



NIGHTINGALE INFORMATIX CORPORATION

**MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")
For the fiscal year ended March 31, 2011**

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 July 21, 2011, should be read in conjunction with the Company's March 31, 2011 Audited Consolidated Annual Financial Statements and Notes.

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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 fiscal year ended March 31, 2011.

The audited 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 vast US market; 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.

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, revenue cycle management and transcription 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

Nightingale has established itself as a leading healthcare software and service provider in Canada, signing key contracts with hospitals, regional groups and provincial governments. The Company is also expanding its presence in the US healthcare industry, having 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 EMR 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's near-term focus is targeting its sales and marketing activities at areas covered by provincial funding initiatives, such as Nova Scotia, where the Company is the sole approved EMR provider, and 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 recently achieved Office of the National Coordinator (ONC) certification of its EMR product pursuant to the meaningful use criteria that were established by the ONC to qualify providers for funding incentives under the American Recovery and Reinvestment Act (ARRA). 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.

Over the long-term, Nightingale will work to leverage its ability to help physicians overcome EMR, and other healthcare technology adoption hurdles. Nightingale has established itself as a leader in its domain through technology leadership. However, the emergence of multiple competitors in the marketplace has magnified the need for Nightingale to differentiate itself in a clear and compelling way. The Company is achieving this through further technology innovation, leveraging recent advancements in hardware and operating systems to enhance user adoption, and set new industry standards for service levels.

In fiscal 2011, Nightingale launched "The Nightingale Promise" its Company brand promise. The Nightingale Promise has four pillars:

1. Superior technologies
2. Unparalleled customer service
3. Superior education programs
4. Dedicated ethical people

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Nightingale provides solutions to what the Company considers to be the three main adoption hurdles:

| Adoption Hurdle | Nightingale's Solution |
|----------------------------|--|
| Apprehension to Technology | <ul style="list-style-type: none">• The Nightingale Promise• Technology leadership• Flexibility with input devices (i.e. tablets, digital pen) |
| IT Infrastructure Cost | <ul style="list-style-type: none">• Web-based solution• No local servers |
| The Economics | <ul style="list-style-type: none">• Funding approved• Varying payment models |

Nightingale is focused on demonstrating operational and monetary efficiency to its users to help them eliminate their reliance on government subsidies. This positions Nightingale to further penetrate markets that benefit from government funding programs, while also enabling the Company to better enter markets where there are no subsidies.

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.

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 and in fiscal 2011, product rollout commenced. The portal provides 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 often charges an up-front software licence fee along with annual support and maintenance fees. The Company also offers a utilization fee model which combines software license, hosting, support and maintenance fees in a single flat monthly fee or a monthly transaction based fee. The Company believes that the utilization model could become more prevalent as it is an attractive alternative for customers that are interested in limiting their upfront investment. Implementation, training and other services are offered under both models and are recognized as services are rendered. For revenue cycle management services, Nightingale charges a percentage of amounts collected. For electronic transactions, Nightingale charges a flat monthly fee per provider or a per claim fee and for statements, Nightingale charges a per statement fee. For transcription services, Nightingale charges per report or per minute transcribed.

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Fourth Quarter and Fiscal 2011 Highlights

- Revenue increased 4% to \$4.4 million for the quarter ended March 31, 2011 compared to \$4.2 million for the year ago quarter and increased 5% to \$17.4 million for the fiscal year ended March 31, 2011 compared to \$16.6 million for the fiscal year ended March 31, 2010. The revenue growth is primarily attributed to an increase in revenue from the Company's software business (EMR and Practice Management). This increase was partially offset by a year-over-year anticipated reduction in transcription revenue of \$0.02 million and \$1.2 million, for the quarter and year-to-date periods respectively, and negative foreign exchange impact of approximately \$0.06 million and \$0.7 million for the quarter and year ended March 31, 2011.
 - Total software revenue increased \$0.5 million, or 14%, and \$2.7 million, or 22%, for the quarterly and annual periods, respectively, predominately as a result of significant growth in the Company's EMR customer base.
- Gross profit margin for the quarter ended March 31, 2011 was \$3.7 million, or 86% of revenue, up from \$3.2 million, or 76% of revenue, in the year ago quarter and \$14.2 million, or 82% of revenue, for the year ended March 31, 2011 compared to \$12.2 million, or 74% of revenue, for the year ended March 31, 2010. The improvement in gross margin reflects the Company's success in generating a greater proportion of high-margin EMR software revenue.
- Expenses were \$3.9 million for the quarter ended March 31, 2011 compared to \$3.5 million for the quarter ended March 31, 2010 and \$14.5 million for the year ended March 31, 2011 compared to \$13.7 million for the year ended March 31, 2010 as the Company increased investments in strategically important areas of the business.
- EBITDA increased 9% to \$0.4 million for the quarter ended March 31, 2011 compared to \$0.4 million for the quarter ended March 31, 2010 and EBITDA increased 54% to \$1.9 million for the year ended March 31, 2011 from \$1.2 million for the year ended March 31, 2010.
- Net loss was reduced by \$1.3 million to \$0.2 million for the quarter ended March 31, 2011 compared to a loss of \$1.5 million for the quarter ended March 31, 2010 and was reduced by \$2.5 million to \$1.0 million for the year ended March 31, 2011 from a loss of \$3.4 million for the year ended March 31, 2010.
- Cash provided by operating activities increased to \$1.2 million for the quarter ended March 31, 2011 from \$0.2 million for the quarter ended March 31, 2010. Cash provided by operating activities increased to \$3.1 million for the year ended March 31, 2011 from a use of cash of \$1.1 million for the year ended March 31, 2010.
- Cash and Cash equivalents grew 132% to \$4.2 million at March 31, 2011 from \$1.8 million at March 31, 2010.
- Total deferred revenue was \$7.5 million at March 31, 2011 up from \$6.8 million at December 31, 2010 and up from \$5.2 million at March 31, 2010, reflecting the Company's success in signing new EMR customers throughout fiscal 2011.
- The Company completed debt and private placement financings for aggregate gross proceeds of \$6.3 million reducing total indebtedness and covenant based debt as well as increasing equity.
- The Company signed agreements with healthcare providers across Canada and the US to deploy more than 850 EMR seats¹ in the year ended March 31, 2011 (including 200 seats in the quarter ended March 31, 2011) up 193% from 290 seats in the year ended March 31, 2010.
- Subsequent to year end, the Company received U.S. certification for Nightingale On Demand V10.0 as a Complete EHR by the Certification Commission for Health Information Technology (CCHIT®).

¹ A "Seat" is defined as a paying healthcare provider using Nightingale's Electronic Medical Record.

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

| | Fiscal Year Ended | Q1 Ended | Q2 Ended | Q3 Ended | Q4 Ended | Fiscal Year Ended | Q1 Ended | Q2 Ended | Q3 Ended | Q4 Ended | Fiscal Year Ended |
|--|-------------------|---------------|---------------|--------------|----------------|-------------------|---------------|---------------|--------------|----------------|-------------------|
| In \$ 000's (Except per Share Amounts) | March 31, 2009 | June 30, 2009 | Sept 30, 2009 | Dec 31, 2009 | March 31, 2010 | March 31, 2010 | June 30, 2010 | Sept 30, 2010 | Dec 31, 2010 | March 31, 2011 | March 31, 2011 |
| Recurring Revenue | \$14,531 | \$3,564 | \$3,341 | \$3,342 | \$2,849 | \$13,096 | \$2,843 | \$2,723 | \$2,661 | \$2,452 | \$10,679 |
| Non-Recurring Revenue | 3,934 | 566 | 585 | 1,010 | 1,324 | 3,485 | 1,559 | 1,491 | 1,744 | 1,901 | 6,695 |
| Revenue | 18,465 | 4,130 | 3,926 | 4,352 | 4,173 | 16,581 | 4,402 | 4,214 | 4,405 | 4,353 | 17,374 |
| Gross Profit | 13,410 | 2,937 | 2,818 | 3,314 | 3,169 | 12,238 | 3,533 | 3,327 | 3,565 | 3,737 | 14,162 |
| Expenses | 16,820 | 3,508 | 3,327 | 3,384 | 3,474 | 13,693 | 3,360 | 3,578 | 3,693 | 3,870 | 14,501 |
| EBITDA (Loss) (non-GAAP measure) | (719) | 24 | 180 | 593 | 406 | 1,203 | 616 | 386 | 404 | 445 | 1,851 |
| Operating Loss for the Period | (3,410) | (570) | (509) | (70) | (306) | (1,455) | 172 | (251) | (127) | (133) | (339) |
| Loss and Comprehensive Loss | (4,632) | (843) | (727) | (350) | (1,524) | (3,444) | (9) | (468) | (267) | (218) | (962) |
| Loss and Comprehensive Loss per Common Share | \$(0.07) | \$(0.01) | \$(0.01) | \$(0.00) | \$(0.02) | \$(0.05) | \$(0.00) | \$(0.01) | \$(0.00) | \$(0.00) | \$(0.01) |
| Weighted Avg. # of Common Shares | 67,845 | 69,322 | 70,535 | 70,535 | 70,535 | 70,232 | 72,809 | 76,311 | 76,311 | 76,311 | 75,979 |
| Total Assets | \$17,906 | \$16,413 | \$15,170 | \$14,714 | \$14,651 | \$14,651 | \$16,867 | \$15,718 | \$15,177 | \$16,361 | \$16,361 |
| Total Long-Term Liabilities | \$7,466 | \$7,184 | \$6,558 | \$7,062 | \$7,918 | \$7,918 | \$7,229 | \$5,185 | \$5,337 | \$6,115 | \$6,115 |

