



NIGHTINGALE INFORMATIX CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") For the three and nine month interim periods ended December 31, 2008

Management's Discussion and Analysis (MD&A) supplements, but does not form part of the consolidated financial statements and notes of Nightingale Informatix Corporation ("Nightingale" or the "Company") for the period.

This MD&A, prepared as of February 27, 2009, should be read in conjunction with the Company's March 31, 2008 Audited Consolidated Annual Financial Statements and Notes as well as with the Company's Unaudited Consolidated Interim Financial Statements for the period ended December 31, 2008.

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This MD&A provides an overview of significant developments that have affected Nightingale Informatix Corporation's ("Nightingale" or "the Company") performance during the three and nine month periods ended December 31, 2008.

The unaudited interim consolidated financial statements referred to in this MD&A have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are consistent with those used in the Company's year-end audited financial statements. Nightingale does however use Non-GAAP measures such as EBITDA herein (see section 4 Non-GAAP Measures).

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

This MD&A contains "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 and applicable Canadian securities legislation in Section 8 (Risk Factors) and Section 10 (Outlook) as well as certain statements respecting cost reduction measures. Generally, forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved", as well as those specifically identified herein.

Cautionary Note Regarding Forward-Looking Statements

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of Nightingale to be materially different from those expressed or implied by such forward-looking statements, including but not limited to: risks related to the speculative nature of the medical software industry, which is affected by numerous factors beyond Nightingale's control; the Company's ability to succeed in the US market, a new market for the Company; the existence of present and possible future government regulation; Nightingale's ability to continue to service its debt obligations and to comply with the related covenants and conditions; Nightingale's ability to successfully integrate its acquisitions and any liabilities arising as a result of such acquisitions; the significant and increasing competition that exists in the medical software industry; and the early stage of Nightingale's business. The Company is subject to the risks associated with early stage companies, including uncertainty of revenues, markets and profitability and the ability to access debt or equity financing, as necessary. Although Nightingale has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. All material assumptions used in making forward-looking statements are based on management's knowledge of current business conditions and expectations of future business conditions and trends, including their knowledge of the current sales trends, spending on healthcare and general economic conditions affecting Nightingale and the Canadian and US economies. Although Nightingale believes the assumptions used to make such statements are reasonable at this time and has attempted to identify in its continuous disclosure documents important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. Certain material factors or assumptions are applied by the Company in making forward-looking statements, including without limitation, factors and assumptions regarding, acceptance of its products in the marketplace, as well as its operating cost structure and current and future trends in healthcare spending. Accordingly, readers should not place undue reliance on forward-looking

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statements. Nightingale does not undertake to update any forward-looking statements that are incorporated by reference herein, except in accordance with applicable securities laws.

Non-GAAP Measures

The Company internally measures its performance and results of initiatives through a number of measures that are not recognized under Canadian GAAP and may not be comparable to similar measures used by other companies. Measures such as EBITDA and Recurring and Non-Recurring Revenue are used by the Company, as it believes this information would be useful to investors to help evaluate the performance of the Company. Investors should be cautioned, however, that EBITDA and Recurring and Non-Recurring Revenue should not be construed as an alternative to total revenues or net loss as determined in accordance with GAAP (see section 4b under Non-GAAP Measures for more information).

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1. OVERVIEW

Business Description

Established in 2002, Nightingale (TSX-V: NGH) has more than 13,000 healthcare practitioners on its technology platform. With 5.3 million patient records under management on its flagship Application Service Provider (ASP) Electronic Medical Record (EMR) solution, Nightingale is a recognized industry leader in Web-based clinician and community-based EMR. The Company's comprehensive suite of EMR, Electronic Health Records (EHR), integrated practice management, transcription and revenue cycle management products and services enable physicians at primary care practices, multi-physician outpatient clinics, hospitals, government and regional health organizations to automate business and clinical functions. Nightingale provides healthcare practitioners with the tools to effectively migrate from a paper-based environment to a secure digital platform, enhancing patient care, increasing revenue opportunities and optimizing operations.

Nightingale's Strategy

As an early entrant into the market with a unique EMR technology solution, Nightingale has established itself as a leading healthcare software and service provider in Canada, boasting contract wins with a key hospital, provincial and territory governments and a large-scale provincial government funding agency. Through a series of strategic acquisitions, the Company has positioned itself as an emerging player in the US healthcare industry, and has built a customer base with clients such as a 203-bed hospital, a 45-physician group practice and a regional healthcare facility in New York State. Nightingale has developed a North American footprint, developed a comprehensive suite of complementary healthcare software solutions and associated services and put the team in place to take advantage of the increasing opportunities within the Canadian and US healthcare markets. To leverage the value Nightingale has created in the business, the Company is primarily focused on three organic growth objectives:

1. Increase the number of healthcare practitioners on the Nightingale platform

In Canada, Nightingale is targeting provincial funding initiatives and other enterprise opportunities. In the US, the Company continues to work to build brand equity, establish regional beachheads where there are industry catalysts, and build relationships with large buying groups to sell its suite of offerings to primary care practices, multi-physician outpatient clinics, hospitals, government and regional health organizations. The Company is monitoring the US budget and stimulus bills to determine what funding might be made available to US practitioners. The Company believes that these funding programs, when and if they are made available, will be a catalyst to healthcare technology spending.

