



**NIGHTINGALE INFORMATIX CORPORATION**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)  
For the three and nine month periods ended December 31, 2008**

*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

INTERIM CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS  
FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2008

	3 months ending December 31, 2008	3 months ended December 31, 2007	9 months ending December 31, 2008	9 months ended December 31, 2007
<b>Revenue</b>	\$ 4,556,485	\$ 3,942,345	\$ 13,748,385	\$ 14,697,495
<b>Cost of sales</b>				
Hardware, software and services	1,234,833	1,153,171	3,456,645	\$ 3,539,111
Sales commissions	49,316	129,397	187,093	430,633
	<u>1,284,149</u>	<u>1,282,568</u>	<u>3,643,738</u>	<u>3,969,744</u>
<b>Gross profit</b>	<u>3,272,336</u>	<u>2,659,777</u>	<u>10,104,647</u>	<u>10,727,751</u>
<b>Expenses</b>				
General and administration	801,924	950,125	2,485,633	2,753,691
Sales and marketing	621,682	859,277	1,969,147	2,494,365
Research and development	780,782	1,221,594	2,765,729	3,584,011
Client services	1,102,187	1,427,293	3,612,134	4,233,159
Stock based compensation	25,544	241,111	90,549	512,078
Depreciation and amortization	689,845	520,991	1,934,718	1,639,906
	<u>4,021,964</u>	<u>5,220,391</u>	<u>12,857,910</u>	<u>15,217,210</u>
<b>Operating loss</b>	<u>(749,628)</u>	<u>(2,560,614)</u>	<u>(2,753,263)</u>	<u>(4,489,459)</u>
Interest, note 10	328,135	853,669	1,048,521	2,288,096
Other loss (income)	<u>(201,671)</u>	<u>16,646</u>	<u>(174,151)</u>	<u>169,649</u>
Loss from continuing operations	(876,092)	(3,430,929)	(3,627,633)	(6,947,204)
Earnings from discontinued operations, note 4	<u>-</u>	<u>107,320</u>	<u>-</u>	<u>408,763</u>
<b>Loss and comprehensive loss</b>	<u>\$ (876,092)</u>	<u>\$(3,323,609)</u>	<u>\$(3,627,633)</u>	<u>\$(6,538,441)</u>
<b>Basic and diluted (loss per common share)</b>				
Loss from continuing operations	\$ (0.01)	\$ (0.05)	\$ (0.05)	\$ (0.11)
Earnings from discontinued operations	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.01</u>
Loss and comprehensive per common share	<u>\$ (0.01)</u>	<u>\$(0.05)</u>	<u>\$ (0.05)</u>	<u>\$ (0.10)</u>
Weighted average number of common shares	67,772,826	66,914,490	67,827,225	65,733,398

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

NIGHTINGALE INFORMATIX CORPORATION

INTERIM CONSOLIDATED BALANCE SHEET  
AS AT DECEMBER 31, 2008

	As at December 31, 2008	As at March 31, 2008
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 3,062,852	\$ 5,033,746
Accounts receivable	3,531,857	3,151,582
Other receivables	510,113	1,034,721
Inventory	67,158	168,948
Prepaid expenses	687,556	649,207
	<u>7,859,536</u>	<u>10,038,204</u>
<b>Long-term assets</b>		
Deferred costs	194,509	201,940
Property and equipment	1,367,499	1,722,276
Intangible assets	5,963,951	7,336,804
Goodwill	4,692,399	4,692,399
	<u>12,218,358</u>	<u>13,953,419</u>
<b>Total assets</b>	<u>\$ 20,077,894</u>	<u>\$ 23,991,623</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Borrowing under line of credit	\$ 1,200,000	\$ -
Accounts payable and accrued liabilities	3,512,479	4,048,260
Income taxes payable, note 5	1,591,980	1,336,270
Current portion of deferred revenue	3,696,484	4,199,690
Current portion of capital lease obligations	199,441	278,658
	<u>10,200,384</u>	<u>9,862,878</u>
<b>Long term liabilities</b>		
Subordinated debt, note 6	4,754,281	5,295,648
Deferred revenue	1,144,212	1,214,110
Capital lease obligations	335,797	438,682
	<u>6,234,290</u>	<u>6,948,440</u>
<b>Total liabilities</b>	<u>16,434,674</u>	<u>16,811,318</u>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock,	27,596,692	27,521,485
Contributed surplus, note 8	3,282,175	1,459,085
Warrants, note 9	1,469,262	3,277,011
Deficit	(28,704,909)	(25,077,276)
	<u>3,643,220</u>	<u>7,180,305</u>
<b>Total liabilities and shareholders' equity</b>	<u>\$ 20,077,894</u>	<u>\$ 23,991,623</u>

