



NIGHTINGALE INFORMATIX CORPORATION

**MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")
For the three month interim period ended June 30, 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 August 25, 2011, should be read in conjunction with the Company's March 31, 2011 Audited Consolidated Annual Financial Statements and Notes.

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MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") FOR THE THREE MONTH PERIOD ENDED JUNE 30, 2011

This MD&A provides an overview of significant developments that have affected Nightingale Informatix Corporation's ("Nightingale" or "the Company") performance during the three month period ended June 30, 2011.

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

IFRS replaced the existing Canadian GAAP for publicly accountable enterprises, including the Company, effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, the accompanying unaudited condensed consolidated financial statements for the three months ended June 30, 2011 have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Statements, using accounting policies consistent with IFRS. The transition to IFRS required a restatement of the Company's fiscal 2011 financial information from its original Canadian GAAP basis such that the fiscal 2011 comparative information presented in the financial statements and the MD&A reflect accounting policies consistent with IFRS.

Financial information in this MD&A for periods prior to April 1, 2010 have not been restated. For the purposes of this MD&A, the term "Canadian GAAP" refers to Canadian generally accepted accounting principles for the Company before the adoption of IFRS.

Readers of the MD&A should refer to "Changes in Accounting Policies" below, and note 17 of the Company's condensed consolidated financial statements, for a discussion of IFRS and its impact on the Company's financial statements.

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

All figures herein are expressed in Canadian dollars unless otherwise noted.

This MD&A contains "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 and applicable Canadian securities legislation. Generally, forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved", as well as those specifically identified herein.

Cautionary Note Regarding Forward-Looking Statements

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of Nightingale to be materially different from those expressed or implied by such forward-looking statements, including but not limited to: risks related to the speculative nature of the medical software industry, which is affected by numerous factors beyond Nightingale's control; the Company's ability to succeed in the 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,

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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.

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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

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.

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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.

Q1 Fiscal 2012 Financial and Operational Summary

- Revenue was \$3.8 million, compared to \$4.4 million in Q1 F2011, primarily reflecting a decrease in software license revenue.
 - Total software revenue (EMR and Practice Management) was \$3.3 million compared to \$3.6 million in Q1 F2011.
- Gross profit was \$3.2 million, or 83% of revenue, compared to \$3.5 million, or 80% of revenue, in Q1 F2011.
- Expenses were \$3.5 million compared to \$3.4 million in Q1 F2011.
- EBITDA was \$0.02 million compared to \$0.6 million in Q1 F2011.
- Net loss was \$0.4 million compared to \$687 in Q1 F2011.
- Cash from operations was \$(0.1) million compared to \$1.0 million in Q1 F2011.
- Cash and cash equivalents was \$3.5 million compared to \$4.2 million as at March 31, 2011.
- Total deferred revenue was \$7.6 million up from \$7.5 million as at March 31, 2011.
- Signed agreements with healthcare providers to deploy more than 90 EMR seats² down from approximately 200 seats in Q1 F2011.
- Subsequent to quarter end, received U.S. certification for Nightingale On Demand V10.0 as a Complete EHR by the Certification Commission for Health Information Technology (CCHIT®). This expands the Company's market opportunity, as now eligible Nightingale customers in the U.S. qualify for up to US\$44,000 in funding incentives.
- Subsequent to quarter end, received ISO 13485:2003 certification, further demonstrating the Company's commitment to providing its EMR customers with high-quality products, service and support. ISO certification is becoming a requirement to qualify for future funding initiatives in some jurisdictions.