2. Leverage the broad client base to cross-sell its products:

In addition to its technology, Nightingale's most valuable asset is its current client base of healthcare providers. This client base represents a material recurring revenue opportunity. The Company offers an extensive suite of healthcare service and software solutions to meet the varying needs of the 13,000 healthcare practitioners on its technology platform. Nightingale is leveraging its ability to serve as an end-to-end solution provider to further penetrate its existing customer base. As Nightingale's healthcare practitioner base is comprised of physicians, specialist and other healthcare professionals, the Company views approximately 50% of its existing 13,000 customers as addressable cross-sell opportunities.

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3. Establish new revenue streams

Nightingale is working to extend the reach of its healthcare technology solutions to meet the needs of patients. In fiscal 2009, Nightingale launched patient-centric product and service offerings throughout North America and has focused its efforts to date in specific regions.

Revenue Model

Nightingale's revenue model is based primarily on generating revenue from physicians and health-care providers directly or indirectly through their buying groups, such as hospitals, health-care associations and government agencies through the delivery of proprietary software and services.

Nightingale's revenue is derived from a variety of software and related service offerings. For its software solutions, Nightingale has typically charged an up-front software licence fee along with support and maintenance fees charged monthly, quarterly or annually. The Company also offers a utilization fee model which combines software license, hosting, support and maintenance fees in a single monthly fee. Implementation and training services are offered under both licensing models and are typically recognized as services are rendered. For data management and transcription services, Nightingale charges per report or per minute transcribed and for revenue cycle management services, a percentage of amounts collected. For electronic transactions, Nightingale charges a flat monthly fee per provider or a per claim fee and for statements, a per statement fee. For both transcription and electronic transactions revenues are recognized as the services are provided.

Q3 Fiscal 2009 Highlights

- Revenue for the quarter was \$4.6 million, or 7.3% more than revenues of \$4.2 million for the previous quarter and 15.6% more than revenues of \$3.9 million for the year ago quarter. Revenue of \$13.7 million for the nine months ended December 31, 2008 represents a 6.5% decrease from the \$14.7 million generated in the nine months ended December 31, 2007.
- Recurring revenues (see definition in section 4.b under Non-GAAP Measures) increased 17.9% from the previous quarter to \$4 million and increased nearly 25.3% from the year ago quarter. In the year to date periods, recurring revenues increased 9.6% to \$11 million compared to fiscal 2008.
- Gross profit as a percentage of revenue during the quarter was 71.8%, which was higher than gross profit of 67.5% in the same quarter last fiscal year. Gross profit was 73.5% for the nine months ended December 31, 2008, similar to 73% for the nine month period in fiscal 2008.
- EBITDA (see definition in section 4.a under Non-GAAP Measures) for the quarter approached breakeven, with a loss of \$0.03 million, compared to a loss of \$0.5 million for the previous quarter. EBITDA for the nine months ended December 31, 2008, was a loss of \$0.7 million or 5.3% of revenue, compared to a loss of \$2.3 million, or 15.9% of revenue for the nine months ended December 31, 2007.
- Operating loss for the quarter was \$0.75 million compared to \$1.1 million for the previous quarter. Operating loss was \$2.8 million, or 20% of revenue for the nine months ended December 31, 2008 compared to an operating loss of \$4.5 million, or 30.5% of revenue, for the nine months ended December 31, 2007.
- Loss and comprehensive loss for the quarter was \$0.9 million compared to \$1.5 million for the previous quarter. Loss and comprehensive loss over the nine month period was \$3.6 million or

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26.4% of revenue, compared to a loss of \$6.9 million, or 47.3% of revenue, for the nine month period ended December 31, 2007.

- The increase in the value of the US dollar is estimated to have positively impacted revenue during the three months ended December 31, 2008 by approximately 15%, or \$0.7 million, versus the same period during the previous fiscal year.
- During the quarter the Company signed hosted EMR agreements with three core urban Family Health Organizations (FHOs) in London, Ontario. These clinics are associated with London Health Sciences Centre and St. Joseph's Health Care in London, Ontario along with several of their community family practice partners. The EMR will be used by over 125 users including physicians and other health care providers in these FHOs to provide care to tens of thousands of patients in the London area.
- Subsequent to quarter end, the Company was selected by the Saskatchewan Medical Association as one of four preferred EMR vendors for its provincial EMR Program.

