



**NIGHTINGALE INFORMATIX CORPORATION**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**For the fiscal year ended March 31, 2009**

| <b>INDEX</b>  | <b>Page</b> |
|---|-------------|
| Consolidated Statement of Operations and Comprehensive Loss | 1           |
| Consolidated Statement of Deficit                           | 2           |
| Consolidated Balance Sheet                                  | 3           |
| Consolidated Statement of Cash Flows                        | 4           |
| Notes to the Consolidated Financial Statements              | 5 – 22      |

July 29, 2009

*Auditors' Report*

To the Shareholders of Nightingale Informatix Corporation

We have audited the consolidated balance sheets of **Nightingale Informatix Corporation** as at March 31, 2009 and March 31, 2008 and the consolidated statements of operations and comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2009 and March 31, 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**(Signed) PricewaterhouseCoopers LLP**

**Chartered Accountants, Licensed Public Accountants**

**NIGHTINGALE INFORMATIX CORPORATION**

**CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS  
FOR THE YEAR ENDED MARCH 31, 2009**

|   | <b>12 months<br/>ended<br/>March<br/>31, 2009</b> | <b>12 months<br/>ended<br/>March<br/>31, 2008</b> |
|---|---|---|
| <b>Revenue</b>  | \$ 18,465,149                                     | \$ 18,875,556                                     |
| <b>Cost of sales</b>                                      | <u>5,055,039</u>                                  | <u>5,169,218</u>                                  |
| <b>Gross profit</b>                                       | <u>13,410,110</u>                                 | <u>13,706,338</u>                                 |
| <b>Expenses</b>   |   |   |
| General and administration                                | 3,457,051   | 3,773,406   |
| Sales and marketing                                       | 2,417,913   | 3,191,495   |
| Research and development                                  | 3,630,108   | 4,611,547   |
| Client services   | 4,623,546   | 5,655,493   |
| Stock based compensation                                  | 82,981  | 534,992   |
| Amortization  | <u>2,608,753</u>                                  | <u>2,189,582</u>                                  |
|   | <u>16,820,352</u>                                 | <u>19,956,515</u>                                 |
| <b>Operating loss</b>                                     | <u>(3,410,242)</u>                                | <u>(6,250,177)</u>                                |
| Interest, note 12   | 1,418,057   | 3,296,683   |
| Foreign currency loss (gain)                              | <u>(196,773)</u>                                  | <u>143,956</u>                                    |
| Loss from continuing operations before tax                | (4,631,526)                                       | (9,690,816)                                       |
| Current tax expense (benefit), note 18                    | -   | 1,298,811   |
| Future tax expense, note 18                               | <u>-</u>  | <u>3,299,857</u>                                  |
| Loss from continuing operations                           | (4,631,526)                                       | (14,289,484)                                      |
| Earnings from discontinued operations, note 4             | -   | 501,113   |
| Gain on sale of discontinued operations, note 4           | <u>-</u>  | <u>976,944</u>                                    |
| <b>Loss and comprehensive loss</b>                        | <u>\$ (4,631,526)</u>                             | <u>\$ (12,811,427)</u>                            |
| <b>Basic and diluted earnings (loss) per common share</b> |   |   |
| Loss from continuing operations                           | \$ (0.07)   | \$ (0.22)   |
| Earnings from discontinued operations                     | -   | 0.01  |
| Gain on sale of discontinued operations                   | -   | 0.01  |
| Loss and comprehensive loss per common share              | <u>\$ (0.07)</u>                                  | <u>\$ (0.19)</u>                                  |
| Weighted average number of common shares                  | <u>67,845,301</u>                                 | <u>66,227,558</u>                                 |

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

NIGHTINGALE INFORMATIX CORPORATION

CONSOLIDATED BALANCE SHEET  
AS AT MARCH 31, 2009

|   | As at<br>March<br>31, 2009 | As at<br>March<br>31, 2008 |
|---|----------------------------|----------------------------|
| <b>ASSETS</b>                                     |                            |                            |
| <b>Current assets</b>                             |                            |                            |
| Cash and cash equivalents                         | \$ 3,514,056               | \$ 5,033,746               |
| Accounts receivable                               | 2,324,377                  | 3,151,582                  |
| Other receivables                                 | 21,218                     | 1,034,721                  |
| Inventory   | 62,182                     | 168,948                    |
| Prepaid expenses                                  | 448,275                    | 649,207                    |
|   | <u>6,370,108</u>           | <u>10,038,204</u>          |
| <b>Long-term assets</b>                           |                            |                            |
| Deferred costs, note 5                            | 129,104                    | 201,940                    |
| Property and equipment, note 6                    | 1,216,596                  | 1,722,276                  |
| Intangible assets, note 7                         | 5,497,436                  | 7,336,804                  |
| Goodwill  | 4,692,399                  | 4,692,399                  |
|   | <u>11,535,535</u>          | <u>13,953,419</u>          |
| <b>Total assets</b>                               | <u>\$ 17,905,643</u>       | <u>\$ 23,991,623</u>       |
| <b>LIABILITIES</b>                                |                            |                            |
| <b>Current liabilities</b>                        |                            |                            |
| Accounts payable and accrued liabilities          | \$ 3,693,844               | \$ 4,048,260               |
| Income taxes payable, note 18                     | 948,701                    | 1,336,270                  |
| Current portion of deferred revenue               | 3,935,954                  | 4,199,690                  |
| Current portion of capital lease obligations      | 178,655                    | 278,658                    |
|   | <u>8,757,154</u>           | <u>9,862,878</u>           |
| <b>Long term liabilities</b>                      |                            |                            |
| Subordinated debt, note 8                         | 4,938,425                  | 5,295,648                  |
| Deferred revenue                                  | 1,296,842                  | 1,214,110                  |
| Capital lease obligations                         | 281,463                    | 438,682                    |
|   | <u>6,516,730</u>           | <u>6,948,440</u>           |
| <b>Total liabilities</b>                          | <u>15,273,884</u>          | <u>16,811,318</u>          |
| <b>SHAREHOLDERS' EQUITY</b>                       |                            |                            |
| Capital stock, note 9                             | 27,596,692                 | 27,521,485                 |
| Contributed surplus, note 10                      | 3,274,607                  | 1,459,085                  |
| Warrants, note 11                                 | 1,469,262                  | 3,277,011                  |
| Deficit   | (29,708,802)               | (25,077,276)               |
|   | <u>2,631,759</u>           | <u>7,180,305</u>           |
| <b>Total liabilities and shareholders' equity</b> | <u>\$ 17,905,643</u>       | <u>\$ 23,991,623</u>       |

Commitments and Legal (see notes 16 & 19)

