



NIGHTINGALE INFORMATIX CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

For the three and nine month interim periods ended December 31, 2009

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 25, 2010, should be read in conjunction with the Company's March 31, 2009 Audited Consolidated Annual Financial Statements and Notes as well as with the Company's Unaudited Consolidated Interim Financial Statements for the period ended December 31, 2009.

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MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2009

This MD&A provides an overview of significant developments that have affected Nightingale Informatix Corporation's ("Nightingale" or "the Company") performance during the three and nine month periods ended December 31, 2009.

The unaudited interim consolidated financial statements referred to in this MD&A have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Nightingale does however use Non-GAAP measures such as EBITDA herein (see section 4 Non-GAAP Measures).

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", as well as those specifically identified herein.

Cautionary Note Regarding Forward-Looking Statements

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; access to debt and equity financing and agreements with its Lenders; 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. All material assumptions used in making forward-looking statements are based on management's knowledge of current business conditions and expectations of future business conditions and trends, including their knowledge of the current sales trends, spending on healthcare and general economic conditions affecting Nightingale and the Canadian and US economies. Although Nightingale believes the assumptions used to make such statements are reasonable at this time and has attempted to identify in its continuous disclosure documents 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. Certain material factors or assumptions are applied by the Company in making forward-looking statements, including without limitation, factors and assumptions regarding Nightingale's continued ability to fund its business, rates of customer defaults, relationship with, and payments to its Lenders, acceptance of its products in the marketplace, as well as its operating cost structure and current and future trends in healthcare spending. Accordingly, readers should not place undue reliance on forward-looking statements. Nightingale does not undertake to

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update any forward-looking statements that are incorporated by reference herein, except in accordance with applicable securities laws.

Non-GAAP Measures

The Company internally measures its performance and results of initiatives through a number of measures that are not recognized under Canadian GAAP and may not be comparable to similar measures used by other companies. Measures such as 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 EBITDA and Recurring and Non-Recurring Revenue should not be construed as an alternative to total revenues or net loss as determined in accordance with GAAP (see section 4b under Non-GAAP Measures for more information).

1. OVERVIEW

Business Description

Established in 2002, Nightingale (TSX-V: NGH) is a recognized industry leader in Web-based clinician and community-based Electronic Medical Records (EMR). The Company's comprehensive suite of EMR, Electronic Health Records (EHR), integrated practice management, transcription and revenue cycle management products and services enable physicians at primary care practices, multi-physician outpatient clinics, hospitals, government and regional health organizations to automate business and clinical functions. Nightingale provides healthcare practitioners with the tools to effectively migrate from a paper-based environment to a secure digital platform, enhancing patient care, increasing revenue opportunities and optimizing operations.

Nightingale's Strategy

As an early entrant into the market with a unique EMR technology solution, Nightingale has established itself as a leading healthcare software and service provider in Canada, boasting contract wins with a key hospital, provincial and territory governments and a large-scale provincial government funding agency. Through a series of strategic acquisitions, the Company has positioned itself as an emerging player in the US healthcare industry. Nightingale has developed a North American footprint, developed a comprehensive suite of complementary healthcare software solutions and associated services and put the team in place to take advantage of the increasing opportunities within the Canadian and US healthcare market. To leverage the value Nightingale has created in the business, the Company is primarily focused on three organic growth objectives:

1. Increase the number of healthcare practitioners on the Nightingale platform

In Canada, Nightingale is targeting its sales and marketing activities in areas covered by provincial funding initiatives and other enterprise opportunities. In reaction to the incentive programs announced by the US government for adoption of EMR, the Company is working diligently towards certifying its US EMR product, and will continue to monitor certification requirements as they are announced. The Company also continues to work to build brand equity and establish regional beachheads and is building on its relationships with the intent to sell its suite of offerings to primary care practices, multi-physician outpatient clinics, hospitals, government and regional health organizations.

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2. Leverage the broad client base to cross-sell its products:

In addition to its technology, Nightingale's most valuable asset is its current client base of healthcare providers. This client base represents a material recurring revenue opportunity. The Company offers an extensive suite of healthcare service and software solutions to meet the varying needs of the healthcare practitioners on its technology platform. Nightingale is leveraging its ability to serve as an end-to-end solution provider to further penetrate its existing customer base. As Nightingale's healthcare practitioner base is comprised of physicians, specialists and other healthcare professionals, the Company views approximately 50% of its existing customers as addressable cross-sell opportunities.

