



## **NIGHTINGALE INFORMATIX CORPORATION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the three month period ended June 30, 2010**

*Management's Discussion and Analysis (MD&A) supplements, but does not form part of the consolidated financial statements and notes of Nightingale Informatix Corporation ("Nightingale" or the "Company") for the period.*

*This MD&A, prepared as of August 26, 2010, should be read in conjunction with the Company's March 31, 2010 Audited Consolidated Annual Financial Statements and Notes as well as with the Company's Unaudited Consolidated Interim Financial Statements for the period ended June 30, 2010.*

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*This MD&A provides an overview of significant developments that have affected Nightingale Informatix Corporation's ("Nightingale" or "the Company") performance during the three-month period ended June 30, 2010.*

*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 or 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 need to raise additional funding. 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, acceptance of its products in the marketplace, as well as its operating cost structure, current and future trends in healthcare spending and Nightingale's continued ability to fund its business, rates of customer defaults, and relationships with, and payments to, lenders. 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.*

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#### 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 4 under Non-GAAP Measures for more information).*

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### 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 Electronic Medical Record (EMR) technology solution, Nightingale has established itself as a leading healthcare software and service provider in Canada signing key contracts with hospitals, regional groups and provincial governments. Through a series of strategic acquisitions in 2006 and 2007, the Company positioned itself as an emerging player in the US healthcare industry and in recent years has implemented its hosted web-based US EMR product and related services at a number of its US clinics. With its North American footprint, suite of complementary healthcare software solutions and associated services, Nightingale believes that it is well positioned to capture the increasing opportunities within the Canadian and US healthcare markets. 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 at areas covered by provincial funding initiatives, such as Ontario, where Nightingale is one of only three vendors offering a funding approved web-based EMR solution. Given the Company's sizeable Canadian customer base, Nightingale's regionally focused direct sales force works to leverage the Company's track record in the enterprise and small business markets to further increase Nightingale's market share. The Company uses mass marketing, public relations and its position as a thought leader in the EMR industry to build brand equity and market awareness.

In the US, the Company is completing its EMR product development to meet the new certification and meaningful use criteria that were finalized in June 2010. The Company will continue to await the US government's selection of EMR certifying bodies and plans to be among the first certified EMRs in the US market. The Company is also working to increase its penetration of the US EMR market and is focused on its selling and distribution plans for the US market.

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

Nightingale offers an extensive suite of healthcare service and software solutions to meet the varying needs of healthcare practitioners. The Company's customer base is comprised of North American hospitals, clinics and physicians using various combinations of its licence or web-based EMR, Practice Management and Revenue Cycle Management products. Nightingale is working to leverage its ability to serve as an end-to-end solution provider to further penetrate its existing customer base and grow its recurring revenue base over the long term.

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#### *3. Establish new revenue streams*

Nightingale is working to extend the reach of its healthcare technology solutions, in particular with offerings designed to meet the needs of patients. In fiscal 2010, the Company established an exclusive license and distribution relationship with Canadian Patient Access to launch an online patient portal to the Canadian market. The portal will provide patients with online access to their physician and clinic administrators to schedule appointments; access medical files and laboratory results; request prescription refills and eConsults; and receive medication and appointment reminders. Nightingale is committed to continuing to evolve its healthcare technology platform, priding itself on the technology leadership of its current product suite.

#### ***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 typically charges 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. The Company believes that the utilization model could become more prevalent as it is an attractive alternative for customers participating in government funding programs or for customers that are interested in limiting their upfront cash investment. Implementation and training services are offered under both models 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.

#### ***First Quarter 2011 Highlights***

- Revenues increased to \$4.4 million, compared to \$4.1 million in the year ago quarter. The revenue growth is attributed to an increase in software licensing revenues of \$1 million, which was partially offset by a \$0.5 million decrease in transcription revenue and negative foreign exchange impact of approximately \$0.3 million.
- Gross profit margin reached a record high in the Company's recent history at 80%, up from 71% in the year ago quarter, as a result of the Company's increased focus on generating high-margin software revenue.
- Achieved its sixth consecutive quarter of positive EBITDA. The trend of EBITDA improvement also reached a record high as it increased to \$0.6 million, compared to \$23,000 for the year ago quarter, primarily as a result of increased revenues and gross profit.
- The Company achieved a net profit before tax of \$8,000 compared to a net loss before tax of \$0.08 million in the year ago quarter.
- Net loss was \$9,000 compared to a net loss of \$0.8 million for the year ago quarter.
- The Company completed a private placement of common shares and subscription receipts, as well as revolving and term debt financings for aggregate gross proceeds of \$6.3 million. A total of \$2.1

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million, or 63%, of the proceeds from the private placement of common shares and subscription receipts came from Directors, Officers and other insiders. Subsequent to quarter end, the Company used the proceeds to complete a comprehensive debt refinancing, which the Company expects will result in reduced interest expense, starting in the second quarter of fiscal 2011, and increased overall financial flexibility.