Approved on behalf of the Board of Directors:

\_\_\_\_\_"Samer Chebib"\_\_\_\_\_  
Director

\_\_\_\_\_"David Atkins"\_\_\_\_\_  
Director

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

**NIGHTINGALE INFORMATIX CORPORATION**

**CONSOLIDATED STATEMENT OF DEFICIT  
FOR THE YEAR ENDED MARCH 31, 2009**

|                                  | <b>12 months<br/>ended<br/>March<br/>31, 2009</b> | <b>12 months<br/>ended<br/>March<br/>31, 2008</b> |
|----------------------------------|---|---|
| Deficit, beginning of the period | \$ (25,077,276)                                   | \$ (12,265,849)                                   |
| Loss and comprehensive loss      | <u>(4,631,526)</u>                                | <u>(12,811,427)</u>                               |
| Deficit, end of the period       | <u><u>\$ (29,708,802)</u></u>                     | <u><u>\$ (25,077,276)</u></u>                     |

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

**NIGHTINGALE INFORMATIX CORPORATION**

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED MARCH 31, 2009**

|   | <b>12 months<br/>ended<br/>March<br/>31, 2009</b> | <b>12 months<br/>ended<br/>March<br/>31, 2008</b> |
|---|---|---|
| <b>Cash flow from operating activities</b>                  |   |   |
| Loss from continuing operations                             | \$ (4,631,526)                                    | \$ (14,289,484)                                   |
| Adjustments for:  |   |   |
| Depreciation and amortization                               | 2,608,753   | 2,189,583   |
| Amortization of transaction costs related to debt financing | 219,099   | 536,398   |
| Gain on sale of asset                                       | -   | (22,130)  |
| Stock based compensation                                    | 82,981  | 534,992   |
| Future tax expense  | -   | 3,299,857   |
| Unrealized foreign exchange gain (loss)                     | 132,513   | (143,956)   |
| Interest accretion  | 423,678   | 1,138,700   |
|   | <u>(1,164,502)</u>                                | <u>(6,468,128)</u>                                |
| <i>Changes in non-cash working capital balances</i>         |   |   |
| Accounts receivable   | 1,154,497   | 500,593   |
| Prepaid expenses  | 200,932   | (195,044)   |
| Inventory   | 106,766   | (132,224)   |
| Deferred costs  | 72,836  | 424,950   |
| Other receivables   | 1,100,117   | (929,806)   |
| Accounts payable and accrued liabilities                    | (818,042)   | (1,072,642)                                       |
| Income taxes payable  | (691,204)   | 1,298,811   |
| Deferred revenue  | (181,004)   | (71,523)  |
| Cash flows used in operating activities                     | <u>(219,604)</u>                                  | <u>(6,645,013)</u>                                |
| <b>Cash flow from investing activities</b>                  |   |   |
| Purchase of property and equipment                          | (204,164)   | (368,671)   |
| Sale of helper division, note 4                             | -   | 10,810,873  |
| VantageMed acquisition, note 3                              | -   | (13,533,087)                                      |
| Cash flows provided by (used in) investing activities       | <u>(204,164)</u>                                  | <u>(3,090,885)</u>                                |
| <b>Cash flow from financing activities</b>                  |   |   |
| Increase in capital stock                                   | -   | 8,741,932   |
| Proceeds from subordinated debt financing                   | -   | 11,089,812  |
| Repayment of subordinated debt financing                    | (1,000,000)                                       | (6,000,000)                                       |
| Repayment of capital lease obligations                      | (343,138)   | (297,961)   |
| Increase (decrease) in borrowing under line of credit       | -   | (1,541,733)                                       |
| Cash flows provided by (used in) financing activities       | <u>(1,343,138)</u>                                | <u>11,992,050</u>                                 |
| Foreign exchange gains (losses) on cash in foreign currency | 247,216   | (227,769)   |
| Increase (decrease) in cash from continuing operations      | (1,519,690)                                       | 2,028,383   |
| Increase in cash from discontinued operations, note 4       | -   | 1,257,703   |
| Increase in cash during the period                          | -   | 3,286,086   |
| Cash and cash equivalents, beginning of period              | <u>5,033,746</u>                                  | <u>1,747,660</u>                                  |
| <b>Cash and cash equivalents, end of period</b>             | <u>\$ 3,514,056</u>                               | <u>\$ 5,033,746</u>                               |
| Non-cash investing and financing activities:                |   |   |
| Acquisition of property and equipment under capital lease   | \$ 59,542   | \$ 520,128  |
| Supplemental cash flow information:                         |   |   |
| Interest paid   | \$ 953,731  | \$ 1,734,905                                      |
| Income taxes paid   | \$ 564,467  |   |

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

## NIGHTINGALE INFORMATIX CORPORATION

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2009

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#### 1. BUSINESS DESCRIPTION

Nightingale Informatix Corporation ("Nightingale" or the "Company") is incorporated under the Ontario Business Corporations Act. The Company's principal activities are the development, sale and support of application software and related services to customers in the healthcare industry in Canada and the United States.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Principles of consolidation

The financial statements are prepared on a consolidated basis and include Nightingale and its wholly owned subsidiaries, Nightingale VantageMed Corporation, Nightingale HealtheNet Corporation, Nightingale HealtheNet Canada Corporation and VisionMD (2002) Inc.

All significant intercompany balances and transactions have been eliminated on consolidation and certain amounts have been reclassified to conform to the current year presentation.

##### Use of estimates

The preparation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

##### Revenue recognition

Revenue consists of licenses to the Company's application software and related support and maintenance, and services. The Company recognizes revenue when it is realized or realizable and earned. The Company considers revenue realized or realizable and earned when it has persuasive evidence of an arrangement, the product has been delivered or the services have been provided, the sales price is fixed and determinable and collectability is reasonably assured.

##### *Software Licenses*

When the Company's software and related license are sold with other services, the Company allocates the total fee to the various elements based on the relative fair values of the elements specific to the Company. When a license agreement includes one or more elements to be delivered at a future date, such as maintenance and support, and evidence of the fair value of all undelivered elements exists, the company uses the residual method to recognize revenue. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is recognized as revenue. If evidence of the fair value of one or more undelivered elements does not exist, all revenue is deferred and recognized when delivery of those elements occurs or when fair value can be established.

Support and maintenance is recognized ratably over the period of maintenance and support, on a straight-line basis.

##### *Services*

Revenue related to services is recognized at the time the service is performed. Services provided to customers include data management and transcription, medical billing services, custom development, project management, implementation, training services and electronic transaction services including electronic claims processing and electronic statement printing.

