

**LMS Medical Systems Inc.**

**Annual Information Form**

**For the year ended March 31, 2008**

**June 12, 2008**

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## ITEM 1 – GENERAL INFORMATION

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In this Annual Information Form (“AIF”), a reference to “LMS”, “we”, “us”, “our Company”, “our” and similar words refers to LMS Medical Systems Inc. / Systèmes Médicaux LMS Inc.

### *Currency Exchange Rates*

Unless otherwise stated, all dollar amounts set forth herein are expressed in Canadian dollars. US means US dollars.

The following table sets forth the exchange rates of Canadian dollars to US dollars for the periods indicated. The high, the low and the average exchange rates are presented for these periods, as well as the exchange rate at the end of each such period. These exchange rates are expressed in Canadian dollars and represent the noon buying rate for the US dollars at the Bank of Canada.

	March 31, 2008	March 31, 2007	March 31, 2006	March 31, 2005	March 31, 2004	March 31, 2003
High	1.1584	1.1853	1.2704	1.3968	1.4846	1.5994
Low	0.9170	1.0990	1.1322	1.1774	1.2692	1.4656
Average	1.0322	1.1384	1.1935	1.2788	1.3510	1.5494
End of period	1.0265	1.1546	1.1680	1.2096	1.3113	1.4678

## ITEM 2 – FORWARD-LOOKING STATEMENTS

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This AIF and the documents incorporated by reference herein contain forward-looking information (as defined in the *Securities Act* (Ontario)) (referred to herein as “forward-looking statements”) which are prospective and reflect management’s expectations regarding our business, operations, financial performance and business prospects and opportunities. Forward-looking statements are often, but not always, identified by the use of words such as “seek”, “anticipate”, “plan”, “estimate”, “expect” and “intend” and statements that an event or result “may”, “will”, “should”, “could” or “might” occur or be achieved and other similar expressions together with the negative of such expressions. These forward-looking statements reflect management’s current beliefs and expectations and are based on information currently available to management. Forward-looking statements are subject to significant risks, uncertainties, assumptions and other factors, any of which could cause actual results, performance or achievements to differ materially from the results discussed or implied in the forward-looking statements. The foregoing list is not exhaustive of the factors that may affect the forward-looking statements. More detailed information about these risks, uncertainties, assumptions and other factors is provided under the section entitled “Risk Factors”. Investors should not place undue reliance on such forward-looking statements. Except as required by law, we assume no obligation to update or alter such forward-looking statements whether as a result of new information, future events or otherwise.

Specifically, this AIF contains forward-looking statements regarding:

- our ability to commercialize and market our CALM products;
- our intention to seek corporate alliances to support the commercialization of our products; and
- our ability to raise additional capital to fund our activities.

Inherent in forward-looking statements are risks and uncertainties beyond our Company’s ability to predict or control. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in, or incorporated by reference into, this AIF. Such forward-looking statements are based on a number of assumptions and factors which may prove to be incorrect, including, but not limited to, assumptions about:

- the availability of financing for our development projects and other operations on reasonable terms;
- the availability of personnel for the development and production of our products;
- the timing of the receipt of regulatory approvals for our developmental products; and
- our ability to establish and/or maintain necessary relationships with collaborative partners and third-party contractors.

## **ITEM 3 – CORPORATE STRUCTURE**

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### **3.1 – Name, Address and Incorporation**

The full corporate name of our Company is LMS Medical Systems Inc. / Systèmes Médicaux LMS Inc. Our head and registered office is 181 Bay Street, Suite 2500, P.O. Box 747, Toronto, Ontario, Canada M5J 2T7; telephone: (514) 488-3461.

We were incorporated on January 14, 2003 under the *Canada Business Corporations Act* as Trophy Capital Inc. On February 16, 2004, our articles were amended to remove private company restrictions limiting share transfers and were also amended to change the number of directors from a minimum of 1 and maximum of 11 directors to a minimum of 3 and a maximum of 11 directors. By articles of amendment dated March 31, 2004, we changed our name from Trophy Capital Inc. to LMS Medical Systems Inc. / Systèmes Médicaux LMS Inc. and our issued and outstanding Common Shares were consolidated on a 20 for 1 basis.

#### **Acquisition of LMS – Reverse Takeover Transaction**

From our inception until March 31, 2004, our principal business was to identify and evaluate opportunities for the acquisition of an interest in assets or businesses and, once identified and evaluated, to negotiate an acquisition or participation in such assets or businesses. We completed our initial public offering by way of a prospectus dated January 7, 2004 pursuant to which we sold 333,333 Common Shares at a price of \$3.00 per share, raising gross proceeds of \$1,000,000. On February 16, 2004, we issued a press release announcing our intention to acquire all of the issued and outstanding common shares and convertible debentures of LMS Medical Systems Ltd. and our Common Shares were listed on the Toronto Stock Exchange (“TSX”) Venture Exchange. Pursuant to the policies of the TSX Venture Exchange, the trading of our Common Shares was halted until February 26, 2004.

On April 1, 2004, we acquired approximately 3.4 million issued and outstanding shares of LMS Medical Systems Ltd. (“LMS Ltd.”) and \$5.8 million principal amount of unsecured convertible debentures of LMS Ltd. by issuing Common Shares to the holders of issued and outstanding shares of LMS Ltd. and to the holders of issued and outstanding unsecured convertible debentures of LMS Ltd. on the basis of 2.70727 of our Common Shares for each LMS Ltd. share tendered and 300 of our Common Shares for each \$1,000 principal amount of LMS Ltd. unsecured convertible debentures tendered (in each case after giving effect to the share consolidation discussed below). In addition, we issued replacement options and warrants to holders of options and warrants of LMS Ltd. who surrendered such securities to us.

After the completion of the reverse takeover transaction, we held more than 99.98% of the issued and outstanding shares of LMS Ltd. and all of the unsecured convertible debentures of LMS Ltd. Pursuant to the terms and conditions of an agreement dated October 7, 2004, we acquired the remaining 0.02 percent of the issued and outstanding shares of LMS Ltd. that we did not own. LMS Ltd., which was incorporated in 1993, is now our wholly-owned subsidiary.

On March 31, 2004, at a meeting held prior to the closing of the purchase of the LMS Ltd. shares and LMS Ltd. unsecured convertible debentures, our shareholders approved the consolidation of our Common Shares on a 20 for 1 basis and approved changing our name from Trophy Capital Inc. to LMS Medical Systems Inc. / Systèmes Médicaux LMS Inc.