#### *First Quarter 2011 Operational Highlights*

- The Company signed agreements with healthcare providers across Canada, representing the deployment of more than 200 EMR seats.
- Achieved Approved Vendor status as part of the Province of Saskatchewan's EMR program, which is jointly funded through the Saskatchewan Medical Association (SMA) and the Saskatchewan Ministry of Health.
- Subsequent to quarter end, signed a five-year EMR and practice management agreement with the AIM Health Group to support more than 150 healthcare professionals across Canada, who conduct more than 1.5 million patient visits per year.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") FOR THE THREE MONTH PERIOD ENDED JUNE 30, 2010

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

In \$ 000's (Except per Share Amounts)	Fiscal Year Ended	Q2 Ended	Q3 Ended	Q4 Ended	Fiscal Year Ended	Q1 Ended	Q2 Ended	Q3 Ended	Q4 Ended	Fiscal Year Ended	Q1 Ended
	March 31, 2008	Sept 30, 2008	Dec 31, 2008	March 31, 2009	March 31, 2009	June 30, 2009	Sept 30, 2009	Dec 31, 2009	March 31, 2010	March 31, 2010	June 30, 2010
Recurring Revenue	\$13,088	\$ 3,431	\$ 4,045	\$ 3,746	\$14,531	\$ 3,564	\$ 3,341	\$ 3,342	\$ 2,849	\$ 13,096	\$2,843
Non-Recurring Revenue	5,788	815	511	971	3,934	566	585	1,010	1,324	3,485	1,559
Revenue	18,876	4,246	4,556	4,717	18,465	4,130	3,926	4,352	4,173	16,581	4,401
Gross Profit	13,706	3,164	3,272	3,305	13,410	2,937	2,818	3,314	3,169	12,238	3,533
Expenses	19,957	4,275	4,022	3,962	16,820	3,508	3,327	3,384	3,474	13,693	3,360
EBITDA Income (Loss)	(3,526)	(458)	(34)	9	(719)	24	180	593	406	1,203	616
Operating Gain / (Loss) for the Period	(6,250)	(1,112)	(750)	(656)	(3,410)	(570)	(509)	(70)	(306)	(1,455)	173
Loss and Comprehensive Loss	(12,811)	(1,492)	(876)	(1,004)	(4,632)	(843)	(727)	(350)	(1,524)	(3,444)	(9)
Loss and Comprehensive Loss per Common Share	\$(0.19)	\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ (0.07)	\$ (0.01)	\$ (0.01)	\$ (0.00)	\$ (0.02)	\$ (0.05)	\$(0.00)
Weighted Avg. # of Common Shares	66,228	67,479	67,667	67,845	67,845	69,322	70,535	70,535	70,535	70,232	72,809
Total Assets	\$23,992	\$ 20,308	\$ 20,078	\$ 17,906	\$17,906	\$16,413	\$15,170	\$14,714	\$ 14,651	\$ 14,651	\$16,867
Total Long Term Liabilities	\$ 6,948	\$ 6,251	\$ 6,234	\$ 6,517	\$ 6,517	\$ 6,309	\$ 5,751	\$ 6,285	\$ 7,212	\$ 7,212	\$7,229

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#### FIRST QUARTER FISCAL 2011 RESULTS OF OPERATIONS COMPARED TO FIRST QUARTER FISCAL 2010

**Revenue:** For the three months ended June 30, 2010, revenue was \$4.4 million. This compares to \$4.1 million for the three months ended June 30, 2009, representing a 7% increase. This increase was due primarily the result of a \$1 million increase in revenues from software licensing which was partially offset by a \$0.4 million decrease in revenues from lower-margin transcription revenue as well as a \$0.3 million negative foreign exchange impact, which predominantly affects the Company's recurring revenue results.

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

Recurring Revenue for the three months ended June 30, 2010 was \$2.8 million. This compares to \$3.6 million for the three months ended June 30, 2009, representing a 20% decrease over these respective periods. The decrease in Recurring Revenue is primarily the result of a reduction in transcription revenue and a negative impact due to foreign exchange. Transcription revenue decreased to \$0.08 million from \$0.5 million in the year ago quarter. The Company believes that revenues from higher margin software licensing will offset the loss of transcription revenue over the longer term.

