \$3.5 million or 90% of revenue, compared to a loss of \$0.35 million, or 8% of revenue, for the quarter ended December 31, 2006.
- Net earnings from discontinued operations were \$0.25 million for the quarter ended December 31, 2007.
- The change in the value of the U.S. dollar is estimated to have negatively impacted Q3 revenue by approximately 14%, or \$0.49 million, versus the same period during the previous fiscal year.
- Since completing the VantageMed Acquisition, the Company has focused on integration efforts to capitalize on cost synergies and to position the company for growth. Integration initiatives were substantially completed subsequent to the quarter end. Consequently the Company expects to realize cost savings in first quarter fiscal 2009.
- Nightingale has engaged with clients from the acquired businesses and continues to work on building its pipeline in the US markets.

## NIGHTINGALE INFORMATIX CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the Three and Nine Months Ended December 31, 2007

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

| Results of Continuing Operations        | 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 | Q3 Ended Dec 31, 2007 |
|---|-------------------------|----------------------------------|------------------------|------------------------|-----------------------|-------------------------|----------------------------------|------------------------|------------------------|-----------------------|
| In \$ 000's (Except per Share Amounts)  |                         |                                  |                        |                        |                       |                         |                                  |                        |                        |                       |
| Recurring Revenue                       | \$423                   | \$679                            | \$2,419                | \$2,524                | \$2,376               | \$2,509                 | \$9,828                          | \$3,213                | \$3,399                | \$3,229               |
| Non-Recurring Revenue                   | 397                     | 3,513                            | 563                    | 943                    | 1,778                 | 903                     | 4,187                            | 1,786                  | 2,358                  | 713                   |
| Revenue                                 | 820                     | 4,192                            | 2,982                  | 3,467                  | 4,154                 | 3,412                   | 14,014                           | 4,998                  | 5,757                  | 3,942                 |
| Gross Profit                            | 576                     | 3,587                            | 1,739                  | 2,486                  | 3,046                 | 2,317                   | 9,589                            | 3,750                  | 4,318                  | 2,660                 |
| Expenses                                | 2,670                   | 6,588                            | 3,610                  | 3,584                  | 3,396                 | 4,266                   | 14,856                           | 5,155                  | 5,309                  | 5,460                 |
| Adjusted EBITDA Loss (non-GAAP measure) | (1,592)                 | (2,101)                          | (1,484)                | (710)                  | (12)                  | (1,636)                 | (3,841)                          | (381)                  | (158)                  | (1,799)               |
| Operating Loss for the Period           | (2,095)                 | (3,001)                          | (1,871)                | (1,097)                | (349)                 | (1,949)                 | (5,267)                          | (1,404)                | (991)                  | (2,800)               |
| Net Loss for the Period                 | \$(2,096)               | \$(3,000)                        | \$(2,321)              | \$(1,084)              | \$(352)               | \$(1,956)               | \$(5,713)                        | \$(2,005)              | \$(1,693)              | \$(3,536)             |
| Loss per Common Share                   | \$(0.07)                | \$(0.11)                         | \$(0.07)               | \$(0.03)               | \$(0.01)              | \$(0.05)                | \$(0.14)                         | \$(0.03)               | \$(0.03)               | \$(0.05)              |
| Weighted Avg. # of Common Shares        | 30,172                  | 27,651                           | 34,552                 | 41,818                 | 41,945                | 41,926                  | 40,120                           | 63,345                 | 66,914                 | 66,914                |
| Total Assets                            | \$9,522                 | \$9,522                          | \$18,550               | \$17,825               | \$18,825              | \$17,531                | \$17,531                         | \$39,469               | \$38,499               | \$36,201              |
| Total Long Term Liabilities             | \$1,796                 | \$1,796                          | \$1,826                | \$1,572                | \$1,585               | \$2,014                 | \$2,014                          | \$11,398               | \$11,831               | \$12,324              |

| Results of Discontinued Operations |  |  |  |  |  |  | Q1 Ended June 30, 2007 | Q2 Ended Sept 30, 2007 | Q3 Ended Dec 31, 2007 |
|------------------------------------|--|--|--|--|--|--|------------------------|------------------------|-----------------------|
| In \$ 000's                        |  |  |  |  |  |  |                        |                        |                       |
| Revenue                            |  |  |  |  |  |  | \$1,083                | \$1,229                | \$1,130               |
| Net Income for the Period          |  |  |  |  |  |  | \$252                  | \$298                  | \$246                 |
| Total Assets                       |  |  |  |  |  |  | \$11,241               | \$11,018               | \$10,909              |
| Total Liabilities                  |  |  |  |  |  |  | \$1,793                | \$1,557                | \$1,398               |