**Foreign currency translation**

Monetary items denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the consolidated balance sheet date and non-monetary items are translated at exchange rates in effect when the assets are acquired or obligations incurred. Revenue and expenses are translated at the average exchange rate during each month. Foreign exchange gains and losses are included in the consolidated statement of operations.

For integrated foreign operations, monetary items are translated into Canadian dollars at exchange rates in effect at the consolidated balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets are acquired or obligations incurred. Revenue and expenses are translated at the average exchange rate during each month.

**Research and development costs**

Costs related to the development of software are expensed as incurred, unless such costs meet the criteria for capitalization and amortization under Canadian generally accepted accounting principles. The criteria include identifiable costs attributable to a clearly defined product, the establishment of technical feasibility, identification of a market for the software, the Company's intent to market the software and adequate resources expected to be available to complete the project.

Investment tax credits for research and development are recognized when earned and when the amount and timing of realization is reasonably determinable.

**Cash and cash equivalents**

Cash and cash equivalents are defined as cash and highly liquid financial instruments. The fair value of these instruments is equal to their carrying value.

**Accounts receivable**

Accounts receivable are recorded at cost, less an allowance for uncollectible or doubtful accounts. The Company reviews accounts receivable and provides a reserve for amounts estimated not to be collectible. During this review, historical experience, the age of the receivable balance, the credit-worthiness of the customer and the reason for the delinquency are considered.

**Inventory**

Inventories are stated at the lower of cost or market and consist primarily of software, hardware or related components purchased to fill existing or anticipated customer orders. Reserves are provided for excess or obsolete inventory, which are estimated based on the age of the items and our ability to utilize the items in future sales.

**Property and equipment**

Property and equipment are recorded at acquisition cost and amortized to operations on a straight line basis over their estimated useful lives as follows:

- Office equipment (3 years)
- Furniture and fixtures (5 years)
- Leasehold improvements (lesser of the estimated useful life or the remaining lease term)

**Intangible assets**

Intangible assets representing proprietary software and other intangible assets are recorded at acquisition cost and amortized over their estimated useful lives on a straight line basis over periods ranging from five to ten years.

### **Goodwill**

Goodwill represents the excess of the purchase price of business acquisitions over the fair value of identifiable net assets acquired in such acquisitions. Goodwill is allocated as at the date of the business combination. Goodwill is not amortized but is tested for impairment annually or more frequently, if events or changes in circumstances indicate the asset might be impaired.

The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit including goodwill is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired, and the second step is considered unnecessary. In the event that the fair value of the reporting unit, including goodwill, is less than the carrying amount, the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination using the fair value of the reporting unit as if it were the purchase price. When the carrying amount of the reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the consolidated statement of operations.

### **Impairment of Long-Lived Assets**

The unamortized portions of long lived assets such as property and equipment and intangibles assets are reviewed when events and changes in circumstances indicate that the carrying amounts may not be recoverable. If the projected undiscounted future cash flows are not sufficient to recover the carrying amounts, the assets are considered to be impaired and an impairment loss is measured as the amount by which the carrying amounts exceed fair values. No impairment of any long lived assets have been determined during any of the periods presented.

### **Deferred revenue**

Deferred revenue generally results from advance payments of support and maintenance, payments made in advance of the delivery, implementation or customization services and license revenues where the Company has not met the criteria for revenue recognition as described above.

### **Income Taxes**

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between the amounts reported for financial statement purposes and tax values of assets and liabilities using enacted or substantively enacted income tax rates expected to be in effect for the year in which the differences are expected to be realized. A valuation allowance is established to reduce future tax assets if it is not considered more likely than not that all or some portions of such future tax assets will be realized.

### **Income (loss) per common share**

Basic income (loss) per common share has been calculated by dividing the loss from the consolidated financial statements by the weighted average number of common shares outstanding during the year. The fully diluted income (loss) per share would be calculated using a common share balance increased by the number of common shares that could be issued under outstanding common share options of the Company. As the Company is in a loss position for the years ended March 31, 2009 and 2008, no dilutive effect would result from the potential increase in common shares. As well, all securities potentially having a dilutive effect were out of the money and would not be considered to be exercised as at March 31, 2009.

### **Stock-based compensation and other stock-based payments**

The Company accounts for stock options and restricted stock grants using the fair value method. For employees, the stock-based compensation expense is amortized over the period from the grant date to the date that the award is fully vested using the graded vesting method. For non-employees, stock-based compensation is recorded in the period in which goods and services are provided by the non-employees.

**NIGHTINGALE INFORMATIX CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2009**

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**3. BUSINESS COMBINATIONS**

**VantageMed Acquisition**

On April 18, 2007, the Company completed its acquisition of all the outstanding shares of VantageMed, a provider of practice management software and services to the healthcare industry in the US market. Total consideration including transaction costs was \$14,750,560 (US\$13,316,478 or US\$0.75 per share) for all of the outstanding shares of VantageMed. Cash of \$1,217,473 was included in the acquired assets of VantageMed, resulting in net cash paid of \$13,533,087.

The allocation of the purchase price to the fair value of the assets and liabilities acquired was as follows:

|  |    |             |
|--|----|-------------|
| Current assets                         | \$ | 2,270,337   |
| Property and equipment                 |    | 61,189      |
| Assets under capital leases            |    | 23,967      |
| Accounts payable and other liabilities |    | (2,528,995) |
| Current deferred revenue               |    | (3,712,239) |
| Capital lease obligations              |    | (44,344)    |
| Intangibles                            |    | 16,491,695  |
| Goodwill                               |    | 2,188,950   |
|  |    | <hr/>       |
|  | \$ | 14,750,560  |
|  |    | <hr/>       |
| Cash consideration                     | \$ | 14,373,362  |
| Transaction costs                      |    | 377,198     |
|  |    | <hr/>       |
|  | \$ | 14,750,560  |
|  |    | <hr/>       |

This acquisition was accounted for using the purchase method and results have been included in the consolidated financial statements from the acquisition date.

Intangible assets acquired consist of customer contract and contractual relationships, technology and brand names and are being amortized on a straight-line basis over their estimated useful lives ranging from five to ten years.

**4. DISCONTINUED OPERATIONS**

In February 2008, the Company completed the sale of its Helper business to Netsmart Technologies for a total purchase price of \$11 million (US\$11 million). The Company received cash of \$9.9 million (US\$9.9 million) upon closing and recorded an escrow receivable of \$1 million (US\$1 million), included in Other Receivables at March 31, 2008, representing the balance of the consideration. In April 2008, the Company received \$608,332 (US\$600,000) of the escrow receivable and in June 2008, the Company received another \$40,669 (US\$40,000). The balance of the escrow receivable, \$411,160 (US\$400,000), which was subject to certain indemnity escrow provisions as outlined in the Asset Purchase Agreement, was received in March 2009. The results of the Helper business have been classified as discontinued operations in the fiscal 2008 Statement of Operations.

