

LMS Medical Systems Inc.
2008 Financial Information



Consolidated Financial Statements

LMS Medical Systems Inc.

As at March 31, 2008 and March 31, 2007 and for the years ended March 31, 2008, 2007 and 2006

Management's Responsibility for Financial Statements

We are responsible for the preparation and integrity of the LMS consolidated financial statements and all other financial information contained in the Annual Report. These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and necessarily include some amounts that are based on our best estimates and judgement. We consider that the consolidated financial statements present fairly in all material respects the financial position of LMS, the results of its operations and cash flows. Financial information contained elsewhere in this Annual Report is consistent with the information contained in the financial statements.

To fulfill our responsibility, we have developed and maintain internal accounting controls and established policies and procedures designed to ensure the reliability of financial information and safeguarding of assets. The internal control systems and financial records are subject to review by the external auditors during the examination of the consolidated financial statements.

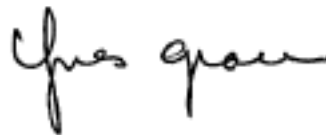
The Board of Directors oversees our performance over financial reporting and internal controls. The Board of Directors carries out its responsibility with regard to the consolidated financial statements through the Audit Committee.

The Audit Committee, which is composed exclusively of outside directors, meets regularly with the external auditors, and with management, to discuss accounting policies and practices, internal control systems, the scope of audit work and to assess reports on audit work performed. The external auditors have free and direct access to the Audit Committee, with or without the presence of management, to discuss results of their audits and any recommendations that they have for improvements in internal controls, the quality of financial reporting and any other matters of interest. Our consolidated financial statements have been reviewed and approved by the Board of Directors on the recommendation of the Audit Committee.

June 12, 2008



Diane Côté
President and Chief Executive Officer



Yves Grou, CA
Chief Financial Officer

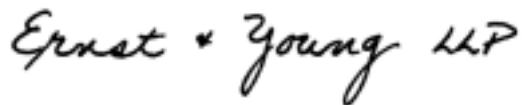
AUDITORS' REPORT

To the Shareholders of LMS Medical Systems Inc.

We have audited the consolidated balance sheets of **LMS Medical Systems Inc.** (the "Company") as at March 31, 2008 and 2007 and the consolidated statements of operations, deficit and cash flows for each of the years in the three-year period ended March 31, 2008. These financial statements are the responsibility of LMS Medical Systems Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of LMS Medical Systems Inc. as at March 31, 2008 and 2007 and the results of its operations and its cash flows for each of the years in the three-year period ended March 31, 2008 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Montréal, Canada
May 16, 2008

Consolidated Financial Statements
LMS Medical Systems Inc.

Incorporated under the Canada Business Corporations Act

CONSOLIDATED BALANCE SHEETS

(See Note 1 - Description of Business, Going Concern and Basis of Presentation)

<i>As at March 31 (In Canadian dollars)</i>	2008	2007
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents (<i>note 8 (i)</i>)	1,809,482	3,358,995
Short-term investments	50,000	25,000
Accounts receivable (<i>notes 3, 12</i>)	1,106,864	1,567,463
Investment tax credits receivable (<i>note 13</i>)	84,000	124,000
Prepaid expenses	104,271	106,042
Total current assets	3,154,617	5,181,500
Investments - restricted (<i>note 9 (iv)</i>)	50,000	75,000
Fixed assets (<i>notes 4, 7</i>)	230,664	500,308
Patents (<i>note 5</i>)	311,501	236,956
Total assets	3,746,782	5,993,764
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (<i>notes 6, 10, 12</i>)	1,042,110	1,351,635
Leasehold inducements (<i>note 9 (i)</i>)	-	62,818
Amounts due under the bonus and deferred share unit plans (<i>notes 8 (iv), (v)</i>)	705,635	387,000
Current portion of deferred revenues and deposits from distributors (<i>note 9 (iii)</i>)	1,650,825	1,168,238
Current portion of obligations under capital leases (<i>note 7</i>)	35,336	35,186
Total current liabilities	3,433,906	3,004,877
Deferred revenues and deposits from distributors (<i>note 9 (iii)</i>)	29,129	358,922
Obligations under capital leases (<i>note 7</i>)	4,694	36,588
Total long-term liabilities	3,467,729	3,400,387
Shareholders' equity		
Capital stock (<i>note 8 (i)</i>)	57,271,326	54,706,512
Warrants (<i>notes 8 (i), (ii)</i>)	679,328	411,333
Contributed surplus (<i>notes 8 (ii), (iii)</i>)	3,187,050	2,729,235
Accruals for expected bonus to be paid in Common Shares (<i>note 8 (iv)</i>)	293,186	297,000
Deferred share units (<i>note 8 (v)</i>)	538,948	419,816
Deficit	(61,690,785)	(55,970,519)
Total shareholders' equity	279,053	2,593,377
Total liabilities and shareholders' equity	3,746,782	5,993,764

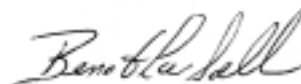
Commitments and contingencies (*note 9*)

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

On behalf of the Board:



Diane Côté
Director



Benoit La Salle
Director

Consolidated Financial Statements
LMS Medical Systems Inc.

Incorporated under the Canada Business Corporations Act

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended March 31,
(In Canadian dollars)

	2008	2007	2006
	\$	\$	\$
Revenue			
Software licenses (note 12)	3,190,918	1,586,078	866,718
Hardware	–	61,365	8,579
Technical support services, consulting and other (note 12)	1,781,931	1,203,822	707,207
Total revenues	4,972,849	2,851,265	1,582,504
Royalties and other direct costs	571,763	441,640	243,290
Revenues, net of royalties and other direct costs	4,401,086	2,409,625	1,339,214
Operating expenses			
Research and development expenses	2,739,870	4,067,453	3,940,132
Investment tax credits (note 13)	(82,093)	(123,986)	(327,227)
Net research and development expenses	2,657,777	3,943,467	3,612,905
Administrative (note 10)	2,626,984	2,798,352	2,776,919
Selling, marketing and product management	2,591,870	3,021,290	2,479,488
Customer support	959,068	926,358	952,248
Quality assurance	304,864	194,727	215,789
Stock option expense (notes 8 (iii))	422,369	560,889	735,070
Amortization of fixed assets	274,099	360,033	231,224
Amortization of patents	25,966	20,387	15,723
Government grant	–	–	(107,787)
Foreign exchange loss (gain)	(43,948)	15,125	64,050
Total operating expenses	9,819,049	11,840,628	10,975,629
Operating loss	(5,417,963)	(9,431,003)	(9,636,415)
Interest on long-term debt	19,796	9,218	9,121
Interest revenue and other income	(47,913)	(128,110)	(239,364)
Net loss and comprehensive loss	(5,389,846)	(9,312,111)	(9,406,172)
Basic and diluted loss per share	(0.24)	(0.50)	(0.57)
Weighted average number of common shares			
- basic and diluted	22,229,790	18,558,265	16,530,831

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

Consolidated Financial Statements**LMS Medical Systems Inc.**

Incorporated under the Canada Business Corporations Act

CONSOLIDATED STATEMENTS OF DEFICIT*Years ended March 31,**(In Canadian dollars)*

	2008	2007	2006
	\$	\$	\$
Deficit, beginning of year	(55,970,519)	(45,971,000)	(36,564,828)
Net loss	(5,389,846)	(9,312,111)	(9,406,172)
Shares and warrant issue costs <i>(note 8(i))</i>	(330,420)	(687,408)	–
Deficit, end of year	(61,690,785)	(55,970,519)	(45,971,000)

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

Consolidated Financial Statements
LMS Medical Systems Inc.