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

Results of Continuing Operations	Fiscal Year Ended March 31, 2006	Q4 Ended March 31, 2007	Fiscal Year Ended March 31, 2007	Q1 Ended June 30, 2007	Q2 Ended Sept 30, 2007	Q3 Ended Dec 31, 2007	Q4 Ended March 31, 2008	Fiscal Year Ended March 31, 2008	Q1 Ended June 30, 2008	Q2 Ended Sept 30, 2008	Q3 Ended Dec 31, 2008
In \$ 000's (Except per Share Amounts)											
Recurring Revenue	\$679	\$2,509	\$9,828	\$3,213	\$3,399	\$3,229	\$3,247	\$13,088	\$3,309	\$3,432	\$4,045
Non-Recurring Revenue	3,513	903	4,187	1,785	2,358	713	931	5,788	1,637	815	511
Revenue	4,192	3,412	14,014	4,998	5,757	3,942	4,178	18,876	4,946	4,246	4,556
Gross Profit	3,587	2,317	9,589	3,750	4,318	2,660	2,979	13,706	3,669	3,164	3,272
Expenses	6,588	4,266	14,856	4,913	5,084	5,220	4,739	19,957	4,561	4,275	4,022
EBITDA Loss (non-GAAP measure)	(2,101)	(1,636)	(3,841)	(381)	(158)	(1,799)	(1,186)	(3,524)	(236)	(458)	(34)
Operating Loss for the Period	(3,001)	(1,949)	(5,267)	(1,162)	(766)	(2,561)	(1,761)	(6,250)	(892)	(1,112)	(750)
Loss and Comprehensive Loss	(3,000)	(1,956)	(5,713)	(1,914)	(1,602)	(3,431)	(7,342)	(14,289)	(1,260)	(1,492)	(876)
Loss per Common Share	\$(0.11)	\$(0.05)	\$(0.14)	\$(0.03)	\$(0.02)	\$(0.05)	\$(0.11)	\$(0.22)	\$(0.02)	(0.02)	\$(0.01)
Weighted Avg. # of Common Shares	27,651	41,926	40,120	63,345	66,914	66,914	67,460	66,228	67,479	67,479	67,667
Total Assets	\$9,522	\$17,531	\$17,531	\$39,469	\$38,499	\$36,201	\$23,992	\$23,992	\$21,807	\$20,308	\$20,078
Total Long Term Liabilities	\$1,796	\$2,014	\$2,014	\$11,398	\$11,831	\$12,097	\$6,948	\$ 6,948	\$7,116	\$6,788	\$6,234

Revenue: For the three months ended December 31, 2008, revenue was \$4.6 million. This compares to \$3.9 million for the three months ended December 31, 2007, representing a 15.6% increase over these respective periods. This increase from the year ago quarter was due largely to the impact of the increase in the value of the US dollar on increased Recurring Revenue, offset partially by a decrease in Non-Recurring Revenue. For the nine months ended December 31, 2008, revenue was \$13.7 million. This compares to \$14.7 million for the nine months ended December 31, 2007, representing a 6.5% decrease over these respective periods. This decrease was due largely to a decrease in Non-Recurring Revenue over the same quarter last fiscal year, offset partially by an increase in Recurring Revenue.

Revenue of \$4.6 million generated in the quarter represents a 7.3% increase over \$4.2 million generated in the previous fiscal quarter ended September 30, 2008. This increase was due primarily to an increase

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in Recurring Revenue primarily driven by the increase in the value of the US dollar as well as an increase in revenue cycle management revenues that was partially offset by a decrease in Non-Recurring Revenue.

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

Recurring Revenue for the three and nine months ended December 31, 2008 was \$4 million, or 89% of revenue, and \$11 million, or 78% of revenue, respectively. This compares to \$3.2 million or 82% of revenue and \$9.8 million, or 67% of revenue for the three and nine months ended December 31, 2007, representing a 25.3% and 9.6% increase over these respective periods. The increases in Recurring Revenue from the same periods last fiscal year are driven by the increase in the value of the US dollar as well as increases in support and maintenance revenues and revenue cycle management revenues as a large hospital contract was fully implemented in fiscal 2009. These increases were partially offset by lower data management and transcription revenues.

Recurring Revenue for the quarter ended December 31, 2008 was \$4 million, or 89% of revenue, which compares to \$3.4 million, or 82% of revenue for the previous fiscal quarter ended September 30, 2008. The growth in Recurring Revenue can be primarily attributed to an increase in revenue cycle management revenues.

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

Non-Recurring Revenue for the three and nine months ended December 31, 2008 was \$0.51 million, or 11% of revenue, and \$3 million, or 22% of revenue, respectively. This compares to \$0.71 million, or 18% of revenue and \$4.9 million, or 33% of revenue for the three and nine months ended December 31, 2007, representing a 28.4% decrease and a 39% decrease over these respective periods. The decrease in Non-Recurring Revenue over these respective periods is primarily a result of a decrease in training and implementation revenues.

