



NIGHTINGALE INFORMATIX CORPORATION

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the three and six month periods ended September 30, 2011

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

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NIGHTINGALE INFORMATIX CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED SEPTEMBER 30, 2011
Unaudited (Canadian Dollars)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010 <small>(note 17)</small>	Six Months Ended September 30, 2011	Six Months Ended September 30, 2010 <small>(note 17)</small>
Revenue	\$ 3,806,731	\$ 4,213,850	\$ 7,611,931	\$ 8,615,341
Cost of sales	<u>807,629</u>	<u>886,600</u>	<u>1,449,596</u>	<u>1,754,721</u>
Gross profit	<u>2,999,102</u>	<u>3,327,250</u>	<u>6,162,335</u>	<u>6,860,620</u>
Expenses				
General and administration	788,777	803,827	1,515,934	1,600,772
Sales and marketing	725,059	761,118	1,535,927	1,591,452
Research and development	683,971	911,621	1,630,968	1,718,999
Client services	<u>1,026,789</u>	<u>1,076,008</u>	<u>2,041,936</u>	<u>1,998,532</u>
	<u>3,224,596</u>	<u>3,552,574</u>	<u>6,724,765</u>	<u>6,909,755</u>
Operating income (loss)	<u>(225,494)</u>	<u>(225,324)</u>	<u>(562,430)</u>	<u>(49,135)</u>
Interest, note 13	93,202	228,589	208,132	399,380
Foreign currency gain	<u>(3,783)</u>	<u>(4,202)</u>	<u>(12,707)</u>	<u>(15,190)</u>
Loss before tax	(314,913)	(449,711)	(757,855)	(433,325)
Current tax expense (benefit)	<u>468</u>	<u>(27,593)</u>	<u>(5,730)</u>	<u>(10,520)</u>
Loss and comprehensive loss	<u>\$ (315,381)</u>	<u>\$ (422,118)</u>	<u>\$ (752,125)</u>	<u>\$ (422,805)</u>
Basic and diluted loss per common share				
Loss and comprehensive loss per common share	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
Weighted average number of common shares	<u>76,310,915</u>	<u>76,310,915</u>	<u>76,310,915</u>	<u>75,649,594</u>

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

NIGHTINGALE INFORMATIX CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT SEPTEMBER 30, 2011

Unaudited (Canadian Dollars)

	September 30, 2011	March 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,691,154	\$ 4,165,406
Accounts receivable	2,655,890	3,006,073
Other receivables	9,539	66,868
Inventory	4,199	19,882
Prepaid expenses	676,170	418,072
	<u>6,036,952</u>	<u>7,676,301</u>
Long-term assets		
Deferred costs	224,578	198,401
Property and equipment, note 7	439,833	573,928
Intangible assets, note 8	3,873,236	3,273,672
Goodwill	4,692,399	4,692,399
	<u>9,230,046</u>	<u>8,738,400</u>
Total assets	<u>\$ 15,266,998</u>	<u>\$ 16,414,701</u>
LIABILITIES		
Current liabilities		
Line of credit, note 6	\$ 675,000	\$ 950,000
Accounts payable and accrued liabilities	2,404,249	2,323,880
Current portion of deferred revenue	4,699,732	4,778,811
Current portion of finance lease obligations	103,658	145,437
Current portion of term loan, note 6	800,000	800,000
	<u>8,682,639</u>	<u>8,998,128</u>
Long term liabilities		
Term loan, note 6	386,578	767,857
Convertible debentures, note 6	1,874,468	1,820,050
Deferred revenue	2,907,671	2,731,075
Finance lease obligations	80,967	128,130
Income taxes payable	721,835	667,708
	<u>5,971,519</u>	<u>6,114,820</u>
Total liabilities	<u>14,654,158</u>	<u>15,112,948</u>
SHAREHOLDERS' EQUITY		
Capital stock, note 10	29,629,683	29,629,683
Contributed surplus, note 11	4,758,865	4,695,653
Equity portion of convertible debentures, note 6	269,880	269,880
Warrants, note 12	701,452	701,452
Deficit	<u>(34,747,040)</u>	<u>(33,994,915)</u>
	<u>612,840</u>	<u>1,301,753</u>
Total liabilities and shareholders' equity	<u>\$ 15,266,998</u>	<u>\$ 16,414,701</u>