Recurring revenue generated by Nightingale's core business (which excludes the Company's transcription revenues and the impact of foreign exchange) was \$3.1 million, up from \$3 million in the year ago quarter.

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 June 30, 2010 was \$1.6 million compared to \$0.6 million for the three months ended June 30, 2009, representing a 175% increase. The improvement in Non-Recurring Revenue is primarily due to an increase in license revenue associated with sales of the Company's Nightingale on Demand EMR product.

During the three months ended June 30, 2010, the Company generated 53% of its revenue from the US market. With the decrease in the value of the US dollar relative to the Canadian dollar, the Company estimates that revenue was negatively impacted by approximately 7%, or \$0.3 million, compared to the year ago quarter.

**Gross Profit:** For the three months ended June 30, 2010, gross profit was \$3.5 million, or 80% of revenue (gross profit margin), compared to \$2.9 million, with gross profit margin of 71% for the same quarter last fiscal year. This improvement reflects a greater proportion of higher margin sales in the fiscal quarter compared to the previous quarter.

**Expenses:** Expenses for the three months ended June 30, 2010, were \$3.4 million compared to \$3.5 million for the three months ended June 30, 2009, representing a 4% decrease. This decrease in expenses is primarily the result of a decrease in amortization expense associated with intangible assets as well as a decrease in spending on the transcription business, all of which were partially offset by an increase in expenses where the Company has made focused investments in sales and marketing activities to further its long term growth initiatives.

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The decrease in the value of the Canadian dollar compared to the US dollar also contributed to the decline in expenses. In the first quarter of fiscal 2011, approximately 39% of Nightingale's expenses were incurred in the US, providing the Company with a natural hedge position that offset some of the effects on revenue. The Company estimates that expenses were positively impacted by approximately 5%, or \$0.2 million, over the three months versus the same period during the previous fiscal year.

Going forward, Nightingale is focused on prudent expense management. However, the Company expects to make select investments to support long-term revenue generating activities, particularly as the Company is seeing an increase in buying activity in the North American EMR market.

General and administration expenses for the three months ended June 30, 2010 were relatively flat at \$0.8 million as compared to the three months ended June 30, 2009, representing a 1% increase.

Sales and marketing expenses for the three months ended June 30, 2010, were \$0.6 million. This compares to \$0.4 million for the three months ended June 30, 2009, representing a 49% increase. This increase in expenses was the result of investments in sales and marketing activities primarily focused on the EMR market in Ontario.

Research and development expenses for each of the quarters ended June 30, 2010 and 2009 was \$0.7 million and decreased by \$0.05 million, or 7%, on an absolute basis, from 2009 to 2010. The decrease in research and development can be primarily attributed to the Company's allocation of resources to certain product development efforts that qualify for capitalization as well as the Company's participation in a Canadian research assistance program whereby the Company was reimbursed for certain research and development activities in support of the Company's EMR product. These reimbursements of costs incurred are classified as a reduction to both the Company's operating expenses and capitalized software costs. This current assistance program ended early in fiscal 2011 and there can be no assurances that the Company will be successful in obtaining further funding. Further, the Company capitalized \$0.25 million of development costs, net of government assistance of \$0.09 million, in the quarter ended June 30, 2010 that met the criteria for such deferral. Gross research and development costs before capitalization of development costs and reimbursements pursuant to government programs, research and development expenses increased by \$0.3 million, or 44% compared to the year ago quarter, as the Company increased its investment in certain research and development initiatives. The table below demonstrates the impact of certain items on research and development expense in the periods presented.

	<b>Quarter Ended June 30, 2010</b>	<b>Quarter Ended June 30, 2009</b>
Research and development expense before certain credits	\$ 1,053,150	\$ 732,148
Reimbursement pursuant to government programs	(122,500)	-
Capitalized development costs	(252,386)	-
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Total Research and Development expense	<u>\$ 678,264</u>	<u>\$ 732,148</u>

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Client services expenses for the quarters ended June 30, 2010 and 2009 were \$0.8 million and \$1.0 million, respectively, representing a \$0.2 million, or 16% decrease. This decrease was primarily attributable to the Company's reduction of costs associated with its transcription business as well as a reallocation of certain resources from client services activities to development initiatives. The decrease in the value of the Canadian dollar compared to the US dollar also contributed to the decrease in client services expenses.

Stock-based compensation for the three months ended June 30, 2010, was \$0.02 million. This compares to \$0.03 million for the three months ended June 30, 2009.