FISCAL 2011 RESULTS OF OPERATIONS COMPARED TO FISCAL 2010

Revenue: Revenue increased 5% to \$17.4 million for the year ended March 31, 2011 compared to \$16.6 million for the year ended March 31, 2010. This increase in revenue is the result of a \$2.7 million increase in revenue from the Company's software (EMR and Practice Management) business which was partially offset by a decrease in revenues of \$1.2 million due to planned attrition in the transcription services business. In addition, total revenues were negatively impacted by \$0.7 million related to the decrease in the value of the US dollar relative to the Canadian dollar.

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

Recurring Revenue for the year ended March 31, 2011 was \$10.7 million compared to \$13.1 million for the year ended March 31, 2010, representing a decrease of \$2.4 million, or 18%. This decrease in Recurring Revenue from the prior year is primarily

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the result of attrition in the transcription and revenue cycle management businesses totalling \$1.9 million which was partially offset by an increase in recurring revenues from the Company's EMR business. The decrease can also be attributed to the negative impact of a decline in the value of the Canadian dollar versus the US dollar during the annual periods with an impact of approximately \$0.7 million.

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 increased 92% to \$6.7 million for the year ended March 31, 2011 from \$3.5 million for the year ended March 31, 2010. The increase in non-recurring revenue is due to increased sales of the Company's Nightingale On Demand EMR product as well as related professional services over the previous year. Government funding initiatives aimed at increased adoption of EMR have been a significant factor in this increase.

Over the year ended March 31, 2011, the Company generated 52% 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 4%, or \$0.7 million, during the current fiscal year compared to the previous fiscal year.

Gross Profit: For the year ended March 31, 2011, gross profit was \$14.2 million, or 82% of revenue, an increase from \$12.2 million, and 74% of revenue for the previous fiscal year. This improvement reflects a greater proportion of higher margin software license sales in fiscal 2011 compared to the previous year.

Expenses: Expenses for the year ended March 31, 2011 were \$14.5 million compared to \$13.7 million for the year ended March 31, 2010, representing a 6% increase. This increase in expenses is primarily the result of the Company increasing investments in strategically important areas of the business including sales and marketing and research and development to further its long-term growth initiatives. These increases in expense were partially offset by a decrease in costs associated with the transcription and revenue cycle management businesses commensurate with the decrease in these revenues. The Company may continue to increase select investments in support of revenue generating activities in order to further capitalize on the growth opportunities presented by the North American EMR market.

Over the year ended March 2011, approximately 43% of the Company'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 3% or \$0.5 million over the year compared to the previous year.

General and administration expenses for the year ended March 31, 2011, were \$3.2 million. This compares to \$2.9 million for the year ended March 31, 2010, representing a \$0.3 million, or 9% increase. This increase in general and administration expense was primarily the result of an increase in professional services costs (including costs incurred in connection with the Company's International Financial Reporting Standards transition plan) as well as increases in other expenses. The decrease in the value of the Canadian dollar compared to the US dollar partially offset the increase in expense.

Sales and marketing expenses increased 57% to \$2.4 million for the year ended March 31, 2011 compared to \$1.5 million for the year ended March 31, 2010. This increase in expenses was the result of the Company's increased investments in strategic sales and marketing activities primarily focused on the EMR market in Ontario.

Research and development expenses for the year ended March 31, 2011 were \$3.2 million compared to \$2.7 million for the year ended March 31, 2010, representing a \$0.5 million, or 19% increase. Gross research and development expenditures before capitalization of development costs and reimbursements pursuant to government programs, increased by \$0.8 million, or 24%, in the year ended March 31, 2011 compared to the year ago period. The increase in research and development expense can be primarily attributed to the Company's increased investments in developing and maintaining its products as well as a reduction in amounts reimbursed for certain research and development activities pursuant to the Company's participation in a Canadian research assistance program. The reimbursement of costs incurred pursuant to the research assistance program are classified

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as a reduction to both the Company's operating expenses and capitalized software costs. This assistance program ended early in fiscal 2011 and there can be no assurances that the Company will be successful in obtaining further funding.

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

| | Year Ended March 31, 2011 | Year Ended March 31, 2010 |
|---|---------------------------------|---------------------------------|
| Gross research and development expenditures | \$ 3,901,681 | \$ 3,136,113 |
| Reimbursements from government programs | (153,268) | (389,775) |
| Capitalized development costs | (584,656) | (81,000) |
| Total Research and Development expense | \$ 3,163,757 | \$ 2,665,338 |

Client services expenses for the year ended March 31, 2011 were \$3.6 million compared to \$3.9 million for the year ended March 31, 2010, representing a \$0.4 million, or 9% decrease. The decrease was primarily attributable to the Company's reduction of costs associated with its transcription and revenue cycle management businesses which was partially offset by an increase in costs associated with implementation and training activities related to the Company's Nightingale On Demand EMR offering. 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 was \$0.3 million in each of the two years ended March 31, 2011 and March 31, 2010.

Depreciation and amortization expense for the year ended March 31, 2011 was \$1.9 million compared to \$2.4 million for the year ended March 31, 2010 as a number of intangible assets became fully depreciated.

EBITDA (non-GAAP measure, see note 4.a for a definition): EBITDA for the year ended March 31, 2011 was \$1.9 million compared to \$1.2 million for the year ended March 31, 2010, reflecting the Company's revenue growth and improvements in gross margins as Nightingale significantly increased sales of its web-based EMR software in fiscal 2011 compared to fiscal 2010.

Operating Loss: Operating loss was reduced by \$1.1 million to \$0.3 million for the year ended March 31, 2011 from \$1.5 million for the year ended March 31, 2010.

Interest and Other Income/Loss: For year ended March 31, 2011, the Company's interest expense was \$0.7 million compared to interest expense of \$2.0 million for the year ended March 31, 2010, representing a \$1.3 million, or 65% decrease. In April 2010, the Company completed a comprehensive debt and private placement financing, and in July 2010 the proceeds of the financing were used for working capital purposes and 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 adjusted to 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 year ended March 31, 2010 would have been \$1.1 million. A significant portion of the Company's interest expense in fiscal 2010 was non-cash (approximately \$0.1 million in the year ended March 31, 2011 and \$1.3 million in the year ended March 31, 2010).

Included in other income/loss are foreign currency adjustments related to monetary translations. For the year ended March 31, 2011 other income was \$0.05 million compared to \$0.06 million for the year ended March 31, 2010.

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Loss and Comprehensive Loss from Operations: For the year ended March 31, 2011, loss from operations was \$1.0 million compared to \$3.4 million for the year ended March 31, 2010. The reduction in the Company's loss and comprehensive loss was primarily related to the increase in revenue and gross profit.

FOURTH QUARTER FISCAL 2011 RESULTS OF OPERATIONS COMPARED TO THIRD QUARTER FISCAL 2011 AND FOURTH QUARTER 2010

Revenue: For the three months ended March 31, 2011 revenue increased 4% to \$4.4 million from \$4.2 million for the three months ended March 31, 2010. This increase was due primarily to an increase in EMR sales and associated services which was partially offset by a decrease in revenue from the revenue cycle management and transcription businesses.

Revenue of \$4.4 million generated in the quarter compared to \$4.4 million generated in the previous quarter ended December 31, 2010.