Non-Recurring Revenue for the three months ended December 31, 2008 was \$0.51 million, or 11% of revenue, which compares to \$0.81 million, or 18% of revenue for the previous fiscal quarter ended September 30, 2008, a decrease of 37.3%. This decrease in Non-Recurring Revenue is primarily related to a decrease in revenues from custom development projects.

Gross Profit: For the three months ended December 31, 2008, gross profit was \$3.3 million, or 71.8% of revenue (gross profit margin), compared to \$2.7 million, with gross profit margin of 67.5% for the same quarter last fiscal year. For the nine month period ended December 31, 2008, gross profit was \$10.1 million, or 73.5% revenue, compared to \$10.7 million, with gross profit margin of 73.0% for the prior year period. While the absolute gross margin dollars decreased in the year to date periods from fiscal 2008 to fiscal 2009 due primarily to the decrease in Non-Recurring Revenue, the gross profit percentage improved in both the quarterly and year to date periods. The improvement in the gross profit percentage was primarily due to the Company's focus on controlling its costs.

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For the quarter ended December 31, 2008, gross profit was \$3.3 million, or 71.8% gross profit margin, which is a decrease from the fiscal quarter ended September 30, 2008, with gross profit of \$3.2 million and a gross profit margin of 74.5%.

Expenses: Expenses for the three and nine months ended December 31, 2008, were \$4 million, or 88.3% of total revenue, and \$12.9 million, or 93.5% of total revenue, respectively. This compares to \$5.2 million, or 132.4% of total revenue, and \$15.2 million or 103.5% of total revenue for the three and nine months ended December 31, 2007, respectively, representing a 23% and 15.5% decrease over these respective periods. These decreases in expense were the result of the Company's implementation of several cost reduction measures throughout fiscal 2009 particularly in the three months ended December 31, 2008. These decreases in expense were partially offset by onetime expenses in the quarter ended December 31, 2008 related to severance and in lieu pay costs associated with the release of certain employees as well as an increase in expense related to the increase in value of the US dollar. Although the Company is focused on prudent expense management as it seeks to achieve profitability, the Company will continue to make select investments in certain markets and activities.

Nightingale's expenses are affected by changes in the US dollar exchange rate with approximately 52% of the Company's expenses during the three months ended December 31, 2008 generated in the US.

Sales and marketing expenses for the three and nine months ended December 31, 2008, were \$0.62 million and \$2 million, respectively. This compares to \$0.86 million and \$2.5 million for the three months and nine months ended December 31, 2007, respectively, representing a 27.7% decrease, and a 21.1% decrease over the respective periods. These decreases in expense were the result of management's cost reduction initiatives implemented primarily in the three months ended December 31, 2008.

For the quarter ended December 31, 2008, sales and marketing expenses were \$0.62 million, slightly lower than the \$0.65 million for the fiscal quarter ended September 30, 2008, representing a 4.4% decrease. This decrease can be primarily attributed to lower external public relations costs incurred during the quarter, as the Company reduced its spending on these activities.

General and administration expenses for the three and nine months ended December 31, 2008, were \$0.8 million and \$2.5 million, respectively. This compares to \$1 million and \$2.8 million for the three months and nine months ended December 31, 2007, representing a \$0.15 million, or 15.6% decrease, and a \$0.27 million, or 9.7% decrease over the respective periods. The decrease in general and administration was the result of the Company's implementation of several expense reduction initiatives. The Company will continue to focus on managing its general and administration costs as it seeks to achieve profitability.

For the quarter ended December 31, 2008, general and administration expenses were \$0.8 million, similar to \$0.8 million for the quarter ended September 30, 2008, representing a \$0.03 million or 3.5% decrease.

Research and development expenses for the three and nine months ended December 31, 2008, were \$0.8 million and \$2.8 million, respectively. This compares to \$1.2 million and \$3.6 million for the three months and nine months ended December 31, 2007, representing a \$0.44 million, or 36.1% decrease, and a \$0.82 million, or 22.8% decrease over the respective periods. The decrease in research and development can be primarily attributed to the Company's cost reduction efforts, including a reduction in spending on contract labour as development projects were prioritized and brought in house.

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For the quarter ended December 31, 2008, research and development expenses were \$0.8 million, compared to \$0.9 million for the fiscal quarter ended September 30, 2008.

Client services expenses for the three and nine months ended December 31, 2008, were \$1.1 million and \$3.6 million, respectively. This compares to \$1.43 million and \$4.2 million for the three months and nine months ended December 31, 2007, representing a \$0.33 million, or 22.8% decrease, and a \$0.6 million, or 14.7% decrease over the respective periods. This decrease is primarily attributable to the Company's continued integration and cost management efforts.

For the quarter ended December 31, 2008, client services expenses were \$1.1 million, compared to \$1.2 million for the quarter ended September 30, 2008.