3. Establish new revenue streams

Nightingale has worked to extend the reach of its healthcare technology solutions to meet the needs of patients. Nightingale has launched patient-centric product and service offerings throughout North America.

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 is derived from a variety of software and related service offerings. For its software solutions, Nightingale has typically charged an up-front software licence fee along with support and maintenance fees charged monthly, quarterly or annually. The Company also offers a utilization fee model which combines software license, hosting, support and maintenance fees in a single monthly fee. Implementation and training services are offered and are typically recognized 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. For both transcription and electronic transactions revenue is recognized as the services are provided.

Third Quarter and Year to Date Highlights

- The Company achieved its fourth consecutive quarter of positive EBITDA for the quarter ended December 31, 2009. This is the Company's fifth consecutive quarter of EBITDA improvement. EBITDA was a positive \$0.6 million for the quarter ended December 31, 2009 compared to \$0.2 million for the previous quarter and compared to negative EBITDA of \$0.03 million for the quarter ended December 31, 2008. EBITDA was a positive \$0.8 million for the nine months ended December 31, 2009 compared to a negative \$0.7 million for the nine months ended December 31, 2008.
- Revenues for the quarter ended December 31, 2009 were \$4.4 million compared to \$3.9 million for the previous quarter and compared to \$4.6 million for the quarter ended December 31, 2008. Revenues were \$12.4 million for the nine months ended December 31, 2009 compared to \$13.7 million for the nine months ended December 31, 2008. Recurring revenues decreased 17% in the quarterly year over year periods and decreased 5% in the nine month periods largely due to attrition in the transcription services business and the impact of the US dollar relative to the value

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of the Canadian dollar. Non-Recurring revenues increased 97% in the quarterly periods and decreased 27% in the nine month periods.

- The change in the value of the US dollar is estimated to have negatively impacted revenue over the fiscal quarter ended December 31, 2009 by approximately 9%, or \$0.4 million, versus the same quarter last fiscal year. Over the nine month periods, the change in the value of the US dollar is estimated to have positively impacted revenue by approximately 1%, or \$0.2 million, versus the same quarter last fiscal year.
- Loss and comprehensive loss decreased to \$0.3 million from \$0.9 million in quarter ended December 31, 2009 compared to the quarter ended December 31, 2008 and decreased to \$1.9 million from \$3.6 million for the nine months ended December 31, 2009 compared to the nine months ended December 31, 2008.
- Expenses for the quarter ended December 31, 2009 decreased \$0.6 million, or 18%, from the quarter ended December 31, 2008 and decreased \$2.6 million, or 24%, during the nine month periods.
- In July 2009, the Company amended its debt financing agreements and extended the term of its subordinated debt through July 2012.
- In October 2009, the Ontario Medical Association (OMA) announced to its physician members that it has successfully negotiated \$236 million in funding with the government of Ontario to advance the adoption of EMRs among practice-based family physicians and specialists in the province.
- The Company is in process of analyzing its transcription business as a result of the non-renewal of a large transcription customer contract.
- In December 2009, the Company entered into an exclusive licensing and distribution agreement with a third party that will offer health related services to Canadian patients, through doctors using EMRs in their practices. Using Nightingale's innovative patient-centric technology and secure web-based patient portal, physicians will be offered a patient services platform seamlessly integrated with Nightingale On Demand, the Company's EMR.