At the time of the reverse takeover transaction, we were a non-operating public enterprise with nominal net non-monetary assets. The reverse takeover transaction is a capital transaction in substance for LMS Ltd. and is viewed, for accounting purposes, as the issuance of equity by LMS Ltd. to the extent of the net monetary assets which were available to us at the time of the reverse takeover transaction. Our annual audited consolidated balance sheet as at March 31, 2008 and March 31, 2007, gives effect to the reverse takeover transaction. In addition, following the reverse takeover transaction, our historical financial information, present for comparative purposes, is that of LMS Ltd. Our historical shareholder's equity prior to the reverse takeover transaction was retroactively restated for the number of shares received in the reverse takeover transaction. Earnings per share calculations also give effect to the reverse takeover transaction for all periods presented. In connection with the reverse takeover transaction described above, we changed our year-end to March 31 effective in 2004. The selected financial data for the fiscal period ended March 31, 2004 includes only the operations of LMS Medical Systems Inc. / Systèmes Médicaux LMS Inc. commencing November 1, 2003 as well as the selected financial data for the years ended on March 31, 2008, March 31, 2007, March 31, 2006 and March 31, 2005.

### **3.2 – Intercorporate Relationships**

We have one wholly-owned subsidiary, LMS Medical Systems (Canada) Ltd., and one indirect subsidiary, LMS Medical Systems (USA), Inc. LMS Medical Systems (USA), Inc. was incorporated under the laws of Delaware and is a wholly-owned subsidiary of LMS Medical Systems (Canada) Ltd. LMS Medical Systems (Canada) Ltd. was incorporated under the federal laws of Canada.

## **ITEM 4 – GENERAL DEVELOPMENT OF THE BUSINESS**

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Since inception, LMS has been in the business of developing and commercializing a series of leading edge software-based products employed as decision support tools for obstetricians. LMS's proprietary software tools: CALM Clinical Information Systems™ ("CIS") and CALM risk management and clinical decision support tools including: CALM Shoulder Screen™, CALM Curve™ and CALM Patterns™ address the critical unmet medical needs in labour and delivery settings. Based on advanced medical research focusing on the labour & delivery cycle, LMS's unique technology provides obstetric teams and hospitals with state-of-the-art clinical decision support tools, assisting them in achieving clinical and cost effective interventions, while minimizing the risk to the patients. Our core technology, CALM (CALM is a registered trademark of LMS Medical Systems), emanated from research at the McGill University Faculty of Medicine, in Montréal, Canada, with Dr. Emily Hamilton, our Vice President Medical Research, as the principal investigator.

With a robust suite of products, in 2008, LMS focused its efforts on the expansion of its sales and distribution network and growth of its revenues which was demonstrated with record revenues in 2008.

## **4.1 – Three-Year History**

### **2006**

We completed CALM 3.0 CIS, for large-scale health facilities. We received approval to place the CE mark on CALM Patterns and we completed the development of CALM Shoulder Screen and added CALM Shoulder Screen and CALM Patterns to our distribution agreement with McKesson.

We realized revenues of \$1.6 million and we raised \$2.5 million in additional equity financing.

### **2007**

CALM Clinical Information Systems version 3.03 was released as planned, further increasing the software's robustness and functionality. We fulfilled the programming phase of the interoperability components for the private label OB solution under development with McKesson (as defined herein).

We achieved revenues of \$2.85 million, an increase of 80% over 2006. We tripled the order backlog to \$4.40 million from \$1.40 million at the end of 2006. We realized a 134% increase in the total new contracts of \$5.85 million, including recorded revenues and new backlog, compared to \$2.50 million in 2006. We sustained the value of identified sales opportunities being pursued at \$25 million, while increasing the order backlog. Recurring technical support and other revenues increased by 70%, from \$707,000 in 2006 to \$1.2 million in 2007, as a result of an increasing client base. We completed private placements generating \$6.68 million in gross cash proceeds. Mr. Michael Maher joined our board of directors. Mr. Maher has over 40 years of Wall Street investment banking experience, having most recently served as Managing Director of Merrill Lynch.

### **2008**

CALM Patterns, an innovative risk management software tool specifically directed at the health of the fetus, achieved general availability. We released CALM 3.08, a new version of our Clinical Information Systems which includes significant new features and functionalities.

We significantly increased the number of new client installations, bringing our total client base from 53 in 2007 to 93 in 2008. We added several new hospitals to our client base as well as four insurance contracts. We entered into an agreement with Best Practices Medical Partners, MD Advantage and Women's Regional Health for the use of CALM Shoulder Screen by its insured OB/GYNs. Horizon Perinatal Care™ ("HPC"), the first seamlessly integrated perinatal information system achieved general availability.

We achieved revenues of \$4.97 million, an increase of 74% over 2007. We increased the value of identified sales opportunities being pursued to \$31 million. Included in total revenues of \$4.97 million are revenues of a recurring nature totaling \$1.69 million, or 34% of total revenues. We implemented a program to streamline operations, thus substantially reducing LMS expenses to attain the objective of reaching positive cash flow and ensuring profitability. We completed a private placement generating \$2 million in gross cash proceeds. We received a score of 88.8 in the KLAS 2008 Labor and Delivery report, read by the healthcare IT industry. LMS met the criteria to be included in the early data section of the report. The prestigious and independent analysis of healthcare software by KLAS featured an extensive report on Labor and Delivery solutions in March 2008. Key evaluation criteria included the integration with hospital wide information systems, the range of functionality most important to health care providers, and client satisfaction with vendor software offerings and support services.

### **Outlook for the fiscal year ending March 31, 2009**

Our key objectives for the fiscal year ending March 31, 2009 are to:

- Expand our revenue by increasing our sales team;

- Generate revenues from our private label OB solutions developed for our distributor;
- Commercialize CALM Patterns in the United States (“US”) and Canada;
- Continue to dialogue with risk managers and insurance companies to raise their awareness of the role that our decision support tools can play in addressing medical/legal concerns in obstetrics;
- Expand the pipeline of additional business alliances in order to open new market opportunities and extend the reach of our existing line of software and decision support tools.

## **ITEM 5 – THE BUSINESS**

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### **5.1 – General**

The development of our business has consisted of a number of software iterations, extensive testing in hospital environments, clinical studies in both the US and Canada with numerous patients and regulatory review and clearance by governing authorities in Canada, the US and the European Union.

Obstetrical (“OB”) and perinatal care has experienced three generations of information technology solutions. The first was the introduction in the mid 1970s of monitoring systems (fetal monitors installed in birthing rooms) to capture and display fetal heart tracings.

Central Monitoring/Central Information Systems represent the second generation of information technology solutions in this area of care. Central Monitoring/Central Information Systems provide for central surveillance of activities in the birthing rooms within the labour and delivery unit. These systems also focus on administrative patient records as well as care protocol data capture and archiving. These systems have been widely implemented in hospitals over the last 15 years.

Clinical decision support tools, or OB guidance tools, such as CALM, represent the third generation of medical-based information technology solutions. As hospitals and clinicians strive to improve patient safety and system reliability in one of their greatest areas of risk, OB, we believe that we will have an opportunity to experience significant growth, both in terms of integrated prenatal care information systems and with stand alone applications that can be deployed quickly in both small and large organizations.