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

	CGAAP (1)	CGAAP (1)	CGAAP (1)	CGAAP (1)	CGAAP (1)	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
	Q1 Ended	Q2 Ended	Q3 Ended	Q4 Ended	Fiscal Year Ended	Q1 Ended	Q2 Ended	Q3 Ended	Q4 Ended	Fiscal Year Ended	Q1 Ended
In \$ 000's (Except per Share Amounts)	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	June 30, 2011
Recurring Revenue	\$3,564	\$3,341	\$3,342	\$2,849	\$13,096	\$2,843	\$2,723	\$2,661	\$2,452	\$10,679	\$2,464
Non-Recurring Revenue	566	585	1,010	1,324	3,485	1,559	1,491	1,744	1,901	6,695	1,341
Revenue	4,130	3,926	4,352	4,173	16,581	4,402	4,214	4,405	4,353	17,374	3,805
Gross Profit	2,937	2,818	3,314	3,169	12,238	3,533	3,327	3,565	3,737	14,162	3,163
Expenses	3,508	3,327	3,384	3,474	13,693	3,357	3,553	3,686	3,870	14,466	3,500
EBITDA (Loss) (non-GAAP measure)	24	180	593	406	1,203	616	386	404	445	1,851	23
Operating Income (Loss) for the Period	(570)	(509)	(70)	(306)	(1,455)	176	(225)	(121)	(135)	(304)	(337)
Loss and Comprehensive Loss	(843)	(727)	(350)	(1,524)	(3,444)	-	(422)	(245)	(205)	(874)	(437)
Loss and Comprehensive Loss per Common Share	\$(0.01)	\$(0.01)	\$(0.00)	\$(0.02)	\$(0.05)	\$(0.00)	\$(0.01)	\$(0.00)	\$(0.00)	\$(0.01)	\$(0.00)
Weighted Avg. # of Common Shares	69,322	70,535	70,535	70,535	70,232	72,809	76,311	76,311	76,311	75,979	76,311
Total Assets	\$16,413	\$15,170	\$14,714	\$14,651	\$14,651	\$16,873	\$15,744	\$15,218	\$16,415	\$16,415	\$15,521
Total Long-Term Liabilities	\$7,184	\$6,558	\$7,062	\$7,918	\$7,918	\$1,979	\$5,185	\$5,337	\$6,115	\$6,115	\$5,819
Total Deferred Revenue	\$5,281	\$5,033	\$4,928	\$5,239	\$5,239	\$5,805	\$6,010	\$6,788	\$7,510	\$7,510	\$7,588

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⁽¹⁾ Financial information in this MD&A for periods prior to April 1, 2010 have not been restated for changes in accounting policies on adoption of IFRS. Refer to Changes in Accounting Policies below, and to note 17 of the Company's condensed consolidated financial statements, for a discussion of IFRS and its impact on the Company's financial statements.

FIRST QUARTER FISCAL 2012 RESULTS OF OPERATIONS COMPARED TO FIRST QUARTER FISCAL 2011 RESULTS

Revenue: For the three months ended June 30, 2011, revenue was \$3.8 million compared to revenue of \$4.4 million for the three months ended June 30, 2010 representing a 14% decrease from the year ago period. This decrease was due primarily to decreases in the Company's software and revenue cycle management businesses as well as a negative foreign exchange impact (which predominantly affects the Company's recurring revenue results) of \$0.1 million.

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 data management and transcription services.

Recurring Revenue for the three months ended June 30, 2011 was \$2.5 million compared to \$2.8 million for the three months ended June 30, 2010, representing a 13% decrease. The decrease in Recurring Revenue is primarily the result of a reduction in the revenue cycle management business as well as the negative impact due to foreign exchange.

Non-Recurring Revenue (see definition in Section 4.b under Non-GAAP Measures) is comprised of revenues generated from sales of software and systems and related training, data conversion and installation services.

Non-Recurring Revenue for the three months ended June 30, 2011 was \$1.3 million compared to \$1.6 million for the three months ended June 30, 2010, representing a 14% decrease. The decrease in non-recurring revenue is primarily due to a decrease in software license revenues associated with sales of the Company's Nightingale On Demand EMR product which can vary from quarter to quarter.

Over the three months ended June 30, 2011, the Company generated 45% 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 3% or \$0.1 million compared to the three months ended June 30, 2010.

The Company's deferred revenue balance, an indicator of the Company's revenue backlog, increased \$0.1 million to \$7.6 million at June 30, 2011 from to \$7.5 million at March 31, 2011. Deferred revenue increased \$1.8 million, or 31%, from June 30, 2010.

Gross Profit: For the three month period ended June 30, 2011, gross profit was \$3.2 million, or 83% of revenue compared to \$3.5 million, or 80% of revenue for the three months ended June 30, 2010. This improvement in gross margin as a percentage of revenue reflects a greater proportion of higher margin sales over the respective periods and a smaller proportion of lower margin revenue cycle management revenue.