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

In \$ 000's (Except per Share Amounts)	Fiscal Year Ended March 31, 2007	Q4 Ended March 31, 2008	Fiscal Year Ended March 31, 2008	Q1 Ended June 30, 2008	Q2 Ended Sept 30, 2008	Q3 Ended Dec 31, 2008	Q4 Ended March 31, 2009	Fiscal Year Ended March 31, 2009	Q1 Ended June 30, 2009	Q2 Ended Sept 30, 2009	Q3 Ended Dec 31, 2009
Recurring Revenue	\$ 9,828	\$ 3,247	\$ 13,088	\$ 3,309	\$ 3,431	\$ 4,045	\$ 3,746	\$ 14,531	\$ 3,564	\$ 3,341	\$ 3,342
Non-Recurring Revenue	4,186	931	5,788	1,637	815	511	971	3,934	566	585	1,010
Revenue	14,014	4,178	18,876	4,946	4,246	4,556	4,717	18,465	4,130	3,926	4,352
Gross Profit	9,589	2,979	13,706	3,669	3,164	3,272	3,305	13,410	2,937	2,818	3,314
Expenses	14,856	4,739	19,957	4,561	4,275	4,022	3,962	16,820	3,508	3,327	3,384
EBITDA Loss (non-GAAP measure)	(3,841)	(1,188)	(3,526)	(236)	(458)	(34)	9	(719)	22	181	593
Operating Loss for the Period	(5,267)	(1,761)	(6,250)	(892)	(1,112)	(750)	(656)	(3,410)	(571)	(508)	(71)
Loss and Comprehensive Loss	(5,713)	(6,273)	(12,811)	(1,260)	(1,492)	(876)	(1,004)	(4,632)	(844)	(726)	(350)
Loss and Comprehensive Loss per Common Share	\$ (0.14)	\$ (0.09)	\$ (0.19)	\$ (0.20)	\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ (0.07)	\$ (0.01)	\$ (0.01)	\$ (0.00)
Weighted Avg. # of Common Shares	40,120	67,460	66,228	67,479	67,479	67,667	67,845	67,845	69,322	70,535	70,535
Total Assets	\$ 17,531	\$ 23,992	\$ 23,992	\$ 21,807	\$ 20,308	\$ 20,078	\$ 17,906	\$ 17,906	\$ 16,413	\$ 15,170	\$ 14,714
Total Long Term Liabilities	\$ 2,014	\$ 6,948	\$ 6,948	\$ 6,366	\$ 6,251	\$ 6,234	\$ 6,517	\$ 6,517	\$ 6,309	\$ 5,751	\$ 6,285

THIRD QUARTER AND YEAR-TO-DATE FISCAL 2010 RESULTS OF OPERATIONS COMPARED TO THIRD QUARTER AND YEAR-TO-DATE RESULTS OF FISCAL 2009

Revenue: For the three and nine months ended December 31, 2009, revenue was \$4.4 and 12.4 million, respectively. This compares to \$4.6 and \$13.7 million for the previous three month and nine months ended December 31, 2008, representing a 4% and a 10% decrease over these respective periods. The decrease over the three month period was due largely to attrition in the transcription services business, which was partially offset by an increase in software license revenue related to the Company's licensing of its online patient portal application. In the nine month periods ended December 31, 2009, the decrease

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was primarily related to a decrease in software revenues as the Company recognized \$1 million of license revenue related to a Canadian government agency in the quarter ended June 30, 2008. Revenues were also negatively affected during the periods by the delay of EMR buying decisions in anticipation of government funding announcements. The Ontario government announced a \$235 million subsidy program on October 29, 2009.

Recurring Revenue (see definition in section 4.b under Non-GAAP Measures) is comprised of utilization fees, hosting, support and maintenance revenue, data management and transcription services, billing and financial management services and transactional fees.

Recurring Revenue for the three and nine month periods ended December 31, 2009 was \$3.3 million and \$10.2 million, respectively. This compares to \$4 million and \$10.8 million for the same periods ended December 31, 2008, representing decreases of 17% and 5%, respectively. In both cases, the decrease in Recurring Revenue was largely the result of attrition in the data management and transcription services business. The decrease in lower margin transcription revenues is expected to continue into future periods at an increased rate as a large customer has elected not to renew their contract that expired in December 2009. The Company is currently evaluating its transcription business. The decline in Recurring Revenue for the three month period ended December 31, 2009 can further be attributed to the decrease in the value of the Canadian dollar versus the US dollar; with the average rate having decreased by 13% over the respective quarters.

Non-Recurring Revenue (see definition in section 4.b under Non-GAAP Measures) 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, 2009 was \$1 million and \$2.2 million, respectively. This compares to \$0.5 million and \$3 million for the three and nine months ended December 31, 2008, representing a 97% increase and a 27% decrease over these respective periods. The increase in Non-Recurring Revenue over the three month periods ended December 31, 2009 is primarily the result of the Company's licensing of its online patient portal software in December 2009 as well as an increase in revenues from custom development projects. The decrease in Non-Recurring Revenue over the nine month periods ended December 31, 2009 is primarily the result of a decrease in software revenue, as the Company recognized \$1 million of license revenue related to a Canadian government agency in the quarter ended June 30, 2008.