The decision support suite is therefore a new generation of tools being introduced in obstetrics. In 2001, we concluded our clinical trials performed on the CALM Curve, the first tool of our decision support suite. The trials demonstrated that the use of the CALM Curve resulted in a reduction of the overall cesarean section rate, with no adverse outcomes.

In 2002, we embarked on the pre-marketing of CALM in the North American market at select sites. We established our own sales team that could interact directly with hospitals on a number of different levels, including the information technology department, the risk management department and the obstetrics department, in order to build a reference base for our products in the marketplace.

In 2003, we expanded our product offering by adding remote decision assistance to our product suite. Remote decision assistance effectively allows outlying hospitals to consult in real time with specialists at large delivery facilities throughout the delivery process using the internet.

In 2004, we entered into a distribution and marketing agreement with McKesson Information Systems (“McKesson”), a US based distributor. This distributor is responsible for the sale and distribution of our current products in the US.

We entered into an agreement with AON Risk Services (“AON”) to assist hospitals in improving their risk management profile in obstetrics and enhanced our existing sales channels by expanding our distribution contract with McKesson to cover the US.

In 2006, we completed CALM 3.0 CIS, for large-scale health facilities. We received approval to place the CE mark on CALM Patterns and we completed the development of CALM Shoulder Screen and added CALM Shoulder Screen and CALM Patterns to our distribution agreement with McKesson.

In 2007, we tripled the number of new client installations to 25 from 9 in 2006, bringing the total installed base to 53 client sites. We completed a first hospital group win, having been selected by IASIS Healthcare LLC, to install CALM CIS at 12 facilities providing obstetrical services in five US states. CALM Shoulder Screen, a product introduced in late fiscal 2006, was received positively within hospitals, clinics and the malpractice insurance environment. University of Maryland Medical Center – Baltimore, the OB/GYN Practice Group of the Montreal Jewish General Hospital, the Medical Center of Arlington, Texas, and others, selected CALM Shoulder Screen as a decision support tool used to increase patient safety. University of Minnesota Physicians, an organization providing administrative and medical malpractice insurance to physicians, selected CALM Shoulder Screen, leveraging innovative approaches for obstetrical risk prevention and reduction for physicians and insurers. Internal review of client satisfaction has also been positive including the quality of LMS software, operations and clinical support.

Also in 2007, CALM Clinical Information Systems version 3.03 was released as planned, further increasing the software’s robustness and functionality. CALM 3.03 is a building block supporting extensive interfacing capabilities, benefiting both the Clinical Information System and Risk Management tools. We fulfilled the programming phase of the interoperability components for the private label OB solution under development with McKesson. Completion of the software bridge enables a seamless flow of administrative and clinical information between the LMS system and hospital information management systems.

In the fiscal year ended March 31, 2008, we increased significantly the number of our client base from 53 in 2007 to 93 in 2008. We added several new hospitals to our client base as well as four insurance contracts. We entered into an agreement with Best Practices Medical Partners, MD Advantage and Women’s Regional Health for the use of CALM Shoulder Screen by its insured OB/GYNs. Horizon Perinatal Care™ (“HPC”), the first seamlessly integrated perinatal information system achieved general availability. This system was developed in conjunction with our distributor. HPC is designed to support continuity of care between the labour and delivery department and other hospital departments and units.

As well, during the past year, CALM Patterns, an innovative risk management software tool specifically directed at the health of the fetus, achieved general availability. Fetal distress during labour is recognized as one of the greatest complexities of childbirth and therefore a significant issue insofar as risk management is concerned. CALM Patterns is a real time proprietary software tool that can, on a heartbeat to heartbeat basis, constantly analyze and present updated information to medical teams to assist in the identification of significant fetal distress. We released CALM 3.08, a new version of our Clinical Information Systems which includes significant new features and functionalities.

### ***Plan of Operation***

#### **General Overview of CALM**

CALM is a suite of mathematical tools embedded in software. CALM is used by healthcare professionals as they care for women giving birth. CALM is classified as a decision support tool because it is available to provide analysis at the time when clinical decisions are made and therefore it has the potential to help prevent an adverse outcome. CALM brings a level of consistency and precision to evaluating the

progress of labour and the tolerance of a baby to the stress of labour with the goal of limiting unnecessary medical interventions. For instance, it may be used to provide a health care professional with the necessary information so that such health professionals will refrain from performing a cesarean section where one is not warranted. CALM also performs a number of other functions including electronic display and archiving of fetal monitor records, documentation, web based connectivity for secure remote viewing and consultation. Finally, it includes a database of pertinent perinatal data for analysis and research.

## **Our Products**

- CALM is a point of care software system designed to provide obstetricians and nurses with:
  - (i) guidance with respect to their decisions;
  - (ii) an information management system;
  - (iii) a tool to assist them with patient monitoring;
  - (iv) access to obstetrical medical records; and
  - (v) access to a maternal fetal outcomes database to support both quality assurance initiatives and research interests
  
- CALM has been clinically tested in 7 hospitals in Canada and the US

## **Regulatory Status**

The suite of CALM software modules is subject to regulatory approvals. All of the CALM software modules described in the section below entitled “CALM Modules” have received regulatory clearance for marketing in the three markets set out below. Because CALM Shoulder Screen is not a medical device, no regulatory approvals are required to market this product.

### *European Union*

In the European Union, CALM CIS is regulated by the European Commission. In February 2004, we received our European Union Certificate of Full Quality Assurance which authorizes us to place the CE Mark on the CALM, CALM Curve, and CALM Patterns software and to market the software in European Union member states.

### *Canada*

In Canada, CALM is regulated by Health Canada. We received the ISO 13485:1996 certification required by Canadian regulations in October 2003, and the certification was updated to ISO 13485:2003 in March 2006. In July 2004, we received a new license (number 65229) for CALM Patterns, a new software module related to the existing product. Another new license (72260), for a stand-alone version of CALM Curve, was issued in August 2006. Our license number 15844 for the CALM software was most recently amended in May 2008 to include the latest CALM version, CALM 3.10.

### *United States*

In the US, CALM is regulated by the US Food and Drug Administration (“FDA”). We received clearance from the FDA to market the CALM system in August 1998. In February 2005, we received

FDA clearance to market CALM Patterns in the US, and in April 2006, we received clearance to market the CALM Curve as a stand-alone product.

