



NIGHTINGALE INFORMATIX CORPORATION

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
For the three and nine month periods ended December 31, 2009**

The accompanying unaudited interim consolidated financial statements and notes to financial statements of Nightingale Informatix Corporation have not been reviewed by the Company's auditors.

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NIGHTINGALE INFORMATIX CORPORATION

INTERIM CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2009

	3 months ended December 31, 2009	3 months ended December 31, 2008	9 months ended December 31, 2009	9 months ended December 31, 2008
Revenue	\$ 4,351,927	\$ 4,556,485	\$ 12,408,538	\$ 13,748,385
Cost of sales	<u>1,038,402</u>	<u>1,284,149</u>	<u>3,339,944</u>	<u>3,643,738</u>
Gross profit	<u>3,313,525</u>	<u>3,272,336</u>	<u>9,068,594</u>	<u>10,104,647</u>
Expenses				
General and administration	753,095	801,924	2,125,592	2,485,633
Sales and marketing	352,248	621,682	1,089,314	1,969,147
Research and development	699,226	780,782	2,126,699	2,765,729
Client services	916,169	1,102,187	2,930,479	3,612,134
Stock based compensation	33,862	25,544	195,344	90,549
Amortization	<u>629,671</u>	<u>689,845</u>	<u>1,750,958</u>	<u>1,934,718</u>
	<u>3,384,271</u>	<u>4,021,964</u>	<u>10,218,386</u>	<u>12,857,910</u>
Operating loss	<u>\$ (70,746)</u>	<u>\$ (749,628)</u>	<u>\$ (1,149,792)</u>	<u>\$ (2,753,263)</u>
Interest, note 7	250,802	328,135	820,484	1,048,521
Foreign currency loss (gain)	<u>28,402</u>	<u>(201,671)</u>	<u>(50,054)</u>	<u>(174,151)</u>
Loss and comprehensive loss	<u>\$ (349,950)</u>	<u>\$ (876,092)</u>	<u>\$ (1,920,222)</u>	<u>\$ (3,627,633)</u>
Basic and diluted loss per common share	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.03)</u>	<u>\$ (0.05)</u>
Weighted average number of common shares	70,534,542	67,772,826	70,133,373	67,827,225

The accompanying notes form an integral part of these consolidated financial statements.

NIGHTINGALE INFORMATIX CORPORATION

INTERIM CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2009

	As at December 31, 2009	As at March 31, 2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,880,454	\$ 3,514,056
Accounts receivable	2,287,961	2,324,377
Other receivables	90,893	21,218
Inventory	35,682	62,182
Prepaid expenses	351,171	448,275
	<u>4,646,161</u>	<u>6,370,108</u>
Long-term assets		
Deferred costs	90,194	129,104
Property and equipment	946,031	1,216,596
Intangible assets	4,339,186	5,497,436
Goodwill	4,692,399	4,692,399
	<u>10,067,810</u>	<u>11,535,535</u>
Total assets	<u>\$ 14,713,971</u>	<u>\$ 17,905,643</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,404,273	\$ 3,693,844
Income taxes payable	777,039	948,701
Current portion of deferred revenue	3,402,159	3,935,954
Current portion of capital lease obligations	237,440	178,655
	<u>6,820,911</u>	<u>8,757,154</u>
Long term liabilities		
Subordinated debt, note 3	4,466,829	4,938,425
Deferred revenue	1,526,001	1,296,842
Capital lease obligations	291,773	281,463
	<u>6,284,603</u>	<u>6,516,730</u>
Total liabilities	<u>13,105,514</u>	<u>15,273,884</u>
SHAREHOLDERS' EQUITY		
Capital stock, note 4	28,348,960	27,596,692
Contributed surplus, note 5	4,416,944	3,274,607
Warrants, note 6	471,577	1,469,262
Deficit	(31,629,024)	(29,708,802)
	<u>1,608,457</u>	<u>2,631,759</u>
Total liabilities and shareholders' equity	<u>\$ 14,713,971</u>	<u>\$ 17,905,643</u>

Approved on behalf of the Board of Directors:

"Samer Chebib" Director

"David Atkins" Director

The accompanying notes form an integral part of these consolidated financial statements.