Stock-based compensation for the three and nine months ended December 31, 2008, was \$0.03 million and \$0.09 million, respectively. This compares to \$0.24 million and \$0.51 million for the three months and nine months ended December 31, 2007.

Depreciation and amortization for the three and nine months ended December 31, 2008, was \$0.69 million and \$1.9 million. This compares to \$0.52 million and \$1.64 million for the three months and nine months ended December 31, 2007.

EBITDA (non-GAAP measure, see note 4.a for a definition): EBITDA for the three and nine months ended December 31, 2008, was a loss of \$0.03 million, or 0.8% of revenue, and a loss of \$0.7 million, or 5.3% of revenue. This compares to EBITDA losses of \$1.8 million, or 45.6% of revenue, and \$2.3 million, or 15.9% of revenue, for the three months and nine months ended December 31, 2007, respectively. The Company has been focused on achieving profitability and has implemented several cost reduction initiatives during the fiscal year in an effort to achieve this goal. This improvement in EBITDA is a reflection of these initiatives in addition to an increase in Recurring Revenue and the strengthening of the US dollar during the fall of 2008.

Operating Loss: For three and nine months ended December 31, 2008, operating loss was \$0.8, or 16.5% of revenue, and \$2.8 million, or 20% of revenue. This compares to an operating loss of \$2.6 million or 65% of revenue and \$4.5 million or 30.5% of revenue, for the three and nine months ended December 31, 2007. The improvement in operating loss can be primarily attributed to an improvement in EBITDA as well as lower stock based compensation.

For the three months ended December 31, 2008, operating loss was \$0.8 million, or 16.5% of revenue. This compares to an operating loss of \$1.1 million or 26.2% of revenue for the three months ended September 30, 2008. The improvement in operating loss can be primarily attributed to an improvement in EBITDA.

Interest and Other Income/ Loss: Interest charges for the three and nine months ended December 31, 2008 were \$0.33 million and \$1 million, respectively. This compares to \$0.85 million and \$2.3 million for the three months and nine months ended December 31, 2007. This decrease over last fiscal year is largely a result of reduced interest associated with the repayment of \$6 million on the Company's subordinated debt in March 2008 as well as a \$0.5 million repayment in September 2008 and a \$0.25 million repayment in November 2008.

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In the previous fiscal quarter, interest charges were \$0.36 million, slightly higher than the \$0.33 million in the quarter ended December 31, 2008. This decrease over last fiscal quarter is largely a result of reduced interest associated with the repayment \$0.5 million of subordinated debt in September 2008 and \$0.25 million in November 2008.

Included in other income/loss are foreign currency adjustments related to monetary translations. For the three and nine months ended December 31, 2008, other income was \$0.2 million, or 4.4% of revenue, and \$0.17 million or 1.3% of revenue, respectively. This compares to other loss of \$0.02 million, or 0.4% of revenue, and \$0.17 million, or 1.2% of revenue, for the three months and nine months ended December 31, 2007.

Other income was \$0.2 million, or 4.4% of revenue for the quarter ended December 31, 2008 which compares to other loss of 0.02 million or 0.4% of revenue for the previous fiscal quarter ended September 30, 2008.

Loss and Comprehensive Loss: For the three and nine months ended December 31, 2008, loss and comprehensive loss was \$0.9 million, or 19.2% of revenue and \$3.6 million, or 26.4% of revenue, respectively. This compares to loss and comprehensive loss of \$3.4 million, or 87% of revenue, and \$6.9 million, or 47.3% of revenue, for the three months and nine months ended December 31, 2007. The improvement in loss and comprehensive loss in the respective periods can be primarily attributed to cost reduction initiatives as well as an increase in Recurring Revenue and the strengthening of the US dollar during the fall of 2008. As well, a reduction in stock based compensation and interest costs were major factors in the improvement of loss and comprehensive loss. These items were partially offset by a reduction in Non-Recurring Revenue.

Loss and comprehensive loss was \$0.9 million for the quarter ended December 31, 2008, or 19.2% of revenue, which compares to \$1.5 million, or 35.1% of revenue, for the previous fiscal quarter ended September 30, 2008. The improvement in loss and comprehensive loss can be attributed to cost reduction initiatives implemented in the last two quarters as well as the strengthening of the US dollar during the fall of 2008.

US Dollar Exchange Rate Impact: During the three months ended December 31, 2008, the Company generated 83% of its revenue from the US market. With the recent increase in the value of the US dollar relative to the Canadian dollar, the Company estimates that revenue was positively impacted by approximately 15% or \$0.7 million during the quarter ended December 31, 2008 compared to the same quarter of the previous fiscal year and approximately \$0.5 million during the quarter ended December 31, 2008 compared to the quarter ended September 30, 2008. Over the nine month period ended December 31, 2008, the change in the value of the US dollar is estimated to have positively impacted revenue by approximately 3.1%, or \$0.43 million versus the same period during the previous fiscal year.