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**

**INTERIM CONSOLIDATED STATEMENT OF DEFICIT  
FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2008**

	<b>3 months ending December 31, 2008</b>	<b>3 months ended December 31 2007</b>	<b>9 months ending December 31, 2008</b>	<b>9 months ended December 31, 2007</b>
Deficit, beginning of the period	\$ (27,828,817)	\$ (15,480,681)	\$ (25,077,276)	\$ (12,265,849)
Loss and comprehensive loss	<u>(876,092)</u>	<u>(3,323,609)</u>	<u>(3,627,633)</u>	<u>(6,538,441)</u>
Deficit, end of the period	<u>\$ (28,704,909)</u>	<u>\$ (18,804,290)</u>	<u>\$ (28,704,909)</u>	<u>\$ (18,804,290)</u>

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

**NIGHTINGALE INFORMATIX CORPORATION**

**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2008**

	3 months ending December 31, 2008	3 months ended December 31, 2007	9 months ending December 31, 2008	9 months ended December 31, 2007
<b>Cash Flow from Operating Activities</b>				
Loss from continuing operations	(876,092)	(3,430,929)	(3,627,633)	(6,947,204)
<i>Adjustments for:</i>				
Depreciation and amortization	689,931	515,011	1,951,351	1,633,926
Amortization of transaction costs related to debt financing	33,525	134,099	100,574	419,709
Gain on Sale of Asset	-	(22,130)	-	(22,130)
Unrealized foreign exchange loss (gain)	255,125	(14,009)	329,489	(82,450)
Stock based compensation	25,544	241,100	90,549	512,067
Interest accretion	101,821	222,899	358,059	616,612
	<u>229,854</u>	<u>(2,353,959)</u>	<u>(797,611)</u>	<u>(3,869,470)</u>
<i>Changes in non-cash working capital balances</i>				
Accounts receivable	(554,722)	1,549,183	(100,008)	551,228
Prepaid expenses	(82,576)	57,282	(38,349)	(250,924)
Inventory	10,974	33,174	100,772	(45,893)
Deferred costs	(14,263)	21,707	7,431	425,218
Other receivables	25,414	-	595,256	79,689
Accounts payable and accrued liabilities	(234,765)	(624,719)	(937,084)	(1,230,711)
Deferred revenue	293,730	(23,379)	(573,105)	108,570
Cash flows used in operating activities	<u>(326,354)</u>	<u>(1,340,711)</u>	<u>(1,742,698)</u>	<u>(4,232,293)</u>
<b>Cash flow from investing activities</b>				
Purchase of property and equipment	(47,042)	(74,106)	(166,742)	(529,752)
Proceeds from sale of property and equipment	-	258,065	-	258,065
VantageMed acquisition, note 3	-	-	-	(13,533,087)
Cash flows used in investing activities	<u>(47,042)</u>	<u>183,959</u>	<u>(166,742)</u>	<u>(13,804,774)</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	(500,000)	-	(1,000,000)	-
Repayment of capital lease obligations	(84,991)	(64,500)	(261,454)	(215,532)
Borrowing (repayment) under line of credit	450,000	1,000,000	1,200,000	(541,733)
Cash flows from (used in) financing activities	<u>(134,991)</u>	<u>935,500</u>	<u>(61,454)</u>	<u>19,074,479</u>
Foreign exchange gains(losses) on cash held in foreign currency	456,796	(30,655)	503,640	(252,099)
Net increase (decrease) in cash from continuing operations	(965,183)	(190,597)	(2,474,534)	1,289,511
Net increase in cash from discontinued operations, note 4	-	312,991	-	964,450
Net Increase (decrease) in cash during the period	(508,387)	91,739	(1,970,894)	2,001,862
Cash and cash equivalents, beginning of period	<u>3,571,239</u>	<u>3,657,783</u>	<u>5,033,746</u>	<u>1,747,660</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 3,062,852</u>	<u>\$ 3,749,522</u>	<u>\$3,062,852</u>	<u>\$3,749,522</u>
Non-cash investing and financing activities:				
Acquisition of property and equipment under capital lease	\$ -	\$ 258,065	\$ 56,265	\$ 258,065
Supplemental cash flow information:				
Interest paid	\$ 231,110	\$655,998	\$735,696	\$1,775,908

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

## **1. BASIS OF PRESENTATION**

The accompanying interim consolidated financial statements of Nightingale Informatix Corporation and its subsidiaries ("Nightingale" or the "Company") have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by Canadian GAAP for annual consolidated financial statements.