NIGHTINGALE INFORMATIX CORPORATION

**INTERIM CONSOLIDATED STATEMENT OF DEFICIT
FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2009**

	3 months ended December 31, 2009	3 months ended December 31, 2008	9 months ended December 31, 2009	9 months ended December 31, 2008
Deficit, beginning of the period	\$ (31,279,074)	\$ (27,828,817)	\$ (29,708,802)	\$ (25,077,276)
Loss and comprehensive loss	<u>(349,950)</u>	<u>(876,092)</u>	<u>(1,920,222)</u>	<u>(3,627,633)</u>
Deficit, end of the period	<u>\$ (31,629,024)</u>	<u>\$ (28,704,909)</u>	<u>\$ (31,629,024)</u>	<u>\$ (28,704,909)</u>

The accompanying notes form an integral part of these consolidated financial statements.

NIGHTINGALE INFORMATIX CORPORATION

**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2009**

	3 months ended December 31, 2009	3 months ended December 31, 2008	9 months ended December 31, 2009	9 months ended December 31, 2008
Cash Flow from operating activities				
Loss and comprehensive loss	\$ (349,950)	\$ (876,092)	\$ (1,920,222)	\$(3,627,633)
<i>Adjustments for:</i>				
Depreciation and amortization	629,671	689,931	1,750,958	1,951,351
Amortization of transaction costs related to debt financing	11,693	33,525	56,912	100,574
Foreign currency loss (gain)	21,040	(201,671)	(57,415)	(174,151)
Stock based compensation	33,862	25,544	195,344	90,549
Interest accretion	59,709	101,821	216,714	358,059
	<u>406,025</u>	<u>(226,942)</u>	<u>242,291</u>	<u>(1,301,251)</u>
<i>Changes in non-cash working capital balances</i>				
Accounts receivable	(498,756)	(554,722)	(236,017)	(100,008)
Prepaid expenses	145,984	(82,576)	97,104	(38,349)
Inventory	2,904	10,974	65,308	100,772
Deferred costs	11,467	(14,263)	-	7,431
Other receivables	(54,497)	25,414	(69,517)	595,256
Accounts payable and accrued liabilities	(312,816)	(130,505)	(1,066,766)	(904,279)
Income taxes payable	(10,995)	-	(10,995)	-
Deferred revenue	(105,005)	293,730	(304,636)	(573,105)
Cash flows used in operating activities	<u>(415,689)</u>	<u>(678,890)</u>	<u>(1,283,228)</u>	<u>(2,213,533)</u>
Cash flow from investing activities				
Purchase of property and equipment	(8,254)	(47,042)	(37,307)	(166,742)
Cash flows used in investing activities	<u>(8,254)</u>	<u>(47,042)</u>	<u>(37,307)</u>	<u>(166,742)</u>
Cash flow from financing activities				
Repayment of subordinated debt	-	(500,000)	-	(1,000,000)
Borrowing under line of credit	-	450,000	-	1,200,000
Repayment of capital lease obligations	(63,492)	(84,991)	(199,621)	(261,454)
Cash flows used in financing activities	<u>(63,492)</u>	<u>(134,991)</u>	<u>(199,621)</u>	<u>(61,454)</u>
Foreign exchange gains (losses) on cash held in foreign currency	10,103	352,536	(113,446)	470,835
Net decrease in cash during the period	(477,332)	(860,923)	(1,633,602)	(2,441,729)
Cash and cash equivalents, beginning of period	<u>2,357,786</u>	<u>3,571,239</u>	<u>3,514,056</u>	<u>5,033,746</u>
Cash and cash equivalents, end of period	<u>\$ 1,880,454</u>	<u>\$ 3,062,852</u>	<u>\$ 1,880,454</u>	<u>\$ 3,062,852</u>
Non-cash investing and financing activities:				
Acquisition of property and equipment under capital lease	\$ 284,837	\$ -	\$ 284,837	\$ 56,265
Supplemental cash flow information:				
Interest paid	\$ 180,566	\$ 197,584	\$ 544,592	\$ 635,122

The accompanying notes form an integral part of these consolidated financial statements.