During the three months ended December 2008, approximately 52% of the Company's expenses were incurred in the US, providing the Company with a natural hedge position that has helped offset some of effects of the reduction in value of the US dollar. The Company estimates that expenses were negatively impacted by approximately 9.4% or \$0.38 million over the three months versus the same period during the previous fiscal year. Over the nine month period ended December 31, 2008, the change in the value of the US dollar is estimated to have negatively impacted expenses by approximately 1.5%, or \$0.2 million versus the same period during the previous fiscal year.

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Going forward, the overall impact on profitability from these exchange rate fluctuations will be largely determined by the profitability of the Company's US operations.

3. LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents on December 31, 2008 were \$3.1 million.

Cash Flow from Operating Activities: Cash flow used in operating activities in the fiscal quarter ended December 31, 2008 was \$0.33 million, compared to \$1.3 million for the quarter ended December 31, 2007. The most significant adjustments of net income to cash flow used in operations in the quarter ended December 31, 2008 included an increase in accounts receivable of \$0.55 million, a decrease in accounts payable of \$0.23 million and an increase in deferred revenue of \$0.29 million. In the year to date periods, cash flows used in operating activities decreased \$4.2 million to \$1.7 million primarily due to a reduction in the Company's net loss.

Cash Flow from Investing Activities: During the three months ended December 31, 2008, cash flow used in investing activities was \$0.05 million for purchases of property and equipment compared to \$0.07 million for purchases of property and equipment and proceeds of \$0.26 million related to the sale of property and equipment during the three month period last fiscal year. In the nine months ended December 31, 2007, the Company used approximately \$13.5 million in cash in investing activities for the purchase of VantageMed.

Cash Flow from Financing Activities: Cash flow used in financing activities for the quarter ended December 31, 2008 totalled \$0.13 million, representing repayment of capital lease obligations during the quarter of \$0.09 million, repayment of subordinated debt of \$0.5 million and borrowing under line of credit of \$0.45 million. This compares to cash flow provided by financing activities of \$0.94 million, related to repayment of capital lease obligations of \$0.06 million and borrowing under line of credit of \$1 million during the same period last fiscal year.

During the quarter ended December 31, 2008, current assets increased by \$0.38 million to \$7.8 million while current liabilities increased by \$0.69 million to \$10.2 million, resulting in a decrease in total working capital of \$0.31 million.

In July 2008 the Company experienced a breach of a financial covenant under loan agreements with Wellington Financial LP and Export Development Canada. The Company received a waiver of the breach from these 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 agreements. 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 cancellation of 7,994,186 Warrants. In the event 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 paid in September 2008 and \$250,000 was paid in November 2008. The remaining principal balance of \$5,250,000 is due March 2010. The Company believes that under its current business plan it has sufficient cash to sustain its operations for the foreseeable future. It should be noted however, that to date, Nightingale has not generated positive cash flow from operating activities and the Company remains dependent on new sales to minimize its use of cash. The Company may seek to raise additional funds for working capital purposes. Financing may not be available on terms acceptable to the Company or at all. If adequate

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funds are not available on acceptable terms, the Company's ability to fund operations or take advantage of opportunities could be limited without an increase in sales.

4. NON-GAAP MEASURES

The Company internally measures its performance and results of initiatives through a number of measures that are not recognized under Canadian generally accepted accounting principles (GAAP) and may not be comparable to similar measures used by other companies.

a. EBITDA

The Company has included an EBITDA measurement since it believes that this information would be useful to investors to help evaluate the performance of the Company. Investors should be cautioned, however, that EBITDA should not be construed as an alternative to net earnings as determined in accordance with GAAP. The Company's method of calculating EBITDA may differ from the methods used by other companies and, accordingly, it may not be comparable to similarly titled measures used by other companies.

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

The following provides a reconciliation of EBITDA to Net Income/ (Loss) from Continuing Operations:

In \$ 000's	Fiscal Quarter Ended December 31, 2008	Fiscal Quarter Ended December 31, 2007	Nine Months Ended December 31, 2008	Nine Months Ended December 31, 2007
Definition				
Loss and Comprehensive Loss	\$ (876)	\$ (3,431)	\$ (3,628)	\$ (6,947)
<i>Adjustments for:</i>				
Other Loss (Income)	(202)	17	(174)	170
Interest	328	854	1,049	2,288
Depreciation and Amortization	690	521	1,935	1,640
Stock-based Compensation	26	241	91	512
EBITDA (Loss)	\$ (34)	\$ (1,798)	\$ (727)	\$ (2,337)

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b. Recurring and Non-Recurring Revenue

The Company has included a Recurring Revenue and a Non-Recurring Revenue measurement since it believes that this information would be useful to investors to help evaluate the performance of the Company. Investors should be cautioned, however, that Recurring Revenue and Non-Recurring Revenue should not be construed as an alternative to revenue as determined in accordance with GAAP.