Legal (see note 16)

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

NIGHTINGALE INFORMATIX CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTH PERIODS ENDED SEPTEMBER 30, 2011 AND SEPTEMBER 30, 2010
Unaudited (Canadian Dollars)

	Capital Stock	Contributed surplus	Equity portion of convertible debentures	Warrants	Deficit	Total Equity
Balance at April 1, 2010	\$ 28,348,960	\$ 4,469,949	\$ -	\$ 701,452	\$ (33,121,380)	\$ 398,981
Comprehensive loss	-	-	-	-	(422,805)	(422,805)
Capital stock issued	1,243,120	-	-	-	-	1,243,120
Issuance of convertible debentures	-	-	269,880	-	-	269,880
Release of restrictions on restricted stock	37,603	(37,603)	-	-	-	-
Stock-based compensation	-	212,471	-	-	-	212,471
Balance at September 30, 2010	29,629,683	4,644,817	269,880	701,452	(33,544,185)	1,701,647

	Capital Stock	Contributed surplus	Equity portion of convertible debentures	Warrants	Deficit	Total Equity
Balance at March 31, 2011	29,629,683	4,695,653	269,880	701,452	(33,994,915)	1,301,753
Loss and comprehensive loss	-	-	-	-	(752,125)	(752,125)
Stock-based compensation	-	63,212	-	-	-	63,212
Balance at September 30, 2011	29,629,683	4,758,865	269,880	701,452	(34,747,040)	612,840

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

NIGHTINGALE INFORMATIX CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE AND SIX MONTH PERIODS ENDED SEPTEMBER 30, 2011
Unaudited (Canadian Dollars)

	Three months Ended Sept 30, 2011	Three months Ended Sept 30, 2010 (note 17)	Six months Ended Sept 30, 2011	Six months Ended Sept 30, 2010 (note 17)
Cash flow from operating activities				
Loss from operations	\$ (315,381)	\$ (422,118)	\$ (752,125)	\$ (422,805)
Adjustments for:				
Depreciation and amortization	311,104	419,588	631,542	838,854
Amortization of transaction costs related to debt financing	13,766	43,737	26,897	43,737
Stock based compensation	23,297	191,637	63,212	212,471
Unrealized foreign exchange (gain) loss	174,094	24	149,332	101,604
Interest accretion	23,121	16,416	46,242	16,416
	<u>230,001</u>	<u>249,284</u>	<u>165,100</u>	<u>790,277</u>
<i>Changes in non-cash working capital balances</i>				
Accounts receivable	(136,626)	298,479	284,449	(64,224)
Prepaid expenses	(34,423)	116,010	(258,098)	(95,605)
Inventory	13,450	3,400	15,683	7,273
Deferred costs	(37,751)	9,197	(26,177)	9,197
Other receivables	41,157	(42,829)	56,774	59,601
Accounts payable and accrued liabilities	335,454	(532,310)	(27,257)	(208,468)
Income taxes payable	57,639	(1,801)	54,127	27,225
Deferred revenue	19,364	204,621	97,517	770,089
Cash flows provided by operating activities	<u>488,265</u>	<u>304,051</u>	<u>362,118</u>	<u>1,295,365</u>
Cash flow from investing activities				
Purchase of property and equipment	(6,324)	(13,927)	(27,168)	(69,315)
Capitalized development costs	(803,296)	(222,839)	(995,065)	(479,781)
Cash flows used in investing activities	<u>(809,620)</u>	<u>(236,766)</u>	<u>(1,022,233)</u>	<u>(549,096)</u>
Cash flow from financing activities				
Proceeds from line of credit borrowing	675,000	840,000	1,635,000	840,000
Repayment of line of credit borrowing	(960,000)	-	(1,910,000)	-
Proceeds from issuance of common shares, net of costs	-	(7,001)	-	1,243,119
Proceeds from convertible debt financing (net of costs)	-	2,017,373	-	2,017,373
Proceeds from term loan (net of costs)	-	1,887,625	-	1,887,625
Repayment of term loan	(200,000)	-	(400,000)	-
Repayment of subordinated debt financing	-	(5,284,202)	-	(5,284,202)
Repayment of finance lease obligations	(77,899)	(71,069)	(163,692)	(140,059)
Cash flows provided by (used in) financing activities	<u>(562,899)</u>	<u>(617,274)</u>	<u>(838,692)</u>	<u>563,856</u>
Foreign exchange gains (losses) on cash in foreign currency	27,204	(29,125)	24,555	(80,817)
Net increase (decrease) in cash	(857,050)	(579,114)	(1,474,252)	1,229,308
Cash and cash equivalents, beginning of period	<u>3,548,204</u>	<u>3,606,669</u>	<u>4,165,406</u>	<u>1,798,247</u>
Cash and cash equivalents, end of period	<u>\$ 2,691,154</u>	<u>\$ 3,027,555</u>	<u>\$ 2,691,154</u>	<u>\$ 3,027,555</u>
Interest paid	\$ 93,202	\$ 228,589	\$ 208,132	\$ 399,380
Income taxes paid (refunded)	\$ 468	\$ (27,593)	\$ (5,730)	\$ (10,521)