1. BUSINESS DESCRIPTION

Nightingale Informatix Corporation ("Nightingale" or the "Company") is incorporated under the Ontario Business Corporations Act. The Company's principal activities are the development, sale and support of application software and related services to customers in the healthcare industry in Canada and the United States.

The accompanying interim consolidated financial statements of Nightingale 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 month and nine months ended December 31, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2010. 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 2009.

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, 2009, except as described in Note 2 below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

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

All significant intercompany balances and transactions have been eliminated on consolidation and certain amounts have been reclassified to conform to the current year presentation.

Use of estimates

The preparation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Recent accounting pronouncements

(i) Canadian Standards

In February 2008, CICA issued Handbook Section 3062 "Goodwill and Intangible Assets", which replaces the existing Sections 3062 "Goodwill and Other Intangible Assets" and 3450 "Research and Development Costs." The new standard introduces changes to recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets are equivalent to the corresponding provisions of International Financial Reporting Standard IAS 38, "Intangible Assets." The new standard also provides guidance for the recognition of internally developed intangible assets, including assets developed from research and development activities, ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. The Section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008 with earlier adoption encouraged. The Company adopted this new guidance effective April 1, 2009. The adoption of this guidance did not have a material impact on the Company's financial position, results of operations or cash flows.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2009**

In January 2009, the CICA issued Section 1582, "Business Combinations", replacing Section 1581, "Business Combinations". This section establishes the standards for the accounting of business combinations and states that all assets and liabilities of an acquired business will be recorded at fair value at the date of acquisition. The standard also states that the acquisition-related costs will be expensed as incurred and that the restructuring charges will be expensed in the periods after the acquisition date. This new Section will be applicable to financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. The Company is currently assessing the future impact of this new standard on its consolidated financial statements.

In January 2009, the CICA issued Section 1601, "Consolidated Financial Statements", which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. The Company is currently assessing the future impact of this new standard on its consolidated financial statements.

In June 2009, the CICA amended Section 3862, "Financial Instruments - Disclosures", to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. The amendments to Section 3862 apply for annual financial statements relating to fiscal years ending after September 30, 2009. The Company is assessing the impact of these amendments on its consolidated financial statements.

In December 2009, the CICA issued EIC 175, Multiple Deliverable Revenue Arrangements, replacing EIC 142, Revenue Arrangements with Multiple Deliverables. This abstract was amended to (1) exclude from the application of the updated guidance those arrangements that would be accounted for in accordance with financial Accounting Boards Statement (FASB) Statement of Position (SOP) 97-2, Software Revenue Recognition, as amended by Accounting Standards Update (ASU) 2009-14; (2) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (3) require in situations where a vendor does not have vendor-specific objective evidence (VSOE) or a third party evidence of selling price, require that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (4) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (5) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance.

The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011 with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the Abstract is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal year, it must be applied retroactively from the beginning of the Company's fiscal period of adoption. The Company is currently assessing the future impact of these amendments on its financial statements and has not yet determined the timing and method of its adoption.

(ii) International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards (IFRS) will replace Canadian GAAP for publicly accountable profit-oriented enterprises for years beginning on or after January 1, 2011. The Company will be required to prepare its financial statements using IFRS for the fiscal year beginning April 1, 2011. The Company is currently considering the effect these standards will have on its consolidated financial statements.

3. SUBORDINATED DEBT

The subordinated debt was originally issued in April 2007 to Wellington Financial LP and included Export Development Canada, a Limited Partner in Wellington Financial Fund III (the "Lenders"). The debt bears interest at a rate of 12.75% per annum, payable monthly, and was originally scheduled to mature in March 2010. Nightingale originally provided the Lenders with 7,994,186 warrants convertible into common shares at a price of \$0.43 per share for five years.