## **CALM Modules**

Appropriate regulatory clearance has been obtained to market the latest version of CALM in the US, Canada and the European Union. Depending upon the customer's preferences, this version includes the following individual modules either alone, or in combination:

### **Decision Support Tools Components:**

- Fetal heart rate pattern labelling (*CALM Patterns*)
- Labour progress monitoring (*CALM Curve*)
- Shoulder Dystocia risk assessment (*CALM Shoulder Screen*)

### **Clinical Information System Components:**

- Central fetal surveillance and alerts
- Maternal-fetal charting
- Aggregate reporting
- Archiving
- Remote access

## **Technological Platform of CALM**

The technology platform of CALM runs on Microsoft Windows 2003 operating system on the servers and Windows XP on client workstations. The CALM software architecture is based on fully object oriented paradigm and distributed components developed in C++ and C#. CALM incorporates and makes use of advanced software technologies such as object oriented databases, thin-clients, .Net framework and XML to drive modern requirements of the healthcare market.

## **Clinical Information System components**

Fetal Surveillance and Alerts enable the monitoring of patients from a central location, the patient's bedside, other workstations as well as remotely from the physician's home or physician office. Fetal surveillance provides individual patient tracings, including a 54 minute compressed view and a 9 minute full screen view, along with a multi patient tracing view.

Automated Fetal Alerts are site-configured based on the hospital's protocols. They provide patient-specific fetal alerts for high, low and no data parameters and have an on/off mute feature.

Maternal-fetal charting includes

- Patient Admission
- Nursing Admission Assessment
- Intrapartum Flowsheet
- Labour Progress Flowsheet
- Delivery Summary
- Newborn Delivery Assessment.

Aggregate reporting enables the analysis of aggregate patient and hospital data. It allows the transformation of patient data into powerful reports for quality and performance

Long-term storage of patient's chart – i.e., tracings, documentation, etc. – is done in a hierarchal fashion. Patient records are stored and retrieved as multiple pregnancies with multiple visits within each

pregnancy. Two options are offered, optical platter or hard drive, for patient record long-term storage and retrieval.

Remote access allows access to the hospital-based CALM system from a remote location.

### **Decision Support Tools Components**

CALM relies on various techniques including mathematical models, digital signal processing techniques and artificial neural networks. The following describes the major decision support tools, which comprise CALM:

*CALM Curve* is a mathematical model of normal labour progress. A mathematical model is a method that quantifies how a number of interrelated and changing factors affect a process. It is useful because it will give consistent results over a wide range of possible combinations of factors. The CALM Curve analyses are displayed graphically and by percentile ranking to quantify labour progress. The computer shows a graphical display of how a mother's dilatation patterns compare to the mean and to defined upper and lower limits of a reference population and updates this information as conditions for that mother change.

*CALM Patterns* identifies and labels fetal heart rate patterns. It is based on digital signal processing techniques and artificial neural networks. Digital signal processing techniques are methods to find patterns in complex and noisy signals. For example, fetal heart rate tracings contain interference from mothers' movements. It also reflects the cumulative effects of several physiological processes that are happening simultaneously. The digital signal processing techniques can separate superimposed patterns within the signal. It is difficult for the human eye or the inexperienced person to see the patterns which digital signal processing can identify.

*CALM Shoulder Screen* is a software tool to assess the risk of shoulder dystocia with permanent injury, a condition that occurs in about 0.4 to 3 vaginal births per 1000. The CALM Shoulder Screen algorithm is based on anthropometric maternal and fetal characteristics. Depending upon preferred thresholds, its detection rates are between 30% and 68%. This product is available via a web interface.

### **Health Issues that CALM Addresses**

CALM addresses a number of medical conditions. The following outlines the significance of certain medical problems addressed by CALM and the demonstrated or potential impact of CALM on such medical problems.

#### ***Management of Labour and Cesarean Section***

In 2005, the total cesarean rate of 30.2% was the highest reported in the US since 1989, when this data first became available to National Vital Statistics through birth certificates. Although a cesarean section may be appropriate in certain circumstances, there are a number of risks associated with cesarean surgery. The possible risks to the mother include infection, increased blood loss, decreased bowel function, respiratory complications, longer hospital stay and recovery time, reactions to anesthesia and risk of additional surgeries. The possible risks to the child include premature birth, breathing problems and fetal injury.

The most frequent indication for cesarean is so-called slow progress. To date this complex diagnosis relies solely on the judgment of the physician. There is variation in judgment, and therefore in the cesarean rates, from physician to physician, even when the characteristics of the mothers are very similar.

The CALM Curve compares a mother's labour progress to a reference population, making adjustments for several factors as they change during her labour. This analysis is shown graphically and her labour is ranked with percentiles. This adds precision and consistency to the evaluation of labour, removing much of the subjectivity and inconsistency compared to traditional methods.

CALM Curve was tested in a clinical trial involving more than 11,000 first time mothers in seven Canadian and US hospitals. When CALM Curve was introduced, cesarean rates fell from 19.54% to 17.04% at 6 months after introduction and to 16.62% at 12 months after introduction. This decrease occurred in settings where cesarean section rates were stable or rising. No other technologies or obvious changes coincided with these observations.

### ***Uterine Rupture***

Uterine rupture is a catastrophic complication that can occur during labour when there was a previous cesarean section. According to a study titled "*Dystocia among women with symptomatic uterine rupture*", published in the American Journal of Obstetrics and Gynecology in 2001 by E.F. Hamilton, E. Bujold, H. McNamara, R. Gauthier and R.W. Platt, approximately 0.2% to 1.5% of women will experience uterine rupture after a prior cesarean section. The study also found that one of the most serious potential complications is intrapartum uterine rupture, with a reported incidence ranging from 0.2 to 1.5% in these women. Other associated complications include hysterectomy, fetal death and permanent fetal injury.

In a retrospective analysis using CALM Curve, 42% of cases of uterine rupture were identified as characteristic of abnormal labour. This diagnosis was apparent on average 5 hours before the event, providing time for health care professionals to intervene so as to avoid this complication.

### ***Birth Related Brain Injury***

According to a study titled "*The continuing fall of hypoxic-ischemic encephalopathy in term infants*", published in the British Journal of Obstetrics and Gynaecology in 2000 by Smith J, Well L, Dodd K, and a study titled "*Intrapartum risk factors for newborn encephalopathy: the Western Australia case-control study*", published in the British Medical Journal in 1998 by Badaw N, Kurinczuk JJ, Keogh JM, Alessandri LM, O'Sullivan F, Burton PR, Pemberton PJ, Stanley, FJ, birth related brain injury occurs in approximately 1.2 to 1.9 babies per 1,000 live births.

The costs of caring for children with birth related brain injuries are significant and incidences of birth related brain injury often lead to litigation. Litigation related to birth related brain injury can result in the award of significant monetary damages to the plaintiffs. Aside from the potential imposition of damages against healthcare professionals, merely defending birth related brain injury litigation can often be costly to a health care professional. In response to litigation, many obstetricians reduce or cease to provide obstetrical care.