Depreciation and amortization for the three months ended June 30, 2010, was \$0.4 million. This compares to \$0.6 million for the three months ended June 30, 2009.

**EBITDA (non-GAAP measure, see section 4.a for a definition):** EBITDA for the quarter ended June 30, 2010 was \$0.6 million compared to \$0.02 million for the quarter ended June 30, 2009. The Company has been focused on achieving profitability and implemented several cost reduction initiatives since 2010 in an effort to achieve this goal. The Company also continues to focus on higher margin longer term revenue opportunities.

**Operating Profit / Loss:** For three months ended June 30, 2010, operating profit was \$0.2 million compared to operating loss of \$0.6 million for the three months ended June 30, 2009. The improvement in operating loss can be primarily attributed to an improvement in EBITDA.

**Interest and Other Income / Loss:** Interest charges for the three months ended June 30, 2010 were \$0.2 million compared to \$0.3 million for the three months ended June 30, 2009. In the quarter, Nightingale completed a private placement of common shares and subscription receipts, as well as revolving and term debt financings. Subsequent to quarter end, the Company used the proceeds to complete a comprehensive debt refinancing. As a result, Nightingale has strengthened its balance sheet. In addition, given the more favourable terms of the new debt facilities, the Company expects to realize a decrease in its interest expense starting in the second quarter of fiscal 2011.

Included in other income/loss are foreign currency adjustments related to monetary translations. For the three months ended June 30, 2010, other income was \$0.01 million compared to an income of \$0.04 million for the three months ended June 30, 2009.

**Loss and Comprehensive Loss:** For the three months ended June 30, 2010, loss and comprehensive loss was \$9,000 compared to a loss and comprehensive loss of \$0.8 million for the three months ended June 30, 2009. The improvement in loss and comprehensive loss for the three months ended June 30, 2010 can be primarily attributed to an increase in high margin software license revenue, which resulted in stronger gross margins in the quarter, as well as a decrease in amortization expense as certain assets become fully amortized.

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.

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#### FIRST QUARTER FISCAL 2011 RESULTS OF OPERATIONS COMPARED TO FOURTH QUARTER FISCAL 2010

**Revenue:** For the three months ended June 30, 2010, revenue was \$4.4 million compared to \$4.2 million for the three months ended March 31, 2010, representing a 5% increase. This increase in revenue was due primarily to an increase in software license and professional services revenues.

Recurring Revenue for the three months ended June 30, 2010 was flat at \$2.8 million compared to the three months ended March 31, 2010. Increases in revenue associated with support and maintenance and the revenue cycle management business were offset by decreases in revenue associated with the transcription business.

Non-Recurring Revenue for the three months ended June 30, 2010 was \$1.6 million compared to \$1.3 million for the three months ended March 31, 2010, representing a \$0.2 million, or 18%, increase. The increase in Non-Recurring Revenue is primarily due to increases in software license revenue and professional services revenues.

During the three months ended June 30, 2010, the Company generated 53% of its revenue from the US market. With the decrease in the value of the US dollar relative to the Canadian dollar during the consecutive quarters, the Company estimates that revenue was negatively impacted by approximately 1%, or \$0.03 million, during the current three months compared to the previous quarter.

**Gross Profit:** For the three months ended June 30, 2010, gross profit was \$3.5 million, or 80% of revenue (gross profit margin), compared to \$3.2 million, with gross profit margin of 76% for the previous quarter.

**Expenses:** Expenses for the three months ended June 30, 2010, were \$3.4 million compared to \$3.5 million for the three months ended March 31, 2010, representing a 3% decrease. This decrease in expense was primarily the result of the decrease in the foreign exchange rate during the consecutive quarters and the impact on the US dollar based expenses.

Nightingale's expenses are affected by changes in the US dollar exchange rate, with approximately 39% of the Company's expenses during the three months ended June 30, 2010 generated in the US, providing the Company with a natural hedge position offsetting some of the effects that the fluctuations in the foreign exchange rate have on revenues. The Company estimates that expenses were positively impacted by approximately 1% or \$0.02 million over the three months versus the previous quarter.

General and administration expenses for each of the three months ended June 30, 2010 and March 31, 2010 were \$0.8 million. General and administrative expenses decreased \$0.03 million, or 4%, primarily associated with a decrease in professional services fees.

Sales and marketing expenses for the three months ended June 30, 2010, were \$0.6 million compared to \$0.4 million for the three months ended March 31, 2010, representing a 54% increase as the Company continued to make focused investments in sales and marketing activities, primarily aimed at increasing its market share in Ontario.