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2009

In May 2009, the Company amended its debt financing agreements with the Lenders and agreed to issue to the Lenders an aggregate of 2,858,663 common shares in order to cancel the 7,994,186 warrants held by the Lenders and settle \$230,000 of other liabilities owed to the Lenders. The issuance of shares and cancellation of warrants were approved by the TSX Venture Exchange.

In July 2009, the Company amended its debt financing agreements to extend the term through July 2012 at which point the remaining principal balance of \$5,250,000 will be due. Certain terms and covenants were also amended in July 2009 and the Company agreed to issue 4,233,870 warrants with a strike price of \$0.31 per share and with an expiration date of July 29, 2012. Such warrants received TSXV approval in August 2009. The fair value of Warrants was estimated using the Black-Scholes option pricing model with the following assumptions at the measurement date:

Risk-free interest rate	2.43%
Stock price on date of issuance	\$ 0.31
Estimated volatility	50%
Dividend yield	0%
Expected life	3 years

The value of the warrants, approximately \$471,577, is being amortized to interest expense over the remaining debt term.

4. CAPITAL STOCK

a. Authorized

Unlimited	Preference shares
Unlimited	Common shares

b. Common shares issued and outstanding

	Number	Amount
Balance as at March 31, 2009 (1)	<u>67,666,557</u>	<u>\$ 27,596,692</u>
Issued on cancellation of warrants (see Note 3)	2,858,663	714,658
Issued to an officer of the Company	94,008	37,610
Cancelled on departure of an officer of the Company	<u>(84,685)</u>	<u>-</u>
Balance as at December 31, 2009 (2)	<u>70,534,543</u>	<u>\$ 28,348,960</u>

(1) As at March 31, 2009, 1,666,667 common shares issued upon the purchase of HealthNet were excluded from the balance outstanding as the shares are subject to a performance escrow period ending in fiscal 2010. In addition, 376,033 restricted shares to officers of VantageMed remained issued and outstanding and were excluded from the above balance due to their unvested status. These shares have restricted terms based on continued employment over a three year period, with the restriction ending in April 2010. The total common shares outstanding at March 31, 2009 were 69,709,257.

(2) As at December 31, 2009, 94,008 restricted shares to officers of VantageMed remained issued and outstanding and were excluded from the above balance due to their unvested status. Including the 1,666,667 common shares issuable on the HealthNet acquisition and the remaining restricted shares of 94,008, the total common shares outstanding at December 31, 2009 were 72,295,218.

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

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**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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than 5% of the outstanding stock options. Generally, the stock options vest over four years and are exercisable for a maximum term of five years.

The fair value of each stock option on the date of grant was estimated using the Black-Scholes option pricing model with the following assumptions at the measurement date:

	Options Granted in the Nine Months Ended December 31, 2009
Risk-free interest rate	2.3%
Estimated volatility	50.0%
Dividend yield	0.0%
Expected life	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, 2009	3,166,318	\$ 0.60
Granted	1,981,967	0.27
Cancelled / Expired	<u>(165,091)</u>	<u>0.59</u>
Balance as at December 31, 2009	<u>4,983,194</u>	<u>\$ 0.47</u>

ii. Summarized information relative to stock options outstanding

Exercise Price	Number Outstanding as at December 31, 2009	Exercisable	Remaining Contracted Life (Years)
\$ 0.26	987,500	246,875	3.68
0.27	1,971,967	956,967	4.59
0.45	1,264,349	1,008,099	2.57
0.91	9,878	9,878	0.15
1.00	244,500	244,500	0.67
1.25	99,500	96,375	1.77
1.50	<u>405,500</u>	<u>354,125</u>	1.02
	<u>4,983,194</u>	<u>2,916,819</u>	

5. CONTRIBUTED SURPLUS

Included in contributed surplus is the expense related to the fair value of stock options granted to employees and non-employees valued under the Black-Scholes option pricing model. At such date as the stock options are exercised, contributed surplus is 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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**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2009**

Changes in contributed surplus for the periods ended December 31, 2009 are as follows:

	Amount
Balance as at March 31, 2009	\$ 3,274,607
<i>STOCK OPTIONS</i>	
Changes in period due to stock options	<u>167,144</u>
<i>RESTRICTED SHARE GRANT</i>	
Expensed	28,200
Transfer to common shares on release of restrictions on restricted stock	<u>(37,610)</u>
<i>WARRANTS</i>	
Excess of balance of cancelled warrants over value of common shares issued (Note 3) (1)	<u>984,603</u>
Balance as at December 31, 2009	<u>\$ 4,416,944</u>

(1) In May 2009, the Company amended its debt financing agreements with Wellington Financial LP and Export Development Canada ("the Lenders") and issued to the Lenders an aggregate of 2,858,663 common shares and cancelled the 7,994,186 warrants held by such Lenders as further described in Note 3. The amount classified to contributed surplus is the excess value of the cancelled warrants over the value of the common shares issued.

6. WARRANTS

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

Changes in Warrants for the period ended December 31, 2009 are as follows:

	Number	Amount	Weighted Average Exercise Price
Balance as at March 31, 2009	7,994,186	\$ 1,469,262	\$ 0.43
Issued – subordinated debt amendment (Note 3)	4,233,870	471,577	0.31
Cancelled (Note 3)	<u>(7,994,186)</u>	<u>(1,469,262)</u>	<u>0.43</u>
Balance as at December 31, 2009	<u>4,233,870</u>	<u>\$ 471,577</u>	<u>\$ 0.31</u>

7. INTEREST

	3 months ended December 31, 2009	3 months ended December 31, 2008	9 months ended December 31, 2009	9 months ended December 31, 2008
Interest on capital lease obligations	\$ 9,498	\$ 16,545	\$ 32,993	\$ 53,975
Interest on subordinated debt	168,719	177,141	504,324	571,137
Transaction costs on subordinated debt	11,693	33,525	56,912	100,574
Interest accretion on subordinated debt	59,709	101,821	216,714	358,059
Interest income	(1,162)	(4,796)	(2,528)	(45,234)
Other interest	<u>2,345</u>	<u>3,899</u>	<u>12,069</u>	<u>10,010</u>
	<u>\$ 250,802</u>	<u>\$ 328,135</u>	<u>\$ 820,484</u>	<u>\$ 1,048,521</u>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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8. FINANCIAL INSTRUMENTS

The Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3862, “Financial Instruments - Disclosures,” requires disclosures relating to: (i) the significance of financial instruments for financial position and performance; and (ii) the nature and extent of the Company’s exposure to risks arising from financial instruments, including credit risk, liquidity risk, foreign currency risk and interest rate risk, and how the Company manages those risks.

Under Canadian GAAP, financial instruments are classified into one of the following categories: held-for-trading, held-to-maturity, available for sale, loans and receivables, and other financial liabilities. The following table summarizes information regarding the carrying value of the Company’s financial instruments:

	As at December 31, 2009	As at March 31, 2009
Held for trading (i)	\$ 1,880,454	\$ 3,514,056
Loans and receivables (ii)	\$ 2,378,854	\$ 2,345,595
Other financial liabilities (iii)	\$ 6,871,102	\$ 8,632,269

- (i) Includes cash and cash equivalents
- (ii) Includes accounts receivable and other receivables
- (iii) Includes financial liabilities included in accounts payable and accrued liabilities and subordinated debt

Liquidity risk

The Company has sustained losses and negative cash flows from operations over the past four years. At December 31, 2009, the Company has approximately \$1.9 million of cash and cash equivalents. The Company’s approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they are due. The Company achieves this by maintaining sufficient cash and cash equivalents. The Company monitors its financial position on a monthly basis and updates its expected use of cash resources based on the latest available data. The accounts payable and accrued liabilities will mature within the next twelve months.