Over the three months ended December 31, 2009, the Company generated 65% of revenue from the US market. With the decrease in the value of the US dollar relative to the Canadian dollar, during the three month periods (from the average rate of 1.21 in the three months ended December 31, 2008 to the average rate 1.06 for the three months ended December 31, 2009), the Company estimates that revenue was negatively impacted by approximately 9% or \$0.4 million for the three month period compared to the same period of the previous year. With the increase in the value of the US dollar relative to the Canadian dollar, during the nine month period (from 1.11 in the nine months ended December 31, 2008 to 1.09 for the nine months ended December 31, 2009), the Company estimates that revenue was positively impacted by approximately 1% or \$0.2 million for the nine month period ended December 31, 2009, compared to the same period of the previous year.

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Gross Profit: For the three and nine month periods ended December 31, 2009, gross profit was \$3.3 million, or 76% of revenue and \$9.1 million, or 73% revenue, comparable to \$3.3 million, or 72% of revenue and \$10.1 million, with gross profit margin of 73% for the prior year periods.

Expenses: Expenses for the three and nine month periods ended December 31, 2009, were \$2.7 million and \$8.3 million. This compares to \$3.3 million and \$10.8 million for the three and nine month periods ended December 31, 2008, representing an 18% and 24% decrease over the respective periods. This decrease in expense was the result of the Company's strategic plan to improve profitability and the implementation of several cost reduction measures throughout fiscal year 2009. Although the Company is focused on prudent expense management as it seeks to achieve profitability, the Company may continue to make select investments, and increase its current investments, in support of revenue generating activities.

Over the three months ended December 2009, approximately 44% of the Company's expenses were incurred in the US, providing the Company with a natural hedge position that has offset some of the effects on revenue of the fluctuations in the value of the US dollar. The Company estimates that expenses were positively impacted by approximately 6% or \$0.2 million over the three months versus the same period during the previous fiscal year and negatively impacted by approximately 1%, or \$0.1 million, for the nine month period, compared to the same period in the previous year.

General and administration expenses for the three months and nine months ended December 31, 2009, were \$0.8 and \$2.1 million. This compares to \$0.8 and \$2.5 million for the three and nine months ended December 31, 2008, representing a \$0.05 million or 6% and \$0.4 million, or 14% decrease over the respective periods. For the three month period ended December 31, 2009, the decrease in general and administration costs reflects primarily the decrease in the value of the Canadian dollar relative to the US dollar versus the same quarter last fiscal year. For the nine month period ended December 31, 2009, the decrease in general and administration primarily reflects certain adjustments to reserve balances as well as lower legal, accounting and consulting fees.

Sales and marketing expenses for the three and nine months ended December 31, 2009, were \$0.4 and \$1.1 million. This compares to \$0.6 and \$2 million for the three and nine months ended December 31, 2008, representing a \$0.3 million or 43% and \$0.9 million or 45% decrease over the respective periods. This decrease in expense was the result of lower sales costs in the US versus fiscal 2009 as well as a decrease in costs associated with marketing and third party public relations activities.

Research and development expenses for the three and nine months ended December 31, 2009, were \$0.7 and \$2.1 million. This compares to \$0.8 and \$2.8 million for the three and nine months ended December 31, 2008, representing a \$0.08 million or 10% decrease and a \$0.6 million, or 23% decrease over the respective periods. The decrease in research and development can be primarily attributed to the Company's cost reduction efforts, including a reduction in spending on contract labour as development projects were prioritized and brought in house. The decrease in expense was also partially affected by the Company's participation in a Canadian research assistance program whereby the Company is being reimbursed for certain research and development activities in support of the Company's US EMR product. These reimbursements of costs incurred are classified as a reduction to the Company's operating expenses. The Company expects that the level of reimbursement in future periods may vary based on the level of effort in support of this project.

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Client services expenses for the three and nine month periods ended December 31, 2009, were \$0.9 and \$2.9 million. This compares to \$1.1 and \$3.6 million for the three and nine month periods ended December 31, 2008, representing a \$0.2 million, or 17%, decrease and \$0.7 million, or 19%, decrease over the respective periods. This decrease is primarily attributable to the Company's continued integration and cost management efforts with respect to staffing and consulting costs.

Stock-based compensation for the three and nine months ended December 31, 2009, was \$ 0.03 and \$0.2 million. This compares to \$0.03 million and \$0.09 million for three and nine months ended December 31, 2008. The increase in stock-based compensation in the nine month period can be attributed largely to new options granted in the quarter ended September 30, 2009.