Suboptimal care is often a factor in cases of birth related brain injury. The most common problems were failure to recognize abnormal fetal heart rate patterns (in 25% to 35% of cases) and delays or failure to communicate these findings (in 21% to 27% of cases). In a review of successful claims by the Florida Neurologic Injury Compensation Association, a persistently abnormal non-reassuring fetal heart rate recording was seen in all cases. The single leading clinical diagnosis, accounting for 14% of cases in this series, was uterine rupture with attempted VBAC (Vaginal Birth after Cesarean). In another review of 290 malpractice cases, non-compliance with the standard of care regarding the monitoring of fetuses occurred in 30%.

CALM Patterns, which has been cleared by the FDA and licensed by Health Canada, will identify, measure and label fetal heart rate patterns.

### ***Shoulder Dystocia***

Shoulder dystocia with neonatal injury occurs in about 0.4 to 3 vaginal births per 1000, with short mothers, maternal obesity and large babies being the principal risk factors. The average fetal weight of babies experiencing shoulder dystocia with injury is around 4000g. Existing guidelines recommend consideration of elective cesarean when estimated fetal weight is greater than 5000g, or over 4500g in the presence of maternal diabetes.

CALM Shoulder Screen is a software tool to assess the risk of shoulder dystocia with permanent injury at or before the onset of labour. Depending upon selected thresholds, its detection rates are between 40% and 60%. CALM Shoulder Screen uses easily available measures and greatly improves detection rates with a relatively small increase in the rate of caesareans. It also enables clinical teams to communicate risk effectively to patients when recommending a course of action.

### **Summary**

We are a healthcare technology company focused on obstetrics. Obstetrics is currently one of the most frequently litigated areas of medicine in both Canada and the US.

Our software development team is based in Montréal, Quebec, Canada. The team designs, develops, tests and arranges delivery of our products to our customers. CALM is installed on site at hospital locations by our installation and support group. We also provide for customer training on site with the assistance of in-house training resources. At March 31, 2008, we had 41 employees located in Canada and the US. The majority of our hospital installations are based in the US.

We have entered into an agreement with AON to assist hospitals in improving their risk management profile in obstetrics. This initiative provides a platform for healthcare facilities, their physicians, nurses, risk managers and insurers to work together in support of better outcomes, improved safety and reduced risk. AON works with health care facilities across the US to help them maximize their “return on risk” by analyzing their risk profiles, providing front-end tools and delivering process-driven products that support better access and affordability of insurance for institutions and practitioners alike. Given the often-direct correlation between the quality of medicine in an organization and the cost of risk, providers can no longer afford to treat the two as unrelated.

We are seeking to establish our proprietary software as the standard of practice in the industry. We intend to do this through the marketing efforts of our sales staff in Canada and the US. In addition, we intend to enter into distribution and marketing arrangements with third party distributors and marketers in new markets.

We are focusing on the growth of our installed hospital base for our CIS through internal sales and marketing efforts. We are expanding the pipeline of our sales opportunities by marketing our decision support tools and CIS to the insurance and risk management industry and different channels of distribution.

Our decision support systems are available for distribution, as add-on features, to other parties interested in offering these new tools as part of their client offering within their clinical information systems or as stand alone products. As such, we have as of today entered into agreements, with AON and McKesson.

LMS and AON work together to expand their customer base to assist hospitals in improving their risk management profile in obstetrics.

The agreement with McKesson covers the US. McKesson is responsible for direct sales of CALM to its own customers in this territory. McKesson is a leading provider of supply, information and care management products and services designed to reduce costs and improve quality across healthcare. We have completed the interface of CALM software with the McKesson systems. This interfaced product will give hospitals the opportunity to benefit from the flow of patient, clinical and financial data across the enterprise. We will continue to build on the strength of our existing relationship with our distributor McKesson by marketing to their broad client base of over 1000 hospitals.

Obstetrics has become one of the most litigated areas in healthcare. A comprehensive approach involving hospital administrators, clinicians, risk managers and insurers is needed to address this issue and improve patient safety and clinical outcomes. While each of these stakeholders plays a specific role in the obstetrical spectrum, all must work together in order to build effective risk reduction strategies.

To this end, we have established a Risk and Patient Safety Advisory Board that will provide guidance on how to achieve widespread adoption of our risk management tools. This will include strategies to mobilize hospital teams to implement proactive risk reduction programs and to develop value propositions that address the concerns of the various stakeholders.

All jurisdictions in North America are seeking the capability to reduce healthcare costs without compromising patient care. Our products are potentially appealing to obstetrical personnel, hospital information technology departments (which are currently moving to hospital wide integrated systems) and industry risk managers.

We have developed and built our suite of products in house, using software development professionals and programmers, all of whom are available in the Montréal area. On site installation and training is done by our personnel and thereafter maintained at a 24 hour call/service center based in Montréal.

The healthcare technology industry is somewhat protected from economic cycles. We believe that the main driver of our growth will not be economic cycles, but will be whether or not the public, healthcare professionals and third party payors will support our technology.

We require, and have received, regulatory clearance to market the previously described modules of CALM, CALM Curve and CALM Patterns in the US, Canada and the European Union. Because CALM Shoulder Screen is not a medical device, no regulatory approvals are required to market this product.

## **Marketing Initiatives**

The following summarizes our marketing initiatives with respect to our CALM products:

- our CALM products are marketed to customers who intersect the obstetrical industry (hospital labour and delivery units and physician practices represent the main users of current CALM products but the impact of the tools extends to include hospital administrations, individual physicians, the insurance industry, the court system and of course, patients);
- our CALM products are marketed to hospitals and insurers across North America;

We have 2 types of products:

- a Clinical Information System: this is the basic information and charting system used in hospitals to maintain patient data; this is a well established market which is in a replacement phase;

- OB Guidance tools (or Decision Support Tools) which we believe are unique: CALM Curve, CALM Shoulder Screen and CALM Patterns. Through internal research and analysis with our customers, we are establishing that these tools can impact the landscape of the obstetrics market – to improve patient safety and reduce clinical risk and the financial burden of preventable errors;

Marketing and sales activities have been performed in the following ways:

- in April 2005, we entered into a non-exclusive referral agreement with AON, through their Return on Risk initiative. Through AON and their financial relationships with hospitals, we are marketing our decision support tools to impact hospitals that have had preventable errors in obstetrics and who are looking to improve their financial picture as well as their safety record.
- in 2004, we entered into a distribution and marketing agreement. The relationship with our distributor offers clients a unique chance to alter their workflow into a seamless interface; offering interoperability and eliminating the “island of information” which obstetrics has traditionally been in hospitals;
- Our decision support systems are available for distribution in the US, as add-on features, to distributors interested in offering these new tools as part of their client offering within the clinical information systems or as stand alone products.
- we intend to expand on existing and establish new distribution and marketing arrangements in additional markets; and
- by our direct sales team with the objective of building a reference base of customers and users.