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

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

In \$ 000's	Fiscal Quarter Ended December 31, 2008	Fiscal Quarter Ended December 31, 2007	Nine Months Ended December 31, 2008	Nine Months Ended December 31, 2007
Non-Recurring Revenue	\$ 511	\$ 713	\$ 2,963	\$ 4,857
Recurring Revenue	4,045	3,229	10,785	9,840
Total Revenue	\$ 4,556	\$ 3,942	\$ 13,748	\$ 14,697

5. TRANSACTIONS WITH RELATED PARTIES

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. The \$60,000 cost of this agreement was recognized as expense over the service period and Nightingale made a cash payment of \$30,000 during last fiscal year. The balance of \$30,000 was 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. The leases were paid in full during the quarter ended September 30, 2008 and no ongoing obligations remain under these leases at December 31, 2008.

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

6. OTHER EVENTS

a. VantageMed Acquisition

On April 18, 2007, the Company completed its acquisition of all the outstanding shares of VantageMed. Total consideration for the transaction was \$14.4 million (US\$13.0 million, or US\$0.75 per share) for all outstanding shares. VantageMed, a Delaware-based corporation formerly listed on the NASDAQ

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exchange, was purchased into VantageMed Corporation, a new Delaware-based wholly owned subsidiary of Nightingale.

This acquisition was accounted for by the purchase method. Effective April 19, 2007, the Company consolidated the operations of VantageMed in its financial statements.

b. Sale of Helper Product Line

During the quarter ended December 31, 2007, the Company classified its Helper product line as discontinued operations. The Helper product line, which provides healthcare information technology solutions for behavioral health providers and therapists, and acquired as part of the VantageMed Acquisition in April 2007, was no longer considered to be core to the Company's objectives and the Company commenced discussions with a third party regarding a potential sale. The results of the Helper operations have been classified as discontinued operations and prior quarterly comparative figures of the fiscal year 2008 have been reclassified to conform to this presentation.

During the quarter ended March 31, 2008, the Company completed the sale of its Helper product line for gross proceeds of approximately \$12.3 million (US \$12.3 million) less \$1.3 million (US \$1.3 million) in deferred revenue collected by the Company prior to closing. The Company used a portion of the proceeds to pay down its debt, reducing interest expense on a go-forward basis, and to fund ongoing working capital requirements.

7. 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.

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8. RISKS AND UNCERTAINTIES

This section contains forward-looking statements. See "Cautionary Note Regarding Forward-Looking Statements"

The Company operates in a dynamic business and economic environment that exposes it to a number of risks and uncertainties. The following section describes some, but not all, of the risks and uncertainties that may adversely impact Nightingale's business, financial condition, or results of operations. Additional risks and uncertainties not presently known to Nightingale or that Nightingale currently deems immaterial may also impact Nightingale's business.

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

Risks Related to the Subordinated Debt Facility.

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.

Access to capital market risk.

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

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

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

The Corporation faces significant competition.

Direct competition among providers of medical software products and services is likely to increase as demand for these products increases. Increased competition may result in price reductions, reduced

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gross margins, longer sales cycles and loss of market share, any of which would seriously harm Nightingale's business and results of operations. Management of Nightingale cannot be certain that Nightingale will be able to compete successfully against current or future competitors or that competitive pressure will not seriously harm its business.

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

Nightingale's operating results may fluctuate each quarter.

Nightingale may experience fluctuations in future quarterly operating results that may be caused by many factors, including: (i) variability of sales to new and existing customers, (ii) changes in the level of marketing and other operating expenses to support future growth, (iii) competitive factors; and (iv) the timing of delivery. Consequently, Nightingale believes that period-to-period comparisons of its operating results will not necessarily be meaningful and should not be relied upon as an indication of future performance. It is likely that Nightingale's future quarterly operating results from time to time will not meet the expectations of securities analysts or investors, which may have a material adverse effect on the market price of its common shares.

Nightingale is currently not generating positive cash flows from its operations and is still highly dependent on new sales every period to minimize its cash usage. Up until the point where the Company is able to generate and predict continued positive cash flows from Recurring Revenue, the Company faces risk in utilizing its existing cash resources and potentially requiring further cash infusions from investors to maintain its operations.

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

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

Risks relating to availability of government funding to the healthcare industry.

In Canada and the United States, government funding programs are helping to fuel or expected to fuel the market for Nightingale's solutions. There is a risk that if funding commitments from government initiatives are eliminated or reduced, then the demand for EMR, clinical and practice management could significantly decrease, which could have a material adverse effect. In the event of any new government funding initiatives, sales in the short term may be adversely affected as prospective customers evaluate programs, adjust spending plans in an attempt to take advantage of new programs, and apply for funding.