There are uncertainties related to the timing and use of the Company’s cash resources. These uncertainties include, but are not limited to, the volume of sales, customer acceptance of its solutions, ability to control operating expenses and secure financing for capital expenditures and the fluctuation of the exchange rates. As a result, the Company may need to seek additional equity, debt or lease financing, which could include additional lines of credit, if available. These uncertainties could impact the ability of the Company to meet the covenants of its subordinated debt (Note 3) and may require the Company to seek a waiver of a covenant breach or an amendment of its debt agreement. There is no assurance that the Company will be successful in its financing efforts or that they will be sufficient. If adequate funds are not available, the Company’s ability to fund operations will be impacted.

Credit risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Company is exposed to credit risk from customers. However, the Company has a significant number of customers, which mitigates concentration of credit risk.

In the quarter and nine months ended December 31, 2009, one large customer accounted for 11% of total revenues, (13% and 10%, respectively, in the quarter and nine months ended December 31, 2008) and 8% of accounts receivable at December 31, 2009 (1% at March 31, 2009). A second customer accounted for 7% and 9% of total revenues in the quarter and nine months ended December 31, 2009 (10% and 9%, respectively, in the quarter and nine months ended December 31, 2008) and 13% of accounts receivable at December 31, 2009 (22% at March 31, 2009). A third customer accounted for 6% and 7%, respectively of total revenues in the quarter and nine months ended December 31, 2009 (6% and 4%, respectively, in the quarter and nine months ended December 31, 2008) and 16% of accounts receivable at December 31, 2009 (14% at March 31, 2009). A fourth customer accounted for 8% of revenues in the quarter ended December 31, 2009 and 17% of accounts receivable at December 31, 2009.

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**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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In order to minimize the risk of loss for trade receivables, the Company's extension of credit to customers involves review and approval by senior management as well as progress payments as contracts are executed. The Company's objective is to minimize its exposure to credit risk from customers in order to prevent losses on financial assets by performing regular monitoring of overdue balances. The Company also provides an allowance for potentially uncollectible accounts receivable.

While the Company has credit controls and processes for the purpose of mitigating credit risk, these controls cannot eliminate credit risk and there can be no assurance that these controls will continue to be effective, or that the Company's low credit loss experience will continue. Payment terms on most invoices range between 30 and 60 days.

The Company reviews its trade receivable accounts regularly and writes them down to their expected realizable values, by making an allowance for doubtful receivables, as soon as the account is determined not to be fully collectible, which is done based on management's evaluation of the situation on a customer by customer basis. The Company's assessment of outstanding receivables from customers is primarily based on the Company's assessment of the creditworthiness of the customer as well as historical trends and any available relevant information on the customers' liquidity. The allowance is charged against earnings and shortfalls in collections are applied against this provision.

The Company's trade receivables have a gross value of \$2.3 million as at December 31, 2009, representing the maximum exposure to credit risk of those financial assets, exclusive of the allowance for doubtful accounts. Normal credit terms for amounts due from customers call for payment within the range of 30 to 60 days. The amount of accounts receivable that is greater than 90 days past due that is not offset by deferred revenue or already reserved for is approximately \$0.1 million and \$0.2 million as of December 31, 2009 and March 31, 2009, respectively.

The Company's exposure to credit risk for trade receivables by geographic area as at December 31, 2009 was as follows:

Canada	\$ 862,179	38%
United States	1,425,782	62%
	<u>\$ 2,287,961</u>	<u>100%</u>

The activity of the allowance for doubtful accounts for the period is as follows:

	3 months ended December 31, 2009	3 months ended December 31, 2008	9 months ended December 31, 2009	9 months ended December 31, 2008
Balance at beginning of period	\$ 326,925	\$ 446,979	\$ 350,157	\$ 458,519
Bad debt expense (benefit)	(16,604)	7,407	-	7,407
Write-off of bad debts/allowance reversal	<u>(1,206)</u>	<u>(22,255)</u>	<u>(41,042)</u>	<u>(33,795)</u>
Balance at end of period	<u>\$ 309,115</u>	<u>\$ 432,131</u>	<u>\$ 309,115</u>	<u>\$ 432,131</u>

The Company may also have credit risk relating to cash and cash equivalents, which it manages by dealing with large chartered banks in Canada and the United States and investing in highly liquid investments. The Company's objective is to minimize its exposure to credit risk in order to prevent losses on financial assets by placing its investments in highly liquid investments such as money market funds. The Company's cash and cash equivalents carrying value is \$1,880,454, representing the maximum exposure to credit risk of these financial assets. Approximately 84% of the Company's cash and cash equivalents at December 31, 2009 were held by two financial institutions.