Depreciation and amortization for the three and nine months ended December 31, 2009, was \$0.6 million and \$1.8 million. This compares to \$0.7 and \$1.9 million for the three and nine months ended December 31, 2008.

EBITDA (non-GAAP measure, see note 4.a for a definition and a reconciliation of EBITDA to Revenue and Losses from Continuing Operations, respectively): EBITDA for the three and nine month periods ended December 31, 2009, was \$0.6 million and \$0.8 million, respectively. This compares to EBITDA losses of \$0.03 million and \$0.7 million, for the three and nine month periods ended December 31, 2008. This improvement in EBITDA is primarily a reflection of the Company's cost reduction initiatives, which have been partially offset by a decrease in Recurring Revenue. In the three months ended December 31, 2009, EBITDA also increased due to an increase in Non-Recurring Revenue and was partially offset by the decline of the Canadian dollar relative to the US dollar. In the nine months ended December 31, 2009, EBITDA was also offset by a decrease in Non-Recurring Revenue.

Operating Loss: For three months and nine months ended December 31, 2009, operating loss was \$0.1 million and \$1.1 million, respectively. This compares to operating losses of \$0.7 million and \$2.8 million, for the three and nine months ended December 31, 2008. The improvement in operating loss can be primarily attributed to an improvement in EBITDA.

Interest and Other Income/ Loss: Interest charges for the three and nine months ended December 31, 2009 were \$0.3 and \$0.8 million. This compares to \$0.3 and \$1 million for the three and nine months ended December 31, 2008. This decrease over last fiscal year is largely a result of reduced interest associated with the repayment of subordinated debt of \$0.5 million in September 2008 and \$0.25 million in November 2008.

Included in other income/loss are foreign currency adjustments related to monetary translations and taxes. For the three months and nine months ended December 31, 2009, other income was \$0.03 million and other loss was \$0.05 million. This compares to other loss of \$0.2 million and \$0.2 million for the three and nine months ended December 31, 2008.

Loss and Comprehensive Loss: For the three and nine month periods ended December 31, 2009, loss and comprehensive loss was \$0.3 million and \$1.9 million, respectively. This compares to loss and comprehensive of \$0.9 million and \$3.6 million for the three and nine month periods ended December 31, 2008. The improvement in loss and comprehensive loss in the respective periods can be primarily attributed to cost reductions initiatives and was partially offset by a decrease in Recurring Revenue. Over the three month period ended December 31, 2009, loss and comprehensive loss was positively impacted

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by the increase in Non-Recurring Revenue and negatively impacted by the decrease in the Canadian dollar versus the US dollar. Going forward, the Company's financial results will continue to be impacted by changes in the rate of exchange between the US Dollar and the Canadian Dollar. Over the nine month period loss and comprehensive loss was negatively impacted by the decrease in Non-Recurring Revenue.

THIRD QUARTER FISCAL 2010 RESULTS OF OPERATIONS COMPARED TO SECOND QUARTER FISCAL 2010

Revenue: For the three months ended December 31, 2009, revenue was \$4.4 million. This compares to \$3.9 million for the three months ended September 30, 2009, representing an 11% increase over these respective periods. This increase was due primarily to an increase in Non-Recurring Revenue.

Recurring Revenue (see definition in section 4.b under Non-GAAP Measures) is comprised of utilization fees, hosting, support and maintenance revenue, data management and transcription services, billing and financial management services and transactional fees.

Recurring Revenue for the three months ended December 31, 2009 was \$3.3 million compared to \$3.3 million for the three months ended September 30, 2009. A decrease in transcription revenues was offset by an increase in revenues from software maintenance contracts during these consecutive quarterly periods.

Non-Recurring Revenue (see definition in section 4.b under Non-GAAP Measures) 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 months ended December 31, 2009 was \$1 million compared to \$0.6 million the three months ended September 30, 2009, representing a 73% increase these periods. The increase in Non-Recurring Revenue periods is primarily a result of higher software revenue associated with the licensing of the Company's online patient portal application during the quarter.

Over the three months ended December 31, 2009, the Company generated 65% of revenue from the US market. With the recent increase in the value of the US dollar relative to the Canadian dollar (from the average rate of 1.1 in the quarter ended September 30, 2009 to 1.06 for the quarter ended December 31, 2009), the Company estimates that revenue was negatively impacted by approximately 2%, or \$0.1 million, during the current three months compared to the previous quarter.