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

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

As indicated in the discussion of financial results, sections 3 and 4, a significant portion of the Company's revenue is denominated in US dollars and is restated to Canadian dollars for financial statement purposes. A portion of the Company's expenses are also denominated in US dollars which can act as a natural hedge to partially offset the exposure to US denominated revenues. Significant changes in the foreign exchange rates between Canada and the United States, have had, and may continue to have, a material effect on both the revenues and expenses of the Company. As the Canadian dollar fluctuates relative to the US dollar, both US dollar denominated revenues and expenses as stated in Canadian dollars will also fluctuate. There can be no assurances that the Company will prove successful in its effort to manage this risk, which may adversely impact the Company's financial results.

Risks relating to loss of customer contracts.

The loss of one or more of Nightingale's major customers, the failure to attract new customers on a timely basis, or a reduction in usage and revenues associated with Nightingale's existing or proposed customers would materially harm its business, financial condition, liquidity, operating results and prospects.

Risks relating to bad debts.

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

Risks relating to product liability.

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

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

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

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

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

Risks relating to security.

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

Risks relating to system interruptions.

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

Risks relating to share price volatility.

The market prices of Nightingale's Common Shares and the securities of software companies in general have been very volatile. Nightingale's stock price has often fluctuated in a manner that management believes is unrelated or disproportionate to the operating performance of the Corporation. The share price of the Common Shares may decline and/or experience further volatility. Shareholders may not be

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able to sell their Common Shares at their preferred price because of lack of liquidity. Further decline and volatility may impair our ability to obtain capital through future equity offerings.

Material Impact of HIPPA and PIPEDA Legislation and other Regulatory Risks.

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

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

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

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

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Reliance on Third Parties.

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

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

Risks relating to acquisitions.

Nightingale completed several acquisitions as part of Nightingale's growth strategy in fiscal 2007 and 2008. There is no assurance that Nightingale will continue to derive benefits or the extent of benefits planned from such acquisitions or future acquisitions, if any, that Nightingale may pursue. Nightingale may be unable to retain key employees or key business relationships of the acquired businesses, efficiently consolidate IT infrastructures, accounting controls, policies and procedures, combine administrative, research and development and other operations, eliminate duplicative facilities and personnel, which could result in significant costs and expenses, and combine product offerings, and integration of the businesses may divert the attention and resources of Nightingale's management. Nightingale's failure to successfully integrate acquired businesses or to derive the intended benefits from these acquisitions could have a material adverse effect on Nightingale's business, operating results and financial condition. Managing the completion and integration of acquisitions and alliances requires management resources, which may divert Nightingale's attention from other business operations. As a result, the effects of any completed or future transactions on financial results may differ from Nightingale's expectations.

Risks relating to share price volatility.

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

9. DISCLOSURE OF OUTSTANDING SHARE DATA

	Authorized	Issued as at December 31, 2008
Common Shares, Voting	Unlimited	69,521,240 ⁽¹⁾
Preferred Shares	Unlimited	-
Stock Options – Issued and Outstanding		4,032,611
Warrants – Issued and Outstanding		7,994,186

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⁽¹⁾ Included in shares issued and outstanding are 1,666,667 Common Shares that are subject to a performance escrow related to the purchase of HealthNet as well as 188,017 unvested restricted common shares issued to a certain officer in connection with the VantageMed acquisition. These shares have restricted terms based on continued employment over a three year period.

10. OUTLOOK

This section contains forward-looking statements. See "Cautionary Note Regarding Forward-Looking Statements"

Nightingale entered fiscal 2009 focused on improved financial performance, striving to achieve positive cash flow and has made notable progress toward this goal to date. The Company is also working to drive revenue growth through its three key organic initiatives: increasing the number of healthcare practitioners on the Nightingale platform, leveraging its broad client base to cross-sell its products and introducing new revenue streams with the launch of patient-centric offerings. Throughout fiscal 2009, Nightingale has centered its efforts on markets where there are industry catalysts and the Company has a strong presence, positioning itself as an end-to-end healthcare software solutions and service provider for outpatient clinics, hospitals, government and regional health organizations and patients.

The Company continues to monitor its operating expenses and cash flows closely as it strives to reach positive cash flow and profitability. The Company implemented several cost reduction initiatives including initiatives in October 2008 that are evident in the quarterly results. Nightingale has a unique North American market position built upon a comprehensive suite of products and services that improves the efficiency of operations and creates revenue opportunities for healthcare practitioners, as well as enhances the quality of care for patients. Management believes that with a growing sales pipeline, coupled with its current base of 13,000 healthcare practitioners and more than 5.3 million patients, the Company is positioned for continued success.

The increase in the value of the US dollar had a positive impact on the Company's results in the quarter ended December 31, 2008 and as the Company incurs a significant portion of its revenues and expenses in the US, the Company will continue to be susceptible to fluctuations in the value of the US dollar which may have a positive or negative impact on the Company's financial condition.

11. ADDITIONAL INFORMATION

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