Recurring Revenue for the three months ended March 31, 2011 was \$2.5 million compared to \$2.9 million for the three months ended March 31, 2010, representing a 14% decrease. This decrease in Recurring Revenue was primarily the result of a decrease in low margin revenues from revenue cycle management and transcription services as well as the impact of the decrease in the value of the Canadian dollar compared to the US dollar during the periods.

Recurring Revenue for the three months ended March 31, 2011 was \$2.5 million compared to \$2.7 million for the previous quarter ended December 31, 2010. This decrease in Recurring Revenue can be attributed primarily to a reduction in revenue cycle management revenues.

Non-Recurring Revenue for the three months ended March 31, 2011 was \$1.9 million, an increase of 44% over non-recurring revenue of \$1.3 million for the three months ended March 31, 2010. This increase in Non-Recurring Revenue is the result of an increase in revenues from software license sales and related professional services as well as an increase in revenues from the sale of hardware.

Non-Recurring Revenue for the quarter ended March 31, 2011 was \$1.9 million, up 9% from \$1.7 million for the previous quarter ended December 31, 2010. This increase in Non-Recurring Revenue was a result of higher EMR software license revenue.

Over the three months ended March 31, 2011, the Company generated 50% of its revenue from the US market. During this period, the Company estimates that revenue was positively impacted by approximately 1%, or \$0.06 million, versus the three months ended March 31, 2010 due to an increase in the value of the US dollar relative to the Canadian dollar.

Gross Profit: For the three months ended March 31, 2011, gross profit was \$3.7 million, or 86% of revenue (gross profit margin), compared to \$3.2 million, or 76% of revenue, for the same quarter last fiscal year and \$3.6 million, or 81% of revenue, for the previous quarter ended December 31, 2010. This improvement in gross profit is primarily associated with an increase in high margin software license revenue compared to the year ago quarter.

Expenses: Expenses for the three months ended March 31, 2011, were \$3.9 million compared to \$3.5 million for the three months ended March 31, 2010 and \$3.7 million for the three months ended December 31, 2010, representing an 11% and 5% increase, respectively. The increase is primarily the result of the Company's focused investments in sales and marketing activities as well as increased investments in certain research and development activities to further the Company's growth initiatives. The increases in expenses are net of subsidized research and development activities as well as a decrease in costs associated with the transcription business.

Nightingale's expenses are affected by changes in the US dollar exchange rate, with approximately 38% of the Company's expenses during the three months ended March 31, 2011 generated in the US, providing the Company with a natural hedge position that has offset some of the effects on revenue of the decrease in value of the US dollar. The Company estimates that

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expenses were negatively impacted by approximately 1% or \$0.04 million over the three months versus the same period during the previous fiscal year.

General and administration expenses were at \$0.9 million for the three months ended March 31, 2011 compared to \$0.8 million for the three months ended March 31, 2010. This increase in expense was primarily associated with an increase in professional services costs as well as increases in other expenses. The increase in the value of the Canadian dollar compared to the US dollar during the year over year quarterly periods also contributed to the increase in expense.

General and administration expenses were at \$0.9 million for the three months ended March 31, 2011 compared to \$0.8 million for the three months ended December 31, 2010. This increase in expense was primarily associated with an increase in professional services and provisions.

Sales and marketing expenses for the three months ended March 31, 2011 were \$0.6 million compared to \$0.4 for the three months ended March 31, 2010, representing a 44% increase. The increase was the result of investments in sales and marketing activities primarily focused on the EMR market in Ontario. The Company expects to continue to invest in sales and marketing initiatives in Ontario and throughout North America in focused markets.

Sales and marketing expenses were relatively flat at \$0.6 million from the previous quarter ended December 31, 2010.

Research and development expenses for the three months ended March 31, 2011, were \$0.9 million compared to \$0.5 million for the three months ended March 31, 2010, representing a \$0.3 million, or 63% increase. Gross research and development expenditures before capitalization of development costs and reimbursements pursuant to government programs increased \$0.1 million or 13% year over year. The increase in research and development expense can be primarily attributed to the Company's increased investments in developing and maintaining its products as well as a reduction in amounts reimbursed for certain research and development activities pursuant to the Company's participation in a Canadian research assistance program. Research and development expenses increased \$0.03 million, or 3%, from the previous quarter ended December 31, 2010.

Client services expenses for the three months ended March 31, 2011 were \$0.9 million compared to \$1.0 million for the three months ended March 31, 2010, representing a \$0.1 million, or 10% decrease over the periods. Client services expenses decreased \$0.05 million, or 6%, from the quarter ended December 31, 2010. This decrease in expense was primarily related to decreases in expense associated with the revenue cycle management business.

Stock-based compensation for the three months ended March 31, 2011 was \$0.01 million compared to \$0.08 million from the year ago quarter and \$0.06 million for the three months ended December 31, 2010.

Depreciation and amortization for the three months ended March 31, 2011 was \$0.6 million compared to \$0.6 million for the three months ended March 31, 2010 (an 8% decrease in absolute terms) and compared to \$0.5 million for the three months ended December 31, 2010.

EBITDA (non-GAAP measure, see note 4.a for a definition): EBITDA for the three months ended March 31, 2011 was a positive \$0.4 million compared to positive EBITDA of \$0.4 million for the three months ended March 31, 2010 (a 9% increase in absolute terms) and compared to positive EBITDA of \$0.4 million for the quarter ended December 31, 2010 (a 10% increase in absolute terms).

Operating Loss: For three months ended March 31, 2011 operating loss was \$0.1 million compared to an operating loss of \$0.3 million for the three months ended March 31, 2010 and \$0.1 million for the quarter ended December 31, 2010.

Interest and Other Income / Loss: In April 2010, the Company completed a comprehensive debt and private placement financing and in July 2010, the proceeds of the financing were used 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 adjusted to equal its face value at March

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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 \$0.1 million for the three months ended March 31, 2011. In the previous fiscal quarter, interest expense was \$0.1 million. Included in other income/loss are foreign currency adjustments related to monetary translations. For the three months ended March 31, 2011 other income was \$0.04 million compared to other income of \$5,000 for the three months ended March 31, 2010 and other loss of \$1,000 for the three months ended December 31, 2010.

Income and Comprehensive Income/Loss and Comprehensive Loss: For the three months ended March 31, 2011, income and comprehensive income was \$0.2 million compared to loss and comprehensive loss of \$1.5 million for the three months ended March 31, 2010 and \$0.3 million for the three months ended December 31, 2010. The improvement in loss and comprehensive loss in the periods can be primarily attributed the increase in revenue and gross margin.

FISCAL 2010 RESULTS OF OPERATIONS COMPARED TO FISCAL 2009

Revenue: Revenue for the year ended March 31, 2010 was \$16.6 million compared to \$18.5 million for the year ended March 31, 2009, representing a 10% decrease from the prior year. This decrease was due primarily to planned attrition in the transcription services business as well as the negative impact of the decrease in the value of the US dollar relative to the Canadian dollar over the year and a decrease in revenues from large enterprise software sales. These decreases were partially offset by an increase in revenues from professional services.

Recurring Revenue for the year ended March 31, 2010 was \$13.1 million compared to \$14.5 million for the year ended March 31, 2009, representing a decrease of \$1.4 million, or 10%. This decrease in Recurring Revenue from the prior year was primarily the result of attrition in the transcription services business as two large customers elected not to renew their contracts as well as the negative impact of the reduction in value of the US dollar compared to the Canadian dollar. Revenues from the transcription business decreased from \$2.8 million in the year ended March 31, 2009 to \$1.4 million in the year ended March 31, 2010.

Non-Recurring Revenue for the year ended March 31, 2010 was \$3.5 million compared to \$3.9 million for the year ended March 31, 2009, representing an 11% decrease. This decrease in Non-Recurring Revenue was 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 year ended March 31, 2010, the Company generated 72% 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 2.4%, or \$0.4 million, during the year ended March 31, 2011 compared to the year ended March 31, 2010.

Gross Profit: For the year ended March 31, 2010, gross profit was \$12.2 million, or 74% of revenue, compared to \$13.4 million, and 73% of revenue for the previous fiscal year. This improvement reflects a greater proportion of higher margin sales in fiscal 2010 compared to the previous year. The Company focused on higher margin longer term revenue opportunities in fiscal 2010.

Expenses: Expenses for the year ended March 31, 2010 were \$13.7 million compared to \$16.8 million for the year ended March 31, 2009, representing a 19% decrease. This decrease in expense was primarily the result of the Company's strategic plan to improve profitability and the implementation of several cost reduction measures throughout 2009 and 2010. The decrease in the value of the Canadian dollar compared to the US dollar also contributed to the decrease in expenses. Although the Company was focused on prudent expense management as it sought to achieve profitability, the Company was committed to making select investments in support of revenue generating activities in order to capture the opportunities presented by the North American markets.