**NIGHTINGALE INFORMATIX CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2009**

The assets and liabilities sold included software and certain customer contracts including obligations to provide support and maintenance. The following table provides additional information with respect to amounts included in the financial statements as discontinued operations in the year ended March 31, 2008:

**Statement of Operations – Discontinued Operations**

|                                       |              |
|---------------------------------------|--------------|
| Revenue                               | \$ 4,157,785 |
| Earnings from discontinued operations | \$ 501,113   |

**Statement Of Cash Flows – Discontinued Operations**

|   |              |
|---|--------------|
| Cash flow from operating activities               | \$ 1,257,703 |
| Net Increase in cash from discontinued operations | \$ 1,257,703 |

The allocation of the sale price to the fair value of the assets and liabilities sold is as follows:

|                              |                      |
|------------------------------|----------------------|
| Property and equipment       | \$ 5,506             |
| Current deferred revenue     | (1,285,956)          |
| Intangible assets            | 8,474,925            |
| Goodwill                     | 2,639,454            |
| Gain on sale of product line | \$ 976,944           |
|                              | <u>\$ 10,810,873</u> |
| Cash consideration           | \$ 10,985,873        |
| Transaction costs            | (175,000)            |
|                              | <u>\$ 10,810,873</u> |

The Company was entitled to receive additional consideration for the sale in the first quarter of fiscal 2010 based on the occurrence of certain events; however, the criteria for achievement of the additional consideration was not met therefore no additional consideration was due.

**5. DEFERRED COSTS**

Deferred costs are comprised of deferred sales commission costs that will be recognized as commission expense as the related revenues are recognized.

**6. PROPERTY AND EQUIPMENT**

Property and equipment as at March 31, 2009 are as follows:

|   | <b>Cost</b>         | <b>Accumulated<br/>Depreciation</b> | <b>March<br/>31, 2009<br/>Net Book<br/>Value</b> |
|---|---------------------|-------------------------------------|--|
| Office equipment                                    | \$ 1,530,348        | \$ 1,056,625                        | \$ 473,723                                       |
| Furniture and fixtures                              | 227,021             | 117,279                             | 109,742  |
| Assets under capital lease - office equipment       | 1,173,404           | 684,459                             | 488,945  |
| Assets under capital lease – furniture and fixtures | 139,522             | 77,243                              | 62,279   |
| Leasehold Improvements                              | 193,299             | 111,392                             | 81,907   |
|   | <u>\$ 3,263,594</u> | <u>\$ 2,046,998</u>                 | <u>\$ 1,216,596</u>                              |

**NIGHTINGALE INFORMATIX CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2009**

Property and equipment as at March 31, 2008 are as follows:

|   | <b>Cost</b>         | <b>Accumulated<br/>Depreciation</b> | <b>March<br/>31, 2008<br/>Net Book<br/>Value</b> |
|---|---------------------|-------------------------------------|--|
| Office equipment                                    | \$ 1,348,863        | \$ 728,549                          | \$ 620,314                                       |
| Furniture and fixtures                              | 213,753             | 81,999                              | 131,754  |
| Assets under capital lease - office equipment       | 1,128,725           | 358,954                             | 769,771  |
| Assets under capital lease – furniture and fixtures | 124,659             | 50,810                              | 73,849   |
| Leasehold Improvements                              | <u>193,299</u>      | <u>66,711</u>                       | <u>126,588</u>                                   |
|   | <u>\$ 3,009,299</u> | <u>\$ 1,287,023</u>                 | <u>\$ 1,722,276</u>                              |

**7. INTANGIBLE ASSETS**

Components of intangible assets as at March 31, 2009 are as follows:

|                         | <b>Cost</b>        | <b>Accumulated<br/>Amortization</b> | <b>March<br/>31, 2009<br/>Net Book<br/>Value</b> |
|-------------------------|--------------------|-------------------------------------|--|
| Proprietary software    | \$ 1,830,383       | \$ 1,362,373                        | \$ 468,010                                       |
| Other Intangible assets |                    |                                     |  |
| HealtheNet              | \$ 628,069         | \$ 331,780                          | \$ 296,289                                       |
| IHPS                    | 1,372,955          | 730,465                             | 642,490  |
| VantageMed              | <u>5,680,495</u>   | <u>1,589,848</u>                    | <u>4,090,647</u>                                 |
|                         | <u>\$9,511,902</u> | <u>\$4,014,466</u>                  | <u>\$5,497,436</u>                               |

Components of intangible assets as at March 31, 2008 are as follows:

|                         | <b>Cost</b>         | <b>Accumulated<br/>Amortization</b> | <b>March<br/>31, 2008<br/>Net Book<br/>Value</b> |
|-------------------------|---------------------|-------------------------------------|--|
| Proprietary software    | \$ 1,830,383        | \$ 984,413                          | \$ 845,970                                       |
| Other Intangible assets |                     |                                     |  |
| HealtheNet              | \$ 628,069          | \$ 166,784                          | \$ 461,285                                       |
| IHPS                    | 1,372,955           | 369,212                             | 1,003,743  |
| VantageMed              | <u>5,672,113</u>    | <u>646,307</u>                      | <u>5,025,806</u>                                 |
|                         | <u>\$ 9,503,520</u> | <u>\$2,166,716</u>                  | <u>\$7,336,804</u>                               |

**8. SUBORDINATED DEBT**

On April 19, 2007, Nightingale closed a \$12 million subordinated debt financing. The financing was led by Wellington Financial LP and included Export Development Canada, a Limited Partner in Wellington Financial Fund III (the “Lenders”). On November 23, 2007, certain terms and covenants of the subordinated debt were amended. The credit facility was a secured 29-month term loan. The subordinated debt bears interest at a rate of 12.75% per annum, payable monthly. Nightingale also provided the lenders with 7,994,186 special warrants (“Warrants”). Each Warrant was convertible into common share purchase warrants, each entitling the holder to purchase one common share of Nightingale at a price of \$0.43 per share for five years from the date of closing. These Warrants and, as applicable, the warrants and common shares, were subject to a four-month hold period, pursuant to securities laws. The transaction costs related to the subordinated debt financing and

**NIGHTINGALE INFORMATIX CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2009**

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the November 2007 amendment totaled \$1,160,188 which included a commitment fee equal to 3.75% of the available facility and a \$250,000 amendment fee. This amendment fee was paid in November 2008.