Amounts paid for interest and income taxes are included in cash flows from operating activities in the consolidated statement of cash flows.

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTH PERIODS ENDED SEPTEMBER 30, 2011**
Unaudited (Canadian Dollars)

1. CORPORATE INFORMATION

Nightingale Informatix Corporation ("Nightingale" or the "Company") is engaged in the development, sale and support of application software and related services to customers in the healthcare industry in Canada and the United States.

Nightingale is incorporated under the Ontario Business Corporations Act in Canada, and its principal place of business is located at 3762 Fourteenth Avenue, Suite 100, Markham, Ontario, Canada.

2. STATEMENT OF COMPLIANCE

These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS").

The Company has selected accounting policies to be consistent with IFRS as is expected to be effective on March 31, 2012, the Company's first annual IFRS reporting date. Previously, the Company prepared its interim and annual consolidated financial statements in accordance with Canadian GAAP.

The adoption of IFRS resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian GAAP. The accounting policies set out below were consistently applied to all periods presented unless otherwise noted. They also have been applied in the preparation of an opening IFRS statement of financial position as at April 1, 2010, as required by IFRS 1, *First Time Adoption of International Financial Reporting Standards* ("IFRS 1"). The impact of the transition from Canadian GAAP to IFRS is explained in note 17 to the Company's Financial Statements for the three months ended June 30, 2011 filed on SEDAR on August 24, 2011.

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 ending March 31, 2012.

These condensed consolidated financial statements for the period ended September 30, 2011 were authorized for issuance by the Board of Directors of the Company on November 28, 2011.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated interim financial statements should be read in conjunction with the Corporation's consolidated interim financial statements for the three months ended June 30, 2011 and Canadian GAAP annual consolidated financial statements for the year ended March 31, 2011. Note 17 of the Corporation's consolidated interim financial statements for the three months ended June 30, 2011 discloses IFRS information for the year ended March 31, 2011 that is material to an understanding of these consolidated interim financial statements.

The accounting policies used in the preparation of these interim consolidated financial statements should be read in conjunction with the consolidated interim financial statements and notes thereto for the three months ended June 30, 2011 as these interim consolidated financial statements follow the same accounting policies and methods of application.

4. CRITICAL ACCOUNTING ESTIMATE AND JUDGMENTS

Critical accounting estimates

The preparation of these condensed consolidated financial statements requires the Company to apply judgment when making estimates and assumptions that affect the reported amounts recognized in the financial statements. These estimates have a direct effect on the measurement of transactions and balances recognized in the financial statements. Actual results could differ from estimates.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Revenue recognition

Revenue from sales arrangements that include multiple components is allocated amongst the separately identifiable components based on the relative fair value of the components included in the contract. In order to allocate the total revenue from arrangement with multiple components, management is required to estimate the fair value of each of those elements; these estimates can affect the timing of revenue recognition over the term of the sales arrangement.