Incorporated under the Canada Business Corporations Act

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31,
(In Canadian dollars)

	2008 \$	2007 \$	2006 \$
OPERATING ACTIVITIES			
Net loss	(5,389,846)	(9,312,111)	(9,406,172)
Adjustments for non-cash items:			
Amortization expense	300,065	380,420	246,947
Amortization of leasehold inducements	(62,818)	(72,295)	–
Stock based compensation (note 11)	934,753	1,050,780	1,384,409
Consulting expense (note 8 (i))	35,049	–	–
	(4,182,797)	(7,953,206)	(7,774,816)
Net changes in non-cash operating working capital items (note 11)	1,051,274	26,327	1,765,096
Cash flows related to operating activities	(3,131,523)	(7,926,879)	(6,009,720)
INVESTING ACTIVITIES			
Purchase of investments - restricted (note 9 (iv))	–	(75,000)	(50,000)
Maturity of investments - restricted (note 9 (iv))	25,000	100,000	–
Purchase of short-term investments	(25,000)	(2,050,153)	–
Maturity of short-term investments	–	2,025,153	8,963,583
Additions to fixed assets	–	(146,895)	(123,719)
Additions to patents	(100,511)	(66,171)	(96,608)
Cash flows related to investing activities	(100,511)	(213,066)	8,693,256
FINANCING ACTIVITIES			
Repayment of long-term debt, obligations under capital lease (notes 4, 7)	(36,199)	(42,208)	(46,323)
Issuance of capital stock	1,740,000	6,556,623	–
Issuance of warrants	260,000	122,525	–
Shares and warrant issue costs	(281,280)	(619,202)	–
Cash flows related to financing activities	1,682,521	6,017,738	(46,323)
Net change in cash and cash equivalents	(1,549,513)	(2,122,207)	2,637,213
Cash and cash equivalents, beginning of year	3,358,995	5,481,202	2,843,989
Cash and cash equivalents, end of year	1,809,482	3,358,995	5,481,202
Supplementary information			
Interest paid	16,928	9,218	9,121
Investment tax credits received	122,093	259,986	1,250,115

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 (In Canadian dollars)

1. DESCRIPTION OF BUSINESS, GOING CONCERN AND BASIS OF PRESENTATION

Description of business

LMS Medical Systems Inc. ("LMS" or the "Company") is incorporated under the *Canada Business Corporations Act*. Since inception, LMS has been actively developing and commercializing a series of leading edge software-based products to be used as decision support tools for obstetricians. LMS's pipeline of proprietary software tools addresses critical unmet medical needs in labour and delivery settings. While continuing to pursue its core research and development of new software tools, LMS has also been strengthening its product development as well as the implementation and enlargement of its sales and distribution network.

Going Concern and Basis of Presentation

The accompanying audited consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that LMS will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

LMS is a software development company and has not generated profits since inception. Further, there can be no assurance that LMS will achieve profitability in the future. As at March 31, 2008, the Company had a working capital deficiency. To date, LMS has financed its cash requirements primarily from software and technical support revenues, share and warrant issuances, loans payable, convertible debentures and investment tax credits. During the third quarter of fiscal 2008, LMS implemented a program to streamline operations and reduce operating cash expenses. During the fourth quarter of fiscal 2008, LMS obtained additional financing to help fund its operations and sales activities (note 8(i)). LMS may still however require additional financing to fund its operations and sales activities. In addition, LMS's continuation as a going concern is dependent upon the continuing support of its distributors, customers and shareholders, attaining a satisfactory revenue level, continued sales to its existing customers, the start of profitable operations and the ability to generate sufficient cash from operations. These matters are dependent on a number of items beyond LMS's control and there is uncertainty about LMS's ability to successfully execute its plans. These consolidated financial statements do not reflect any adjustments in the carrying values of the assets and liabilities, the reported revenue and expenses and the balance sheet classifications used that would be necessary if the going concern assumption were not appropriate should LMS not be able to continue its normal course of business.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The preparation of financial statements by management in accordance with GAAP requires the selection of accounting policies from existing acceptable alternatives. The significant accounting policies used in their preparation are as follows:

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at year-end and the reported amounts of revenues and expenses during the period. Actual results may vary, and such differences may be material.

Consolidated financial statements

These consolidated financial statements include the accounts of LMS and its wholly-owned subsidiaries, LMS Medical Systems Ltd. and LMS Medical Systems (USA) Inc. All significant intercompany balances and transactions have been eliminated on consolidation.

Cash and cash equivalents

Cash and cash equivalents are classified as held-for-trading and are valued at their fair market value. Cash and cash equivalents consist of cash on hand, bank balances and cash equivalents with an initial maturity date of less than three months.

Short-term investments

Short-term investments are classified as assets held-to-maturity and are recorded initially at their fair values. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. Short-term investments consist of commercial paper.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Allowance for doubtful accounts

The Company establishes an allowance for doubtful accounts sufficient to cover probable and reasonably estimated losses. The Company establishes its estimates based on the aging of the accounts receivable balances and historical write-off experience, net of recoveries. If collections are lower, actual write-offs may be greater than initially expected.

Investments - restricted

Cash and short-term investments that are subject to restrictions that prevent its use for current purposes are presented as investments - restricted within the long-term assets section. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.

Research and development expenses and investment tax credits

Research expenses are charged against income in the year of expenditure. Development expenses are charged against income in the year of expenditure unless a development project meets the criteria under GAAP for deferral and amortization.

Amounts received or receivable resulting from government assistance programs, including grants and investment tax credits for research and development ("R&D"), are reflected as reductions of the cost of assets or expenses to which they relate at the time eligible expenses are incurred, provided that there is reasonable assurance that the benefits will be realized. The risks of change to estimates for investment tax credits receivable relate to the acceptance of LMS R&D investment tax claims by government authorities. The claims, which contain several R&D projects, are made on an annual basis and may take in excess of one year to be finalized and completed. In reviewing the claim, the government authorities take into consideration two primary factors in assessing the eligibility of the investment tax credit claim: (1) the technical aspects of the projects claimed must meet the specific scientific criteria; and (2) the claim must contain only the eligible expenses related to projects described in the tax filings. The risk of change to the estimate relates to the fact that certain projects or expenses involve judgment and could be disallowed because of one or both of the factors identified above are not met. Any favourable or unfavourable adjustment that may result following assessment by government authorities is recorded to income in the subsequent period when such assessment is performed.

Fixed assets

Fixed assets are recorded at cost and are amortized over their estimated useful lives using the following methods and rates:

	Methods	Rates
Computer hardware	Declining balance	30%
Computer software	Straight-line	2 years
Furniture and fixtures	Declining balance	20%
Office equipment	Declining balance	20%
Leasehold improvements	Straight-line	Over the term of the lease
Computer hardware under capital lease	Straight-line	3 years
Office equipment under capital lease	Straight-line	3 years

Patents

Costs related to patents and registration of trademarks are recorded at cost if capitalization criteria are met. Amortization is provided over their estimated useful lives on a straight-line basis over 15 years.

Impairment of long-lived assets

When events or changes in circumstances indicate the carrying amount of a long-lived asset or group of assets held for use, including capital assets and patents, may not be recoverable, an impairment loss is recognized when the carrying amount of those assets exceeds the sum of the undiscounted future cash flows related to them. The impairment loss is included in the statement of operations and the carrying value of the asset or group of assets is reduced to its fair value as determined by the sum of the discounted future cash flows related to those assets. The impairment loss is presented within amortization expense of the related assets.