In 2006, we began marketing to insurers who carry the majority of the financial burden of shoulder dystocia. Most insurers are currently seeking risk reduction methods.

### **Strategies for development**

A sustained increase in our presence in the North American marketplace is expected to continue. We are focusing on the growth of our installed hospital base of our CIS through internal sales and marketing efforts. We are expanding the pipeline of our sales opportunities, by marketing our decision support tools to the insurance and risk management industry and through our collaboration with AON. Our decision support systems are available for distribution, as add-on features, to other parties interested in offering these new tools as part of their client offering within the clinical information systems or as stand alone products. We will continue to build on the strength of our existing relationship with our distributor McKesson by marketing to their broad client base.

### ***Potential Products in Development Stage***

We conduct most of our own core research. However, we participate with university-based research teams in programs of clinical validation. The stage of major products under development and their regulatory status is described below.

#### ***CALM Patterns***

CALM Patterns is software that detects labels and measures fetal heart rate patterns. We have received regulatory clearance to market CALM Patterns from the FDA and Health Canada. In 2006, CALM Patterns also received a European CE Mark clearance. We released CALM Patterns into the marketplace in fiscal 2008.

## ***Main Competitors' of our CIS Products***

### *GE Medical Systems*

GE Medical Systems offers the QS Prenatal Clinical Information System that includes central surveillance, archival and charting functionality. Their solution is web enabled. Their Central Information System is also complemented by a product suite of fetal monitors.

### *Phillips Medical Systems*

Philips offers a Central Information System called OB TraceVue. This perinatal information management system provides surveillance, alerting, documentation and data storage. OB TraceVue is also complemented by a product suite of fetal monitors.

### *Hill-Rom Company, Inc.*

Hill-Rom offers a Central Information System called WatchChild. This perinatal information management system provides surveillance, alerting, documentation and data storage.

### *Clinical Computer Systems*

Clinical Computer Systems (Private Company) markets its OBIX™ Perinatal Data System, offering the same central functions as WatchChild.

## ***Competitive Strategy and Position***

### **Market Segment**

CALM has been designed to address the needs of international obstetrical markets. While limited localization and/or translation efforts could be required, the clinical foundations of the products are generic to worldwide geographies.

### **Market Trends**

#### *Demand for high quality healthcare delivered in a cost-effective manner*

Factors driving the demand for decision support tools in labour and delivery include the trends towards quality and convenience in healthcare combined with the growing pressure from healthcare payers and insurers to lower operating costs of the healthcare system.

#### *Recognition of the central role of information technology in effecting change and improving quality*

The Institute of Medicine (a part of the US National Academy of Sciences, an organization which advises the US Federal Government on scientific matters) and other leading organizations and agencies in North America are currently expressing the need to improve quality of care. They also indicate that information technology lends itself appropriately in support of this initiative. Decision support technologies could be of particular interest in this regard.

## **Educated consumers are taking a more active role in managing decisions regarding their own healthcare**

North-American mothers are often educated and demanding patients. These patients often require (or insist on) control of their healthcare decisions. They are also often computer literate and comfortable understanding the second opinion capacity of decision support tools.

## **Market Acceptance**

We believe that we have validated the market acceptance of our products in several ways. For instance, we have successfully completed the conversion of a number of our clinical trial sites into commercial sites and have also made additional sales to new sites. Further, our distribution and marketing agreement with our U.S. based distributor and our agreement with AON provides evidence that the CALM technology has gained a measure of acceptance in the healthcare technology market.

## **Marketing Plans and Strategies**

Obstetrical and perinatal care has experienced three generations of information technology solutions. The first was the introduction in the mid 1970s of monitoring systems (fetal monitors installed in birthing rooms) to capture and display fetal heart tracings. In North America, traditional monitoring systems represent a mature market.

Central Monitoring/Central Information Systems represent the second generation of information technology solutions in this area of care. Central Monitoring/Central Information Systems focus on administrative patient records as well as care protocol data capture and archiving. These systems have been widely implemented in hospitals over the last 15 years.

We believe that the pace of replacement of Central Monitoring/Central Information Systems is gaining momentum as hospitals are looking to integrate their departmental systems into hospital wide clinical applications, ranging from centralized electronic patient record management to clinical decision assist solutions such as CPOE applications (Computerized Physician Order Entry systems).

We believe that the benefits for hospitals to have fully interfaced systems where patient, clinical and financial data flow easily across the enterprise outweigh the cost of replacing standalone legacy departmental systems.

Clinical decision support tools related to obstetrics, such as: CALM Curve, CALM Patterns and CALM Shoulder Screen represent the third generation of medical-based information technology solutions developed for this specific area. We believe that we will have an opportunity to experience significant growth as hospital administrators, risk managers, labour and delivery units of hospitals and insurance companies realize the benefits of having this type of application integrated within their prenatal care information system.

We believe that our strategy provides us with a number of market opportunities.

- We believe that our decision support tools, by potentially improving an obstetrics unit's risk profile, may provide risk managers and insurers with a means of addressing medical/legal concerns related to obstetrics;
- CALM will be interfaced into existing and future distributor charting applications and the distributor intends to offer these applications to its customer base;
- We have designed CALM decision support tools to be compatible with leading Central Information Systems offerings from Phillips (Agilent), GE Medical and Hill-Rom. The

- CALM Curve interface to the GE Medical OB departmental system is commercially available;
- Our decision support systems are available for distribution in the US, as add-on features, to distributors interested in offering these new tools as part of their client offering within the clinical information systems or as stand alone products;
  - We will offer CALM CIS on a stand alone directly to customers and interfaced, with other hospital wide information systems;
  - We believe that our Clinical Information Systems will enable us to create a presence in international markets. We believe that we are currently the only manufacturer offering extensive real time decision support to this market;
  - New products and business alliances are being pursued to open additional market opportunities and extend the reach of our existing line of software and risk management tools.

Our pricing strategy includes a combination of acquisition fees and licensing fees for the clinical assistance tools. In addition, maintenance fees provide for software enhancements after first year warranty provisions expire. Our software tools are priced in a way to reflect the size of hospitals as measured by the number of deliveries they perform every year.

Our central display and archival system represents a one time sales opportunity, together with annual follow-on fees covering maintenance and upgrades. We intend to offer the decision assistance tools for CALM product suite offerings such as Curve, Patterns and Shoulder Screen on a per delivery basis. Calculating the deliveries for all North American hospitals, where there were in excess of 4 million births last year, using the full CALM product suite would represent a total addressable market opportunity of \$800 million per annum in North America. However, there can be no assurance that we will be able to sell our products to this potential market.