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

## NIGHTINGALE INFORMATIX CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the Three and Nine Months Ended December 31, 2007

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**Revenue:** For the three and nine months ended December 31, 2007, revenue was \$3.9 million and \$14.7 million, respectively. This compares to \$4.2 million and \$10.6 million for the three and nine months ended December 31, 2006, representing a 5% decrease and 39% increase over these respective periods. Revenue attributed to the acquired VantageMed continuing operations totaled \$1.4 million and \$4.5 million for the three and nine months ended December 31, 2007. Absent the contribution from continuing VantageMed operations, revenues totaled \$2.5 million and \$10.2 million over the three and nine months, representing a decrease of 41% and 4% versus the same periods last fiscal year. This decrease was due primarily to a reduction in the number of license sales, the impact of the US dollar and to a lesser extent a decrease in transcription revenues.

The overall increase in revenue, versus last fiscal year, is attributed primarily to additional revenue of \$4.5 million generated over the nine months ended December 31, 2007, as a result of the VantageMed Acquisition.

Revenue of \$3.9 million generated in the quarter represents a 32% decrease over \$5.8 million generated in the previous fiscal quarter ended September 30, 2007. This decrease is primarily related to the decreases in software and related training and implementation services. The decrease in the value of the US Dollar also had a negative impact on our revenues over last fiscal quarter ended September 30, 2007, with the company estimating a negative impact of \$0.2 million on revenue.

In the first quarter 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.b under Non-GAAP Measures) to help investors better understand the performance of the Company.

Recurring Revenue is comprised of support and maintenance revenue, data management and transcription services, billing and financial management services and transactional fees.

Recurring Revenue for the three and nine months ended December 31, 2007 was \$3.2 million, or 82% of revenue, and \$9.8 million, or 67% of revenue. This compares to \$2.3 million or 56% of revenue and \$7.3 million, or 68% of revenue for the three and nine months ended December 31, 2006, representing a 36% and 34% increase over these respective periods. The increase in Recurring Revenue from last fiscal year is primarily a result of the support and maintenance and electronic transactional revenues which were part of the VantageMed Acquisition.

Recurring Revenue for the current fiscal quarter was \$3.2 million, or 82% of revenue, which compares to \$3.4 million, or 59% of revenue for the previous fiscal quarter ended September 30 2007. The decrease in Recurring Revenue can be primarily attributed to lower support and maintenance revenues occurring in the US where the impact of the US dollar had a negative impact on our results. A decrease in transcription revenues, which can experience a seasonal decrease during the December quarter, also negatively impacted Recurring Revenues.

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 nine months ended December 31, 2007 was \$0.71 million, or 18% of revenue, and \$4.9 million, or 33% of revenue, respectively. This compares to \$1.8 million, or 44% of revenue and \$3.3 million, or 32% of revenue for the three and nine months ended December 31, 2006, representing a 60% decline and a 48% increase over these respective periods. The decrease in Non-Recurring Revenue is primarily related to the decreases in software and related training and

## NIGHTINGALE INFORMATIX CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the Three and Nine Months Ended December 31, 2007

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implementation services. The increase in Non-Recurring Revenue over the nine month period is primarily a result of the software and related training, data conversion and installation services revenues which were part of the VantageMed Acquisition.

Non-Recurring Revenue for the current fiscal quarter was \$0.71 million, or 18% of revenue, which compares to \$2.4 million, or 41% of revenue for the previous fiscal quarter ended September 30, 2007. This decrease in Non-Recurring Revenue is primarily related to the decreases in software and related training and implementation services generated during the quarter and, to a lesser extent, the decrease in the value of the US Dollar also had a negative impact on our Non-Recurring Revenue over last fiscal quarter, ended September 30, 2007.