Income taxes

LMS follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the assets or liabilities are expected to be realized or settled. Changes in these balances are included in net earnings of the period in which they arise. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Stock-based compensation

As a result of amendments made in October 2003 to the provisions of the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3870, effective November 1, 2003, LMS changed its method of accounting for employee stock-based compensation and decided to adopt the fair value based method of accounting for all its stock-based compensation. LMS adopted these changes using the prospective application transitional alternative in accordance with the transitional provisions of CICA Handbook Section 3870. Accordingly, the fair value based method is applied to awards granted, modified or settled on or after November 1, 2003. Prior to the adoption of the fair value based method, LMS, as permitted by Section 3870, had chosen to continue its existing policy of recording no compensation expense on the grant of stock options to employees.

When stock options are exercised, capital stock is credited by the consideration paid together with the related portion previously credited to contributed surplus when compensation costs were charged against income. The prospective method omits the effects of awards granted, modified or settled before November 1, 2003.

LMS provides pro-forma disclosure of the compensation costs based on the fair value method for awards granted prior to November 1, 2003 under the employee stock option plan (*see note 8(iii)*).

Stock-based compensation expense and pro-forma disclosure of the stock-based compensation expense for all options granted under the LMS's stock option plans, as well as Deferred Share Units and warrants, is determined using the fair value method computed with the Black Scholes option pricing model. The related expense is recognized over the vesting period of such options, allowing for forfeitures, estimated by management.

Share issuance costs

Share and equity instrument issue costs are recorded as an increase in deficit.

Earnings per share

Basic earning per share (“EPS”) is calculated using the weighted average number of common shares outstanding during the year. Diluted EPS is calculated using the treasury stock method.

The shares to be issued under the Deferred Share Unit Plan (“DSU Plan”) are included in the computation of basic loss per share since shares issuable after a mere passage of time are not contingently issuable. The shares to be issued under the bonus plan (the “Bonus Plan”) are included in the computation of basic loss per share when such bonus awards are approved by the Board of Directors. The options and warrants to purchase common shares, as well as those shares to be issued under the Bonus Plan, were not included in the computation of the diluted loss per share because the effect would be anti-dilutive.

Revenue recognition

Revenue consists primarily of revenue from the sales of software licenses, hardware and technical support services. LMS recognizes revenue in accordance with the provisions of the American Institute of Certified Public Accountants Statement of Position (“SOP”) No. 97-2, *Software Revenue Recognition*.

LMS recognizes revenue from software licenses and hardware when persuasive evidence of an arrangement exists, delivery, installation and client's acceptance have occurred, the sales price is fixed or determinable, and collection is probable.

Revenue from technical support services, which is generally paid in advance, is deferred and recognized rateably over the period for which the technical support service is provided. Other service and consulting revenues are recognized as services are provided.

Revenue on arrangements that includes multiple elements such as hardware, software licenses and technical support services is allocated to each element based on vendor specific objective evidence (“VSOE”) of the fair value of each element. Allocated revenue for each element is recognized when revenue recognition criteria have been met for each element. VSOE is determined based on the price charged when each element is sold separately. If VSOE cannot be determined, and all other revenue recognition criteria have been met, revenues from multiple element arrangements are recognized rateably over the period for which the technical support service is provided. When VSOE of fair value of undelivered services is established subsequent to the outset of the arrangement, the deferred revenue relating to the arrangement is adjusted to the newly established VSOE of fair value of the undelivered services.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currency translation

The functional currency of LMS and its US subsidiary is the Canadian dollar. Accounts in foreign currencies have been translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the rates in effect at the balance sheet date. Other assets and liabilities are translated at the rates prevailing at the transaction dates. Revenues and expenses are translated at average rates prevailing during the period, except for amortization, which is translated at exchange rates prevailing when the related assets were acquired. Gains and losses arising from fluctuations in exchange rates are reflected in net earnings of the year.

Changes in accounting policies

Effective April 1, 2007, the Company adopted the following CICA Handbook Sections:

a) Section 3855, "Financial Instruments - Recognition and Measurement"

Provides guidance on the recognition and measurement of financial assets, liabilities and derivative financial instruments. This new standard requires that all financial assets and liabilities be accounted for using one of the following available accounting models: held-to-maturity, available-for-sale, loans and receivables, held-for-trading or other liabilities, and derivative financial instruments meeting certain recognition criteria, are initially measured at fair value.

Changes in the fair value of financial instruments classified or designated as held-for-trading and recognized derivative financial instruments not qualifying for hedge accounting are charged or credited to the statement of operations for the relevant period, while changes in the fair value of financial instruments classified as available-for-sale are charged or credited to other comprehensive income. After their initial fair value measurement, held-to-maturity, loans and receivables and other liabilities are measured at amortized cost using the effective interest rate method.

The standard requires LMS to make certain elections, upon initial adoption of the new rules, regarding the accounting model to be used to account for each financial instrument. Transaction costs for held-for-trading financial instruments must be expensed as incurred. Transaction costs incurred in connection with the issuance of other financial instruments may either be capitalized and presented as a reduction of the carrying value of the related financial instrument or expensed as incurred. If capitalized, transaction costs must be amortized to income using the effective interest method. This Section does not permit the restatement of financial statements of prior periods on adoption of this standard. LMS has elected to expense transaction costs incurred in connection with the issuance of other financial instruments.

Following is a summary of the accounting model LMS has elected to apply to each of its significant categories of financial instruments outstanding as of April 1, 2007:

Financial assets	Classification	Measurement
• Cash and cash equivalents	Held-for-trading	Fair value
• Short-term investments	Held-to-maturity	Amortized cost
• Investments	Held-to-maturity	Amortized cost
• Accounts receivable	Loans and receivables	Amortized cost
• Accounts payable	Other financial liabilities	Amortized cost
• Amounts due under the bonus and deferred share unit plans	Other financial liabilities	Amortized cost

The adoption of this standard had no impact on the opening consolidated balance sheet or the consolidated statement of operations of the year.

b) Section 1530, "Comprehensive Income", along with Section 3251, "Equity"

Amending Section 3250, "Surplus", require enterprises to present comprehensive income and its components as well as net income in their financial statements. Further, they require enterprises to separately present changes in equity during the period as well as components of equity at the end of the period, including comprehensive income. The adoption of these Sections did not have any impact on LMS's financial statements.

c) Section 3865, "Hedges"

Allows optional treatment providing that hedges be designated as either fair value hedges, cash flow hedges or hedges of a self-sustaining foreign operation. Since LMS does not currently have any hedging programs in place, the adoption of this Section did not have any impact on LMS's financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

d) Section 1506, "Accounting Changes"

Under these new recommendations, voluntary changes in accounting policy are permitted only when they result in the financial statements providing reliable and/or relevant information. These recommendations also require changes in accounting policy to be applied retrospectively unless doing so is impracticable, require prior period errors to be corrected retrospectively, require enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements, and require the disclosure of new primary sources of GAAP that have been issued but not yet effective. The adoption of this Section did not have a significant impact for the year ended March 31, 2008.

NEW ACCOUNTING PRONOUNCEMENTS

The new accounting pronouncements described below will be adopted by LMS in fiscal 2009 or future years.

Capital Disclosures

CICA Handbook Section 1535, "Capital Disclosures", requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically April 1, 2008 for LMS. LMS will disclose this information in its consolidated financial statements for the first quarter of fiscal 2009.