The accompanying financial information reflects all adjustments, consisting primarily of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of results for interim periods. Operating results for the three and nine months ended December 31, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2009. The accounting policies used in the preparation of these interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for fiscal 2008.

These interim consolidated financial statements follow the same accounting policies and methods of application as the consolidated financial statements for the year ended March 31, 2008, except as described in Note 2 below. Certain prior period amounts have been reclassified to conform to the current period presentation.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Changes in accounting policies**

As required by the Canadian Institute of Chartered Accountants ("CICA"), on April 1, 2008, the Company adopted CICA Handbook Section 1535, "Capital Disclosures," Section 3862 "Financial Instruments-Disclosures," and Section 3863, "Financial Instruments-Presentation." The prospective adoption of these new standards impacted disclosure provided by the Corporation but did not impact its financial position, results of operations or cash flows. Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate objectives, policies and processes for managing capital. Section 3862 and 3863 will replace 3861, "Financial Instruments – Disclosure and Presentation," revising and enhancing disclosure requirements while carrying forward its presentation requirements. These new sections place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

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.

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 Corporation 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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2008

**Recent accounting pronouncements**

**(i) Canadian standards**

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 Corporation is currently assessing the impact of this standard may have on its financial positions, results of operations or cash flow.

**(ii) 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.

**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
	<u>\$ 14,750,560</u>
Cash consideration	\$ 14,373,362
Transaction costs	377,198
	<u>\$ 14,750,560</u>

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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2008

**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, \$423,960 (US\$400,000), is scheduled to be received in the fourth quarter of fiscal 2009 subject to certain indemnity escrow provisions as outlined in the Asset Purchase Agreement. The Company is entitled to receive additional consideration for the sale in the first quarter of fiscal 2010 based on the occurrence of certain events. The amounts cannot be reasonably estimated and consequently are not included in these financial statements. The Helper business was acquired as part of the VantageMed acquisition (Note 3). The results of the Helper business have been classified as discontinued operations in the fiscal 2008 Statement of Operations.

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 for the three and nine months ended December 31, 2007:

	<b>3 months ending December 31, 2007</b>	<b>9 months ending December 31, 2007</b>
<b>Statement of Operations – Discontinued Operations</b>		
Revenue	\$ 1,130,209	\$ 3,441,958
Earnings from discontinued operations	\$ 107,320	\$ 408,763
	<b>3 months ending December 31, 2007</b>	<b>9 months ending December 31, 2007</b>
<b>Statement Of Cash Flows – Discontinued Operations</b>		
Cash flow from operating activities	\$ 312,991	\$ 964,450
Net Increase in cash from discontinued operations	\$ 312,991	\$ 964,450

**5. INCOME TAXES PAYABLE**

The sale of the Helper business in the fourth quarter of fiscal 2008 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 estimated remaining unsheltered portion of the taxable gain. In addition, the Company recorded a \$0.4 million tax provision related to estimated withholding taxes payable. Income tax payable at December 31, 2008 was \$1,591,980 and at March 31, 2008 was \$1,336,270. The Company expects that any actual tax liability associated with the Helper sale will be payable in the first quarter of fiscal 2010.

**6. 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

## NIGHTINGALE INFORMATIX CORPORATION

### NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2008

amended. The credit facility is a secured 29-month term loan facility. 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 is 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, are subject to a four-month hold period, pursuant to securities laws. The transaction costs related to the subordinated debt financing and the November 2007 amendment totaled \$1,160,188 which includes 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 was allocated to the subordinated debt and proceeds of \$1,574,855 and transaction costs of \$105,593 was 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.