Gross Profit: For the three months ended December 31, 2009, gross profit was \$3.3 million, or 76% of revenue (gross profit margin), compared to \$2.8 million, with gross profit margin of 72% for the previous quarterly period. The increase in gross profit can be attributed to an increased proportion of higher margin software sales and a decreased proportion of lower margin data management and transcription revenue.

Expenses: Expenses for the three months ended December 31, 2009, were \$3.4 million compared to \$3.3 million for the three months ended September 30, 2009, representing a 2% decrease over these periods. This slight decrease was the result of an increase in legal and professional fee costs which was partially offset by a decrease in costs in several categories.

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Nightingale's expenses are affected by changes in the US dollar exchange rate, with approximately 44% of the Company's expenses during the three months ended December 31, 2009 generated in the US, providing the Company with a natural hedge position that has offset some of the effects on revenue of the fluctuations in value of the US dollar. The Company estimates that expenses were positively impacted by approximately 2% or \$0.05 million over the three months versus the previous quarter.

General and administration expenses for the three months ended December 31, 2009, were \$0.8 million. This compares to \$0.6 million for the three months ended September 30, 2009, representing a \$0.2 million, or 24%, increase over the periods. The increase in general and administration reflects increases in legal and accounting costs incurred in the quarter versus the previous quarter.

Sales and marketing expenses for the three months ended December 31, 2009, were \$0.4 million. This compares to \$0.3 for the three months ended September 30, 2009, representing a 13% increase over the periods. This increase was primarily related to increased advertising and promotion activities in the quarter.

Research and development expenses for the three months ended December 31, 2009, were \$0.7 million. This compares to \$0.7 million for the three months ended September 30, 2009, representing a 1% decrease over the periods. The Company is currently participating in a Canadian research assistance program whereby the Company is being reimbursed for certain research and development activities in support of the Company's US EMR product. These reimbursements of costs incurred are classified as a reduction to the Company's operating expenses.

Client services expenses for the three months ended December 31, 2009, were \$0.9 million. This compares to \$1 million for the three months ended September 30, 2009, representing a 10% decrease over the periods. This decrease is primarily attributable to the Company's continued integration and cost management efforts.

Stock-based compensation for the three months ended December 31, 2009, was \$ 0.03 million. This compares to \$0.14 million for the three months ended September 30, 2009.

Depreciation and amortization for the three months ended December 31, 2009, was \$0.6 million. This compares to \$0.6 million for the three months ended September 30, 2009.

EBITDA (non-GAAP measure, see note 4.a for a definition): EBITDA for the three months ended December 31, 2009, was \$0.6 million compared to EBITDA of \$0.2 million for the three months ended September 30, 2009. This improvement in EBITDA is primarily a reflection of an increase in Non-Recurring Revenue versus the previous period.

Operating Loss: For three months ended December 31, 2009, operating loss was \$0.1 million compared to operating loss of \$0.5 million for the three months ended September 30, 2009. The improvement in operating loss can be primarily attributed to an improvement in EBITDA and lower stock based compensation incurred during the quarter.

Interest and Other Income/ Loss: Interest charges for the three months ended December 31, 2009 were \$0.3 million. This compares to \$0.3 million for the three months ended September 30, 2009. This decrease over last fiscal year is largely a result of reduced interest associated with the repayment of \$6

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million on the subordinated debt in March 2008 as well as a \$0.5 million repayment in September 2008 and \$0.25 million repayment in November 2008.

Included in other income/loss are foreign currency adjustments related to monetary translations. For the three months ended December 31, 2009, other loss was \$0.03 million compared to other income of \$0.03 million for the three months ended September 30, 2009.

Loss and Comprehensive Loss: For the three months ended December 31, 2009, loss and comprehensive loss was \$0.3 million compared to loss and comprehensive loss of \$0.7 million for the three months ended September 30, 2009. The improvement in loss and comprehensive loss in the respective periods can be primarily attributed to an increase in Non-Recurring Revenue as well as lower stock based compensation incurred in the quarter, which have been partially offset by a decrease in Recurring Revenue.

3. LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents on December 31, 2009 were \$1.9 million.

Cash Flow from Operating Activities: Cash used in operating activities in the quarter ended December 31, 2009 was \$0.4 million, compared to \$0.7 million for the fiscal period ended December 31, 2008. The most significant adjustments of net income to cash flow used in operations included an increase in accounts receivable of \$0.5 million and a decrease in accounts payable of \$0.3 million

Cash Flow from Investing Activities: During the three months ended December 31, 2009, cash used in investing activities consisted of purchases of property and equipment and totalled \$0.01 million, versus cash flow used investing activities of \$0.1 million during the same period last fiscal year.