Revenue by geographic area based on the location of our customers is as follows for the periods ended March 31, 2008, 2007, 2006 and 2005:

	2008	2007	2006	2005
	\$	\$	\$	\$
Canada	335,455	422,516	165,528	296,629
US	4,637,394	2,248,749	1,416,976	763,668
Total	4,972,849	2,281,265	1,582,504	1,060,297

### **Financing Activities**

We will require additional financing to grow and expand our operations and plan to raise funds from time to time. Funding requirements may vary depending on a number of factors including the progress of our research and development program, the establishment of collaborations, the development of the international sector, and penetration rates in the North America and Europe. We believe we have sufficient resources to fund operations through fiscal 2008. However, in light of the inherent uncertainties associated with the regulatory approval process and our ability to secure sales and additional distribution agreements, further financing may be required to support our operations in the future.

### **Intellectual Property**

To the extent that our products are protected by intellectual property law in the jurisdictions where its products are sold, LMS is dependent on effective patent protections. We use external patent counsel for all work related to our intellectual property.

Our proprietary systems are currently protected by numerous publicly disclosed patents or patent applications in Canada, the US and the European Union. These patents commence expiring in June 2020.

Our patents are directed to methods and systems for monitoring obstetrics patients including the monitoring of labour progression and the monitoring of the condition of the foetus during labour.

Our patents issued and publicly available pending patent applications are summarized in the table below:

<b>Name</b>	<b>Country</b>	<b>Filed</b>	<b>Number</b>	<b>Status</b>	<b>Expiry</b>
Method and apparatus for evaluating labour progress during childbirth	Canada	June 2000	2,311,029	Issued March 2006	June 2020
Method and apparatus for evaluating labour progress during childbirth	US	June 2000	6,423,016	Issued July 2002	June 2020
Method and apparatus for evaluating labour progress during childbirth	European Union	June 2001	01947064.0	Pending	Not Applicable
Method and apparatus for monitoring the condition of a fetus	Canada	April 2002	2,379,733	Pending	Not Applicable
Method and apparatus for monitoring the condition of a fetus	US	April 2002	7,113,819	Issued September 2006	April 2022
Method and apparatus for monitoring the condition of a fetus	European Union	March 2003	03709501.5	Pending	Not Applicable
Method and apparatus for displaying a heart rate signal	Canada	May 2002	2,384,516	Pending	Not Applicable
Method and apparatus for displaying a heart rate signal	US	May 2002	6,907,284	Issued June 2005	May 2022

<b>Name</b>	<b>Country</b>	<b>Filed</b>	<b>Number</b>	<b>Status</b>	<b>Expiry</b>
Method and apparatus for displaying a heart rate signal	European Union	April 2003	1,505,903	Issued December 2005	April 2023
Method and apparatus for identifying heart rate feature events	Canada	October 2003	2,447,861	Pending	Not Applicable
Method and apparatus for identifying heart rate feature events	US	October 2003	10/698,232	Pending	Not Applicable
Method and apparatus for monitoring an obstetrics patient	US	June 2003	10/600,990	Pending	Not Applicable
Method and apparatus for monitoring an obstetrics patient	Canada	June 2004	2,523,829	Pending	Not Applicable
Method and apparatus for evaluating variations between health care service providers	US	August 2004	10/557,439	Pending	Not Applicable
Method and system for predicting likelihood of shoulder dystocia	Canada	Nov 2004	2,488,692	Pending	Not Applicable
Method and system for predicting likelihood of shoulder dystocia	US	Nov 2004	10/999,715	Pending	Not Applicable
Method and system for predicting likelihood of shoulder dystocia	Europe	July 2005	05106762.7	Pending	Not Applicable

<b>Name</b>	<b>Country</b>	<b>Filed</b>	<b>Number</b>	<b>Status</b>	<b>Expiry</b>
Method and apparatus for providing information related to labour progress of an obstetrics patient	US	Jan 2006	11/330,942	Pending	Not Applicable
Method and apparatus for providing information related to labour progress of an obstetrics patient	PTC	March 2006	CA/2006/000417	Pending	Not Applicable
Method and Apparatus for Providing Labour Monitoring of an Obstetrics Patient	US	May 2006	11/416,281	Pending	Not Applicable
Method and Apparatus for Providing Labour Monitoring of an Obstetrics Patient	Canada	May 2006	2,545,339	Pending	Not Applicable
Method, apparatus and interface for estimating a level of risk in shoulder dystocia	US	October 2005	11/262,425	Pending	Not Applicable
Method, apparatus and interface for estimating a level of risk in shoulder dystocia	Canada	October 2005	2,524,932	Pending	Not Applicable

Much of the work, including some of the research methods, that is important to the success of our business is germane to the industry and may not be patentable. For this reason all employees, contracted researchers and consultants are bound by non-disclosure agreements.

Additionally, our internal policies require that confidentiality and non-competition agreements be executed with all distributors, manufacturers, strategic partners and employees.

## **Material Government Regulations**

Some of our product approvals are governed by regulatory bodies such as the FDA and Health Canada, as disclosed elsewhere in this document.

### **5.2 – Risk Factors**

An investment in our Common Shares is speculative. In addition to risks described elsewhere in this AIF, each of, and the cumulative effect of, all of the following risks should be considered:

#### **We have a limited operating history on which to base an evaluation of our business and prospects.**

Some of our existing and potential competitors have longer operating histories, whereas we have a limited operating history on which to base an evaluation of our business and prospects. Our operating subsidiary, LMS Ltd., was incorporated in 1993 and has been in a net loss position for its entire operating history. Although we have started to generate revenues through the commercial sale of our CALM products, there is no assurance that we will have earnings or significant improvement in our cash flow from operations in the future. As such, our business is essentially dependent on our success in developing and successfully selling our products and services. There is no significant historical basis to assess how we, as a company whose business involves new and rapidly developing technologies, will respond to competitive, economic and technological challenges. If we fail to meet any of these challenges, it could have a material adverse effect on our business, results of operations, financial condition and profitability.

We have not yet achieved profitability and there is no guarantee that we will be able to achieve profitability in the future. We have never paid cash dividends on any class of our shares and we do not expect to do so in the foreseeable future. Our business and prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in new and rapidly evolving markets such as healthcare. Such risks include the evolving and unpredictable nature of our business, our ability to anticipate and adapt to a developing market, acceptance by consumers of our products, how we progress with our research and development, the expense and viability of bringing our new products to market, our ability to bear the cost of filing, maintaining and enforcing our patent claims and other intellectual property rights, our ability to continue scientific progress in our research and development programs, the progress in our pre-clinical and clinical evaluations of our products, the effect of competing technological and market developments and our ability to identify, attract and retain qualified personnel.

To achieve profitability, we must generate and sustain substantially increased revenues and control future expense levels. We forecast our future expense levels based on our operating plans and on estimates of our future revenues. We may find it necessary to accelerate expenditures relating to our sales and marketing efforts or otherwise increase our financial commitment to the development of our products and services. If our revenues grow at a slower rate than we anticipate, or if our spending levels exceed our expectations or cannot be adjusted to reflect slower revenue growth, we may not achieve or sustain profitability. If we fail to become profitable or to manage our growth, the value of our Common Shares could be significantly reduced.