Expenses: Expenses for the three month period ended June 30 2011 were \$3.5 million compared to \$3.4 million for the three months ended June 30, 2010, representing a 4% increase. This increase in expenses is primarily the

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result of the Company's focused investments in sales and marketing activities to further its growth initiatives as well as increased investments in certain research and development activities. These increases in expense are net of costs incurred related to internal development costs and subsidized research and development activities.

Over the three months ended June 2011, approximately 34% of the Company's expenses were incurred in the US, providing the Company with a natural hedge position that has offset some of the effects on revenue from the decrease in value of the US dollar versus last year. The Company estimates that expenses were positively impacted by approximately 2% or \$0.07 million for the three month period ended June 30, 2011, compared to the three month period ended June 30, 2010.

Nightingale continues to be focused on prudent expense management. However, the Company expects to continue to make focused investments in sales and marketing activities to support its revenue growth initiatives, particularly as the Company is seeing an increase in buying activity in the North American EMR market.

General and administration expenses for the three months ended June 30, 2011 were \$0.7 million compared to \$0.8 million for the three months ended June 30, 2010, representing a 9% decrease from the three months ended June 30, 2010. The decrease was primarily associated with a decrease in legal expenses and professional fees as well as a decrease in labour and related costs.

Sales and marketing expenses for the three months ended June 30, 2011 were relatively flat at \$0.8 million for the three months ended June 30, 2011 and June 30, 2010. A decrease in depreciation and amortization expenses associated with sales and marketing assets was partially offset by increases in expense associated with sales and marketing activities 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.

Research and development expenses for the three months ended June 30, 2011 were \$0.9 million compared to \$0.8 million for the three months ended June 30, 2010, an increase of 17%. The increase in research and development can be primarily attributed to the Company's increased investments in the Company's flagship EMR product in support of the Company's long-term growth initiatives. Research and development expenses are presented net of reimbursements pursuant to the Company's participation in Canadian research assistance and tax credit programs and are impacted by reductions in expenses associated with the Company's capitalization of certain qualifying development costs. The reimbursement of costs incurred pursuant to the research assistance and tax credit programs are classified as a reduction to both the Company's operating expenses and capitalized software costs. This current assistance program ended early in fiscal 2011 and there can be no assurances that the Company will be successful in obtaining further funding.

Gross research and development costs before capitalization of development costs and reimbursements pursuant to government programs, decreased by \$0.05 million, or 4%, in the three months ended June 30, 2011 compared to the three months ended June 30, 2010.

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

	Quarter Ended June 30, 2011	Quarter Ended June 30, 2010
Research and development expense before certain credits	\$ 1,138,766	\$ 1,187,819
Reimbursement pursuant to government programs	-	(122,500)
Capitalized development costs	(191,769)	(257,942)
Total Research and Development expense	\$ 946,997	\$ 807,377

Client services expenses for the three month period ended June 30, 2011 were \$1.0 million compared to \$0.9 million of the three months ended June 30, 2010, an increase of 10%. This increase in client services expenses was primarily attributable to the Company's increase in costs associated with implementation and training activities surrounding the Company's Nightingale On Demand EMR. This increase was partially offset by a decrease in depreciation and amortization expense related to client services assets as certain assets became fully amortized.

Stock-based compensation is included in each of general and administration expense, sales and marketing expense, research and development expense and client services expense as described above. Stock-based compensation increased 92%, or \$0.02 million to \$0.04 million for the three months ended June 30, 2011. The following amounts representing stock-based compensation have been included in the operating expense categories:

	Quarter Ended June 30, 2011	Quarter Ended June 30, 2010
General and administration	\$ 2,794	\$ 8,959
Sales and marketing	5,588	1,875
Research and development	10,378	3,334
Client services	21,155	6,667
Total stock-based compensation	\$ 39,915	\$ 20,834

Depreciation and amortization for the three months ended June 30, 2011, was \$0.3 million. This compares to \$0.4 million for the three months ended June 30, 2010.