**Gross Profit:** For the three months ended December 31, 2007, gross profit was \$2.7 million, or 67% of revenue (gross profit margin), compared to \$3.0 million, with gross profit margin of 73% for the prior year period. The decrease in gross profit margin relates primarily from the decrease in software sales which inherently carry the highest margins. For the nine month period ended December 31, 2007, gross profit was \$10.7 million, or 73% revenue (gross profit margin), compared to \$7.3 million, with gross profit margin of 69%, for the prior year period. The higher gross profit margins are a result of increased support and maintenance revenue from the VantageMed Acquisition.

For the current fiscal quarter, gross profit was \$2.7 million, or 67% gross profit margin, which is lower compared to the fiscal quarter ended September 30, 2007, with gross profit of \$4.3 million and a gross profit margin of 75%. The decrease in the gross profit margin is due to lower software sales generated during this fiscal quarter.

**Expenses:** Expenses for the three and nine months ended December 31, 2007, were \$5.5 million, or 138% of total revenue, and \$15.9 million, or 108% of total revenue, respectively. This compares to \$3.4 million, or 82% of total revenue, and \$10.6 million or 100% of total revenue for the three and nine months ended December 31, 2006, representing a 61% and 50% increase over these respective periods. The higher level of expenses is primarily due to increased operating expenses resulting from the acquisition with VantageMed. While the Company has implemented cost reductions through its post acquisition integration initiatives it should be noted that as part of its growth strategy, the Company will continue to re-deploy resources and may invest in new employees for select job functions as it expands its product offering, sales and marketing programs and delivery capabilities in the US market.

Nightingale's expenses are also affected by changes in the U.S. dollar exchange rate with approximately 50% of the Company's expenses during the nine months ended December 31, 2007 generated in the U.S.

Sales and marketing expenses for the three and nine months ended December 31, 2007, were \$0.86 million and \$2.5 million. This compares to \$0.58 million and \$2.2 million for the three months and nine months ended December 31, 2006, representing a 49% increase, and a 15% 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 \$0.86 million, slightly higher than the \$0.8 million for the fiscal quarter ended September 30, 2007, representing an 8% increase. During the quarter, the Company made an investment into several new sales and marketing resources. The expenses associated with these new personnel will be fully reflected in upcoming quarters.

## NIGHTINGALE INFORMATIX CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the Three and Nine Months Ended December 31, 2007

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General and administration expenses for the three and nine months ended December 31, 2007, were \$0.95 million and \$2.8 million. This compares to \$0.82 million and \$2.5 million for the three months and nine months ended December 31, 2006, representing a \$0.13 million, or 16% increase, and a \$0.27 million, or 11% 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 in some cases has reallocated these employees to client services roles.

For the current fiscal quarter, general and administration expenses were \$0.95 million, compared to \$1.1 million for the fiscal quarter ended September 30, 2007, representing a \$0.13 million or 12% decrease. The decrease in the consecutive periods is attributable to decreases in several expense categories including bad debt.

Research and development expenses for the three and nine months ended December 31, 2007, were \$1.2 million and \$3.6 million. This compares to \$0.85 million and \$2.8 million for the three months and nine months ended December 31, 2006, representing a \$0.37 million, or 43% increase, and a \$0.75 million, or 27% increase over the respective periods. Approximately \$0.35 million of the increase over the same quarter last fiscal year was related to the VantageMed Acquisition.

For the current fiscal quarter research and development expenses were \$1.2 million, compared to \$1.2 million for the fiscal quarter ended September 30, 2007.

Client services expenses for the three and nine months ended December 31, 2007, were \$1.4 million and \$4.2 million. This compares to \$0.81 million and \$2.0 million for the three months and nine months ended December 31, 2006, representing a \$0.62 million, or 91% increase, and a \$2.2 million, or 112% increase over the respective periods. These increases are primarily the result of combining the operations of Nightingale and continuing operations of VantageMed. Versus the same quarter last fiscal year, costs from the VantageMed Acquisition contributed approximately \$0.46 million to client services expenses, with the balance of this increase attributed to an increase in investment in client services by the Company.

For the current fiscal quarter, client services expenses were \$1.4 million, compared to \$1.4 million for the fiscal quarter ended September 30, 2007.