The proceeds and costs were allocated to the debt and warrants based on the relative fair value of the debt and Warrants. The fair value of the subordinated debt of \$10,425,145 was determined by discounting the future contractual cash flows of the subordinated debt using an interest rate of 21%. The fair value of the Warrants was determined to be \$1,574,855 using the Black-Scholes option pricing model with the following assumptions:

|   |         |
|---|---------|
| Warrant exercise price  | \$0.43  |
| Market value of common shares on date of issuance of Warrants | \$0.43  |
| Risk-free rate  | 3.95%   |
| Expected volatility   | 50.0%   |
| Expected dividend yield                                       | 0.0%    |
| Estimated life of Warrants                                    | 4 years |

Based on the relative fair values of the subordinated debt and warrants, proceeds of \$10,425,145 and transaction costs of \$804,595 were allocated to the subordinated debt and proceeds of \$1,574,855 and transaction costs of \$105,593 were allocated to the warrants. The \$250,000 amendment fee was allocated to the subordinated debt.

In February 2008, the term of the subordinated debt was extended to March 2010, and, following receipt of a waiver for certain quarterly and cumulative financial covenants, the covenants were amended.

In the second quarter of fiscal 2009, the Company experienced a breach of a financial covenant under the loan agreement with its lenders. The Company received a waiver of the breach from the lenders and certain covenants and other terms of the subordinated debt agreement were amended and consideration of approximately \$230,000 was committed to the lenders. This consideration is being amortized to interest expense over the remaining debt term and approximately \$0.08 million was expensed in the year ended March 2009. In May 2009, in conjunction with the share issuance described in Note 11i(2), this commitment to the lenders was satisfied.

The Company also agreed to repay \$750,000 of the outstanding principal during its second and third fiscal 2009 quarters of which \$500,000 was repaid in September 2008 and \$250,000 was repaid in November 2008.

Subsequent to fiscal year end, in May 2009, the Company amended its debt financing agreements with the Lenders and agreed to issue to the Lenders an aggregate of 2,858,663 common shares and cancel the 7,994,186 warrants held by such Lenders. The issuance of shares and cancelation of warrants have been approved by TSX Venture Exchange. The common shares are subject to a four-month hold period expiring on September 8, 2009. In July 2009, the Company amended its debt financing agreements to extend the term through July 2012 at which point the remaining principal balance of \$5,250,000 will be due. Certain terms and covenants were also amended in July 2009 and the Company agreed to issue 4,233,870 warrants with a strike price of \$0.31 per share and with an expiration date of July 29, 2012. Such warrants are currently pending TSXV and other regulatory approval. In the event such regulatory approval is not received the Company is required to provide equivalent economic consideration.

Management expects to meet the amended covenants over the remaining term of the loan agreement.

**NIGHTINGALE INFORMATIX CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2009**

**9. CAPITAL STOCK**

**a. Authorized**

|           |                   |
|-----------|-------------------|
| Unlimited | Preference shares |
| Unlimited | Common shares     |

**b. Common shares issued and outstanding**

|  | <b>Number</b>     | <b>Amount</b>        |
|--|-------------------|----------------------|
| Balance as at March 31, 2007, (1)      | <u>41,916,685</u> | <u>\$ 18,553,953</u> |
| Issued on Public Offering              | 25,000,000        | 8,741,932            |
| Issued to officer of the Company       | 564,050           | 225,600              |
| Cancelled shares                       | <u>(2,195)</u>    | <u>-</u>             |
| Balance as at March 31, 2008, (1), (2) | <u>67,478,540</u> | <u>\$ 27,521,485</u> |
| Issued to officers of the Company      | 188,017           | 75,207               |
| Balance as at March 31, 2009, (1), (2) | <u>67,666,557</u> | <u>\$ 27,596,692</u> |

(1) Excludes 1,666,667 common shares issued upon the purchase of HealthNet as the shares are subject to a performance escrow period ending in fiscal 2010.

(2) As at March 31, 2008, there were 564,050 restricted shares outstanding to certain officers related to the VantageMed acquisition that were not included in shares outstanding due to their unvested status. These shares have restricted terms based on continued employment over a three year period. During the fiscal year 2009, the Company cancelled 188,017 of these restricted common shares due to the departure of an officer and another 188,017 of these shares vested. As at March 31, 2009, 376,033 of these shares remained issued and outstanding but were excluded from the above due to their unvested status.

**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 fair value of each stock option on the date of grant was estimated using the Black-Scholes option pricing model with the following assumptions at the measurement date:

|                         | <b>Options Granted in<br/>the Year Ended<br/>March 31, 2009</b> | <b>Options Granted in<br/>the Year Ended<br/>March 31, 2008</b> |
|-------------------------|---|---|
| Risk-free interest rate | 3.05% - 3.68%   | 3.95% - 4.17%   |
| Estimated volatility    | 50.0%   | 50.0%   |
| Dividend yield          | 0.0%  | 0.0%  |
| Expected life           | 4 years   | 4 years   |

**NIGHTINGALE INFORMATIX CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2009**

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

|                              | Number of<br>Stock<br>Options | Weighted<br>Average<br>Exercise<br>Price |
|------------------------------|-------------------------------|--|
| Balance as at March 31, 2007 | 2,751,990                     | \$ 1.24                                  |
| Issued                       | 2,300,849                     | 0.45                                     |
| Cancelled / Expired          | <u>(1,192,779)</u>            | <u>1.09</u>                              |
| Balance as at March 31, 2008 | 3,860,060                     | \$ 0.82                                  |
| Issued                       | 1,304,000                     | 0.26                                     |
| Cancelled / Expired          | <u>(1,997,742)</u>            | <u>0.79</u>                              |
| Balance as at March 31, 2009 | <u>3,166,318</u>              | <u>\$ 0.60</u>                           |

**ii. Summarized information relative to stock options outstanding**

| Exercise<br>Price | Number<br>Outstanding<br>as at March<br>31, 2009 | Exercisable      | Remaining<br>Contracted<br>Life<br>(Years) |
|-------------------|--|------------------|--|
| \$0.26            | 1,054,000  | -                | 4.33                                       |
| 0.45              | 1,293,349  | 819,210          | 3.29                                       |
| 0.91              | 47,469   | 47,469           | 0.76                                       |
| 1.00              | 249,000  | 186,750          | 1.42                                       |
| 1.25              | 99,500   | 90,250           | 2.53                                       |
| 1.50              | <u>423,000</u>                                   | <u>367,250</u>   | 1.76                                       |
|                   | <u>3,166,318</u>                                 | <u>1,510,929</u> |  |

**iii. Summary of the weighted average grant-date fair value of options issued**

For the year ended March 31, 2009:

|                                    | Number<br>of Options<br>Issued | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Fair value<br>of Option |
|------------------------------------|--------------------------------|--|--|
| Exercise price equal to the market | 1,269,000                      | \$ 0.26                                  | \$ 0.11  |
| Exercise price exceeds the market  | 35,000                         | \$ 0.26                                  | \$ 0.08  |

For the year ended March 31, 2008:

|                                   | Number<br>of Options<br>Issued | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Fair value<br>of Option |
|-----------------------------------|--------------------------------|--|--|
| Exercise price exceeds the market | 2,300,849                      | \$ 0.45                                  | \$ 0.14  |

**NIGHTINGALE INFORMATIX CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2009**

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**10. CONTRIBUTED SURPLUS**

Included in contributed surplus is the expense related to the fair value of stock options granted to employees and non-employees 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.