Financial Instruments Disclosures

CICA Handbook Section 3862, "Financial Instruments - Disclosures", increases the disclosures currently required that will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically April 1, 2008 for LMS. LMS will disclose this information in its consolidated financial statements for the first quarter of fiscal 2009.

Financial Instruments Presentation

CICA Handbook Section 3863, "Financial Instruments - Presentation", replaces the existing requirements on presentation of financial instruments which have been carried forward unchanged to this new Section. This Section is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically April 1, 2008 for LMS and is not expected to have an impact on the consolidated financial statements.

General Standards on Financial Statement Presentation

CICA Handbook Section 1400, "General Standards on Financial Statement Presentation", has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The changes are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, specifically April 1, 2008 for LMS and is not expected to have an impact on the current going concern note disclosure.

Goodwill and Intangible Assets

CICA Handbook Section 3064, "Goodwill and Intangible Assets," replaces Section 3062, "Goodwill and Other Intangible Assets," and Section 3450, "Research and Development Costs." It establishes financial reporting for goodwill, start up costs and other intangible assets. This standard is effective for interim and annual financial statements beginning on or after April 1, 2009. LMS is currently assessing the impact of the adoption of this standard on the consolidated financial statements.

International Financial Reporting Standards

The Accounting Standards Board has a strategic plan for financial reporting in Canada whereby Canadian GAAP will converge with International Financial Reporting Standards ("IFRS") over the period ending March 31, 2011. After this transitional period, the Company will cease to use Canadian GAAP and will adopt IFRS. The Company is monitoring this transition to IFRS and is analyzing the impact that the adoption of IFRS will have on the audited consolidated financial statements.

3. ACCOUNTS RECEIVABLE

	2008	2007
	\$	\$
Trade accounts receivable	1,020,700	1,406,264
Commodity taxes	54,766	144,485
Other receivables	31,398	16,714
	1,106,864	1,567,463

No allowance for doubtful accounts has been recorded for the years presented.

4. FIXED ASSETS

	Cost	Accumulated amortization	Net carrying Value
	\$	\$	\$
2008			
Computer hardware	747,415	636,236	111,179
Computer software	272,994	245,847	27,147
Furniture and fixtures	146,726	104,298	42,428
Office equipment	102,143	83,254	18,889
	1,269,278	1,069,635	199,643
Computer hardware under capital leases	64,737	33,716	31,021
	1,334,015	1,103,351	230,664
2007			
Computer hardware	747,415	588,589	158,826
Computer software	277,993	141,505	136,488
Furniture and fixtures	146,726	92,009	54,717
Office equipment	102,143	76,597	25,546
Leasehold improvements	135,113	69,245	65,868
	1,409,390	967,945	441,445
Computer hardware under capital leases	76,642	23,985	52,657
Office equipment under capital leases	34,373	28,167	6,206
	1,520,405	1,020,097	500,308

During 2008, fixed assets, having a cost and accumulated amortization of \$190,845 (\$770,998 in 2007) and net carrying value of nil, were written off.

The acquisitions under capital leases for the years ended March 31, 2008, 2007 and 2006 totalled \$4,455, \$28,166 and \$48,476, respectively.

5. PATENTS

	2008	2007
	\$	\$
Patents	389,520	289,009
Accumulated amortization	(78,019)	(52,053)
	311,501	236,956

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2008	2007
	\$	\$
Trade accounts payable (note 10)	311,490	384,838
Accrued liabilities	272,722	285,272
Salaries, benefits, commissions and vacation accruals	457,898	681,525
	1,042,110	1,351,635

7. OBLIGATIONS UNDER CAPITAL LEASES

	2008	2007
	\$	\$
Obligations under capital leases bearing interest at rates ranging from 7% to 33%, repayable in monthly principal and interest instalments ranging from \$186 to \$1,323, guaranteed by the leased assets with carrying values of \$30,758	40,030	71,774
Less: Current portion of obligations under capital leases	(35,336)	(35,186)
	4,694	36,588

7. OBLIGATIONS UNDER CAPITAL LEASES (Cont'd)

Payments required over the next years are as follows:

	\$
2009	39,046
2010	4,821
2011	373
Total future minimum payments	44,240
Less: Interest	(4,210)
	40,030

8. CAPITAL STOCK**Authorized**

An unlimited number of common shares without par value.

Changes in common shares issued and outstanding are summarized as follows:

(i) Issued and paid

	Number	Common shares	\$
March 31, 2005	16,503,177		47,616,028
Issued under the Bonus Plan	13,872		33,986
Issued under the DSU plan	6,400		15,680
March 31, 2006	16,523,449		47,665,694
Issued in private placements	4,470,229		6,556,623
Issued under the Bonus Plan	235,046		484,195
March 31, 2007	21,228,724		54,706,512
Issued in private placements	4,000,000		1,740,000
Issued under the Bonus Plan	562,438		760,640
Issued under the DSU plan	18,211		29,125
Issued under a consulting agreement	46,667		35,049
March 31, 2008	25,856,040		57,271,326

During the years ended March 31, 2008, 2007 and 2006, LMS completed the following capital stock transactions:

2008

During 2008, 4,000,000 common shares, 1,000,000 subscriber warrants and 189,000 broker warrants were issued in a private placement for a total consideration of \$2,000,000. The warrants are exercisable for one common share at a strike price of \$0.60 for a period of five years from the date of issue.

LMS valued the subscriber warrants at \$260,000 using the Black-Scholes option pricing model with the following assumptions: expected average life of five years, fair value of \$0.55 per common share, volatility factor of 0.519, dividend yield of nil and risk-free interest rate of 3.86%. This warrant consideration has been included in the warrants balance (*note 8(ii)*).

LMS valued the broker warrants at \$49,140 using the Black-Scholes option pricing model with the following assumptions: expected average life of five years, fair value of \$0.55 per common share at grant date, volatility factor of 0.519, dividend yield of nil and risk-free interest rate of 3.86%. This warrant consideration has been recorded as a share issue cost within deficit and a corresponding credit in warrants balance (*note 8(ii)*).

Issuance costs, including the broker warrants related to the above transaction totalled \$330,420 and were recorded within deficit.

As at March 31, 2008, a cash amount of \$694,609 was held in trust by LMS' legal counsel relating to the above mentioned private placement. This amount was subsequently received in April 2008.

During 2008, 562,438 and 18,211 common shares were issued under the LMS Bonus and DSU Plans related to prior year Bonus and DSU (*note 8 (iv)* and (*v*)), at a fair value consideration at the time of issue of \$760,640 and \$29,125, respectively.

During 2008, 46,667 common shares were issued to a consultant in satisfaction of a consulting agreement, at a fair value consideration at the time of issue of \$35,049.

8. CAPITAL STOCK (Cont'd)

During the third quarter of fiscal 2008, management of LMS made a collective decision to temporarily suspend a portion of their salaried compensation for the remainder of fiscal 2008. Upon meeting certain milestones, the Board of Directors elected to pay the suspended salaries, including a 25% premium, either in the form of LMS common shares or in the form of deferred share units ("DSUs") (note 8(v)). As at March 31, 2008, LMS recorded \$129,762, representing 216,270 common shares, within the shareholders' equity section as accruals for bonus expected to be paid by issuing common shares (note 8(iv)), and \$413,295, representing 688,825 DSUs, within the current liabilities section as amounts due under the bonus and DSU plan (note 8(v)), for settlement of the aforementioned suspended salaries and the 25% premium. This last amount is subject to shareholder approval at the 2008 annual shareholders' meeting, at which time, it will be transferred to capital stock. Should approval not be obtained, this amount will be paid out in cash.