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Depreciation and amortization expense is included in each of general and administration expense, sales and marketing expense, research and development expense and client services expense as described above. Depreciation and amortization expense decreased 24%, or \$0.1 million to \$0.3 million for the three months ended June 30, 2011. The following amounts representing depreciation and amortization expense have been included in the operating expense categories:

	Quarter Ended June 30, 2011	Quarter Ended June 30, 2010
General and administration	\$ 12,817	\$ 12,578
Sales and marketing	144,197	197,055
Research and development	131,380	125,780
Client services	32,044	83,853
Total depreciation and amortization expense	\$ 320,438	\$ 419,266

EBITDA (non-GAAP measure, see Section 4.a for a definition): EBITDA for the three months ended June 30, 2011 was \$0.02 million compared to \$0.6 million for the three months ended June 30, 2010. The Company has been focused on achieving profitability and implemented several cost reduction initiatives since fiscal 2010 in an effort to achieve this goal. The Company also continues to focus on higher margin longer term revenue opportunities; however, the Company believes there will continue to be quarterly fluctuations in EMR sales that will impact EBITDA.

Operating Profit / Loss: For three months ended June 30, 2011, operating loss was \$0.3 million compared to a positive \$0.2 million for the three months ended June 30, 2010.

Interest and Other Income / Loss: Interest charges for the three months ended June 30, 2011 were \$0.1 million compared to \$0.2 million for the three months ended June 30, 2010. In July 2010, Nightingale completed a comprehensive debt refinancing with more favourable terms, resulting in decreased interest expense starting in the quarter ended September 30, 2010.

Included in other income/loss are foreign currency adjustments related to monetary translations, which for the three months ended June 30, 2011 and June 30, 2010 were \$9,000 and \$11,000, respectively.

Loss and Comprehensive Loss: For the three months ended June 30, 2011 loss and comprehensive loss was \$0.4 million compared to \$687 for the three months ended June 30, 2010. The increase in loss and comprehensive loss can be primarily attributed to a decrease in revenues from software license sales and revenue cycle management revenue.

Going forward, the Company's financial results will continue to be impacted by changes in the rate of exchange between the US dollar and the Canadian dollar.

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FIRST QUARTER FISCAL 2012 RESULTS OF OPERATIONS COMPARED TO FOURTH QUARTER FISCAL 2011 RESULTS

Revenue: For the three months ended June 30, 2011, revenue was \$3.8 million compared to revenue of \$4.4 million for the three months ended March 31, 2011 representing a 13% decrease from the previous quarter. This decrease was due primarily to a \$0.5 million decrease in the Company's software business as well as a negative foreign exchange impact (which predominantly affects the Company's recurring revenue results) of \$0.1 million.

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 data management and transcription services.

Recurring Revenue for the three months ended June 30, 2011 was flat at \$2.5 million compared to the three months ended March 31, 2011.

Non-Recurring Revenue (see definition in Section 4.b under Non-GAAP Measures) is comprised of revenues generated from sales of software and systems and related training, data conversion and installation services.

Non-Recurring Revenue for the three months ended June 30, 2011 was \$1.3 million compared to \$1.9 million for the three months ended March 31, 2011, representing a 29% decrease. The decrease in non-recurring revenue is primarily due to a decrease in software license revenues associated with sales of the Company's Nightingale On Demand EMR product which can vary from quarter to quarter.

Over the three months ended June 30, 2011, the Company generated 45% 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 1% or \$32,000 compared to the three months ended March 31, 2011.

Gross Profit: For the three month period ended June 30, 2011, gross profit was \$3.2 million, or 83% of revenue compared to \$3.7 million, or 86% of revenue for the three months ended March 31, 2011. This decrease in gross margin as a percentage of revenue reflects a smaller proportion of higher margin sales over the respective periods.

Expenses: Expenses for the three month period ended June 30 2011 were \$3.5 million compared to \$3.9 million for the three months ended March 31, 2011, representing a 10% decrease. This decrease in expenses is primarily the result of a decrease in amortization expense due to certain intangible assets becoming fully depreciated at March 31, 2011.

Over the three months ended June 2011, approximately 34% of the Company's expenses were incurred in the US, providing the Company with a natural hedge position that has offset some of the effects on revenue from the decrease in value of the US dollar versus last year. The Company estimates that expenses were positively impacted by approximately 1% or \$23,000 for the three month period ended June 30, 2011, compared to the three month period ended March 31, 2011.

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General and administration expenses for the three months ended June 30, 2011 were \$0.7 million compared to \$1.0 million for the three months ended March 31, 2011, representing a 24% decrease from the three months ended March 31, 2011. The decrease was primarily associated with a decrease in professional fees.