Changes in contributed surplus for the periods ended March 31, 2008 and 2009 are as follows:

|  | <b>Amount</b>       |
|--|---------------------|
| Balance as at March 31, 2007   | \$ 1,021,217        |
| <i>STOCK OPTIONS</i>   |                     |
| Changes in period due to stock options                                   | 362,668             |
| <i>RESTRICTED SHARE GRANT</i>  |                     |
| Expensed   | 112,800             |
| Transfer to common shares on release of restrictions on restricted stock | <u>(37,600)</u>     |
| Balance as at March 31, 2008   | \$ 1,459,085        |
| <i>STOCK OPTIONS</i>   |                     |
| Changes in period due to stock options                                   | 45,380              |
| <i>RESTRICTED SHARE GRANT (1)</i>  |                     |
| Expensed   | 37,600              |
| Transfer to common shares on release of restrictions on restricted stock | (75,207)            |
| <i>WARRANTS (2)</i>  |                     |
| Expired  | <u>1,807,749</u>    |
| Balance as at March 31, 2009   | <u>\$ 3,274,607</u> |

(1) During the fiscal year 2009, 188,017 restricted common shares to certain officers related to the VantageMed acquisition vested and the associated restrictions were released. At March 31, 2009 376,033 restricted shares remaining in outstanding shares with restricted terms based on continued employment.

(2) These warrants have expired during the fiscal year and have been reclassified to contributed surplus.

**NIGHTINGALE INFORMATIX CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2009**

**11. WARRANTS**

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

**i. Summarized information relative to changes in Warrants during the period**

Changes in Warrants for the period ended March 31, 2009 are as follows:

|                              | Number                  | Amount                     | Weighted<br>Average<br>Exercise<br>Price |
|------------------------------|-------------------------|----------------------------|--|
| Balance as at March 31, 2007 | 6,255,000               | \$ 1,807,749               | \$ 1.54                                  |
| Issued - subordinated debt   | <u>7,994,186</u>        | <u>1,469,262</u>           | <u>0.43</u>                              |
| Balance as at March 31, 2008 | 14,249,186              | \$ 3,277,011               | 0.68                                     |
| Expired (1)                  | <u>(6,255,000)</u>      | <u>(1,807,749)</u>         | <u>1.54</u>                              |
| Balance as at March 31, 2009 | <u><u>7,994,186</u></u> | <u><u>\$ 1,469,262</u></u> | <u><u>\$ 0.43</u></u>                    |

(1) These warrants expired unexercised during the fiscal year and have been reclassified to contributed surplus.

(2) Subsequent to fiscal year end, the Company amended its debt financing agreements with Wellington Financial LP and Export Development Canada ("the Lenders") and has agreed to issue to the Lenders an aggregate of 2,858,663 common shares and cancel the 7,994,186 warrants held by such Lenders as further described in Note 8.

**ii. Summarized information relative to Warrants outstanding and exercisable**

| Exercise<br>Price | Number<br>Outstanding<br>at March<br>31, 2009 | Exercisable | Remaining<br>Contracted<br>Life<br>(Years) |
|-------------------|---|-------------|--|
| 0.43              | 7,994,186                                     | 7,994,186   | 3.03                                       |

**12. INTEREST**

|   | Year<br>Ended<br>March<br>31, 2009 | Year<br>Ended<br>March<br>31, 2008 |
|---|------------------------------------|------------------------------------|
| Interest on capital lease obligations   | \$ 70,212                          | \$ 40,041                          |
| Interest on subordinated debt           | 736,186                            | 1,545,897                          |
| Transaction costs on subordinated debt  | 219,099                            | 536,398                            |
| Interest on line of credit              | 415                                | 11,588                             |
| Transaction costs on line of credit     | -                                  | 143,306                            |
| Interest accretion on subordinated debt | 423,678                            | 1,138,700                          |
| Interest income                         | (44,352)                           | (130,730)                          |
| Other interest                          | <u>12,819</u>                      | <u>11,484</u>                      |
|   | <u><u>\$ 1,418,057</u></u>         | <u><u>\$3,296,684</u></u>          |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2009

**13. RELATED PARTY TRANSACTIONS**

In September 2007, the Company entered into a six month consulting agreement with a company that is affiliated with one of the Company's directors. Fees totaling \$60,000 were expensed during the service period in fiscal 2008 with a cash payment of \$30,000 made during fiscal 2008 and the remaining \$30,000 paid in April 2008.

The Company entered into a number of four-year leases for computer equipment with a company that is affiliated with one of the Company's directors and officers. The total obligation remaining on these leases at March 31, 2008 was \$17,124 and the company made payments pursuant to these agreements totaling \$17,124 in the fiscal year ended March 31, 2009 and \$40,151 in the fiscal year ended March 31, 2008. The leases expired at various dates through September 2008 and there is no outstanding balance on these leases at March 31, 2009.

At March 31, 2009 the Company had a deferred compensation balance of \$117,905 payable to an officer and director of the Company. The balance is payable on demand and included in accounts payable and accrued liabilities at March 31, 2009.

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

**14. FINANCIAL INSTRUMENTS**

For the fiscal year ended March 31, 2009, the Company has adopted the requirements of The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3862, "Financial Instruments - Disclosures," which apply to fiscal years beginning on or after October 1, 2007. This section requires disclosures relating to: (i) the significance of financial instruments for financial position and performance; and (ii) the nature and extent of the Company's exposure to risks arising from financial instruments, including credit risk, liquidity risk, foreign currency risk and interest rate risk, and how the Company manages those risks.