During the quarter ended September 30, 2008 the Company experienced a breach of a financial covenant under the loan agreement with its lenders. The Company has received a waiver of the breach from the lenders and certain covenants and other terms of the subordinated debt agreement were amended. Management expects to meet these amended covenants over the remaining term of the loan agreement. The Company has also agreed to seek TSX Venture Exchange approval to issue approximately 2.8 million common shares in connection with the amendment and the cancelation of 7,994,186 Warrants. In the event such regulatory approval is not received the Company is required to provide equivalent economic consideration. 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. The remaining principal amount of \$5,250,000 is due March 2010.

#### 7. CAPITAL STOCK

##### a. Authorized

Unlimited	Preference shares
Unlimited	Common shares

##### b. Common shares issued and outstanding

	Number	Amount
Balance as at March 31, 2008 (1) (2)	67,478,540	\$ 27,521,485
Issued to officers of the Company	<u>188,017</u>	<u>75,207</u>
Balance as at December 31, 2008 (1) (2)	<u>67,666,557</u>	<u>\$ 27,596,692</u>

**NIGHTINGALE INFORMATIX CORPORATION**

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2008**

(1) 5,104,167 common shares were issued on the purchase of HealtheNet. Only 3,437,500 common shares are included above because 1,666,667 common shares are subject to the performance escrow and have been excluded in the purchase price of the acquisition.

(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 issued and 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 188,017 of these shares vested. As at December 31, 2008, 188,016 of these shares remained in 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 Fiscal 2009</b>
Risk-free interest rate	3.26%-3.46%
Estimated volatility	50.0%
Dividend yield	0.0%
Expected life	4 years

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

Number of stock options as at December 31, 2008 are as follows:

	<b>Number of Stock Options</b>	<b>Weighted Average Exercise Price</b>
Balance as at March 31, 2008	3,860,060	\$ 0.82
Issued	1,304,000	0.26
Cancelled / Expired	<u>(1,131,449)</u>	<u>0.79</u>
Balance as at December 31, 2008	<u>4,032,611</u>	<u>\$ 0.65</u>

Number of stock options as at December 31, 2007 are as follows:

	<b>Number of Stock Options</b>	<b>Weighted Average Exercise Price</b>
Balance as at March 31, 2007	2,751,990	\$ 1.24
Issued	2,230,849	0.45
Cancelled / Expired	<u>(444,205)</u>	<u>1.06</u>
Balance as at December 31, 2007	<u>4,538,634</u>	<u>\$ 0.87</u>

**NIGHTINGALE INFORMATIX CORPORATION**

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2008**

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

Stock options outstanding as at December 31, 2008 are as follows:

Exercise Price	Number Outstanding as at December 31, 2008	Exercisable	Remaining Contracted Life (Years)
\$0.26	1,304,000	-	4.59
0.45	1,522,349	1,261,460	3.53
0.91	50,762	46,509	1.02
1.00	351,500	363,625	1.67
1.25	99,500	190,250	2.77
1.50	704,500	589,750	2.06
	<u>4,032,611</u>	<u>2,451,594</u>	

**8. 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 will be 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 period ended December 31, 2008 is as follows:

	<b>Amount</b>
Balance as at March 31, 2008	\$ 1,459,085
<i>STOCK OPTIONS</i>	
Expensed	62,348
<i>RESTRICTED SHARE GRANTS (1)</i>	
Expensed	28,200
Transfer to common shares on release of restrictions on restricted stock	<u>(75,207)</u>
Changes in period due to stock options	(47,007)
<i>WARRANTS</i>	
Expired	<u>1,807,749</u>
Balance as at December 31, 2008	<u>\$ 3,282,175</u>

(1) During the fiscal year 2009, 188,017 restricted common shares to certain officers related to the VantageMed acquisition vested. There are currently 188,017 restricted shares that remain unvested at December 31, 2008. These shares have restricted terms based on continued employment over three years and vest over this period.

NIGHTINGALE INFORMATIX CORPORATION

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2008

9. 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 December 31, 2008 are as follows:

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

ii. Summarized information relative to warrants outstanding and exercisable

Exercise Price	Number Outstanding at December 31, 2008	Exercisable	Remaining Contracted Life (Years)
0.43	<u>7,994,186</u>	<u>7,994,186</u>	3.28

10. INTEREST

	3 months ending December 31, 2008	3 months ending December 31, 2007	9 months ending December 31, 2008	9 months ending December 31, 2007
				\$
Interest on capital lease obligations	\$ 16,545	\$ 7,285	\$ 53,975	47,725
Interest on subordinated debt	177,141	571,732	571,137	1,581,577
Interest on line of credit	103	74,519	103	137,675
Interest accretion on subordinated debt	135,346	222,899	458,633	616,612
Interest income	(4,796)	(25,228)	(45,234)	(104,424)
Other interest	<u>3,796</u>	<u>2,462</u>	<u>9,907</u>	<u>8,931</u>
	<u>\$ 328,135</u>	<u>\$ 853,669</u>	<u>\$ 1,048,521</u>	<u>2,288,096</u>
				\$

## **11. FINANCIAL INSTRUMENTS**

For the interim period ended December 31, 2008, the Company has adopted the requirements of 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 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.