NIGHTINGALE INFORMATIX CORPORATION

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2009

The Company's exposure to credit risk relating to cash and cash equivalents, segmented by geographic area as at December 31, 2009 was as follows:

Canada	35%
United States	65%
	<u>100%</u>

Foreign currency risk

Foreign currency risk arises because of fluctuations in exchange rates. The Company conducts a significant portion of its business activities in US dollars. Portions of revenues and expenses were denominated in US dollars. The Company's financial assets and financial liabilities that are denominated in foreign currencies are affected by changes in the exchange rate between the Canadian dollar and the US dollar. As at December 31, 2009, monetary assets were \$2,700,237 and monetary liabilities were \$2,150,729, resulting in net monetary liabilities in the amount of \$549,508 denominated in US dollars.

If a shift in foreign exchange rates of 10% were to occur, the exchange gain or loss on the net financial assets could be plus or minus \$55,000 due to exchange rate fluctuations and this amount would be recorded in the consolidated statements of operations.

The Company's objective in managing its foreign currency risk is to minimize its net exposures to foreign currency cash flows by transacting with third parties in US dollars and Canadian dollars to the maximum extent possible and practical.

Interest rate risk

Interest rate risk arises because of the fluctuation in interest rates. The Company's objective in managing interest rate risk is to maximize the return on its cash and cash equivalents. The Company is subject to interest rate risk on its cash and cash equivalents and debt. If a shift in interest rates of 10% were to occur, the impact on cash and cash equivalents and short-term investments and the related net loss for the period could be plus or minus less than \$1,000.

Fair value

At December 31, 2009 the estimated fair values of cash and cash equivalents, accounts receivable and other receivables, and accounts payable and accrued liabilities approximate their respective carrying values due to their short-term nature.

At December 31, 2009 the fair value of the Company's subordinated debt is estimated to be equal to its carrying value.

Management of capital

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its growth strategy, fund research and development, and undertake selective acquisitions.

The Company's capital is composed of share capital and subordinated debt. The Company's primary uses of capital are to finance operating losses and increases in non-cash working capital and capital expenditures. The Company currently funds these requirements from cash raised through past share and debt issuances. The Company's objectives when managing capital are to ensure that the Company will continue to have enough liquidity so it can provide its services to its customers and returns to its shareholders.

The Company monitors its capital on the basis of the adequacy of its cash resources to fund its business plan. In order to maximize its access to working capital, the Company does not currently pay a dividend to holders of its common shares.

Pursuant to the Company's subordinated debt agreements, as amended in July 2009 (note 3), the Company is subject to certain covenants with respect to its balance sheet and financial performance.

NIGHTINGALE INFORMATIX CORPORATION**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2009****9. SEGMENT INFORMATION**

During the period ended December 31, 2009, the Company operated within a single operating segment across two geographic regions. Information with respect to these geographic areas is as follows:

	3 months ending December 31, 2009	3 months ending December 31, 2008	9 months ending December 31, 2009	9 months ending December 31, 2008
Revenue				
Canada	\$ 1,517,647	\$ 780,825	\$ 3,459,455	\$ 3,591,918
United States	<u>2,834,280</u>	<u>3,775,660</u>	<u>8,949,083</u>	<u>10,156,467</u>
	<u>\$ 4,351,927</u>	<u>\$ 4,556,485</u>	<u>\$12,408,538</u>	<u>\$ 13,748,385</u>
			As at December 31, 2009	As at March 31, 2009
Property and equipment and goodwill				
Canada			\$ 1,596,774	\$ 1,787,838
United States			<u>4,041,656</u>	<u>4,121,157</u>
			<u>\$ 5,638,430</u>	<u>\$ 5,908,995</u>

10. 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.