Sales and marketing expenses for the three months ended June 30, 2011 were \$0.8 million for the three months ended June 30, 2011 compared to \$0.9 million for the three months ended March 31, 2011, a decrease of 6%. A decrease in depreciation and amortization expenses associated with sales and marketing assets was the primary reason for the decrease in sales and marketing expenses.

Research and development expenses for the three months ended June 30, 2011 were \$0.9 million compared to \$1.1 million for the three months ended March 31, 2011, an decrease of 10%. This decrease was equally the result of a decrease in depreciation and amortization expenses associated with research and development assets as well as a decrease in spending on certain non-capitalizable research and development activities. Research and development expenses are presented net of reimbursements pursuant to the Company's participation in Canadian tax credit programs and are also impacted by reductions in expenses associated with the Company's capitalization of certain qualifying development costs. The reimbursement of costs incurred pursuant to the tax credit programs are classified as a reduction to both the Company's operating expenses.

Gross research and development costs before capitalization of development costs and reimbursements pursuant to government programs, increased by \$12,000, or 1%, in the three months ended June 30, 2011 compared to the three months ended March 31, 2011.

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

	Quarter Ended June 30, 2011	Quarter Ended Mar 31, 2011
Research and development expense before certain credits	\$ 1,138,766	\$ 1,126,835
Reimbursement pursuant to government programs	-	(5,142)
Capitalized development costs	(191,769)	(68,437)
Total Research and Development expense	\$ 946,997	\$ 1,053,256

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Client services expenses for each of the three month periods ended June 30, 2011 and March 31, 2011 were \$1.0 million, an increase of 2% in absolute dollars. This increase in client services expenses was primarily attributable to the Company's increase in costs associated with implementation and training activities surrounding the Company's Nightingale On Demand EMR. This increase was partially offset by a decrease in depreciation and amortization expense related to client services assets as certain assets became fully amortized.

Stock-based compensation is included in each of general and administration expense, sales and marketing expense, research and development expense and client services expense as described above. The following amounts representing stock-based compensation have been included in the operating expense categories:

	Quarter Ended June 30, 2011	Quarter Ended March 31, 2011
General and administration	\$ 2,794	\$ 299
Sales and marketing	5,588	63
Research and development	10,378	111
Client services	21,155	223
Total stock-based compensation	\$ 39,915	\$ 696

Depreciation and amortization for the three months ended June 30, 2011, was \$0.3 million. This compares to \$0.4 million for the three months ended June 30, 2010.

Depreciation and amortization expense is included in each of general and administration expense, sales and marketing expense, research and development expense and client services expense as described above. Depreciation and amortization expense decreased 45%, or \$0.3 million to \$0.3 million for the three months ended June 30, 2011. The following amounts representing depreciation and amortization expense have been included in the operating expense categories:

	Quarter Ended June 30, 2011	Quarter Ended March 31, 2011
General and administration	\$ 12,817	\$ 17,366
Sales and marketing	144,197	272,067
Research and development	131,380	173,660
Client services	32,044	115,772
Total depreciation and amortization expense	\$ 320,438	\$ 578,865

EBITDA (non-GAAP measure, see Section 4.a for a definition): EBITDA for the three months ended June 30, 2011 was \$0.02 million compared to \$0.4 million for the three months ended March 31, 2011. The Company has been focused on achieving profitability and implemented several cost reduction initiatives since fiscal 2010 in an effort to achieve this goal. The Company also continues to focus on higher margin longer term revenue opportunities; however, the Company believes there will continue to be quarterly fluctuations in EMR sales that will impact EBITDA.

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Operating Loss: For three months ended June 30, 2011, operating loss was \$0.3 million compared to \$0.1 million for the three months ended March 31, 2011.

Interest and Other Income / Loss: Interest charges for the three months ended June 30, 2011 were nearly flat at \$0.1 million compared to the three months ended March 31, 2011.

Included in other income/loss are foreign currency adjustments related to monetary translations, which for the three months ended June 30, 2011 and March 31, 2011 were \$9,000 and \$35,000, respectively.

Loss and Comprehensive Loss: For the three months ended June 30, 2011 loss and comprehensive loss was \$0.4 million compared to \$0.2 million for the three months ended March 31, 2011. The increase in loss and comprehensive loss can be primarily attributed to a decrease in revenues from software license sales and revenue cycle management revenue.