In February 2008, LMS's Board of Directors approved, subject to shareholders' approval, a Shareholders' Rights Plan ("the Plan"), which will trigger the issuance of one right per share issued should a single shareholder become the beneficial owner of 20% or more of LMS's common shares, other than as permitted in the Plan.

2007

During 2007, 4,470,229 common shares and 422,500 subscriber warrants were issued in three separate private placements for a total consideration of \$6,679,148.

As part of the first placement, LMS issued 1,250,000 common shares at \$2 per common share for a total consideration of \$2,500,000.

As part of the second placement, LMS issued 845,000 common shares and 422,500 subscriber warrants for a total consideration of \$1,563,250. The subscriber warrants have a three year life and an exercise price of \$1.50 per share. LMS valued these warrants at \$122,525 using the Black-Scholes option pricing model with the following assumptions: expected average life of three years, fair value of \$1.16 per common share, volatility factor of 0.44, dividend yield of nil and risk-free interest rate of 3.98%. This warrant consideration has been included in the warrants balance (note 8(ii)).

As part of the third placement, LMS issued 2,375,229 common shares at \$1.10 per common share for a total consideration of \$2,615,898. In connection with this third placement, LMS also issued 166,266 broker warrants with a three year life and an exercise price of \$1.29 per share. LMS valued these warrants at \$68,206 using the Black Scholes option pricing model with the following assumptions: expected average life of three years, fair value of \$1.25 per common share, volatility factor of 0.44, dividend yield of nil and risk-free interest rate of 3.95%. This warrant consideration has been recorded as a share issue cost within deficit and a corresponding credit in warrants balance (note 8(ii)).

In addition, 235,046 common shares were issued under the LMS Bonus Plan (note 8(iv)), at the amount determined under the Bonus Plan for 2006 of \$484,195.

Issuance costs, including the warrants related to above transactions totalled \$687,408 and were recorded within deficit.

2006

During 2006, 13,872 and 6,400 common shares were issued under the LMS Bonus and DSU Plans (note 8(iv) and (v)), at a fair value consideration at the time of issue of \$33,986 and \$15,680, respectively.

(ii) Warrants

	Number	\$
Balance as at March 31, 2005	1,117,177	397,592
Expired	(492,494)	(163,565)
Balance as at March 31, 2006	624,683	234,027
Issued in connection with private placements (note 8(i))	588,766	190,731
Expired	(40,427)	(13,425)
Balance as at March 31, 2007	1,173,022	411,333
Issued in connection with a private placement (note 8(i))	1,189,000	309,140
Expired	(123,885)	(41,145)
Balance as at March 31, 2008	2,238,137	679,328

8. CAPITAL STOCK (Cont'd)

Each warrant allows its holder to acquire one common share and have the following characteristics:

Exercise price \$	Number #	Remaining life in years
0.60	1,189,000	4.9
1.29	166,266	1.9
1.50	422,500	2.0
3.23	432,249	0.7
3.32	8,122	0.6
4.85	20,000	1.5
	2,238,137	

When warrants expire or are exercised, the carrying value of the warrants is credited to contributed surplus or capital stock, respectively.

(iii) Stock option plan

In 2005, LMS created a stock option plan for employees, directors and certain external consultants. Pursuant to the terms of the plan, the Board of Directors is authorized to grant to directors, officers, and employees of LMS and its subsidiaries, as well as to other persons who provide ongoing management or consulting services to LMS or its subsidiaries, options to acquire common shares of LMS at such prices as may be fixed at the time of the grant, provided however that the option exercise price shall not be less than the closing sale price of LMS's common shares on the Toronto Stock Exchange ("TSX") on the last trading day prior to the grant of the option.

Options granted under the new plan are non-assignable and non-transferable, have a maximum term of 10 years and generally vest over three years. The new plan was approved at the shareholders' annual and special meeting held on September 15, 2004 and the maximum number of options that can be granted under the new stock option plan was fixed at 2,149,942. At the 2007 annual shareholder meeting, the option pool was increased by 1,034,000 to 3,183,942.

Black-Scholes option model assumptions and expense details

LMS determined the fair value of options using the Black-Scholes option pricing model with the following weighted average assumptions:

	2008	2007	2006
Expected life	5	5	5
Fair value of common shares	\$1.42	\$1.84	\$2.26
Dividend yield	Nil	Nil	Nil
Volatility	0.489	0.44	0.427
Risk free interest rate	4.46%	4.22%	3.07%
Number of options granted	775,000	382,000	335,593
Fair value of stock options granted	\$475,309	\$245,480	\$318,000

LMS records the related stock option expense over the vesting period using the graded vesting method.

During the year ended March 31, 2008, the Company's Board of Directors authorized the issue of an additional 785,000 of stock options, of which 775,000 were granted during the year.

Included in the 775,000 options granted in 2008 are 150,000 options issued to a consultant under a service agreement. Half of these options, or 75,000, vested immediately upon signing of the agreement and the expense of \$20,250 was recognized. The second half, or 75,000, may vest at a specific date as agreed to in the agreement, only upon reaching certain milestones. The exercise price of these options is \$0.53 and they expire on February 11, 2013.

8. CAPITAL STOCK (Cont'd)

The changes to number of stock options granted and their weighted average exercise price are as follows

	Number	Weighted average exercise price \$
March 31, 2005	1,386,499	4.30
Granted	335,593	2.26
Expired	(42,722)	(3.26)
Cancelled	(115,973)	(3.87)
March 31, 2006	1,563,397	3.92
Granted	382,000	2.12
Expired	(280,991)	(4.59)
Cancelled	(64,800)	(3.45)
March 31, 2007	1,599,606	3.39
Granted	775,000	1.33
Cancelled	(84,667)	(2.24)
March 31, 2008	2,289,939	2.74

Exercise price	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	Number Outstanding as at March 31, 2008	Weighted average contractual Life	Weighted average exercise price \$	Number Exercisable as at March 31, 2008	Weighted average exercise price \$
0.53-0.58	225,000	4.9	0.55	75,000	0.53
1.50-1.70	550,000	4.2	1.66	-	-
1.80-2.06	337,333	2.9	1.98	179,111	1.91
2.25-2.45	235,359	2.4	2.40	176,906	2.38
3.69-4.00	146,403	1.5	3.95	146,403	3.95
4.28-4.62	795,844	1.3	4.30	795,844	4.30
0.53-4.62	2,289,939	2.7	2.74	1,373,264	3.50

Pro-forma disclosure regarding the options issued prior to November 1, 2003 is as follows:

	2008 \$	2007 \$	2006 \$
Net loss attributable to common shares - basic and diluted	(5,389,846)	(9,312,111)	(9,406,172)
Additional stock option expense that would have been included in the determination of net loss if the fair value based method had been applied to all awards	-	6,964	64,532
Pro-forma net loss attributable to common shares - basic and diluted	(5,389,846)	(9,319,075)	(9,470,704)
Pro-forma basic and diluted loss per share	(0.24)	(0.50)	(0.57)

(iv) Bonus Plan

In fiscal 2005, LMS established the Bonus Plan that provides for annual awards to eligible executives and employees based on achievement of corporate and individual performance objectives. The award is paid in common shares and DSUs, the number of which is based upon dividing the total award by the five day average year-end closing market price of the common shares on the TSX. At the 2005 annual and special meeting of shareholders, the Bonus Plan was approved. At the 2006 annual general meeting the maximum number of shares issuable under the Bonus Plan was increased from 250,000 to 500,000. At the 2007 annual shareholder meeting, LMS shareholders approved the increase of the number of shares issuable under the Bonus Plan from 500,000 to 1,300,000.