Cash Flow from Financing Activities: Cash used in financing activities for the three months ended December 31, 2009 totalled \$0.1 million, representing repayment of capital lease obligations. This compares to cash flow used in financing activities of \$0.1 million, related primarily to borrowing under line of credit of \$0.5 million, repayment of subordinated debt financing of \$0.5 million and repayment of capital lease obligations of \$0.8 million during the same three month period ended December 31, 2008.

At December 31, 2009, the Company had \$1.9 million of cash and cash equivalents, negative working capital of \$2.2 million (including current deferred revenue of \$3.4 million) and used \$1.3 million of cash in its operations for the nine months ended December 31, 2009. The Company is also required to adhere to certain financial covenants in connection with its subordinated debt agreements. Although the Company has obtained waivers for breach of financial covenants in the past; there can be no assurances that such waivers would be granted in the event of any future violation of covenants and the Company's ability to repay the debt in such as case would be limited. In order for the Company to achieve and sustain positive operating cash flow, working capital or profitability and in order to meet its financial covenants, the Company will need to continue to generate and increase revenues from non-recurring sources, protect its recurring revenues and capital resources and may need to make additional changes to its cost structure and operating plan.

In the quarter ended September 2008, the Company experienced a breach of a financial covenant under the loan agreement with Wellington Financial LP and Export Development Canada, a Limited Partner in

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Wellington Financial Fund III (the "Lenders). The Company received a waiver of the breach from the Lenders and certain covenants and other terms of the subordinated debt agreement were amended.

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 and cancel the 7,994,186 warrants held by such Lenders and settle \$230,000 of other liabilities owed to the Lenders. The issuance of shares and cancelation of warrants was approved by the TSX Venture Exchange (the "TSXV"). 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 become due and payable. Certain terms and covenants were also amended in July 2009 and the Company issued 4,233,870 warrants to the Lenders each warrant being exercisable for one common share of the Company at a strike price of \$0.31 per share and with an expiration date of July 29, 2012. The issuance of the warrants to the Lenders was approved by the TSXV in August 2009.

It should also be noted that to date, Nightingale has not generated significant or consistent positive cash flow from operating activities and the Company remains dependent on new sales to minimize its use of cash. It is expected that the Company's utilization model, which does not generally require a large upfront payment, will be favoured in future periods and to the extent that this is true, the Company may experience a decrease in up-front cash from new sales. The Company may seek to raise additional funds for working capital purposes and capital expenditures. Based on its historical financial performance and the current condition of the credit markets, financing may not be available on terms acceptable to the Company or at all. If adequate funds are not available on acceptable terms, the Company's ability to fund operations, make investments or take advantage of opportunities could be limited without an increase in sales. The impact of expenditures for investments in the Company's infrastructure or capital equipment on cash resources will be minimized by attempting to align spending with the availability of third party equipment financing.

The Company believes that its current business plan provides for these factors although the Company is currently analyzing the impact of the changes to its transcription business, including the non-renewal of a large customer, the Company believes that its cash and cash equivalents will be sufficient to meet the Company's cash flow needs for the foreseeable future. Despite the Company's financial management efforts; however, there can be no assurance that the Company's plans will succeed or that the Company will be able to comply with its financial covenants. Although the Company has obtained waivers for breach of financial covenants in the past; there can be no assurances that such waivers would be granted in the event of any future violation of covenants and the Company's ability to repay the debt in such a case would be limited. At December 31, 2009, the Company was in compliance with all financial covenants.

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. EBITDA

The Company has included an 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,

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however, that EBITDA should not be construed as an alternative to net earnings as determined in accordance with GAAP. The Company's method of calculating 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.

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

The following provides a reconciliation of EBITDA to Loss and Comprehensive Loss from Continuing Operations:

Definition	Fiscal Quarter Ended December 31, 2009	Fiscal Quarter Ended December 31, 2008	Nine Months Ended December 31, 2009	Nine Months Ended December 31, 2008
Loss and Comprehensive Loss	\$ (350)	\$ (876)	\$ (1,920)	\$ (3,628)
<i>Adjustments for:</i>				
Other Loss (Income)	28	(202)	(50)	(174)
Interest	251	328	820	1,049
Depreciation and Amortization	630	690	1,751	1,935
Stock-based Compensation	34	26	195	91
EBITDA	\$ 593	\$ (34)	\$ 796	\$ (727)

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.