Research and development expenses for the three months ended June 30, 2010, were \$0.7 million. This compares to \$0.5 million for the three months ended March 31, 2010, representing a 26% increase from the previous quarter. The increase is primarily associated with both an increase in investments in certain

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research and development initiatives as well as a decrease in the contribution received through the research assistance program whereby the Company was reimbursed for certain research and development activities in support of the Company's EMR product. These increases in expense were offset by a decrease in expense associated with the allocation of certain staff to development programs that qualify for capitalization. The Company capitalized \$0.25 million and \$0.08 million of development costs, net of government assistance of \$0.09 million and \$0.1 million, respectively, in the quarters ended June 30, 2010 and March 31, 2010. Gross research and development costs before capitalization of development costs and reimbursements pursuant to the government programs, research and development expenses increased by \$0.2 million, or 23%.

The table below demonstrates the impact of certain items on research and development expense in the periods presented.

	Quarter Ended June 30, 2010	Quarter Ended March 31, 2010
Research and development expense before certain credits	\$ 1,053,150	\$ 853,372
Reimbursement pursuant to government programs	(122,500)	(233,733)
Capitalized development costs	(252,386)	(81,000)
Total Research and Development expense	<u>\$ 678,264</u>	<u>\$ 538,639</u>

Client services expenses for the three months ended June 30, 2010 was \$0.8 million. This compares to \$1.0 million for the three months ended March 31, 2010. This \$0.2 million, or 17%, decrease is primarily associated with the decrease in the foreign exchange rate during the consecutive quarters and the impact on the US dollar based expenses.

Stock-based compensation for the three months ended June 30, 2010, was \$0.02 million. This compares to expense of \$0.08 million for the three months ended March 31, 2010.

Amortization for the three months ended June 30, 2010, was \$0.4 million. This compares to \$0.6 million for the three months ended March 31, 2010.

**EBITDA (non-GAAP measure, see item 4.a for a definition):** EBITDA for the three months ended June 30, 2010, was \$0.6 million compared to EBITDA of \$0.4 million for the three months ended March 31, 2010.

**Operating Profit / Loss:** For three months ended June 30, 2010, operating profit was \$0.2 million compared to operating loss of \$0.3 million for the three months ended March 31, 2010.

**Interest and Other Income / Loss:** Interest charges for the three months ended June 30, 2010 were \$0.2 million compared to \$1.2 million for the three months ended March 31, 2010. In April 2010, the Company completed a private placement of common shares and subscription receipts, as well as revolving and term debt financings. Subsequent to quarter end, in July 2010, the Company used the proceeds to repay the Company's subordinated debt. Due to the Company's repayment of the debt in July 2010, the carrying value of the debt was equal to its face value at March 2010. The adjustment of the debt to its face value resulted in a \$0.7 million charge to interest expense in the year ended March 31, 2010. Absent this charge to interest expense, interest expense for the three months ended March 31, 2010 would have been \$0.3 million compared to \$0.2 million for the three months ended June 30, 2010.

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Included in other income/loss are foreign currency adjustments related to monetary translations. For the three months ended June 30, 2010, other income was \$11,000 compared to other income of \$5,000 for the three months ended March 31, 2010.

**Loss and Comprehensive Loss:** For the three months ended June 30, 2010, loss and comprehensive loss was \$9,000 compared to a loss and comprehensive loss of \$1.5 million for the three months ended March 31, 2010. The significant reduction in the loss and comprehensive loss was primarily associated with the \$1 million decrease in interest expense from the three months ended March 31, 2010 associated with the adjustment of the Company's debt to its face value as well as reductions in amortization expense and improvement in EBITDA.

### 3. LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents on June 30, 2010 were \$3.6 million.

**Cash Flow from Operating Activities:** Cash of \$1 million was generated by operating activities in the quarter ended June 30, 2010 compared to cash used of \$1 million for the quarter ended June 30, 2009. The most significant improvements to cash from operating activities relate to a reduction in the net loss from \$0.8 million to \$9,000 as well as a reduction in cash used to satisfy accounts payable and accrued liabilities and an increase in deferred revenue.

**Cash Flow from Investing Activities:** During the three months ended June 30, 2010, cash was used to purchase property and equipment and costs were incurred on capitalized development costs, totalling \$0.3 million compared to \$0.02 million during the same three month period of the last fiscal year. The most significant increase in cash used for investing activities was related to the costs incurred on capitalized development.