Under Canadian GAAP, financial instruments are classified into one of the following categories: held-for-trading, held-to-maturity, available for sale, loans and receivables, and other financial liabilities. The following table summarizes information regarding the carrying value of the Company's financial instruments:

|                                   | As at March 31,<br>2009 | As at March 31,<br>2008 |
|-----------------------------------|-------------------------|-------------------------|
| Held for trading (i)              | \$ 3,514,056            | \$ 5,033,746            |
| Loans and receivables (ii)        | \$ 2,345,595            | \$ 4,186,303            |
| Other financial liabilities (iii) | \$ 8,632,269            | \$ 9,343,908            |

- (i) Includes cash and cash equivalents
- (ii) Includes accounts receivable and other receivables
- (iii) Includes financial liabilities included in accounts payable and accrued liabilities and subordinated debt

**Liquidity risk**

The Company has sustained losses and negative cash flows from operations over the past four years. At March 31, 2009, the Company has approximately \$3.5 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 on a monthly basis and updates its expected use of cash resources based on the latest available data. The accounts payable and accrued liabilities will mature within the next twelve months.

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

## NIGHTINGALE INFORMATIX CORPORATION

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2009

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 impact the ability of the Company to meet the covenants of its subordinated debt as described in Note 8 and may require the Company to seek a waiver of a covenant breach or an amendment of its debt agreement. There is no assurance that the Company will be successful in its financing efforts or that they will be sufficient. If adequate funds are not available, the Company's ability to fund operations will be impacted.

#### 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. In the year ended March 31, 2009, one large customer accounted for 10% of total revenues (8% in 2008) and 19% of accounts receivable (13% at March 31, 2008). A second customer accounted for 10% of total revenues in each of 2009 and 2008. A third customer accounted for 13% of accounts receivable at March 31, 2008. 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. Most sales are invoiced with payment terms in the range of 30 to 90 days.

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 \$2.6 million as at March 31, 2009, representing the maximum exposure to credit risk of those financial assets, exclusive of the allowance for doubtful accounts. Normal credit terms for amounts due from customers call for payment within the range of 30 to 60 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 \$0.2 million and \$0.1 million as of March 31, 2009 and 2008, respectively.

The Company's exposure to credit risk for trade receivables by geographic area as at March 31, 2009 was as follows:

|               |                     |             |
|---------------|---------------------|-------------|
| Canada        | \$ 730,890          | 31%         |
| United States | <u>1,593,487</u>    | <u>69%</u>  |
|               | <u>\$ 2,324,377</u> | <u>100%</u> |

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

|   | Year Ended<br>March 31,<br>2009 | Year Ended<br>March 31,<br>2008 |
|---|---------------------------------|---------------------------------|
| Allowance for doubtful accounts – beginning of period | \$ 458,519                      | \$ 236,189                      |
| Bad debt expense                                      | 77,407                          | 222,330                         |
| Write-off of bad debts                                | (185,769)                       | -                               |
| Allowance for doubtful accounts – end of period       | <u>\$ 350,157</u>               | <u>\$ 458,519</u>               |

## NIGHTINGALE INFORMATIX CORPORATION

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2009

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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 \$3,514,056, representing the maximum exposure to credit risk of these financial assets. Approximately 92% of the Company's cash and cash equivalents at March 31, 2009 were held by two financial institutions. The Company's exposure to credit risk relating to cash and cash equivalents, segmented by geographic area as at March 31, 2009 was as follows:

|               |             |
|---------------|-------------|
| Canada        | 78%         |
| United States | 22%         |
|               | <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 March 31, 2009, monetary assets were \$2,394,344 and monetary liabilities were \$2,413,854, resulting in net monetary liabilities in the amount of \$19,510 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 \$2,500 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 \$3,100.

#### Fair value

At March 31, 2009 the estimated fair values of cash and cash equivalents, accounts receivable and other receivables, and accounts payable and accrued liabilities approximate their respective carrying values due to their short-term nature.

At March 31, 2009 the fair value of the Company's subordinated debt is estimated to be equal to its carrying value.

#### 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 and subordinated debt. The Company's primary uses of capital are to finance operating losses and increases in non-cash working capital and capital expenditures. The Company currently funds these requirements from cash raised through past share and debt issuances. The 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.

**NIGHTINGALE INFORMATIX CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2009**

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 subordinated debt agreements, as amended in July 2009 (note 8), the Company is subject to certain covenants with respect to its balance sheet and financial performance.

**15. SEGMENT INFORMATION**

During the year ended March 31, 2009, the Company operated within a single operating segment across two geographic regions. Information with respect to these geographic areas is as follows:

|  | <b>Year<br/>Ended<br/>March<br/>31, 2009</b> | <b>Year<br/>Ended<br/>March<br/>31, 2008</b> |
|--|--|--|
| <b>Revenue from continuing operations</b>  |  |  |
| Canada                                     | \$ 4,990,533                                 | \$ 5,841,157                                 |
| United States                              | 13,474,616                                   | 13,034,399                                   |
|  | <u>\$18,465,149</u>                          | <u>\$ 18,875,556</u>                         |
|  | <b>As at<br/>March<br/>31, 2009</b>          | <b>As at<br/>March<br/>31, 2008</b>          |
| <b>Property and equipment and goodwill</b> |  |  |
| Canada                                     | \$ 1,787,838                                 | \$ 2,250,048                                 |
| United States                              | 4,121,157                                    | 4,164,627                                    |
|  | <u>\$ 5,908,995</u>                          | <u>\$ 6,414,675</u>                          |

**16. COMMITMENTS**

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

| <b>Fiscal Year</b>             | <b>Operating<br/>Leases</b> | <b>Capital Leases</b> |
|--------------------------------|-----------------------------|-----------------------|
| 2010                           | \$ 568,524                  | \$ 264,076            |
| 2011                           | 536,849                     | 246,627               |
| 2012                           | 489,710                     | 14,339                |
| 2013                           | 275,826                     | -                     |
| 2014                           | 189,708                     | -                     |
| 2015 and thereafter            | <u>146,289</u>              | -                     |
| Total Future Minimum Payments  | \$ 2,206,905                | 525,042               |
| Less Interest                  |                             | <u>(64,925)</u>       |
| Total Principal Balance        |                             | 460,117               |
| Less Long Term Portion         |                             | <u>(281,462)</u>      |
| Current Portion of Obligations |                             | \$ 178,655            |

## NIGHTINGALE INFORMATIX CORPORATION

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2009

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Capital lease obligations, including interest at rates ranging from 8% to 19.5% per annum, mature on various dates to September 30, 2011 and are often secured by the underlying office equipment and furniture and fixtures.

The Company is also required to make interest payments on a monthly basis in connection with its subordinated debt and the \$5,250,000 principal balance is due in July 2012.