Over the year ended March 2010, approximately 44% of the Company'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 2% or \$0.2 million over the year compared to the previous year.

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General and administration expenses for the year ended March 31, 2010, were \$2.9 million. This compares to \$3.5 million for the year ended March 31, 2009, representing a \$0.5 million, or 15% decrease. This decrease in general and administration expense was the result of cost reduction initiatives. The decrease in the value of the Canadian dollar compared to the US dollar also contributed to the decrease in this expense.

Sales and marketing expenses for the year ended March 31, 2010 were \$1.5 million compared to \$2.4 million for the year ended March 31, 2009, representing a \$0.9 million, or 38%, decrease. This decrease in expenses was primarily the result of a decrease in US sales costs as the Company focused its sales efforts primarily in Canada as well as a decrease in expenses associated with marketing and third party public relations activities.

Research and development expenses for the year ended March 31, 2010 were \$2.7 million compared to \$3.6 million for the year ended March 31, 2009, representing a \$1 million, or 27% decrease. 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 due to 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 US EMR product. These reimbursements of costs incurred are classified as a reduction to both the Company's operating expenses and capitalized software costs. The 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 \$0.08 million of development costs, net of government assistance, in the year ended March 31, 2010 that met the criteria for such deferral.

Client services expenses for the year ended March 31, 2010 were \$3.9 million compared to \$4.6 million for the year ended March 31, 2009, representing a \$0.7 million, or 15% decrease. This decrease was primarily attributable to the Company's continued integration and cost management efforts with respect to staffing and consulting costs. 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 year ended March 31, 2010 was \$0.3 million compared to \$0.1 million for the year ended March 31, 2009.

Depreciation and amortization expense for the year ended March 31, 2010 was \$2.4 million compared to \$2.6 million for the year ended March 31, 2009.

EBITDA (non-GAAP measure, see note 4.a for a definition): EBITDA for the year ended March 31, 2010 was a positive \$1.2 million compared to an EBITDA loss of \$0.7 million for the year ended March 31, 2009. The Company was focused on achieving profitability and implemented several cost reduction initiatives in 2009 and 2010 in an effort to achieve this goal. The Company also focused in higher margin longer term revenue opportunities in fiscal 2010.

Operating Loss: For year ended March 31, 2010 the Company's operating loss was \$1.5 million compared to an operating loss of \$3.4 million for the year ended March 31, 2009. The improvement in operating loss can be primarily attributed to an improvement in EBITDA.

Interest and Other Income/Loss: In April 2010, the Company completed a comprehensive debt and private placement financing and in July 2010, the proceeds of the financing were used for working capital purposes and 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 year ended March 31, 2010 would have been \$1.1 million compared to \$1.4 million for the year ended March 31, 2009. This decrease of \$0.3 million from the year ended March 31, 2009 was largely related to the repayment of subordinated debt of \$0.5 million in September 2008 and \$0.25 million in November 2008.

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A significant portion of the Company's interest expense is non-cash (approximately \$1.3 million in the year ended March 31, 2010 and \$0.7 million in the year ended March 31, 2009).

Included in other income/loss are foreign currency adjustments related to monetary translations. For the year ended March 31, 2010 other income was \$0.1 million compared to \$0.2 million for the year ended March 31, 2009.

Loss and Comprehensive Loss from Operations: For the year ended March 31, 2010, loss from operations was \$3.4 million compared to \$4.6 million for the year ended March 31, 2009. The reduction in the Company's loss and comprehensive loss was primarily related to numerous cost reduction initiatives implemented in 2009 and 2010 as the Company focused on achieving profitability.

3. LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents on March 31, 2011 were \$4.2 million, an increase of \$2.4 million from March 31, 2010.

Cash Flow from Operating Activities: Cash provided by operating activities for the year ended March 31, 2011 was \$3.1 million, an improvement in comparison to a use of cash of \$1.1 million for the year ended March 31, 2010. A significant reduction in the Company's net loss as well as a reduction in interest expense both contributed to this improvement in cash from operations. The Company also recognized a \$2.3 million increase in deferred revenue in fiscal 2011 due to an increase in sales of its web-based EMR product in fiscal 2011 compared to fiscal 2010.

Cash Flow from Investing Activities: During the year ended March 31, 2011, cash used in investing activities was \$0.8 million representing capitalization of development costs of \$0.6 million and purchases of property and equipment of \$0.2 million, versus cash flow used in investing activities of \$0.2 million during the previous year.

Cash Flow from Financing Activities: Cash provided by financing activities for the year ended March 31, 2011 totalled \$0.2 million compared to cash used of \$0.2 million during the previous year. The Company received net proceeds of \$1.9 million from a senior term loan facility and \$2.0 million from convertible debentures in 2011. The Company used the proceeds from the term loan and the convertible debentures (the "Debentures"), along with \$1.2 million from the issuance of common stock in April 2010 to repay the subordinated debentures of \$5.3 million in July 2010. The Company also received \$1.0 million from a senior line of credit borrowing in the year ended March 31, 2011 and repaid \$0.3 million of the term loan principal.

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 senior term loan and the line of credit bear interest at a variable rate of the prime rate plus 3% and borrowings under these arrangements are collateralized by a security interest in the Company's assets. The term loan is repayable in 30 equal monthly instalments of principal plus all accrued interest with principal payments commencing November 1, 2010.

The Company also used \$0.3 million and \$0.2 million of cash for the repayment of capital lease obligations during the years ended March 31, 2011 and March 31, 2010, respectively.

During the fiscal year ended March 31, 2011, current assets increased \$2.6 million to \$7.7 million while current liabilities increased \$2.7 million to \$9.0 million. While working capital was flat, working capital excluding deferred revenue increased from \$2.2 million to \$3.5 million.

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In March 2010, the Company experienced a breach of a financial covenant under the subordinated loan agreement with its lenders. The Company received a waiver of the breach from the lenders. In July 2010, the Company repaid the subordinated debt in full with the proceeds from the Company's debt and private placement financing described below.

At March 31, 2011, the Company had \$4.2 million of cash and cash equivalents and working capital excluding deferred revenue of \$3.5 million. The Company is required to adhere to certain financial covenants pursuant to the terms of its senior term loan. In order for the Company to continue to 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 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.

Nightingale recently began to generate positive cash flows from its operations but to date has not generated consistent positive cash flow from operating activities. The Company also remains dependent on new sales to minimize its use of cash and 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 up-front cash flows from new sales which would have a negative impact on cash from operations.

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 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 reduced the amount of covenant based debt in fiscal 2011 and has been able to obtain 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.

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.

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

| Definition | Quarter Ended March 31, 2011 | Quarter Ended March 31, 2010 | Year Ended March 31, 2011 | Year Ended March 31, 2010 |
|-------------------------------|------------------------------|------------------------------|---------------------------|---------------------------|
| Loss and Comprehensive Loss | \$ (218) | \$ (1,524) | \$ (962) | \$ (3,444) |
| <i>Adjustments for:</i> | | | | |
| Current Tax Expense (Benefit) | \$ (12) | \$ 33 | \$ (23) | \$ 40 |
| Other Loss (Income) | (37) | (6) | (50) | (62) |
| Interest | 132 | 1,191 | 696 | 2,011 |
| Depreciation and Amortization | 579 | 628 | 1,892 | 2,379 |
| Stock-based Compensation | 1 | 84 | 298 | 279 |
| EBITDA | \$ 445 | \$ 406 | \$ 1,851 | \$ 1,203 |

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, transcription services, revenue cycle management services and transactional fees.

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

| Definition | Quarter Ended March 31, 2011 | Quarter Ended March 31, 2010 | Year Ended March 31, 2011 | Year Ended March 31, 2010 |
|-----------------------|------------------------------|------------------------------|---------------------------|---------------------------|
| Non-Recurring Revenue | \$ 1,901 | \$ 1,324 | \$ 6,695 | \$ 3,485 |
| Recurring Revenue | 2,452 | 2,849 | 10,679 | 13,096 |
| Revenue | \$ 4,353 | \$ 4,173 | \$ 17,374 | \$ 16,581 |

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5. CONTRACTUAL OBLIGATIONS

Nightingale leases office space for its corporate headquarters in Markham, Ontario and has entered into a number of capital and operating leases, including the lease of several facilities across Canada and the United States.