**Cash Flow from Financing Activities:** Cash provided by financing activities for the three months ended June 30, 2010 totalled \$1.2 million compared to a use of cash for the year ago quarter of \$0.08 million. During the three months ended June 30, 2010, the Company completed a debt and private placement financing that included the sale of 5,682,364 shares of common stock at a price of \$0.22 per common share for proceeds of \$1.25 million. This cash receipt was partially offset by a use of cash related to the repayment of capital lease obligations totalling \$0.07 million (\$0.08 million in the year ago quarter).

At June 30, 2010, the Company had \$3.6 million of cash and cash equivalents and negative working capital of \$0.6 million (including current deferred revenue of \$4.0 million). The Company generated \$1 million of cash from operations for the quarter ended June 30, 2010. The Company is required to adhere to certain financial covenants in connection with its debt agreements. In order for the Company to achieve and sustain consistent 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.

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. To the extent that the Company's utilization model, which does not generally require a large upfront payment, is favoured in future periods, the Company may experience a decrease in upfront cash flows 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

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### MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") FOR THE THREE MONTH PERIOD ENDED JUNE 30, 2010

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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 and as such 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 as case would be limited.

As mentioned above, the Company completed a comprehensive debt and private placement financing in April 2010 and in July 2010, the proceeds of the financing were used to repay the Company's subordinated debt. The completed financing transactions included a US \$1 million revolving line of credit and a CAD \$2 million three year term loan for aggregate proceeds of approximately \$3 million. The Company also issued an aggregate of 5,682,364 common shares of the Company at a price of \$0.22 per common share for gross proceeds of \$1.25 million and concurrently issued 2,074 subscription receipts to receive convertible debentures for gross proceeds of \$2.074 million, all on a non-brokered private placement basis. When the subordinated debt was repaid in July 2010, the holder of each Subscription Receipt received, without additional consideration, convertible unsecured subordinated debentures (the "Debentures").

The Debentures bear interest at a rate of 12% per annum, payable monthly and are scheduled to mature in July 2013. Following the first year anniversary of the Debentures, the Company has the right to redeem the Debentures, in whole or in part, at a price equal to their principal amount plus accrued and unpaid interest. The Debentures are convertible at the holder's option into fully-paid common shares at any time prior to maturity or redemption at a conversion price of \$0.35 per share.

The following unaudited pro forma information reflects the balance sheet as if the refinancing and debt payoff had been completed as of June 30, 2010:

	<b>As Reported</b>	<b>Pro forma</b>
Cash and cash equivalents	\$ 3,606,669	\$ 2,430,669
Current liabilities:		
Term loan, net of long term portion	\$ -	\$ 400,000
Long term liabilities:		
Subordinated debt	\$ 5,250,000	\$ -
Term loan	-	1,600,000
Subordinated debentures	-	1,796,545
Shareholder's equity:	\$ 1,663,693	\$ 1,941,147

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The above pro forma information does not include adjustments related to the financing costs.

#### 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, 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:

Definition	Fiscal Quarter Ended June 30, 2010	Fiscal Quarter Ended June 30, 2009
Loss and Comprehensive Loss	\$ (9)	\$ (843)
<i>Adjustments for:</i>		
Other Loss (Income)	(11)	(44)
Interest	176	316
Depreciation and Amortization	419	569
Stock-based Compensation	24	25
Current Tax expense	17	
EBITDA	\$ 616	\$ 23

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#### 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:

Definition	Fiscal Quarter Ended June 30, 2010	Fiscal Quarter Ended June 30, 2009
Non-Recurring Revenue	\$ 1,559	\$ 567
Recurring Revenue	2,843	3,563
Revenue	\$ 4,401	\$ 4,130

#### 5. TRANSACTIONS WITH RELATED PARTIES

In April 2010, in connection with the Company's comprehensive debt and private placement financing, the Company issued an aggregate of 5,682,364 common shares of the Company's stock at a price of \$0.22 per Common Share for gross proceeds of \$1.25 million (the "Common Share Offering") and concurrently issued 2,074 subscription receipts ("Subscription Receipts") for gross proceeds of \$2.074 million (the "Subscription Receipt Offering").

Subsequent to quarter end, in July 2010, the Company repaid its subordinated debt in full using proceeds from the Common Share Offering and the Subscription Receipts. When the subordinated debt was repaid, the holder of each Subscription Receipt received, without additional consideration, convertible unsecured subordinated debentures in the aggregate principal amount of \$1,000 (the "Debentures").

Certain directors and officers participated in the Common Share Offering and Subscription Receipts offerings as further described in the Material Change Report dated April 22, 2010 which was filed by the Company on [www.sedar.com](http://www.sedar.com).