Stock-based compensation for the three and nine months ended December 31, 2007, was \$0.24 million and \$0.51 million. This compares to \$0.13 million and \$0.51 million for the three months and nine months ended December 31, 2006.

Depreciation and amortization for the three and nine months ended December 31, 2007, was \$0.76 million and \$2.3 million. This compares to \$0.21 million and \$0.61 million for the three months and nine months ended December 31, 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 nine months ended December 31, 2007, was a loss of \$1.8 million, or 46% of revenue, and a loss of \$2.3 million, or 16% of revenue. This compares to a loss of \$0.01 million, or 0.3% of revenue, and a loss of \$2.2 million, or 21% of revenue, for the three months and nine months ended December 31, 2006.

## NIGHTINGALE INFORMATIX CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the Three and Nine Months Ended December 31, 2007

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**Operating Loss:** For three and nine months ended December 31, 2007, operating loss was \$2.8, or 71% of revenue, and \$5.2 million, or 35% of revenue. This compares to \$0.35 million or 8% of revenue and \$3.3 million or 31% of revenue, for the three and nine months ended December 31, 2006.

**Interest and Other Income/ Loss:** Interest charges for the three and nine months ended December 31, 2007 were \$0.72 million and \$1.9 million. This compares to \$0.04 million and \$0.59 million for the three months and nine months ended December 31, 2006. This increase is largely a result of interest on subordinated debt of \$0.44 million and interest accretion of \$0.22 million, both related to the Debt Financing (see section 7.c) and transaction costs associated with the Company's line of credit facility of \$0.07 million.

In the previous fiscal quarter, interest charges were \$0.6 million, slightly lower than the \$0.72 million in the current quarter.

Included in other income/loss are foreign currency adjustments related to monetary translations. For the three and nine months ended December 31, 2007, other loss was \$0.02 million, or 0.3% of revenue, and \$0.17 million or 1% of revenue. This compares to other income of \$0.04 million, or 1% of revenue, and \$0.16 million, or 1% of revenue, for the three months and nine months ended December 31, 2006.

Other loss was \$0.02 million, or 0.3% of revenue for the current quarter which compares to other loss of \$0.1 million or 2% of revenue for the previous fiscal quarter ended September 30, 2007.

**Net Loss from Continuing Operations:** For the three and nine months ended December 31, 2007, net loss from continuing operations was \$3.5 million, or 90% of revenue and \$7.2 million, or 49% of revenue. This compares to a net loss of \$0.35 million, or 8% of revenue, and a net loss of \$3.8 million, or 35% of revenue, for the three months and nine months ended December 31, 2006. The increase in net loss can be primarily attributed to lower software sales generated in the fiscal quarter ended December 31, 2007.

Net loss from continuing operations was \$3.5 million for the current fiscal quarter, or 90% of revenue, which compares to \$1.7 million, or 29% of revenue, for the previous fiscal quarter ended September 30, 2007.

**Net Earnings from Discontinued Operations:** For the three and nine months ended December 31, 2007, net earnings from discontinued operations was \$0.25 million and \$0.8 million, respectively. The earnings relate to the results of the Helper product line during these periods.

Net earnings from discontinued operations were \$0.25 million for the current fiscal quarter which compares to \$0.3 million for the previous fiscal quarter ended September 30, 2007.

**Net Loss:** For the three and nine months ended December 31, 2007, net loss was \$3.3 million and \$6.4 million. This compares to a net loss of \$0.35 million and a net loss of \$3.8 million for the three months and nine months ended December 31, 2006.

Net loss was \$3.3 million for the current fiscal quarter which compares to \$1.4 million for the previous fiscal quarter ended September 30, 2007.

**US Dollar Exchange Rate Impact:** Over the three and nine months ended December 31, 2007, the Company generated 78% and 70% of revenue from the U.S. market, respectively. With the recent decline in the value of the U.S. dollar relative to the Canadian dollar, the Company estimates that revenue

## NIGHTINGALE INFORMATIX CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the Three and Nine Months Ended December 31, 2007

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was negatively impacted by a difference of approximately 13.8%, or \$0.49 million over the three months versus the same period during the previous fiscal year. Over the nine month period ended December 31, 2007, the change in the value of the U.S. dollar is estimated to have negatively impacted revenue by approximately 7.5%, or \$0.84 million versus the same period during the previous fiscal year.