Going forward, the Company's financial results will continue to be impacted by changes in the rate of exchange between the US dollar and the Canadian dollar.

3. LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents on June 30, 2011 were \$3.5 million, a decrease of \$0.6 million from March 31, 2011.

Cash Flow from Operating Activities: Cash used in operating activities for the quarter ended June 30, 2011 was \$0.1 million compared to cash generated in the quarter ended June 30, 2010 of \$1.0 million. An increase in the Company's net loss as well as a reduction in accounts payable and accrued liabilities both contributed to this decrease in cash from operations. Increased cash collections on accounts receivable partially offset the decrease.

Cash Flow from Investing Activities: During the quarter ended June 30, 2011, cash used in investing activities was \$0.2 million representing capitalization of development costs of \$0.2 million and purchases of property and equipment of \$0.02 million, versus cash flow used in investing activities of \$0.3 million during the previous year (consisting of \$0.3 million for capitalization of development costs and \$0.05 million for purchase of property and equipment).

Cash Flow from Financing Activities: Cash used in financing activities for the quarter ended June 30, 2011 totalled \$0.3 million compared to cash provided by financing activities of \$1.2 million for the quarter ended June 30, 2010. The Company received net proceeds of \$1.2 million from the issuance of common stock in April 2010 and the Company repaid \$0.2 million of its senior term loan in the quarter ended June 30, 2011.

The senior term loan bears interest at a variable rate of the prime rate plus 3% and borrowings under this arrangement 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 \$0.09 million and \$0.07 million of cash for the repayment of finance lease obligations during the quarters ended June 30, 2011 and June 30, 2010, respectively.

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Current assets decreased \$0.8 million to \$6.9 million at June 30, 2011 and current liabilities decreased \$0.2 million to \$8.8 million. Working capital excluding deferred revenue decreased from \$3.5 million at March 31, 2011 to \$3.0 million at June 30, 2011.

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 June 30, 2011, the Company had \$3.5 million of cash and cash equivalents and working capital excluding deferred revenue of \$3.0 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 achieve and sustain positive operating cash flow, working capital or profitability and in order to meet its financial covenants, the Company will need to continue to generate 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.

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

The following provides a reconciliation of EBITDA to Loss and Comprehensive Loss (dollars in thousands):

Definition	Quarter Ended June 30, 2011	Quarter Ended June 30, 2010
Loss and Comprehensive Loss	\$ (437)	\$ (1)
<i>Adjustments for:</i>		
Current Tax Expense (Benefit)	\$ (6)	\$ 17
Other Loss (Income)	(9)	(11)
Interest	115	176
Depreciation and Amortization	320	419
Stock-based Compensation	40	21
EBITDA	\$ 23	\$ 616

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 ("Non-Recurring Revenue") includes software, hardware and client services revenues from training, implementation and customization services. Recurring Revenue ("Recurring Revenue") consists of utilization fees, hosting, support and maintenance revenue, revenue cycle management services, transactional fees and data management and transcription services.

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The following provides a reconciliation of Recurring Revenue and Non-Recurring Revenue to Revenue (dollars in thousands):

Definition	Quarter Ended June 30, 2011	Quarter Ended June 30, 2010
Non-Recurring Revenue	\$ 1,341	\$ 1,558
Recurring Revenue	2,464	2,843
Revenue	\$ 3,805	\$ 4,401

5. TRANSACTIONS WITH RELATED PARTIES

In April 2010, certain directors and officers participated in the Private Placement offerings (described in Section 6) as further described in the Material Change Report dated April 22, 2010 which was filed by the Company on www.sedar.com.

6. RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

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

(a) *IFRS 9 Financial Instruments*

In November 2009, the IASB issued, and subsequently revised in October 2010, IFRS 9 Financial Instruments (IFRS 9) as a first phase in its ongoing project to replace IAS 39. IFRS 9, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The standard also adds guidance on the classification and measurement of financial liabilities. Management has not yet determined the potential impact the adoption of IFRS 9 will have on the Company's consolidated financial statements.

(b) *IFRS 13 Fair Value Measurement*

On May 12, 2011, the IASB issued IFRS 13 Fair Value Measurement (IFRS 13). IFRS 13, which is to be applied prospectively, is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

IFRS 13 defines fair value, provides a framework for measuring fair value and includes disclosure requirements for fair value measurements. IFRS 13 will be applied in most cases when another IFRS requires (or permits) fair value measurement. Management has not yet determined the potential impact that the adoption of IFRS 13 will have on the Company's consolidated financial statements.