2008

For the year ended March 31, 2008, 562,438 (\$760,640) of the reserved shares were issued. 4,789 common shares issued and reserved relating to employees who left subsequent to March 31, 2007, were cancelled and a balance of \$5,699 was applied against contributed surplus.

For the year ended March 31, 2008, LMS recorded bonus expense of \$380,000 for the 2008 fiscal year, expected to be paid in common shares or DSUs. As at March 31, 2008, shares reserved, available and unissued and approved by the shareholders under the Bonus Plan were 272,374 whereas the required number of shares to settle the 2008 bonus was 633,333. As a result of this shortfall, only a portion of the \$380,000, or \$163,424, representing 272,374 common shares was recorded within the shareholders' equity section as accruals for bonus expected to be paid by issuing common shares. The remaining balance of \$216,576 was recorded as

8. CAPITAL STOCK (Cont'd)

a current liability on the balance sheet. Upon proposal and approval by LMS shareholders at the next annual general meeting, this amount will be reversed and recognized in shareholders' equity upon issuance of 122,858 common shares totaling \$73,715 and 238,101 DSUs totaling \$142,861 by LMS. Should approval not be obtained, this amount will be paid out in cash.

As at March 31, 2008, LMS recorded \$129,762, representing 216,270 common shares, within the shareholders' equity section as accruals for expected bonus to be paid in common shares, for settlement of the suspended salaries of management and the 25% premium (*note 8(i)*).

2007

For the year ended March 31, 2007, LMS recorded total bonus expense related to the Bonus Plan in the amount of \$675,000. As at March 31, 2007, shares reserved, available and unissued and approved by the shareholders under the Bonus Plan were 250,510 whereas the required number of shares to settle the 2007 bonus was 567,227. As a result of this shortfall, only a portion of the \$675,000, or \$297,000, representing 249,580 common shares was recorded within the shareholders' equity section as accruals for bonus expected to be paid by issuing common shares. The remaining balance of \$378,000 was recorded as a current liability on the balance sheet. At the 2007 annual shareholder meeting, LMS shareholders approved the increase of the number of shares issuable under the Bonus Plan from 500,000 to 1,300,000, at which time the accrued balances at March 31, 2007 were transferred to shareholders' equity. A difference of \$79,941 arose resulting from the increase in the share price between March 31, 2007 and August 9, 2007, the date of the approval of the Plan change. This difference was recorded as an adjustment to the bonus expense in 2008.

2006

For the year ended March 31, 2006, LMS has recorded bonus expense related to the Bonus Plan in the amount of \$485,373, with a corresponding credit within the shareholders' equity section.

(v) Deferred Share Unit Plan

In fiscal 2005, LMS established the DSU Plan that provides for the payment of director's quarterly compensation with DSUs. Each DSU is a right granted by LMS to an eligible director to receive one common share upon termination of service. The number of DSUs to be granted under the DSU Plan is determined by dividing the quarterly director compensation by the five day average quarter end closing market price of the common shares on the TSX. At the 2005 annual and special meeting of shareholders, the DSU Plan was approved. At the 2006 annual general meeting, the maximum number of DSUs issuable under this plan was increased from 125,000 to 250,000. LMS has the option to remit either cash or common shares to settle the DSUs. At the 2007 annual general meeting, the shareholders approved the increase of the number of DSUs issuable under this plan from 250,000 to 400,000. As well, the shareholders approved the following amendments to the DSU Plan: (a) to add full-time officers and employees as eligible participants; (b) to permit eligible officers and employees to elect to receive all or a portion of any bonus under the Company's Bonus Plan in the form of DSUs; and (c) permit officers to elect to receive a portion of their annual base salary in the form of DSUs.

2008

Following the approval of the increase of the number of shares issuable under the DSU Plan from 250,000 to 400,000 at the 2007 annual general meeting, the accrued balance of \$9,000 at March 31, 2007 was transferred to shareholders' equity. A difference of \$2,798 relating to the difference between the accrued balance as at March 31, 2007 and the amount paid by issuing shares in the year ended March 31, 2008, was recorded as an adjustment to the directors' compensation expense in 2008. The difference arose from the increase in the share price between March 31, 2007 and August 9, 2007, the date of the approval of the Plan change.

For the year ended March 31, 2008, LMS recorded total director compensation expense under the DSU Plan of \$215,021. As at March 31, 2008, shares reserved, available and unissued and approved by the shareholders under the DSU Plan were 147,379 whereas the required number of shares to settle the 2008 DSU director compensation was 277,008. As a result of this shortfall, only a portion of the \$215,021, or \$139,257, representing 147,379 DSUs was recorded within the shareholders' equity section under the DSU balance. The remaining balance of \$75,764 was recorded as a current liability on the balance sheet.

During the third quarter of fiscal 2008, management at LMS made a collective decision to temporarily suspend a portion of their salaried compensation for the balance of fiscal 2008. Upon meeting certain milestones, the Board of Directors elected to pay a portion of the suspended salaries, including a 25% premium, in the form of LMS common shares (*note 8(i)*), and the remaining portion in the form of DSUs. As at March 31, 2008, LMS recorded \$413,295, representing 688,825 DSUs, within the current liabilities section as amounts due under the bonus and DSU Plan.

8. CAPITAL STOCK (Cont'd)

For the year ended March 31, 2008, LMS recorded bonus expense to be paid in common shares of \$237,139, representing 395,232 common shares (*note 8(iv)*) and \$142,861, representing 238,101 DSUs within the current liabilities section as amounts due under the bonus and DSU Plan.

2007

For the year ended March 31, 2007, LMS recorded total director compensation expense related to the DSU Plan of \$222,500. As at March 31, 2007, shares reserved, available and unissued and approved by the shareholders under the DSU Plan were 142,370 whereas the required number of shares to settle the 2007 DSU compensation is 148,920. As a result of this shortfall, only a portion of the \$222,500, or \$213,500, representing 141,365 common shares was recorded within the shareholders' equity section under the DSU balance. The remaining balance of \$9,000 was recorded as a current liability on the balance sheet.

In 2007, 8,028 DSUs, with a value of \$20,609 were cancelled at the request of a director, and director compensation was reduced by this amount.

2006

Prior to the approval of the DSU Plan by the shareholders, and as of March 31, 2005, LMS provided for the related directors' compensation expense of \$56,625 within accounts payable and accrued liabilities as there was an obligation to remit cash. Following the approval of the DSU Plan by the shareholders, LMS reduced accrued liabilities and increased the DSUs account for the DSUs conditionally granted prior to approval of the Plan. A difference of \$20,270 between the amount accrued at March 31, 2005 based on the then share price and the value of the related units issued upon shareholder approval in 2006 was recorded as a reduction in the DSU Plan balance and the related DSU expense in 2006.

Total director compensation expense for the year ended March 31, 2006 was \$206,250.

The changes to the DSU Plan balance, number of deferred share units outstanding and the weighted average price of grant or issue are as follows:

	DSU Plan balance \$	Number of DSU Units #	Weighted average price of DSU \$
Balance as at March 31, 2005	56,625	14,624	3.87
Units granted	206,250	93,006	2.22
Shares issued	(15,680)	(6,400)	(2.45)
Adjustment to DSU balance	(20,270)	—	—
Balance as at March 31, 2006 (presented within shareholders' equity)	226,925	101,230	2.39
Units granted	222,500	148,920	1.49
Units cancelled	(20,609)	(8,028)	(2.57)
Balance as at March 31, 2007 (\$9,000 presented within current payables and \$419,816 presented within shareholders' equity)	428,816	242,122	1.77
Units granted	771,177	1,203,934	0.64
Shares issued	(29,125)	(18,211)	(1.60)
Balance as at March 31, 2008	1,170,868	1,427,845	0.82

8. CAPITAL STOCK (Cont'd)

The following table summarizes the transactions in the Bonus and DSU Plans for the years ended March 31, 2008, 2007 and 2006.