Impairment of assets

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. Recoverable amount is the greater of value in use and fair value less costs to sell. Determining the value in use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value. No impairments of non-financial assets have been recorded for the three months ended September 30, 2011 (2010 – Nil).

Useful life of property and equipment and intangible assets

Property and equipment and intangible assets are amortized over the estimated useful life of the assets. Changes in the estimated useful lives could significantly increase or decrease the amount of depreciation recorded during the year.

Share-based compensation

Management is required to make certain estimates when determining the fair value of stock options awards and the number of awards that are expected to vest. These estimates affect the amount recognized as stock-based compensation in the statement of operations. For the three months ended September 30, 2011 the Company recognized \$23,297 of stock-based compensation expense (September 30, 2010 - \$212,471).

Critical judgments in applying accounting policies

In the preparation of these condensed consolidated financial statements the Company has made judgments, aside from those that involve estimates, in the process of applying the accounting policies. These judgments can have an effect on the amounts recognized in the financial statements.

Revenue recognition

Revenue from sales arrangements that include multiple components is allocated amongst the separately identifiable components based on the relative fair value of the components included in the contract. A component is considered to be separately identifiable if the product or service delivered has stand-alone value to the customer and the fair value can be measured reliably. Management is required to make judgements as to whether components within a contract have stand-alone value to the customer.

Capitalized development costs

Software development costs are capitalized as intangible assets when costs are attributable to a clearly defined product, technical feasibility has been established, a market has been identified, the Company intends to market the software and has adequate resources expected to be available to complete the project. Management is required to make judgements on when the criteria for recognition as intangible assets is met. During the three months ended September 30, 2011, \$803,295 (2010 – \$201,490) of development costs were recognized as intangible assets.

Income Tax

Management is required to apply judgement in determining whether it is probable deferred income tax assets will be realized. At September 30, 2011 and 2010, management had determined that future realization of its deferred income tax assets did not meet the threshold of being probable, and as such, has not recognized any deferred income tax assets in the consolidated balance sheet.

In addition, The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount

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of income taxes only become final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the financial statements.

5. 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.

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.

6. DEBT AND PRIVATE PLACEMENT FINANCING

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.

The completed financing transactions included a US \$1 million revolving line of credit and a CAD \$2 million term loan for aggregate proceeds of approximately \$3 million (collectively, the "Senior Loan Facility"). The Company also issued an aggregate of 5,682,364 common shares of the Company at a price of \$0.22 per Common Share for gross proceeds of \$1.25 million (the "Common Share Offering") and concurrently issued 2,074 subscription receipts ("Subscription Receipts") for gross proceeds of \$2.074 million (the "Subscription Receipt Offering"), all on a non-brokered private placement basis. When the subordinated debt was repaid in July 2010, the holder of each Subscription Receipt

NIGHTINGALE INFORMATIX CORPORATION

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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received, without additional consideration, convertible unsecured subordinated debentures in the aggregate principal amount of \$1,000 (the "Debentures").

a. Line of credit

This credit facility bears interest at a variable rate of the prime rate plus 3%. At September 30, 2011, the Company had drawn \$675,000 under the revolving line of credit. The line of credit is collateralized by a security interest in the Company's assets and was repaid on October 1, 2011. The line of credit expires August 31, 2012.

b. Term loan

The three year loan is repayable in 30 equal monthly installments of principal plus all accrued interest commencing November 1, 2010. This loan bears interest at a variable rate of the prime rate plus 3%. The term loan is collateralized by a security interest in the Company's assets. Pursuant to the Company's debt agreement with the lender, the Company is subject to certain covenants with respect to its balance sheet and financial performance. The Company was in compliance with all financial covenants as at September 30, 2011 and March 31, 2011.

The Company incurred costs of \$129,577 related to the establishment of this term loan facility. These costs are being amortized to interest expense over the term of the facility.