#### 17. CHANGES IN ACCOUNTING POLICIES

##### Capital disclosures

In December 2006, The Canadian Institute of Chartered Accountants (CICA) issued Handbook Section 1535, Capital Disclosures. This standard established standards for disclosing information about an entity's objectives, policies and processes for managing capital. This standard was effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2007, on a prospective basis. The Company adopted this new standard effective April 1, 2008. The prospective adoption of this new standard had an impact on disclosure provided by the Company but did not impact its financial position, results of operations or cash flows. Capital disclosures are described in note 14.

##### Financial instruments - disclosures and presentation

In December 2006, the CICA issued Handbook Section 3862, Financial Instruments - Disclosures, and Section 3863, Financial Instruments - Presentation. These standards enhanced existing disclosures in previously issued Section 3861, Financial Instruments - Disclosure and Presentation. Section 3862 placed greater emphasis on disclosures about risks related to recognized and unrecognized financial instruments and how those risks are managed. Section 3863 carries forward the same presentation standards as Section 3861. These new standards were effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2007 on a prospective basis. The Company adopted these new standards effective April 1, 2008. The prospective adoption of this new standard had an impact on disclosure provided by the Company but did not impact its financial position, results of operations or cash flows. Additional disclosures required by Section 3862 are provided in note 14.

##### Inventories

In May 2007, the CICA issued Handbook Section 3031, which replaces the existing Section 3030 "Inventories." The standard introduces changes to the measurement and disclosure of inventory and converges with international accounting standards. This standard is effective for interim and annual periods related to fiscal years beginning on or after January 1, 2008. The Company has adopted this new guidance effective April 1, 2008. This standard did not have a material impact on its consolidated financial position, results of operations or cash flows; however, the Company now carries inventory at the lower of cost and net realizable value. Previously, the Company carried inventory at the lower of cost and replacement cost.

##### General Standards of Financial Statement Presentation

In May 2007, the Accounting Standards Board ("AcSB") amended Section 1400, General Standards of Financial Statement Presentation, to change the guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. Management is required to make an assessment of an entity's ability to continue as a going concern and should take into account all available information about the future, which is at least, but is not limited to, 12 months from the balance sheet dates. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. These amendments are effective for the Company for annual periods beginning after January 1, 2008. The Company has adopted this new guidance effective April 1, 2008. The adoption of this guidance did not have a material impact on its financial position, results of operations or cash flows.

##### Accounting changes

On April 1, 2008, the Company adopted the CICA Handbook Section 1506, Accounting Changes, which

## NIGHTINGALE INFORMATIX CORPORATION

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2009

prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. This standard did not affect the Company's financial position or results of operations.

#### Recent accounting pronouncements

In February 2008, CICA issued Handbook Section 3062 "Goodwill and Intangible Assets", which replaces the existing Sections 3062 "Goodwill and Other Intangible Assets" and 3450 "Research and Development Costs." The new standard introduces changes to recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets are equivalent to the corresponding provisions of International Financial Reporting Standard IAS 38, "Intangible Assets." The new standard also provides guidance for the recognition of internally developed intangible assets, including assets developed from research and development activities, ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. The Section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008 with earlier adoption encouraged. The Company will adopt this new guidance effective April 1, 2009. The Company is currently assessing the impact of this standard may have on its financial positions, results of operations or cash flow.

#### Convergence with International Financial Reporting Standards

On February 13, 2008, Canada's Accounting Standards Board ("AcSB") confirmed the date of changeover from GAAP to International Financial Reporting Standards ("IFRS"). Canadian publicly accountable enterprises must adopt IFRS for their interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is currently in the preliminary stages of its IFRS conversion plan.

#### 18. INCOME TAXES

The tax effect of temporary differences that give rise to significant components of the Company's future income tax assets and future income tax liabilities at March 31 are presented below:

|   | Year<br>Ended<br>March 31,<br>2009 | Year<br>Ended<br>March 31,<br>2008 |
|---|------------------------------------|------------------------------------|
| Future income tax assets (liabilities)                        |                                    |                                    |
| Non-capital losses  | \$ 10,225,799                      | \$ 8,324,182                       |
| Deductible share issue costs                                  | 577,105                            | 937,358                            |
| Intangible assets   | (1,857,310)                        | (2,090,000)                        |
| Excess of book value of property and equipment over tax value | 22,126                             | 124,159                            |
| Other   | 186,564                            | 793,643                            |
|   | <u>9,154,285</u>                   | <u>8,089,020</u>                   |
| Valuation allowance   | <u>\$ (9,154,285)</u>              | <u>\$ (8,089,020)</u>              |
| Net future tax assets   | <u>-</u>                           | <u>-</u>                           |

In assessing the realizability of future income tax assets, management considers whether it is more likely than not that some portion or all of the future income tax assets will not be realized. The ultimate realization of future income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. A valuation allowance was provided against the net future income tax assets as at March 31, 2009 and 2008 due to the uncertainty as to their ultimate realization.

#### Tax expense

On the acquisition of VantageMed in April 2007, the Company recorded a full valuation allowance against all tax loss carry forwards of VantageMed. Upon the sale of Helper (see note 4) in February 2008, approximately

**NIGHTINGALE INFORMATIX CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2009**

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\$3.3 million of the valuation allowance was recognized as a reduction of the goodwill and intangibles acquired on the acquisition of VantageMed and as a non-cash future tax expense.

The sale of Helper resulted in a taxable gain of approximately \$11 million. The Company was able to apply \$8.3 million of loss carry forwards against the taxable gain and recorded a current tax provision of \$0.9 million relating to the remaining unsheltered portion of the taxable gain in the year ended March 31, 2008. In addition, during the year the Company recorded a \$0.4 million tax provision related to estimated withholding taxes payable.

In the year ended March 31, 2009, the Company paid taxes of approximately \$0.6 million associated with the Helper sale and subsequent to year end the Company paid an additional \$0.05 million.

**U.S Income tax losses carried forward**

The acquired VantageMed company had U.S. net operating loss carry forwards from years prior to the Company's acquisition by Nightingale of approximately \$41 million. The amount of these losses that can be used in future years is limited under the change of ownership rules in the U.S. tax law to \$530,000 per year. Because there is a 20 year carry forward period for U.S. net operating losses, the total amount that can be used prior to the expiration of the losses is \$9.9 million. The losses will expire from 2019 to 2029. No benefit in respect of the potential application of these losses has been recorded in the consolidated financial statements other than to the extent that the losses were used to offset the taxable gain on the sale of Helper in February 2008.

The Company has approximately \$30.9 million of non-capital income tax losses available to reduce the future taxable income. Approximately \$3.1 million of these losses expire between 2012 and 2014 and approximately \$27.8 million expire between 2026 and 2029.

**19. 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.