	2008	2007	2006	For the year ended March 31, 2008					
				Recorded in the Statement of Operations ⁽¹⁾		Compensation in		Recorded in	
				DSUs	Common shares	Current liabilities	Shareholders' equity		
	\$	\$	\$	\$	\$	\$	\$		
Management's salary and premium	543,057	—	—	413,295	129,762	413,295	129,762		
Bonus expense	380,000	675,000	485,373	142,861	237,139	216,576	163,424		
Adjustment due to price variation	79,941	—	—	—	79,941	—	79,941		
	1,002,998	675,000	485,373	556,156	446,842	629,871	373,127		
Directors' Compensation	215,021	201,891	206,250	215,021	—	75,764	139,257		
	1,218,019	876,891	691,623	771,177	446,842	705,635	512,384		

(1) These amounts have been allocated to each department and are included in R&D expenses; administrative; selling, marketing and product management; customer support and quality assurance expenses.

(vi) Contributed surplus

	\$
Balance as at March 31, 2005	1,255,108
Stock option expense	735,070
Warrants expired (note 8 (ii))	163,565
Balance as at March 31, 2006	2,153,743
Stock option expense	560,889
Warrants expired (note 8 (ii))	13,425
Bonus plan adjustment	1,178
Balance as at March 31, 2007	2,729,235
Stock option expense	422,369
Warrants expired (note 8 (ii))	41,145
Cancellation of common shares (note 8 (iv))	(5,699)
Balance as at March 31, 2008	3,187,050

9. COMMITMENTS AND CONTINGENCIES**(i) Operating leases**

The minimum rentals payable under long-term operating leases for premises and equipment, exclusive of certain operating costs for which LMS is responsible, are as follows:

	\$
2009	129,622
2010	10,714
2011	8,410
2012	5,186
2013	4,754
	158,686

The rental expense for the years ended March 31, 2008, 2007 and 2006 were \$201,655, \$214,631 and \$225,844, respectively.

LMS leases approximately 9,300 square feet of office space provided by Standard Life Insurance Co. In 2006, LMS amended certain terms of the lease, entered into originally in 1997, and received \$135,113 of leasehold inducements in 2007, which were amortized over the remainder of the lease term ended in February 2008 (see note 9 (iv)). The lease was extended in early 2008 for a period of seven months, ending in September 2008.

(ii) License agreement

Prior to 2006, LMS entered into a license agreement with a third party in connection with databases to be used within its software products. The license agreement is renewable every year and provides non-transferable, non exclusive licenses and is subject to royalties on revenues of the third party derived from the product.

9. COMMITMENTS AND CONTINGENCIES (Cont'd)**(iii) Distribution agreements**

Under a value-added marketing agreement entered into on October 15, 2004 and ending in October 2009 with McKesson Information Systems LLC (“Distributor”), a US based company involved in the development and sale of integrated system tools for hospitals in North America, LMS is committed to interfacing its software with Distributor systems. In addition, LMS agreed not to enter into similar agreements with certain competitors of the Distributor. LMS has the right to interface its software products with other parties. In connection with this agreement, Distributor agreed to acquire licenses and advanced a cash consideration of US\$500,000 in 2004. During 2008, the conditions for revenue recognition for a portion of the advance were met, with the remaining balance of \$216,027 (US\$166,666) included in deferred revenues and deposits from distributors on the balance sheet as at March 31, 2008 (2007 - \$432,288 (US\$333,333)).

(iv) Letters of credit

Under the lease agreement for its premises (note 9 (i)), ended in February 2008, LMS was required to issue a letter of credit secured by an investment of an equivalent amount. The letter of credit was reimbursed in February 2008 upon termination of the lease and equalled \$25,000 at March 31, 2007. In addition, under an agreement with a bank, a \$50,000 (2007 - \$50,000) investment is held as a security. These amounts are presented as restricted non-current investments on the balance sheet.

(v) Claims and actions

In the normal course of its business, LMS may be exposed to various claims and actions, including product and service liabilities. These cases often have numerous uncertainties and the outcome of each case is unpredictable and may have a material impact on the consolidated financial statements of LMS. In the opinion of the Company, potential liabilities that may result from these actions are not expected to have a material adverse effect on the Company’s financial position or its results of operations.

(vi) Stock exchange listing requirements

As at March 31, 2008, LMS was listed on the TSX and the American Stock Exchange (“AMEX”). During 2007, LMS did not meet certain AMEX minimum listing requirements relating to its shareholders' equity and was notified by AMEX of this default. In May 2008, the Company's Board of Directors approved the voluntary delisting from the AMEX as part of management's plan to reduce costs. The delisting was completed on May 22, 2008. On June 5, 2008, LMS filed Form 15F with the US Securities and Exchange Commission to voluntarily terminate the registration of its Common Shares under section 12(g) of the Securities Exchange Act of 1934, as amended. LMS continues to meet the TSX listing requirements.

(vii) Indemnification of Directors and Officers

LMS indemnifies its directors and officers against claims reasonably incurred and resulting from the performance of their services to the Company, and maintains liability insurance for its directors and officers as well as those of its subsidiaries.

(viii) Insurance Contract

LMS maintains commercial liability insurance. The policy was renewed for a one-year period in January 2008 and is being financed. The amount financed is \$132,279, at a rate per annum of 9.60% from February 13, 2008 to January 13, 2009, with monthly payments of \$12,610, and is included in accounts payable and accrued liabilities.

10. RELATED PARTY TRANSACTIONS

LMS enters into transactions in the normal course of business with a related company having one common director. These transactions are measured at the exchange amount. The related party management fees expense amounted to \$216,342, \$192,300 and \$191,532 for the years ended March 31, 2008, 2007 and 2006, respectively. Balances due in connection with these transactions amount to \$104,167 as at March 31, 2008 (\$32,050 as at March 31, 2007).

11. SUPPLEMENTARY CASH FLOW INFORMATION

The net change in non-cash working capital balances related to operations is as follows:

	2008 \$	2007 \$	2006 \$
Decrease (increase) in current assets			
Accounts receivable	460,599	(1,004,027)	176,152
Investment tax credits receivable	40,000	136,000	922,888
Prepaid expenses	1,771	49,181	220,614
	502,370	(818,846)	1,319,654
Increase (decrease) in liabilities			
Accounts payable and accrued liabilities	(309,525)	(84,807)	241,619
Amounts due under the bonus and deferred unit plans <i>(note 8 (iv) and (v))</i>	705,635	387,000	-
Deferred revenue and deposits from distributors	152,794	542,980	203,823
	548,904	845,173	445,442
	1,051,274	26,327	1,765,096

Significant non-cash investing and financing activities

During 2008, LMS acquired \$4,455 in capital assets (2007 - \$28,166, 2006 - \$48,476) through obligations under capital leases. During fiscal 2006, the Company acquired software in an amount of \$107,000 by way of accounts payable.