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

Definition	Fiscal Quarter Ended December 31, 2009	Fiscal Quarter Ended December 31, 2008	Nine Months Ended December 31, 2009	Nine Months Ended December 31, 2008
Non-Recurring Revenue	\$ 1,010	\$ 512	\$ 2,163	\$ 2,965
Recurring Revenue	3,342	4,045	10,246	10,783
Revenue	\$ 4,352	\$ 4,557	\$ 12,409	\$ 13,748

5. TRANSACTIONS WITH RELATED PARTIES

At December 31, 2009 the Company had a deferred compensation balance of \$82,366 payable to an officer and director of the Company. The balance is payable on demand and is included in accounts payable and accrued liabilities at December 31, 2009.

6. 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 has 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.

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

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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 has begun the process of evaluating the impact of the change to IFRS on the Company's financial statements. During 2009, the Company completed a diagnostic evaluation of all financial statement elements that would be affected by the implementation of IFRS and in 2010, the Company developed a work plan to encompass all elements of this critical project. The financial statement elements that will be affected the most by the implementation of IFRS include revenue recognition, foreign currency, income taxes and stock-based compensation. Although the Company has not yet quantified the impact that adoption of IFRS will have on its financial statements, the Company has a work plan and processes in place to complete this analysis.

The impact of the implementation of IFRS on the Company's information systems, internal controls over financial reporting, disclosure controls and procedures or business activities such as capital requirements or compensation arrangements has not been determined at this time.

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The Company plans to complete the assessment of the impact of IFRS on the above-noted items and implement such changes as may be required to ensure that IFRS reporting is fully implemented in the Company's operations by the end of the fiscal year ending March 31, 2011.

7. RISKS AND UNCERTAINTIES

Readers are encouraged to read the section entitled "Risks and Uncertainties" in the Company's Management's Discussion and Analysis for the Year Ended March 31, 2009 for a discussion of the factors that could affect the Company's future performance.

8. DISCLOSURE OF OUTSTANDING SHARE DATA

	Authorized	Issued as at December 31, 2009
Common Shares, Voting	Unlimited	70,534,543 ⁽¹⁾
Preferred Shares	Unlimited	-
Stock Options – Issued and Outstanding		4,983,194
Warrants – Issued and Outstanding		4,233,870 ⁽²⁾

⁽¹⁾ Includes 1,666,667 common shares issued upon the purchase of HealthNet that are subject to a performance escrow period ending in fiscal 2010. In addition, 94,008 restricted shares to an officer of VantageMed remain 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.

⁽²⁾ In July 2009, the Company extended the term of its debt facility with the Lenders through July 2012 and in connection with this amendment, issued 4,233,870 warrants to the Lenders each warrant being exercisable for one common share of the Company at with a strike price of \$0.31 per share and with an expiration date of July 29, 2012. The issuance of the warrants to the Lenders received TSXV approval in August 2009.

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9. OUTLOOK

See "Cautionary Note Regarding Forward-Looking Statements"

Nightingale entered fiscal 2010 focused on continued improvements to its financial performance, striving to achieve consistently positive cash flow and positive EBITDA. EBITDA has improved significantly from a loss of \$0.7 million for the nine months ended December 31, 2008 to a positive \$0.8 million for the nine months ended December 31, 2009.

The recent EMR funding announcements in Ontario have led to a significant increase in the level of inquiries and sales activities related to the Company's ASP certified EMR and an increase in the Company's sales pipeline. Organic revenue growth is an important objective for the Company in the coming quarters and as such, the Company has made recent measured investments in sales and marketing and other areas to support its revenue growth initiatives. The Company also believes that any growth in the EMR business may be tempered by the attrition experienced in its lower margin, commodity like transcription business in the short term. The US government stimulus and EMR adoption incentives are increasing the level of interest in EMRs in the US. The Company is focused on its product development efforts and its selling and distribution plans for the US market and believes that there is a longer term, significant opportunity available in the US market.

Nightingale's growing sales pipeline, coupled with its existing base of healthcare practitioners and patient records, positions the Company well to capitalize on these opportunities.

10. ADDITIONAL INFORMATION

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