At June 30, 2010 the Company had a deferred compensation balance of \$47,386 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 June 30, 2010.

## NIGHTINGALE INFORMATIX CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") FOR THE THREE MONTH PERIOD ENDED JUNE 30, 2010

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#### 6. RECENT EVENTS

##### Subordinated Debt Warrants

In April 2010, Nightingale announced that it had completed private placement financings (collectively, the "Private Placement") of common shares and subscription receipts, for aggregate gross proceeds of \$3.3 million, and entered into a commitment with a third-party financial institution for additional aggregate gross proceeds of approximately \$3.0 million in revolving and term debt (collectively, the "Senior Loan Facility"). On July 29, 2010, the Company used the proceeds of the Private Placement and the Senior Loan Facility for general corporate purposes and to refinance its outstanding subordinated debt on more favourable terms.

The Company completed the Private Placement on April 20, 2010, whereby it issued an aggregate of 5.7 million common shares of the Company at a price of \$0.22 per common share for gross proceeds of \$1.3 million and concurrently issued 2,074 subscription receipts ("Subscription Receipts") for gross proceeds of \$2.1 million, all on a non-brokered private placement basis. The Subscription Receipts were all automatically converted on July 29, 2010 pursuant to their terms. On conversion, each Subscription Receipt entitled the holder to receive, without additional consideration, a convertible unsecured subordinated debenture in the aggregate principal amount of \$1,000 (collectively, the "Debentures"). The Debentures bear interest at a rate of 12% per annum, payable monthly and are scheduled to mature in July 2013. Following the first year anniversary of the Debentures, the Company has the right to redeem the Debentures, in whole or in part, at a price equal to their principal amount plus accrued and unpaid interest. The Debentures are convertible at the holder's option into fully-paid common shares at any time prior to maturity or redemption at a conversion price of \$0.35 per share. Upon the automatic conversion of the Subscription Receipts, an amount of escrowed funds equal to \$2.1 million was released to the Company.

Concurrently, the Company completed the funding of the Senior Loan Facility. The proceeds of the Private Placement and the Senior Loan Facility were used for general corporate purposes and to refinance the Company's outstanding subordinated debt in the amount of \$5.3 million.

#### 7. RECENT ACCOUNTING PRONOUNCEMENTS

Our accounting policies and changes in accounting policies are also described in notes 1 and 4, respectively, to our consolidated financial statements.

##### Multiple Deliverable Revenue Arrangements

In December 2009, the CICA issued Emerging Issues Committee ("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

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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 has elected to early adopt this abstract to revenue arrangements with multiple deliverables entered into on or after April 1, 2010. The adoption of EIC 175 does not impact the Company's existing method of establishing units of accounting nor the timing of revenue recognition of the arrangement consideration. The adoption of EIC 175 is not expected to have a material impact in future periods to the extent that the Company continues to enter into similar arrangements.

#### **Recent accounting pronouncements not yet adopted**

The following accounting pronouncements have been released but have not yet been adopted by the Company.

##### (a) International Financial Reporting Standards ("IFRS"):

In February 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards (IFRS) will replace Canadian GAAP for publicly traded companies for years beginning on or after January 1, 2011. The Company is required to prepare its financial statements using IFRS for the fiscal year beginning April 1, 2011. The Company has established a three phased approach for completing its changeover to IFRS as summarized below. The Company's implementation plan is designed to ensure that IFRS reporting is fully implemented in the Company's operations by the end of the fiscal year ending March 31, 2011.

**Phase One—Preliminary Study and Set Up:** The Company has nearly completed this phase of its IFRS implementation plan. The Company has established organization and governance for the project and has established a plan for communicating progress and keeping its governance committee informed regarding such progress. The Company has also completed a diagnostic evaluation of all financial statement elements affected by the implementation of IFRS and has identified the following areas as critical – adoption and disclosure matters, revenue recognition, foreign currency translation, impairment of assets, income taxes, provisions and contingencies and stock-based compensation. The following areas were identified as low impact – business combinations, property and equipment, leases, intangible assets and financial instruments. The Company also established a plan and timetable as part of this phase.

**Phase Two—Component Evaluation and Issues Resolution:** The Company has entered this phase of the Company's IFRS implementation plan which involves the evaluation of the various components identified during phase one as well as analysis and decisions about its accounting policies. During this phase, the Company will also identify new data requirements and will rollout training programs to its accounting staff.

The Company expects to complete the evaluation of its critical components during the second quarter of fiscal 2011. The accounting policy decisions regarding these critical components as well as the evaluation of components determined to be low impact will be completed during the third quarter of fiscal 2011. The Company's training program will continue throughout all phases of the implementation plan.