The remaining principal balance will be paid as follows:

Fiscal Year	
2012	\$ 400,000
2013	800,000
2014	<u>66,667</u>
Total principal payments	1,266,667
Less unamortized transaction costs	<u>(80,089)</u>
	1,186,578
Less long term portion	<u>(386,578)</u>
Current portion of obligations	<u>\$ 800,000</u>

c. CONVERTIBLE DEBENTURES

The Debentures bear interest at a rate of 12% per annum, payable monthly and are scheduled to mature in July 2013. Following the first year anniversary of the Debentures, the Company has the right to redeem the Debentures, in whole or in part, at a price equal to their principal amount plus accrued and unpaid interest. The Debentures are convertible at the holder's option into fully-paid common shares at any time prior to maturity or redemption at a conversion price of \$0.35 per share. The transaction costs related to the convertible debt financing totaled \$56,627.

The proceeds and costs were allocated to the debt and equity components of the debentures based on determining the fair value of the debt component first, and allocating the remaining net proceeds to the equity component. The fair value of the convertible debt on initial recognition of \$1,796,545 was determined by discounting the future contractual cash flows of the convertible debt using an interest rate of 19%. The remaining \$277,455 of proceeds was allocated to the equity component. The equity portion of the convertible debt is classified as other paid in capital.

Proceeds of \$1,796,545 and transaction costs of \$49,052 were allocated to the convertible debt and proceeds of \$277,455 and transaction costs of \$7,575 were allocated to the equity. The \$49,052 is being amortized to interest over the term of the debentures (\$4,088 in the three months ended September 30, 2011, nil in the three months ended September 30, 2010).

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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7. PROPERTY AND EQUIPMENT

Property and equipment as at September 30, 2011 are as follows:

	Cost	Accumulated Depreciation	Net Book Value
Office equipment	\$ 1,837,162	\$ 1,626,343	\$ 210,819
Furniture and fixtures	238,659	201,287	37,372
Assets under financed lease	1,722,652	1,541,291	181,361
Leasehold Improvements	<u>203,423</u>	<u>193,142</u>	<u>10,281</u>
	<u>\$ 4,001,896</u>	<u>\$ 3,562,063</u>	<u>\$ 439,833</u>

Depreciation expense for property and equipment for the three months ended September 30, 2011 and 2010 was \$88,316 and \$133,815, respectively. Depreciation expense for property and equipment for the six months ended September 30, 2011 and 2010 was \$185,966 and \$270,185, respectively.

Property and equipment as at March 31, 2011 were as follows:

	Cost	Accumulated Depreciation	Net Book Value
Office equipment	\$ 1,734,269	\$ 1,495,052	\$ 239,217
Furniture and fixtures	231,911	184,180	47,731
Assets under financed lease	1,779,291	1,519,165	260,126
Leasehold Improvements	<u>203,423</u>	<u>176,569</u>	<u>26,854</u>
	<u>\$ 3,948,894</u>	<u>\$ 3,374,966</u>	<u>\$ 573,928</u>

8. INTANGIBLE ASSETS

Components of intangible assets as at September 30, 2011 are as follows:

	Cost	Accumulated Amortization	Net Book Value
Proprietary software and technology	\$ 3,076,899	\$ 2,938,492	\$ 138,407
Capitalized development costs	1,764,363	83,861	1,680,502
Customer relationships	5,212,359	3,632,643	1,579,716
Cross sell opportunity	<u>1,222,644</u>	<u>748,033</u>	<u>474,611</u>
	<u>\$ 11,276,265</u>	<u>\$ 7,403,029</u>	<u>\$ 3,873,236</u>

Components of intangible assets as at March 31, 2011 were as follows:

	Cost	Accumulated Amortization	Net Book Value
Proprietary software and technology	\$ 3,076,899	\$ 2,800,090	\$ 276,809
Capitalized development costs	719,223	40,243	678,980
Customer relationships	5,212,359	3,429,423	1,782,936
Cross sell opportunity	<u>1,222,644</u>	<u>687,697</u>	<u>534,947</u>
	<u>\$ 10,231,125</u>	<u>\$ 6,957,453</u>	<u>\$ 3,273,672</u>

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Amortization expense for intangible assets for the three months ended September 30, 2011 and 2010 was \$222,788 and \$285,783, respectively. Amortization expense for intangible assets for the six months ended September 30, 2011 and 2010 was \$445,576 and \$568,669, respectively.