The Company has not entered into off-balance sheet financing arrangements. Except for operating leases and other low probability and/or unmeasurable contingent liabilities (not accrued in accordance with Canadian GAAP), all commitments are reflected on the Company's balance sheet.

The minimum amounts payable under operating leases and capital leases, exclusive of certain operating costs for which the Company is responsible, are as follows:

| Fiscal Year | Operating Leases | Capital Leases |
|--------------------------------|------------------|------------------|
| 2012 | \$ 503,610 | \$ 158,706 |
| 2013 | 297,462 | 120,340 |
| 2014 | 231,203 | 13,133 |
| 2015 and thereafter | <u>180,115</u> | <u>-</u> |
| Total Future Minimum Payments | \$ 1,212,390 | 292,179 |
| Less Interest | | <u>(18,612)</u> |
| Total Principal Balance | | 273,567 |
| Less Long Term Portion | | <u>(128,130)</u> |
| Current Portion of Obligations | | \$ 145,437 |

Capital lease obligations, including interest at rates ranging from 3.5% to 20% per annum, mature on various dates to January 1, 2014 and are often secured by the underlying office equipment and furniture and fixtures.

6. TRANSACTIONS WITH RELATED PARTIES

In April 2010, certain directors and officers participated in the Private Placement offerings as further described in the Material Change Report dated April 22, 2010 which was filed by the Company on www.sedar.com.

At March 31, 2010 the Company had a deferred compensation balance of \$47,386 payable to an officer and director of the Company. The balance is included in accounts payable and accrued liabilities and was paid in full in the year ended March 31, 2011.

7. RECENT AND SIGNIFICANT EVENTS

Subsequent to year end, the Company announced that its Nightingale On Demand V10.0 product is 2011/2012 compliant and was certified as a Complete EHR on July 19, 2011 by the Certification Commission for Health Information Technology (CCHIT®), an ONC-ATCB, in accordance with the applicable eligible provider certification criteria adopted by the Secretary of Health and Human Services. The 2011/2012 criteria support the Stage 1 meaningful use measures required to qualify eligible providers and hospitals for funding incentives under the American Recovery and Reinvestment Act (ARRA).

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8. RECENT ACCOUNTING PRONOUNCEMENTS

Multiple deliverable revenue arrangements

Effective April 1, 2010, the Company adopted EIC 175, Multiple Deliverable Revenue Arrangements. This abstract was amended to (1) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the manner in which consideration should be allocated to each deliverable; (2) provide that in situations where a vendor does not have vendor-specific objective evidence ("VSOE") or third-party evidence of selling price, require that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (3) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (4) 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.

The Company early adopted this abstract prospectively to revenue arrangements with multiple deliverables entered into on or after April 1, 2010.

In the past, for arrangements involving multiple elements, the Company allocated revenue to each component of the arrangement using the residual value method, based on vendor-specific objective evidence of the fair value of the undelivered elements. EIC 175 has eliminated the use of the residual value method, and therefore, effective April 1, 2010, the Company has allocated revenue using the relative selling price method of the separate units of accounting. The Company allocates the arrangement fee, in a multiple element transaction, to the separate elements based on their relative selling prices, as indicated by vendor-specific objective evidence or third-party evidence of selling price, and if both are not available, the best estimated selling price.

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 has not materially affected the financial statements for the year ended March 31, 2011 and is not expected to have material impact in future periods to the extent that the Company continues to enter into similar revenue arrangements.

9. FUTURE ACCOUNTING CHANGES

Convergence with International Financial Reporting Standards

The Canadian Accounting Standards Board has confirmed that International Financial Reporting Standards (IFRS) will replace current Canadian GAAP for publicly accountable enterprises, including Nightingale, effective for fiscal years beginning on or after January 1, 2011.

Accordingly, the Company will apply accounting policies consistent with IFRS beginning with its interim financial statements for the quarter ended June 30, 2011. The Company's fiscal 2012 interim and annual financial statements will include comparative fiscal 2011 financial statements, adjusted to comply with IFRS.

IFRS Transition Plan

The Company's IFRS implementation team is progressing on schedule in accordance with its IFRS transition plan.

The Company has completed the following elements of its transition to IFRS:

- Detailed analysis of the relevant IFRS requirements and identified the areas where accounting policy changes are required, and those for which accounting policy alternatives are available.

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- Assessment of the first-time adoption requirements and alternatives.
- Determination of expected changes to significant accounting policies resulting from the adoption of IFRS.
- Management and employee education on the relevant aspects of IFRS and the expected changes to accounting policies.
- Resolution of the accounting policy change implications on accounting systems and business processes.
- Determination of the expected quantitative impact on its consolidated balance sheet as at April 1, 2010 in accordance with IFRS 1 First-time Adoption of IFRS.

To complete its preparation for the transition to IFRS, the Company is currently preparing Q1 fiscal 2012 financial statements consistent with IFRS presentation and disclosure requirements. The Company is also completing its resolution of the accounting policy change implications on information technology and contractual arrangements.

Impact of Adopting IFRS on the Organization

Throughout the transition process, the Board of Directors and Audit Committee have been updated on progress of the IFRS transition plan and with information regarding expected changes to significant accounting policies. The Company's employees that are involved in the preparation of financial statements have received training on the relevant aspects of IFRS and the expected changes to accounting policies.

As part of its analysis, the implementation team has assessed what changes may be required to its accounting systems and business processes. The identified changes to systems, processes and controls are minimal and the Company believes the systems and processes can accommodate the necessary changes. The Company is continuing its review of contractual arrangements to identify those that would be impacted by the expected changes to significant accounting policies. To date, the Company has not identified any arrangements for which the expected changes will have a significant impact.

Impact of Adopting IFRS on the Company's Financial Statements

The Company has finalized its determination of the expected changes to significant accounting policies resulting from the adoption of IFRS and quantified the expected impact on the opening IFRS consolidated balance sheet as at April 1, 2010.

Included below are highlights of the areas where changes to significant accounting policies are expected. This is not intended to be a complete list of areas where the adoption of IFRS will require a change in accounting policies, but to provide highlights of the Company's determination of expected changes to significant accounting policies resulting from the adoption of IFRS.

- Revenue Recognition – IFRS contains significantly less specific guidance with respect to revenue recognition, particularly with respect to the criteria to separate multiple element arrangements and the allocation of the contract value to the separated elements.

Effective April 1, 2010 under Canadian GAAP, the Company adopted EIC 175, Multiple Deliverable Revenue Arrangements and applied this policy prospectively from April 1, 2010. The Company has determined that this policy, and the other aspects of its revenue recognition policies, are appropriate under IFRS and on adoption of IFRS, the Company is required to apply this accounting policy retrospectively, however the Company does not expect this will have a significant impact on its opening IFRS consolidated balance sheet.

- Classification of Long-Term Debt - Under IFRS, a violation of a debt covenant at the balance sheet date results in a re-classification of the debt to current liabilities unless the Company has secured a waiver, which covers a period of at least

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12 months, from its creditor prior to the end of the reporting period. Under Canadian GAAP, if a waiver is received prior to the date the financial statements are issued, no re-classification to current liabilities is required.

In March 2010, the Company breached a financial covenant under the subordinated debt agreement with its lenders, but received a waiver of the breach from the lenders prior to the issuance of the fiscal 2010 annual financial statements. As such, the subordinated debt was classified as long-term under Canadian GAAP in its March 31, 2010 consolidated balance sheet. On adoption of IFRS, the subordinated debt of \$5,250,000 will be reclassified to current liabilities for comparative periods prior to July 29, 2010 when the subordinated debt was repaid in full.

- Foreign Currencies – IFRS requires that the functional currency of the company and its subsidiaries be determined separately, and the process of considering factors to determine functional currency are somewhat different than current Canadian GAAP. The Company does not expect these differences will result in a change in its functional currency or that of any of its subsidiaries.
- Impairment of Assets – IFRS requires a write down of assets if the higher of the fair market value and the value in use of a group of assets is less than its carrying value. Value in use is determined using discounted estimated future cash flows. Current Canadian GAAP requires a write down to estimated fair value only if the undiscounted estimated future cash flows of a group of assets are less than its carrying value. In addition, the level at which assets are grouped for the purposes of assessing assets for impairment can be different under IFRS.