Over the nine months ended December 2007, approximately 51% 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.

Going forward, the continued decrease in the value of the US dollar, compared to the Canadian dollar, since the end of the second fiscal quarter and an expected increase 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 December 31, 2007 were \$3.7 million.

**Cash Flow from Operating Activities – Continuing Operations:** Cash flow used in operating activities in the fiscal quarter ended December 31, 2007 was \$1.4 million, compared to \$0.5 million for the quarter ended December 31, 2006. The most significant adjustments of net income to cash flow used in operations included a decrease in accounts receivable of \$1.6 million, a decrease in accounts payable of \$0.65 million and a decrease in deferred revenue of \$0.06 million. For the nine month period ended December 31, 2007, cash flow used in operating activities totalled \$4.3 million, compared to \$4.9 million for the nine months ended December 31, 2006. The most significant adjustments of net income to cash flow used in operations included a decrease in accounts receivable of \$0.81 million, a decrease of deferred costs of \$0.43 million, a decrease in accounts payable of \$1.5 million and an increase in deferred revenue of \$0.07 million.

**Cash Flow from Investing Activities – Continuing Operations:** During the fiscal quarter ended December 31, 2007, cash flow used in investing activities was \$0.08 million, compared to \$0.1 million during the same quarter last fiscal year. For the nine month period ended December 31, 2007, cash flow used in investing activities was \$14.1 million, including \$13.5 million for the VantageMed Acquisition, compared to \$3.5 million during the same period last fiscal year.

**Cash Flow from Financing Activities – Continuing Operations:** Cash flow from financing activities in the quarter ended December 31, 2007 totalled \$1.2 million, versus \$0.71 million during the same quarter last fiscal year. This includes the utilization of our bank operating line of credit of \$1.0 million and an increase in capital lease obligations of \$0.2 million. Cash flow from financing activities for the nine months ended December 31, 2007 totalled \$19.3 million, versus \$10.1 million during the nine month period last fiscal year. This was primarily due to an increase in capital stock of \$8.7 million as a result of securities issued in connection with the public offering which closed on April 13, 2007, and net proceeds from the subordinated debt of \$11.1 million. The net proceeds from subordinated debt were comprised of a principal debt amount of \$12 million less \$0.91 million of associated transaction costs. In addition, the Company made a \$1.54 million repayment towards the retirement of the Greenfield line of credit facility.

**Net Cash Flow from Discontinued Operations:** Cash flow from discontinued operations, comprised entirely of cash flow from operating activities, was \$0.35 million and \$1.0 million for the three and nine month periods ending December 31, 2007, respectively.

## NIGHTINGALE INFORMATIX CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the Three and Nine Months Ended December 31, 2007

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During the fiscal quarter ended December 31, 2007, current assets decreased by \$1.7 million to \$18.7 million while current liabilities increased by \$0.38 million to \$10.6 million, resulting in a decrease in total working capital of \$2.1 million.

Subsequent to December 31, 2007, the term of the subordinated debt was extended to March 2010 and following receipt of a waiver, certain quarterly and cumulative financial covenants 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.

Subsequent to December 31, 2007, the Company completed the sale of its Helper product line for gross proceeds of approximately \$ 12.0 million (US \$12.3 million). It is the Company's intention to use these proceeds to pay down a substantial portion of its subordinated debt and to strengthen its working capital position.

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 require 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.

## NIGHTINGALE INFORMATIX CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the Three and Nine Months Ended December 31, 2007

The following provides a reconciliation of Adjusted EBITDA to Net Income/ (Loss) from Continuing Operations:

| Name            | Definition                    | Fiscal Quarter Ended December 31, 2007 | Fiscal Quarter Ended December 31, 2006 | Nine Months Ended December 31, 2007 | Nine Months Ended December 31, 2006 |
|-----------------|-------------------------------|--|--|-------------------------------------|-------------------------------------|
| Adjusted EBITDA | Net Income (Loss)             | \$(3,536,270)                          | \$(352,250)                            | \$(7,233,615)                       | \$(3,757,506)                       |
|                 | <i>Adjustments for:</i>       |  |  |                                     |                                     |
|                 | Other Loss (Income)           | 16,646                                 | -40,858                                | 169,649                             | -157,721                            |
|                 | Interest                      | 719,569                                | 40,511                                 | 1,868,387                           | 594,108                             |
|                 | Depreciation and Amortization | 759,768                                | 214,759                                | 2,345,364                           | 609,076                             |
|                 | Stock-based Compensation      | 241,111                                | 126,264                                | 512,078                             | 506,442                             |
|                 | Adjusted EBITDA (Loss)        | \$(1,799,176)                          | \$(11,574)                             | \$(2,338,137)                       | \$(2,205,601)                       |

#### 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.

Non-Recurring Revenue includes software, hardware and client services revenues from training, implementation and customization services. 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 December 31, 2007 | Fiscal Quarter Ended December 31, 2006 | Nine Months Ended December 31, 2007 | Nine Months Ended December 31, 2006 |
|---------|-----------------------|--|--|-------------------------------------|-------------------------------------|
|         | Non-Recurring Revenue | \$ 713,436                             | 1,777,874                              | 4,857,053                           | 3,214,495                           |
|         | Recurring Revenue     | \$ 3,228,909                           | 2,375,948                              | 9,840,442                           | 7,387,901                           |
| Revenue |                       | \$ 3,942,345                           | 4,153,822                              | \$14,697,695                        | 10,602,396                          |

## 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

## NIGHTINGALE INFORMATIX CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the Three and Nine Months Ended December 31, 2007

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Suite 100, 3762 Fourteenth Avenue, Markham, Ontario. In addition, there are a number of capital and operating leases entered into by the Company, including the lease of several facilities across Canada and the United States.

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)    | \$ 237,154 |
| 2009                | 800,734    |
| 2010                | 553,346    |
| 2011                | 541,070    |
| 2012                | 414,866    |
| 2013 and thereafter | 480,262    |

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

| Fiscal Year      | Amount     |
|------------------|------------|
| 2008 (Remaining) | \$ 147,646 |
| 2009             | 269,349    |
| 2010             | 158,291    |
| 2011             | 25,004     |
| 2012             | 1,622      |

#### 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 \$27,161, resulting in monthly payments of \$3,346 and interest of \$928 during the third quarter of fiscal 2008.

The Company engaged VRG Capital, a division of the Vimy Ridge Group Ltd, a company related to a Director, to provide consulting services. Fees of \$30,000 were paid in quarter with a further \$30,000 anticipated to be paid in the forth quarter for services rendered.

#### 7. RECENT EVENTS

The following significant events impacted the Company during the nine months ended December 31, 2007.

##### a. VantageMed Acquisition

On April 18, 2007, the Company completed its acquisition of all the outstanding shares of VantageMed. Total consideration for the transaction was CAD\$14.4 million (US\$13.0 million, or US\$0.75 per share) for

## NIGHTINGALE INFORMATIX CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the Three and Nine Months Ended December 31, 2007

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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 December 31, 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 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.

#### **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"). 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 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. An amendment fee, bearing interest at the rate of 12.75% is payable on November 23, 2008.

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.

#### **d. Sale of Helper Product Line**

During the quarter ended December 31, 2007, the Company classified its Helper product line as discontinued operations. The Helper product line, which provides healthcare information technology solutions for behavioural health providers and therapists, and acquired as part of the VantageMed Acquisition in April 2007, was no longer considered to be core to the Company's objectives and the Company commenced discussions with a third party regarding a potential sale. The results of the Helper operations have been classified as discontinued operations and prior quarterly comparative figures of the current fiscal year have been reclassified to conform to this presentation.

## **NIGHTINGALE INFORMATIX CORPORATION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the Three and Nine Months Ended December 31, 2007**

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Subsequent to December 31, 2007, the Company completed the sale of its Helper product line for gross proceeds of approximately \$12.0 million (US \$12.3 million) less \$1.3 million (US \$1.3 million) in deferred revenue collected by the Company prior to closing. It is the Company's intention to use these proceeds to pay down a substantial portion of its subordinated debt, lowering its interest expense, and to fund ongoing working capital requirements.

#### **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 December 31, 2007.

#### **9. DISCLOSURE AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

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

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

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