### **Liquidity risk**

The Company has sustained losses and negative cash flows from operations over the past three years. At December 31, 2008, the Company has approximately \$3.1 million of cash and short-term investments. The Company also has borrowings under a secured line of credit in the amount of \$1.2 million and maintains subordinated debt with a principal balance of \$5,250,000 that is due in March 2010. 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 and the fluctuation of the exchange rates. Furthermore there are risks associated with the debt service costs and the ability to comply with covenants imposed under the subordinated debt facility which may have a material effect upon the operating cash flow of the Company and its ability to conduct its business on a go-forward basis. Should the Company be unable to comply with the covenants associated with the Subordinated Debt facility, there is no guarantee that the Company would be able to work with the lenders to obtain a waiver related to the breach or to revise the covenants so that rights under a default may be waived.

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

### **Credit risk**

Credit risk arises from the potential that a counter party 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. At December 31, 2008, the Company's two largest customer balances combined accounted for 30% of accounts receivable. These customers combined accounted for 40% 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.

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. The allowance is charged against earnings. Shortfalls in collections are applied against this provision. Estimates for allowance for doubtful debts are determined by a customer-by-customer evaluation of collectability at each balance sheet reporting date, taking into account the amounts that are past due and any available relevant information on the customers' liquidity.

## NIGHTINGALE INFORMATIX CORPORATION

### NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2008

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The Company's exposure to credit risk for trade receivables by geographic area as at December 31, 2008 was as follows:

United States	\$ 1,925,310	55%
Canada	1,606,547	45%
	<u>\$ 3,531,857</u>	<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 assets and liabilities that are denominated in foreign currencies will be affected by changes in the exchange rate between the Canadian dollar and the US dollar. As at December 31, 2008, monetary assets were \$3,249,691 and monetary liabilities were \$3,936,221, resulting in net monetary liabilities in the amount of \$686,530 denominated in US dollars.

The Company recognized foreign exchange gains in the three and nine months ended December 31, 2008 of \$201,717 and \$174,185, respectively, compared to foreign exchange losses in the three months and nine ended December 31, 2007 of \$16,646 and \$169,649, respectively.

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 is subject to interest rate risk on its cash, short-term investments and debt.

#### Fair value

At December 31, 2008 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 December 31, 2008 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, maintain compliance with financial covenants imposed under its subordinated debt facility, 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, 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.

The Company monitors its capital on the basis of the adequacy of its cash resources to fund its business plan. In order to maximize flexibility to finance the Company's ongoing growth, the Company does not currently pay a dividend to holders of its common shares.

**NIGHTINGALE INFORMATIX CORPORATION**

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2008**

**12. SEGMENT INFORMATION**

During the period ended December 31, 2008, the Company operated within a single operating segment across two geographic regions. Information with respect to these geographic areas is as follows:

	<b>3 months ending December 31, 2008</b>	<b>3 months ending December 31, 2007</b>	<b>9 months ending December 31, 2008</b>	<b>9 months ending December 31, 2007</b>
<b>Revenue</b>				
Canada	\$ 780,825	\$ 884,373	\$3,591,918	\$ 4,816,989
United States	<u>3,775,660</u>	<u>3,057,972</u>	<u>\$10,156,467</u>	<u>9,880,506</u>
	<u>\$ 4,556,485</u>	<u>\$ 3,942,345</u>	<u>\$13,748,385</u>	<u>\$ 14,697,495</u>
			<b>As at December 31, 2008</b>	<b>As at March 31,2008</b>
<b>Property and equipment and goodwill</b>				
Canada			\$1,912,514	\$2,250,048
United States			<u>\$4,147,384</u>	<u>4,164,627</u>
			<u>\$6,059,898</u>	<u>\$6,414,675</u>

Financial results for Discontinued Operations (Note 4) were limited to the United States geographic region.