Goodwill is tested annually for impairment under both Canadian GAAP and IFRS. However, there are differences in the methods used to determine whether an impairment loss should be recognized, and the measurement of the impairment loss (if any). Under Canadian GAAP, goodwill is first tested for impairment by comparing the carrying amount of the goodwill and associated assets to their fair value. If the carrying amount of the goodwill and associated assets exceeds their fair value, an impairment loss is calculated by comparing the carrying amount of the goodwill to the implied fair value of the goodwill. Goodwill is tested for impairment under IFRS by comparing the carrying amount of the goodwill and associated assets to their recoverable amount (defined as the higher of the fair value less costs to sell and the value in use). Value in use is determined using discounted estimated future cash flows.

The Company will change its accounting policies related to impairment to reflect these differences, but does not expect any impact on the carrying amounts of assets in its opening IFRS consolidated balance sheet.

- Share-based Payments – In certain circumstances, IFRS requires a different measurement of share-based compensation than current Canadian GAAP. In particular, the Company will change its accounting policies to include an estimate of forfeitures in the determination of the expense associated with stock option grants. Under current Canadian GAAP, the Company was recognizing forfeitures as they occurred.

The effect of applying this change in accounting policy retrospectively at April 1, 2010 is expected to be a decrease in contributed surplus of \$31,078 and a corresponding decrease in the deficit within shareholders' equity.

Accounting policies have been selected to be consistent with IFRS as it is expected to be effective for Nightingale for its fiscal 2012 annual consolidated financial statements. The standards and interpretations within IFRS are subject to change and accordingly, the accounting policies for the annual period that are relevant to these condensed consolidated financial statements will be finalized only when the first annual IFRS financial statements are prepared for the year ended March 31, 2012.

First-time adoption of IFRS

The adoption of IFRS requires the application of IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1"), which provides guidance for an entity's initial adoption of IFRS. IFRS generally requires retrospective application of IFRS as

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effective at the end of the entity's first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment.

The Company expects to elect the following IFRS optional exemptions in the preparation of an opening IFRS statement of financial position as at April 1, 2010, Nightingale's "Transition Date":

- To apply IFRS 2 Share-based Payments only to equity instruments that were issued after November 7, 2002 and had not vested by the Transition Date.
- To apply IFRS 3 Business Combinations prospectively from the Transition Date, therefore not restating business combinations that took place prior to the Transition Date.
- To apply IAS 23 Borrowing Costs prospectively from the Transition Date. IAS 23 requires the capitalization of borrowing costs directly attributable to the acquisition, production or construction of certain assets.
- To not reassess whether arrangements contain a lease under IFRS where the same determination that would be made under IFRIC 4 Determining Whether an Arrangement Contains a Lease (IFRIC 4) was made previously in accordance with Canadian GAAP.
- To apply the transitional provisions of IFRIC 4 to leases which the same determination as IFRIC 4 was not made previously in accordance with Canadian GAAP. Therefore, the determination of whether these arrangements contain a lease is based on the circumstances existing at the Transition Date.

IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of the Company's opening IFRS statement of financial position as at April 1, 2010 will be consistent with those made under current Canadian GAAP. If necessary, estimates are adjusted to reflect any difference in accounting policy.

Opening IFRS Balance Sheet as a April 1, 2010

The following provides a reconciliation of the March 31, 2010 consolidated balance sheet as reported under Canadian GAAP to the expected opening IFRS consolidated balance sheet as at April 1, 2010.

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The reconciliation takes into account all expected changes in accounting policies and the application of IFRS 1.

| | notes | March 31 2010, (Canadian GAAP) | Transition Adjustments | April 1, 2010 (IFRS) |
|---|-------|-----------------------------------|---------------------------|-------------------------|
| ASSETS | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | | \$ 1,798,247 | - | \$ 1,798,247 |
| Accounts receivable | | 2,626,757 | - | 2,626,757 |
| Inventory | | 30,708 | - | 30,708 |
| Prepaid expenses | | 454,070 | - | 454,070 |
| Other receivables | | 134,459 | - | 134,459 |
| | | 5,044,241 | | 5,044,241 |
| Long term assets | | | | |
| Deferred costs | | 83,385 | - | 83,385 |
| Property and equipment | | 821,243 | - | 821,243 |
| Intangibles assets | | 4,010,143 | - | 4,010,143 |
| Goodwill | | 4,692,399 | - | 4,692,399 |
| | | 9,607,170 | - | 9,607,170 |
| Total assets | | \$ 14,651,411 | - | \$ 14,651,411 |
| LIABILITIES & EQUITY | | | | |
| Current liabilities | | | | |
| Accounts payable and accrued liabilities | | \$ 2,549,237 | - | \$ 2,549,237 |
| Current portion of capital lease obligations | | 296,649 | - | 296,649 |
| Current portion of deferred revenue | | 3,488,382 | - | 3,488,382 |
| Current portion of subordinated debt | (a) | - | 5,250,000 | 5,250,000 |
| | | 6,334,268 | 5,250,000 | 11,584,268 |
| Long term liabilities | | | | |
| Subordinated debentures | (a) | 5,250,000 | (5,250,000) | - |
| Deferred revenue | | 1,750,644 | - | 1,750,644 |
| Capital lease obligations | | 211,578 | - | 211,578 |
| Income taxes payable | | 705,940 | - | 705,940 |
| | | 7,918,162 | (5,250,000) | 2,668,162 |
| Total liabilities | | 14,252,430 | - | 14,252,430 |
| Capital stock | | 28,348,960 | | 28,348,960 |
| Contributed surplus | (b) | 4,501,027 | (31,078) | 4,469,949 |
| Warrants | | 701,452 | - | 701,452 |
| Deficit | | (33,152,458) | 31,078 | (33,121,380) |
| | | 398,981 | - | 398,981 |
| Total liabilities and shareholders' equity | | \$ 14,651,411 | - | \$ 14,651,411 |

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- (a) The expected effect of a reclassification of the subordinated debentures being re-classified to current liabilities under IFRS.
- (b) The expected effect of the change in accounting policy to estimated forfeitures in the measurement of stock-based compensation expense.

Subsequent Disclosures

Further disclosures of the IFRS transition are expected as follows:

- The Company's first financial statements prepared in accordance with IFRS will be the interim financial statements for the three months ended June 30, 2011, which will include notes disclosing transitional information and disclosure of new accounting policies under IFRS. The interim financial statements for the three months ended June 30, 2011 will also include fiscal 2011 financial statements for the comparative period, adjusted to comply with IFRS, and the Company's transition date IFRS statement of financial position (as at April 1, 2010).

Recent Accounting Standards Not Yet Adopted

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

- (a) 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 did not adopt this new standard in the year ended March 31, 2011.

- (b) 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 did not adopt this new standard in the year ended March 31, 2011.

- (c) 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 did not adopt this new standard in the year ended March 31, 2011.

10. RISKS AND UNCERTAINTIES

See "Cautionary Note Regarding Forward-Looking Statements".

The Company operates in a dynamic business and economic environment that exposes it to a number of risks and uncertainties. The following section describes some, but not all, of the risks and uncertainties that may adversely impact Nightingale's

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business, financial condition, or results of operations. Additional risks and uncertainties not presently known to Nightingale or that Nightingale currently deems immaterial may also impact Nightingale's business.

The Company's business, financial condition or results of operations could be materially harmed and the trading price of the Company's common shares materially affected by any of the risks outlined below. The reader should understand that the sole purpose of discussing these risks and uncertainty is to alert the reader to factors that could cause actual results to differ materially from past results or from those described in forward-looking statements and not to describe facts, trends and circumstances that could have a favourable impact on the Company's business.

Some of the Company's products are new and the market for them is unpredictable.

The market for Nightingale's products and services has only recently begun to develop. As is typical for a new and rapidly evolving industry, demand and market acceptance for recently introduced services and products are subject to a high level of uncertainty. Furthermore, the adoption of medical software may occur at a much slower rate than market data suggests. There is no assurance that Nightingale's sales will continue to increase or that it will even be able to maintain current levels. Market conditions will have an impact on Nightingale's success in the future. There is also no assurance that Nightingale will earn profits in the future or that any profitability will be achieved or sustained.

Risks relating to timing and availability of government funding to the healthcare industry and timing of related announcements.

In Canada and the United States, government funding programs are helping to fuel the market for Nightingale's solutions; however, delays in processing funding applications and/or the physician's ability to qualify for the funding programs we have targeted complicates and lengthens our sales cycle. There is a risk that if funding commitments from government initiatives are eliminated or reduced, then the demand for EMR, clinical and practice management could significantly decrease, which could have a material adverse effect on the Company. In the event of any new government funding initiatives, sales in the short term may be adversely affected as prospective customers evaluate programs, adjust spending plans in an attempt to take advantage of new programs, and apply for funding.