## NIGHTINGALE INFORMATIX CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") FOR THE THREE MONTH PERIOD ENDED JUNE 30, 2010

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Phase Three—Financial Statements and Change Integration: During this phase of the Company's implementation, the Company will template its IFRS financial statements and related adjustments, complete its analysis of its systems and controls and implement the changes required by IFRS. The Company expects to enter this phase of its implementation plan in the third quarter of fiscal 2011 and complete this phase during the fourth quarter of fiscal 2011. The Company's June 30, 2011 financial statements will be its first financial statements including IFRS adjustments.

(b) Business combinations:

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.

(c) Consolidated financial statements:

In January 2009, the CICA issued Handbook 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.

(d) Non-controlling interests in consolidated financial statements:

In January 2009, the CICA issued Handbook Section 1602, "Noncontrolling interests in Consolidated Financial Statements". This section specifies that noncontrolling interests be treated as a separate component of equity, not as a liability or other item outside of equity. Section 1602 is effective for periods beginning on or after January 1, 2011 and will be applied prospectively to all noncontrolling interests, including any that arose before the effective date. The Company is currently assessing the future impact of this new standard on its consolidated financial statements.

## 8. RISKS AND UNCERTAINTIES

Readers are encouraged to read the section entitled "Risk Factors" in the Company's fiscal 2010 Management's Discussion and Analysis for a discussion of the factors that could affect the Company's future performance.

## NIGHTINGALE INFORMATIX CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") FOR THE THREE MONTH PERIOD ENDED JUNE 30, 2010

#### 9. DISCLOSURE OF OUTSTANDING SHARE DATA

	Authorized	Issued as at June 30, 2010
Common Shares, Voting	Unlimited	76,310,915 <sup>(1)</sup>
Preferred Shares	Unlimited	-
Stock Options – Issued and Outstanding		4,866,816
Warrants – Issued and Outstanding		4,233,870

<sup>(1)</sup> As at June 30, 2010, 1,666,667 common shares issued upon the purchase of HealthNet are subject to a performance escrow period ending in fiscal 2010. These shares were excluded from the total outstanding balance in the June 30, 2010 interim consolidated financial statements. The performance escrow period ended in fiscal 2010 and these common shares are expected to be cancelled in the second quarter of fiscal 2011.

#### 10. OUTLOOK

See "Cautionary Note Regarding Forward-Looking Statements"

In the first quarter of fiscal 2011, the Company achieved its sixth consecutive quarter of positive EBITDA. EBITDA improved from \$0.02 million in the first quarter of 2010 to \$0.6 million in the first quarter of 2011.

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. The Company sold more than 200 seats of its ASP-based EMR software to healthcare providers across Canada in the first quarter of fiscal 2011. Organic growth is an important objective for the Company in the coming quarters, with the Company particularly focused on expanding its base of higher margin EMR software revenue. As such, Nightingale has made recent measured investments in sales and marketing and other areas to support its growth initiatives, and expects to continue to do so in the coming quarters.

In the US, the recently launched government stimulus programs and EMR adoption incentives are increasing the level of interest in and adoption of EMR solutions. As such, Nightingale is focused on product development and its selling and distribution plans for the US market. The Company believes that there is a longer term, significant opportunity available in the US market.

During fiscal 2010, Nightingale realized reductions in its low-margin transcription business. The Company expects this to persist throughout the year over year comparisons in fiscal 2011, but it believes that reductions in transcription revenue will be offset by revenue generated from software sales over the longer term.

Nightingale entered fiscal 2011 focused on making continued modest improvements to its financial performance, striving to achieve consistently positive cash flow, positive EBITDA and profitability. In addition, the Company remains focused on driving revenue growth through its three key organic initiatives: increasing the number of healthcare practitioners on the Nightingale platform, leveraging its broad client base to cross-sell its products and introducing new revenue streams with the launch of patient-centric offerings.

## **NIGHTINGALE INFORMATIX CORPORATION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") FOR THE THREE MONTH PERIOD ENDED JUNE 30, 2010**

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Government funding initiatives are currently a key catalyst for EMR adoption, a core market for Nightingale. There may be some near-term fluctuations in adoption as funding is rolled out. However, Nightingale expects to see increasing implementation of EMR over the longer term. With funding now available in many of the Company's target markets across North America, Nightingale's sales pipeline is growing. This, in combination with the Company's existing base of healthcare practitioners and patient records, position Nightingale well for growth.

#### **11. ADDITIONAL INFORMATION**

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