(c) *Other*

In June 2011, the IASB issued amendments to IFRS 7 *Financial Instruments: Disclosures*. The Company does not believe the changes resulting from these amendments are relevant to its financial statements.

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In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. The Company does not believe the changes resulting from these new standards are relevant to its financial statements.

In June 2011, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 19 *Employee Benefits*. The Company does not believe the changes resulting from these amendments are relevant to its financial statements.

7. CHANGES IN ACCOUNTING POLICIES

IFRS

IFRS replaced the existing Canadian GAAP for the Company, effective for its fiscal 2012 interim and annual financial statements. Accordingly, the Company is applying accounting policies consistent with IFRS beginning with its interim financial statements for this quarter ended June 30, 2011.

The adoption of IFRS resulted in changes to the Company's accounting policies. The accounting policies described in note 3 to the accompanying condensed consolidated financial statements have been applied consistently to all periods presented. They also have been applied in the preparation of an opening IFRS balance sheet as at April 1, 2010.

The impact of the transition from Canadian GAAP to IFRS is explained in detail in note 17 to the Company's condensed consolidated interim financial statements.

The changes in accounting policy have not been applied to any information within this MD&A for periods prior to April 1, 2010.

First-time Adoption – Impact at April 1, 2010

The first-time adoption of IFRS generally requires retrospective application of the resulting changes in accounting policies. Subject to certain optional exemptions and mandatory exceptions, the Company has applied the changes in accounting policies resulting from the adoption of IFRS retrospectively in the preparation of its opening IFRS statement of financial position as at April 1, 2010, the Company's "Transition Date".

The impact of first-time adoption of IFRS on the Company's opening IFRS statement of financial position is described in detail in note 17 to the Company's condensed consolidated interim financial statements.

The expected impact of changes in accounting policies was also disclosed in the Company's Management Discussion and Analysis for the year ended March 31, 2011.

Impact of Adopting IFRS on the Company's Financial Statements

The adoption of IFRS resulted in changes to the Company's accounting policies, which has an impact on the recognition and measurement of transactions and balances during the three months ended June 30, 2011 and the comparative periods.

- Classification of Long-Term Debt – As required under IFRS, the Company has changed its accounting policies such that related to the classification of Long-Term Debt. Specifically, a violation of a debt covenant at the

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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 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.

This change in accounting policy had no impact on the Company's balance sheet as at June 30, 2011. However, in March 2010, the Company breached a financial covenant under the loan agreement with its lenders, but received a waiver of the breach from the lenders prior to the issue of the fiscal 2011 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 was reclassified to current liabilities on the Company's transition date. The subordinated debt was repaid in full on July 29, 2010.

- **Borrowing Costs** – IFRS requires that borrowing costs directly related to qualifying assets are capitalized and included in the carrying value of the equipment. Qualifying assets are those that necessarily take a substantial period of time to get ready for its intended use or sale. Under Canadian GAAP, the Company expensed all borrowing costs as incurred.

The Company has elected to apply this change in accounting policy prospectively from the transition date. In accordance with this new accounting policy, the Company has capitalized \$13,723 of borrowing costs related to capitalized software development projects during the three months ended June 30, 2011 (2010 - \$5,556). As a result, borrowing costs are lower than under Canadian GAAP and the carrying value of the capitalized software development costs are higher.

- **Share-based Payments** – Under IFRS the Company has changed 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.

Depending on the level of estimated and actual forfeitures, this change in accounting policy may result in a difference in the timing of reductions stock based compensation associated with forfeitures of stock options.

8. RISKS AND UNCERTAINTIES

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

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9. DISCLOSURE OF OUTSTANDING SHARE DATA

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

	Authorized	Issued as at June 30, 2011
Common Shares, Voting	Unlimited	76,310,915
Preferred Shares	Unlimited	-
Stock Options – Issued and Outstanding		6,305,865
Warrants – Issued and Outstanding		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 June 30, 2011 was \$2.074 million.

10. 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. As experienced in the first quarter of fiscal 2012, 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 specialties 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

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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.

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.

11. ADDITIONAL INFORMATION

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