The Company faces significant competition.

Direct competition among providers of medical software products and services is likely to increase as demand for these products increases. Increased competition may result in price reductions, reduced gross margins, longer sales cycles and loss of market share, any of which would seriously harm Nightingale's business and results of operations. Management of Nightingale cannot be certain that Nightingale will be able to compete successfully against current or future competitors or that competitive pressure will not seriously harm its business.

Some of Nightingale's potential competitors are larger than Nightingale and have greater financial, sales, marketing, technical, manufacturing and other resources. These competitors may be able to respond more rapidly to new or emerging products and changes in customer requirements or devote greater resources to the development, promotion and sale of their products than Nightingale can. Furthermore, some of these competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties in the industry to increase their ability to rapidly gain market share by addressing the needs of prospective customers.

Nightingale's operating results may fluctuate each quarter.

Nightingale has experienced and may continue to experience fluctuations in future quarterly operating results that may be caused by many factors, including: (i) variability of sales to new and existing customers, (ii) changes in the level of marketing and other operating expenses, (iii) competitive factors; and (iv) the timing of delivery. Consequently, Nightingale believes that period-to-period comparisons of its operating results will not always be meaningful and should not be relied upon as an indication of future performance. It is likely that Nightingale's future quarterly operating results from time to time will not meet

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the expectations of securities analysts or investors, which may have a material adverse effect on the market price of its common shares.

Nightingale recently began to generate positive cash flows from its operations but to date has not generated significant or consistent positive cash flows from its operations and is still highly dependent on new sales to minimize its use of cash. Up until the point where the Company is able to generate and predict continued positive cash flows from Recurring Revenue, the Company faces risk in utilizing its existing cash resources and potentially requiring further cash infusions from investors to maintain its operations.

Nightingale will incur expenses while its customers determine whether to purchase its products and services.

The sales cycle of Nightingale's products and services, particularly larger customer opportunities, is lengthy and unpredictable. The dynamics of the Company's sales cycle and its close rates continues to evolve. While customers are evaluating Nightingale's product offering, Nightingale may incur expenses and expend management effort. The result of making these expenditures, with no corresponding revenue in any given quarter, could further exacerbate fluctuations of the quarterly operating results of Nightingale.

Risks Related to the Debt Arrangements.

There are risks associated with the debt service costs and the ability to comply with covenants imposed under the Company's debt arrangements. These costs and covenants may have a material effect upon the operating cash flow of the Company and its ability to conduct its business on a go-forward basis. Should the Company be unable to comply with the covenants associated with the debt arrangements, there is no guarantee that the Company would be able to work with the lenders to obtain a waiver related to the breach or to revise the covenants so that rights under a default may be waived.

Access to capital market risk.

Nightingale may require additional cash or equity in the future to finance its operations or growth. The type, timing, and terms of financing selected by the Company will depend upon its cash needs, the availability of other financing sources and the prevailing conditions in the financial markets. There can be no assurances that any of these sources will be available to Nightingale at any time, that they will be available on favourable terms or at all.

Nightingale faces risks related to its US operations including the impact of foreign exchange fluctuations.

Nightingale may further increase its presence in the United States. Such efforts may not be successful to the degree that management expects. Further, US operations are influenced by numerous inherent risks, including: unexpected changes in regulatory requirements, complex state and local taxes requiring significant judgement in the determination of the obligation to collect and remit such taxes, longer accounts receivable payment cycles and possible difficulties in collecting payments that may increase its operating costs and impair its financial performance; political and economic instability; and fluctuations in currency exchange rates.

As indicated in the discussion of financial results, section 2, a significant portion of the Company's revenues and expenses are denominated in US dollars and restated to Canadian dollars for financial statement purposes. The Company's US denominated expenses can act as a natural hedge to partially offset the exposure to US denominated revenues. However, significant changes in the foreign exchange rates between Canada and the United States, have had, and may continue to have a material effect on both the revenues and expenses of the Company. As the Canadian dollar fluctuates relative to the US dollar, both US dollar denominated revenues and expenses as stated in Canadian dollars will also fluctuate. There can be no assurances that the Company will prove successful in its effort to manage this risk, which may adversely impact the Company's financial results.

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Risks relating to loss of customer contracts.

The loss of one or more of Nightingale's major customers, the failure to attract new customers on a timely basis, or a reduction in usage and revenues associated with Nightingale's existing or proposed customers would materially harm its business, financial condition, liquidity, operating results and prospects. No customer accounted for more than 10% of total revenues in the year ended March 31, 2011. In the year ended March 31, 2010, one large customer accounted for 10% of total revenues. A second customer represented 11% of accounts receivable at March 31, 2011 and 17% at March 31, 2010 and a third customer accounted for 23% of accounts receivable at March 31, 2010.

Risks relating to bad debts.

The Company regularly evaluates the risk of collections from sales to new and existing customers based on the size and type of customer (e.g. sole practitioner, governmental agency, hospital) and has adopted a policy to take reserves against overdue accounts based on the period for which a receivable has been outstanding. There is always a risk that some customers may not honour their accounts with the Company, resulting in the Company being unable to collect outstanding amounts and a significant charge for bad debts being incurred during a specific period.

Risks relating to product liability.

Nightingale, like any other business, faces an inherent risk of exposure to product and service liability claims in the event that the use of its products and services results in loss of a customer's data or ability to effectively operate their own business. Although Nightingale believes it has sufficient liability insurance coverage in accordance to the standards of its industry, such coverage is subject to standard limitations and exclusions. Product liability claims could have a material adverse effect on Nightingale. The successful assertion or settlement of any uninsured claim, a significant number of insured claims or a claim exceeding Nightingale's insurance coverage could have a material adverse effect on Nightingale.

Nightingale's success depends on attracting and retaining skilled personnel.

Nightingale is dependent on its management team. This dependence can be expected to continue over the short and medium term as Nightingale's business expands and matures. Nightingale's ability to develop, market and sell its products and services and to maintain its competitive position depends on its ability to attract, retain and motivate highly skilled technical, sales and marketing and other personnel. Nightingale plans to continue to invest in select sales and marketing efforts in order to increase market awareness. Nightingale also plans to continue to invest in certain research and development and operational initiatives to develop and support new products, and to increase its customer service and support personnel in North America to support the growth and other changes in its business. There are a limited number of people with the necessary technical skills and understanding, and competition for their services is intense. If Nightingale fails to recruit or retain these personnel, its ability to develop new products, obtain new customers and provide an acceptable level of customer service could suffer.

Nightingale's success will depend upon its ability to anticipate and keep pace with technological changes.

The healthcare information technology industry is susceptible to technological advances and the introduction of new technologies. Further, this industry is also subject to changing industry standards, market trends and customer preferences and to competitive pressures which can, among other things, necessitate revisions in pricing strategies, price reductions and reduced profit margins. The success of Nightingale will depend, in part, on its ability to secure technological superiority in its products and operations and maintain such superiority in the face of new technologies. No assurance can be given that further modification of product offerings of Nightingale will not be required in order to meet demands or to make changes necessitated by developments made by competitors that might render services and operations of Nightingale less competitive. The future success of Nightingale will be influenced by its ability to continue to adapt its products. Although Nightingale has committed resources to improve its products, there can be no assurance that these efforts will increase revenues or profits.

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Risks relating to security.

Security is always a major concern for any software system dealing with confidential records. Security risks include unauthorized access to confidential information, such as patient records and a customer's enterprise data. If either of these events occurs to Nightingale, its reputation in the marketplace would be damaged, potentially resulting in lost sales of new or existing customers.

Risks relating to system interruptions.

If Nightingale's system is unavailable for any significant period of time, physicians and healthcare providers will be unable to access critical patient records and other information required to perform daily duties. Nightingale may have its reputation in the marketplace damaged, potentially resulting in lost sales of new or existing customers.

Risks relating to share price volatility.

The market price of Nightingale's common shares and the securities of software companies in general have been very volatile. Nightingale's stock price has often fluctuated in a manner that management believes is unrelated or disproportionate to the operating performance of the Company. The share price of the common shares may decline and/or experience further volatility. Shareholders of the Company may not be able to sell their common shares at their preferred price because of lack of liquidity. Further decline and volatility may impair our ability to obtain capital through future equity offerings.

Material Impact of Government Legislation and other Regulatory Risks.