9. SUBORDINATED DEBT

In April 2007, the Company entered into a debt financing agreement with Wellington Financial LP and Export Development Canada, a Limited Partner in Wellington Financial Fund III (the "Lenders"). The debt bore interest at a rate of 12.75% per annum, payable monthly, and was originally scheduled to mature in March 2010. The Company repaid the debt in full on July 29, 2010 with proceeds from the Company's debt and private placement financing as described in note 6.

10. CAPITAL STOCK

a. Authorized

Unlimited	Preference shares
Unlimited	Common shares

b. Common shares issued and outstanding

	Number	Amount
Balance as at March 31, 2011 and September 30, 2011	<u>76,310,915</u>	<u>\$ 29,629,683</u>

c. Stock Option Plan

The Company has adopted a stock option plan that permits the Board of Directors to grant employees, officers, directors and consultants of the Company non-transferable stock options to purchase up to 10% of the common shares issued and outstanding at any time. Under the plan, no individual person may own greater than 5% of the outstanding stock options. Generally, the stock options vest over four years and are exercisable for a maximum term of five years.

The weighted average fair value of the stock options granted during the six months ended September 30, 2011 was \$0.23. The fair value was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions at the measurement date: risk-free interest rate – 1.4% to 2.6%, volatility 55% to 65%, dividend yield 0%, expected life 4 years and estimated forfeitures 8%.

i. Summarized information relative to the Company's stock option plan

	Number of Stock Options	Weighted Average Exercise Price
Balance as at March 31, 2011	6,315,365	\$ 0.34
Granted	1,032,000	0.23
Cancelled / expired	<u>(43,500)</u>	<u>0.35</u>
Balance as at September 30, 2011	<u>7,303,865</u>	<u>\$ 0.32</u>

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ii. Summarized information relative to stock options outstanding as of September 30, 2011

Exercise Price	Number Outstanding	Exercisable	Remaining Life (Years)
\$0.23	922,000	-	4.9
0.26	826,000	617,000	1.9
0.27	1,931,967	1,383,217	2.8
0.28	973,000	243,250	2.8
0.35	1,323,049	770,766	2.8
0.36	50,000	-	3.3
0.45	1,192,349	1,157,349	0.8
1.25	85,500	85,500	0.2
	<u>7,303,865</u>	<u>4,257,082</u>	

11. CONTRIBUTED SURPLUS

Included in contributed surplus is the expense related to the fair value of stock options granted valued under the Black-Scholes option pricing model. At such date as the stock options are exercised, contributed surplus is reduced by the previously recognized compensation expenses and a corresponding increase will be made to the value included in the capital stock attributable to common shares.

12. WARRANTS

The fair value of Warrants on initial recognition was estimated using the Black-Scholes option pricing model.

	Exercise Price	Number Outstanding	Exercisable	Remaining Contractual Life (Years)
As on September 30, 2011	\$0.31	4,233,870	4,233,870	0.83
As on March 31, 2011	\$0.31	4,233,870	4,233,870	1.33

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13. INTEREST

	Three months ended September 30, 2011	Three months ended September 30, 2010	Six months ended September 30, 2011	Six months ended September 30, 2010
Interest accretion on convertible debentures	\$ 23,121	\$ 15,414	\$ 46,242	\$ 15,414
Transaction costs on term loan	16,329	6,811	32,657	6,811
Transaction costs on subordinated debt	-	34,202	-	34,202
Transaction costs on convertible debt	-	2,725	-	2,725
Non-cash interest expense	39,450	59,152	78,899	59,152
Interest on term loan	20,219	20,466	43,168	20,466
Interest on convertible debentures	62,732	111,145	124,781	111,145
Interest on subordinated debt	-	53,183	-	220,068
Interest on financed lease obligations	3,414	5,759	8,048	14,947
Interest expense / (income)	(1,465)	(1,664)	(2,248)	(2,177)
Capitalized borrowing costs	(31,954)	(20,348)	(45,636)	(25,904)
Interest on line of credit	806	138	1,120	138
Other interest	-	758	-	1,545
	<u>\$ 93,202</u>	<u>\$ 228,589</u>	<u>\$ 208,132</u>	<u>\$ 399,380</u>

14. RELATED PARTY TRANSACTIONS

One director participated in the Common Share Offering described in note 6 with an investment totaling \$250,000. Three directors and one officer participated in the Subscription Receipts offering described in note 6 with an aggregate investment totaling \$850,000.