Stock based compensation - cash flow disclosures

	2008 \$	2007 \$	2006 \$
Stock option expense <i>(note 8 (iii))</i>	422,369	560,889	735,070
Bonus expense in common shares <i>(note 8 (v))</i>	446,842	675,000	485,373
Bonus expense in DSUs <i>(note 8 (v))</i>	142,861	-	-
DSU expense for directors' compensation <i>(note 8 (v))</i>	215,021	222,500	206,250
DSU expense for management salaries <i>(note 8 (v))</i>	413,295	-	-
	1,640,388	1,458,389	1,426,693
Amounts of bonus expense included within current liabilities <i>(note 8 (iv))</i>	(216,576)	(378,000)	-
Amounts of DSU expense included within current liabilities <i>(note 8 (v))</i>	(489,059)	(9,000)	-
Total included within current liabilities	(705,635)	(387,000)	-
DSU units cancelled <i>(note 8 (v))</i>	-	(20,609)	-
Other adjustments - DSU <i>(note 8 (v))</i>	-	-	(20,270)
Other adjustment - Bonus Plan <i>(note 8 (iv))</i>	-	-	(22,014)
	-	(20,609)	(42,284)
Total included within equity	934,753	1,050,780	1,384,409

12. FINANCIAL INSTRUMENTS**Credit risk and economic dependence**

LMS continually evaluates its customers' credit standing and generally does not require a guarantee. As at March 31, 2008, a distributor represents 98% of trade accounts receivable (as at March 31, 2007 - a distributor represented 94% of trade accounts receivable) and is denominated in US dollars.

In 2008, revenue generated through a distributor represented 85% of total revenues (2007 - 73%). These revenues were billed in US dollars. In 2006, the distributor and one customer represented 77% of total revenues (distributor - 55%, one customer - 22%).

Cash and cash equivalents, investments - restricted and short-term investments, which consist of commercial paper as at March 31, 2008 bearing interest at 2.55% (2007 - 3.9%) are principally contracted with two Canadian chartered banks.

Fair values

The carrying values of cash and cash equivalents, short-term investments, accounts receivable, investment tax credits receivable, investments - restricted, accounts payable and accrued liabilities and amounts due under the Bonus and DSU Plans are a reasonable estimate of their fair values because of their short maturities.

12. FINANCIAL INSTRUMENTS (Cont'd)

The carrying value of the capital lease obligations approximates their fair value because management estimates that these capital leases with fixed interest rates have no significant difference between their fair value and their carrying value, based on rates currently available to LMS on capital leases with similar terms and remaining maturities.

Foreign exchange risk

As at March 31, 2008 and 2007, accounts receivable denominated in US dollars ("US \$") amounted to \$1,006,002 and \$1,408,729, respectively, (US \$980,031 and US \$1,220,101, respectively) and accounts payable and accrued liabilities and deposits from distributor denominated in US \$ amounted in aggregate to \$503,817 and \$807,741, respectively (US \$447,026 and US \$658,513, respectively). Also, cash and cash equivalents denominated in US \$ amounted to \$705,962 on March 31, 2008 and \$114,516 on March 31, 2007 (US \$687,737 and US \$99,182, respectively).

Interest rate risk

LMS is exposed to interest rate risk on its cash and cash equivalents as well as its investments. The Company is not exposed to interest rate risk on its capital lease obligations or interest bearing accounts payable, as these interest rates are fixed.

13. INCOME TAXES

The reconciliation of income tax computed at the statutory Canadian tax rates with income tax expense from operations is as follows:

	2008	2007	2006
	\$	\$	\$
Tax recovery at statutory rate	(1,814,000)	(3,090,000)	(2,990,000)
Increase (decrease) in income tax recovery resulting from:			
Non-deductible expenses	835,000	530,000	460,000
Québec non-taxable investment tax credits	(8,000)	(12,000)	(29,000)
Differences in effective rate attributable to income taxes	(30,000)	213,000	(833,000)
Other items	-	(373,000)	(1,437,000)
Unrecognized tax benefits from operating losses	1,082,000	2,732,000	4,829,000
Impact of current year temporary differences	(65,000)	-	-
	-	-	-

The tax effects of temporary differences and net operating losses that give rise to future income tax assets are as follows:

	2008	2007
	\$	\$
Future income tax assets		
Tax basis of capital assets and patents in excess of carrying value	367,000	437,000
Non-capital losses carried forward	11,995,000	12,933,000
Non-refundable federal investment tax credits	-	590,000
Research and development expenditures	1,619,000	1,491,000
Financing fees	255,000	374,000
Total future income tax assets	14,236,000	15,825,000
Valuation allowance	(14,236,000)	(15,825,000)
Net future income tax assets	-	-

Changes in investment tax credits receivable, and amounts recorded as a reduction of research and development expenses, for each year are summarized as follows:

	2008	2007	2006
	\$	\$	\$
Investment Tax Credits Receivable			
Balance at the beginning of the year	124,000	260,000	1,182,888
Estimated investment tax credits	84,000	124,000	260,000
Excess (reduction) of tax credits received over the estimates			
for prior years	(1,907)	(14)	67,227
Investment tax credits recognized in income	82,093	123,986	327,227
Amounts received	(122,093)	(259,986)	(1,250,115)
Balance at the end of the year	84,000	124,000	260,000

As at March 31, 2008, the investment tax credits receivable are related to investment tax credits estimated for the fiscal year ended March 31, 2008.

13. INCOME TAXES (Cont'd)

To date, substantially all of LMS's investment tax credits claimed, filed and assessed by the government authorities have been accepted favourably as submitted. LMS records investment tax credits receivable based on management's best estimates which are based on past experience and on the nature of the research and development projects and related eligible expenses. Any favourable or unfavourable adjustment that may result following assessment by government authorities will be recorded to income in the period when such assessment is performed.

LMS has accumulated share issuance expenses of approximately \$819,000 (2007 - \$1,130,000) that have not been deducted for income tax purposes as well as a non-refundable investment tax credit of approximately \$656,000 (2007 - \$590,000) related to R&D expenditures which may be utilized to reduce federal income taxes payable in the future years. Accumulated R&D expenses, with an unlimited carry-forward period, were \$3,943,000 (2007 - \$3,040,000) for federal and \$7,861,000 (2007 - \$7,580,000) for Quebec tax purposes. Also, LMS has non-capital tax losses which are available to reduce future taxable income. The tax benefits of the above items have been fully provided for by a valuation allowance.

The detail of the non-capital tax losses by expiration year is as follows:

	Loss carry-forwards			
	Federal \$	Québec \$	Ontario \$	USA \$
2009	5,377,000	5,318,000	-	-
2010	4,081,000	3,971,000	-	-
2014	1,800,000	1,798,000	-	-
2015	7,127,000	6,528,000	575,000	-
2026	6,218,000	5,852,000	331,000	-
2027	6,302,000	6,296,000	-	-
2028	2,439,000	1,382,000	1,057,000	-
Thereafter	-	-	-	5,790,000
	33,344,000	31,145,000	1,963,000	5,790,000

14. ENTREPRISE WIDE INFORMATION

Management has determined that principal activities of LMS operate in a single business segment and have been devoted to the development of leading-edge software based products to be used as decision support tools for obstetricians mainly in the US and in Canada. Information about geographic areas is as follows:

	Canada \$	USA \$	Total \$
March 31, 2008			
Revenue	335,455	4,637,394	4,972,849
Fixed assets and patents	533,480	8,685	542,165
March 31, 2007			
Revenue	422,516	2,428,749	2,851,265
Fixed assets and patents	726,101	11,163	737,264
March 31, 2006			
Revenue	165,528	1,416,976	1,582,504
Fixed assets and patents	727,468	13,871	741,339

15. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the basis of presentation adopted in the current year.