The healthcare industry is highly regulated and has been the subject of increasing levels of government regulation during the past several years. Nightingale cannot predict with any certainty the types of regulations that might be imposed or the impact that those regulations might have on its business. The adoption of regulations not currently anticipated by Nightingale or by the healthcare industry, or changes to regulations currently adopted, could impose burdensome requirements or restrictions on Nightingale products or on the activities of healthcare providers. These restrictions could decrease the demand for Nightingale's products and could prevent it from growing its business and attaining profitability.

Federal regulations under the US Health Insurance Portability and Accountability Act ("HIPAA") and the Canadian Personal Information Protection and Electronic Documents Act ("PIPEDA") governing the confidentiality and integrity of protected health information are complex and are evolving. As these regulations mature and become better defined, Nightingale anticipates that they will continue to directly affect certain of its products and services, but the Company cannot fully predict the impact at this time. Nightingale has taken steps to modify its products, services and internal practices, as necessary, to facilitate Nightingale's and its clients' compliance with these regulations, but there can be no assurance that it will be able to continue to do so in a timely or complete manner. Achieving compliance with these regulations could be costly and distract management's attention from its operations. Any failure on Nightingale's part to comply with current or future regulations could subject it to significant legal and financial liability, including civil and criminal penalties. In addition, development of related federal and state regulations and policies regarding the confidentiality of health information or other matters could positively or negatively affect Nightingale's business.

Ontario MD has mandated ISO 13485:2003 certification, an international quality standard, as one of its Specification 4.0 requirements. As part of the licensing requirements, Nightingale is in the process of achieving ISO 13485:2003 compliance and certification. There is no guarantee that that Nightingale will achieve this certification and if ISO 13485:2003 certification is not achieved, Nightingale's ability to sell within the Ontario market will be diminished.

The performance of Nightingale's claims services are governed by numerous federal and state civil and criminal laws and increased scrutiny has been placed on the billing and collection practices of healthcare providers and related entities. Although Nightingale believes that it is in compliance with any such regulations that may relate to the provision of its claims services, any non-compliance could lead to civil monetary penalties, criminal fines, imprisonment or exclusion from participation in

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Medicare, Medicaid and other federally funded healthcare programs for Nightingale and the client involved in the non-compliance.

In February 2009, President Obama signed the American Recovery and Reinvestment Act ("ARRA"), which allocates over \$20 billion dollars to healthcare IT over the next several years. The provision of the legislation that addresses health information technology specifically is known as the Health Information Technology for Economic and Clinical Health Act ("HITECH Act"). Under the provisions of HITECH Act, the ARRA includes significant financial incentives to healthcare providers who can demonstrate meaningful use of certified EHR technology beginning in 2011. While the Company expects the ARRA to create significant opportunities for sales of the Nightingale web-based EMR over the next several years, the costs associated with ensuring that the Company's products qualify for such funding, and that they continue to qualify for funding as the regulations evolve, could be significant. Nightingale recently achieved certification of its Nightingale On Demand v10 product pursuant to the meaningful use criteria; however, there can be no assurance that the Company will be able to continue to meet such certification requirements as they evolve.

The US Food and Drug Administration (the "FDA") has jurisdiction under the 1976 Medical Device Amendments to the Federal Food, Drug and Cosmetic Act to regulate computer products and software as medical devices if they are intended for use in the diagnosis, cure, mitigation, treatment or prevention of disease in humans. Nightingale believes that its healthcare information systems are not subject to regulation by the FDA. If, however, the FDA determined that Nightingale products were subject to regulation, non-compliance with applicable requirements could result in, among other things, fines, injunctions, civil penalties, total or partial suspension of production, refusal by the government to approve products, revocation of approval or clearance previously granted and criminal prosecution. Future FDA policies, laws or regulations concerning the development or marketing of healthcare information systems may cause Nightingale's products to be subject to FDA regulation, which could increase its costs or delay the marketing of new or existing products.

Reliance on Third Parties.

Nightingale relies on third parties to provide services that are critical to its business. For example, it uses national clearinghouses for the processing of insurance claims and the printing and delivery of patient billings for its clients. Nightingale has also outsourced some of its product testing, product development, installation and hardware maintenance services. Nightingale's reliance on these third parties involves a number of risks, including, but not limited to:

- Reduced control over delivery schedules, product development, quality assurance and equipment costs;
- Lack of guaranteed production capacity or product supply;
- Nightingale's ability to transition to alternate sources, if necessary; and
- Dependence on external resources to implement HIPAA and PIPEDA transaction standards.

Risks relating to acquisitions.

Nightingale has acquired businesses in the past and may acquire additional businesses as part of its growth strategy. There can be no assurance that Nightingale will derive the planned benefits from such acquisitions that Nightingale may pursue. Nightingale may be unable to retain key employees or key business relationships of the acquired businesses, efficiently consolidate IT infrastructures, accounting controls, policies and procedures, combine administrative, research and development and other operations, eliminate duplicative facilities and personnel, which could result in significant costs and expenses, and combine product offerings, and integration of the businesses may divert the attention and resources of Nightingale's management. Nightingale's failure to successfully integrate acquired businesses into Nightingale's operations could have a material adverse effect on Nightingale's business, operating results and financial condition. Even if such acquisitions are successfully integrated, Nightingale may not receive the expected benefits of the transactions if it finds that the acquired business does not further Nightingale's business strategy or that Nightingale paid more than what the business was worth. Managing the completion and integration of acquisitions and alliances requires management resources, which may divert Nightingale's attention from other business operations. As a result, the effects of any acquisition transactions on financial results may differ from Nightingale's expectations.

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11. DISCLOSURE OF OUTSTANDING SHARE DATA

The Company had 76,310,915 common shares outstanding as at June 30, 2011. The following table sets out common shares, stock options and warrants outstanding as at March 31, 2011 and June 30, 2011.

| | Authorized | Issued at March 31, 2011 | Issued as at June 30, 2011 |
|--|------------|--------------------------|----------------------------|
| Common Shares, Voting | Unlimited | 76,310,915 | 76,310,915 |
| Preferred Shares | Unlimited | - | - |
| Stock Options – Issued and Outstanding | | 6,315,365 | 6,305,865 |
| Warrants – Issued and Outstanding | | 4,233,870 | 4,233,870 |

As described further in Section 3 – Liquidity and Capital Resources, the Company issued Debentures in July 2010. 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 of the Company at any time prior to maturity or redemption at a conversion price of \$0.35 per share. The principal balance outstanding on the Debentures at March 31, 2011 was \$2.074 million.

12. OUTLOOK

See "Cautionary Note Regarding Forward-Looking Statements"

Greater EMR government funding availability throughout North America led to an increase in the level of inquiries and interest in the Company's certified ASP EMR solution in fiscal 2011. Accordingly, Nightingale focused its attention and investments on key areas of the business that best positioned Nightingale to acquire new customers and expand its market share, while remaining committed to managing expenses and cash in pursuit of achieving consistent positive cash flow, positive EBITDA and profitability.

In particular, as a result of government EMR funding initiatives in Ontario, where Nightingale offers one of only three funding approved Web-based EMR solutions, and Nova Scotia, where the Company is the sole approved EMR provider, Nightingale realized an increase in sales in fiscal 2011, selling more than 850 seats of its ASP-based EMR software to healthcare providers across Canada and the US compared to approximately 290 seats in the previous year. However, the Company expects that there will be continued near-term fluctuations in quarterly results as the EMR market unfolds, with funding being rolled out to physicians at clinics of varying sizes or with varying specialities and as new customers choose either the Company's up-front license or a monthly utilization payment option.

In Canada, Nightingale expects to see further opportunity for expansion as other provinces adopt EMR funding initiatives and as more of a mainstream market evolves over the long-term. In the US, the recently launched government stimulus programs and certain EMR adoption incentive payments pursuant to these programs commenced early in calendar 2011. These programs are increasing the level of interest in and adoption of EMR solutions. Nightingale recently achieved certification of its EMR pursuant to the meaningful use criteria and is in process of completing its selling and distribution plans for the US market. The Company believes that there is a significant longer term opportunity available in the US market.

Nightingale believes that the EMR market is still in its infancy and is need of leadership. As such, to gain clear brand differentiation and increase its market share, the Company continues to work to position Nightingale as a technology and thought leader.

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Organic growth continues to be an important objective for Nightingale, with the Company particularly focused on expanding its base of higher margin EMR software revenue. The Company is working to drive growth through three key organic initiatives:

1. Increasing the number of healthcare practitioners on the Nightingale platform,
2. Leveraging its broad client base to cross-sell its products, and
3. Introducing new revenue streams with the launch of its patient-centric offering.

13. ADDITIONAL INFORMATION

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