These transactions were recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

15. FINANCIAL INSTRUMENTS

Fair values of financial instruments:

At September 30, 2011 and March 31, 2011, the estimated fair values of cash and cash equivalents, accounts receivable and other receivables, accounts payable and accrued liabilities and line of credit approximate their respective carrying values due to their short-term nature.

At September 30, 2011 and March 31, 2011 the fair value of the Company's term loan payable and convertible debt are estimated to be equal to their carrying values.

Liquidity risk

The Company has sustained losses from operations and, until recently, negative cash flows from operations, for many years. At September 30, 2011, the Company has approximately \$2.7 million of cash and cash equivalents. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they are due. The Company achieves this by maintaining sufficient cash and cash equivalents and short-term investments. The Company monitors its financial position regularly and updates its expected use of cash resources based on the latest available data. The accounts payable and accrued liabilities classified as current liabilities are expected to be paid within the next twelve months.

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There are uncertainties related to the timing and use of the Company's cash resources. These uncertainties include, but are not limited to, the volume of sales, customer acceptance of its solutions, ability to control operating expenses and secure financing for capital expenditures and the fluctuation of the exchange rates. As a result, the Company may need to seek additional equity or debt financing, which could include additional lines of credit. These uncertainties could also impact the ability of the Company to meet the covenants of its loans described in note 6 and may require the Company to seek a waiver of a covenant breach or an amendment of its debt agreements.

Credit risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Company is exposed to credit risk from customers. However, the Company has a significant number of customers, which mitigates concentration of credit risk. No customer accounted for more than 10% of total revenues in the three month periods ended September 30, 2011 and two customers accounted for 10% and 11%, respectively, of revenue in the three months ended September 30, 2010. One customer accounted for 17% of accounts receivable at September 30, 2011 and another customer represented 11% of accounts receivable at March 31, 2011.

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

While the Company has credit controls and processes for the purpose of mitigating credit risk, these controls cannot eliminate credit risk and there can be no assurance that these controls will continue to be effective, or that the Company's low credit loss experience will continue.

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

The Company's trade receivables have a gross value of \$2.7 million and \$3.1 million as at September 30, 2011 and March 31, 2011 respectively, representing the maximum exposure to credit risk of those financial assets, exclusive of the allowance for doubtful accounts. Most sales are invoiced with payment terms in the range of 30 to 90 days.

The amount of accounts receivable that is greater than 90 days past due that is not offset by deferred revenue or already reserved for is \$0.7 million and \$0.03 million as at September 30, 2011 and March 31, 2011, respectively.

The Company's exposure to credit risk for trade receivables by geographic area as at September 30, 2011 was as follows:

Canada	\$ 1,560,265	58%
United States	1,152,078	42%
	<u>\$ 2,712,343</u>	<u>100%</u>

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

	3 months ended September 30, 2011	3 months ended September 30, 2010	6 months ended September 30, 2011	6 months ended September 30, 2010
Allowance for doubtful accounts – beginning of period	\$ 61,208	\$ 229,306	\$ 65,458	\$ 228,432
Write-off of bad debts	(4,415)	(32,329)	(8,665)	(31,455)
Allowance for doubtful accounts – end of period	<u>\$ 56,793</u>	<u>\$ 196,977</u>	<u>\$ 56,793</u>	<u>\$ 196,977</u>

The Company may also have credit risk relating to cash and cash equivalents, which it manages by dealing with large chartered banks in Canada and the United States and investing in highly liquid investments. The Company's objective is to minimize its exposure to credit risk in order to prevent losses on financial assets by placing its investments in highly liquid investments such as money market funds. The Company's cash and cash equivalents carrying value is \$2,691,154, representing the maximum exposure to credit risk of these financial assets. All of the Company's cash and cash equivalents at September 30, 2011 were held by one financial institution. The Company's exposure to credit risk relating to cash and cash equivalents, segmented by geographic area as at September 30, 2011 was as follows:

Canada	88%
United States	12%
	<u>100%</u>

Foreign currency risk

Foreign currency risk arises because of fluctuations in exchange rates. The Company conducts a significant portion of its business activities in US dollars. Portions of revenues and expenses were denominated in US dollars. The Company's financial assets and financial liabilities that are denominated in foreign currencies are affected by changes in the exchange rate between the Canadian dollar and the US dollar. As at September 30, 2011, monetary assets were \$1,456,660 and monetary liabilities were \$1,429,731, resulting in net monetary assets in the amount of \$26,929 denominated in US dollars.

If a shift in foreign exchange rates of 10% were to occur, the exchange gain or loss on the net financial assets could be plus or minus \$3,000 due to exchange rate fluctuations and this amount would be recorded in the consolidated statements of operations.

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

Interest rate risk

Interest rate risk arises because of the fluctuation in interest rates. The Company's objective in managing interest rate risk is to maximize the return on its cash and cash equivalents. The Company is subject to interest rate risk on its cash and cash equivalents and debt. If a shift in interest rates of 10% were to occur, the impact on cash and cash equivalents and short-term investments and the related net loss for the period could be plus or minus \$150.

Management of capital

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

The Company's capital is composed of share capital, a line of credit, term loan and convertible debentures. The Company's primary uses of capital have been to finance operating losses, increases in non-cash working capital and capital expenditures. While the Company has recently started to generate cash from its operations, the Company's primary source of funding for these requirements from cash raised through past share and debt issuances. The

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Company's objectives when managing capital are to ensure that the Company will continue to have enough liquidity so it can provide its services to its customers and returns to its shareholders.

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

Pursuant to the Company's term loan agreement (note 6), the Company is subject to certain covenants with respect to its balance sheet and financial performance.

16. LEGAL

In the normal course of business, the Company is exposed to various claims and possible claims; the outcome of each is unpredictable. In management's opinion, the settlement of these claims, if any, should not have a significant impact on the Company's financial position.

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17. RECONCILIATION OF CANADIAN GAAP TO IFRS

Overview

The effect of the Corporation's transition to IFRS, described in note 2, is summarized as follows: (i) transition elections; (ii) reconciliation of equity and comprehensive loss as previously reported under Canadian GAAP to IFRS and (iii) explanatory notes. The adoption of IFRS did not have a material impact on the condensed consolidated statement of cash flows.

(i) Transition elections

The adoption of IFRS requires the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS effective at the end of the Corporation's first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment. The transition elections used in the preparation of these consolidated interim financial statements are the same transition elections as disclosed in the consolidated interim financial statements and notes thereto for the three months ended June 30, 2011. Refer to the consolidated interim financial statements and notes thereto for the three months ended June 30, 2011 for details of the transitional exceptions and exemptions to full retrospective application of IFRS applied by the Corporation in its preparation of the opening IFRS consolidated balance sheet as at April 1, 2010, the Company's "transition date."

(ii) The following provides reconciliations of the shareholders' equity and the comprehensive loss from Canadian GAAP to IFRS for the respective periods.

	note	September 30, 2010	
Shareholders' equity under Canadian GAAP		\$1,675,743	
Capitalized borrowing costs	a	25,904	
Shareholders' equity under IFRS		\$1,701,647	
	note	Six months ended September 30, 2010	Three months ended September 30, 2010
Comprehensive loss under Canadian GAAP		\$ (476,862)	\$ (467,858)
Share-based payments	b	28,153	25,392
Capitalized borrowing costs	a	25,904	20,348
Comprehensive loss under IFRS		\$ (422,805)	\$ (422,118)

iii) Explanatory notes:

- a) Borrowing costs related to the development of qualifying assets are capitalized and included in the carrying value of the asset. Qualifying assets are those that necessarily take a substantial period of time to get ready for their intended use or sale. The Company's qualifying assets include longer-term development projects where development costs are capitalized.
- b) At the end of each reporting period, the Company re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of these estimated forfeitures in the statement of operations. This change in accounting policy has no effect on total shareholders' equity.