Our future earnings and cash flow from operations are dependent on our ability to further develop and sell our products and our operational expenses. We expect that we will continue to have high levels of operating expenses since we will make significant up-front expenditures to develop our technology. We anticipate that the operating losses for our Company may continue until such time as our Company consistently generates sufficient revenues to support operations.

**Our success depends in large part on our ability to keep our products current and compatible with evolving technologies and standards.**

Rapid technological advances or the adoption of new standards could impair our ability to deliver our products to health service providers in a timely manner, and as a result, our revenues would suffer.

Our success depends in large part on our ability to keep our products current and compatible with evolving technologies and standards. Unexpected changes in technology or standards could disrupt the development of our products and prevent us from meeting deadlines for the delivery of our products. If we are unable to keep pace with technological advancements and adapt our products to new standards in a timely manner, we may lose customers, and our revenues would suffer.

The occurrence of any defects, errors or failures in our products could result in delays in installation and/or loss of customers.

**If we fail to introduce new features and functionality in our products or if our new products are unsuccessful, our growth prospects will be limited.**

The market for our products is rapidly evolving. As is typical for new and rapidly evolving industries, demand and market acceptance for recently introduced services and products are subject to a high level of uncertainty.

If we fail to introduce new features and functionality in our products or if our new products are unsuccessful, our growth prospects will be limited.

**Demand for our products is dependent on a number of social, political and economic factors that are beyond the control of our Company.**

Demand for our products is dependent on a number of social, political and economic factors that are beyond the control of our Company. The healthcare technology industry is likely to continue to change as the public, government, medical practitioners, insurance companies, the pharmaceutical industries and third party favours focus on ways to expand medical coverage while controlling the growth in healthcare costs. While our Company believes that demand for our products will continue to grow, there is no assurance that such demand will exist or that our products will be purchased to satisfy that demand.

**There are significant risks, expenses and difficulties frequently encountered in establishing new products in the evolving healthcare technology industry, which is heavily regulated and characterized by an increasing number of market entrants, intense competition and a high failure rate.**

Certain of our existing products, such as CALM ANNi™, are still in the development stage. There are significant risks, expenses and difficulties frequently encountered in establishing new products in the evolving healthcare technology industry, which is heavily regulated and characterized by an increasing number of market entrants, intense competition and a high failure rate. Further, there is a significant risk in the early stage of product development that the product will fail to operate as intended. There are no assurances that development of our new products will be completed in time or within budget. Although our Company is confident that the production of its existing development stage products is feasible, significant challenges could be encountered in shifting from development stage to commercial production and there can be no assurances that our development stage products will be commercially viable.

**Regulatory approvals may not be obtained or may be withdrawn.**

The sale and advertising of healthcare technology in Canada is governed by the *Food and Drug Act (Canada)*, which is administered by the Therapeutic Products Division of the Health Protection Branch of Health Canada. The FDA governs the manufacturing, marketing and distribution of healthcare technology products in the US. Manufacturers of such devices must submit evidence of device safety and efficacy to the Therapeutic Products Division of the Health Protection Branch of Health Canada for licensing and must provide the FDA with proof of safety and efficacy in human clinical trials. The process of obtaining such regulatory approvals can be expensive, uncertain and lengthy. Although our Company has obtained clearance from the Therapeutic Products Division of the Health Protection Branch of Health Canada and the FDA for CALM CIS, CALM Curve and CALM Patterns, there can be no assurance that the Therapeutic Products Division of the Health Protection Branch of Health Canada or the FDA will license or clear for marketing new products developed by our Company (including CALM ANNi). Once obtained, product approvals can be withdrawn for failure to comply with regulatory requirements, the occurrence of unforeseen problems following initial marketing or other reasons. Failure to receive, or delays in receipt of, such approvals, including the need for extensive clinical trials or additional data as a prerequisite to approval, or a limitation on the intended use of our Company's products, or the restriction, suspension or revocation of any approvals obtained or any failure to comply with approvals obtained could have a material adverse effect on our Company's business, results of operations, financial condition and profitability.

**Our ability to compete effectively is dependent in large part upon the maintenance and protection of our intellectual property.**

Because much of our potential success and value lies in our ownership and use of intellectual property, our inability or failure to protect our intellectual property may negatively affect our business and the value of our Common Shares could be significantly reduced.

Our ability to compete effectively is dependent in large part upon the maintenance and protection of our intellectual property. We currently intend to apply for patents and trademark registrations, however it is possible that such registrations may not be granted. We also rely on trade secret and copyright law, as well as confidentiality procedures, to establish and protect our rights to our technology. It may be possible for a third party to copy or otherwise obtain and use our proprietary technology without authorization. Policing unauthorized use of our intellectual property is difficult. The steps that we take may not prevent misappropriation of our intellectual property, and the agreements we enter into may not be enforceable. In addition, effective intellectual property protection may be unavailable or limited in some jurisdictions outside Canada and the US. Litigation may be necessary in the future to enforce or protect our intellectual property rights or to determine the validity and scope of the proprietary rights of others. That litigation could cause us to incur substantial costs and divert resources away from our daily business, which in turn could have a material adverse effect on our business, results of operations, financial condition and profitability.

Given that the patent applications for our technology involve complex legal, scientific and factual questions, there can be no assurance that patent applications relating to our technology will result in patents being issued, or that, if issued, the patents will provide a competitive advantage or will afford protection against competitors with similar technology, or will not be challenged successfully or circumvented by competitors.

We may be subject to damaging and disruptive intellectual property litigation. Although we are not aware that any of our products or services infringe any published patents or registered trademarks, and although we have not been served notice of any potential infringement, we may be subject to infringement claims

in the future. Because patent applications are kept confidential for a period of time after filing, applications may have been filed that, if issued as patents, could relate to our products or services.

Parties making claims of infringement may be able to obtain injunctive or other equitable relief that could effectively block our ability to provide our products and services in Canada, the US and other jurisdictions and could cause us to pay substantial damages. In the event of a successful claim of infringement, we and our customers may need to obtain one or more licenses from third parties, which may not be available at a reasonable cost, if at all. The defense of any lawsuit could result in time-consuming and expensive litigation, regardless of the merits of such claims, as well as resulting damages, license fees, royalty payments and restrictions on our ability to provide our products or services, any of which could harm our business.

**Legislative and regulatory proposals in Canada, the US, and other jurisdictions may lead to laws or regulations concerning various aspects of the healthcare technology industry.**

Legislative and regulatory proposals in Canada, the US, and other jurisdictions may lead to laws or regulations concerning various aspects of the healthcare technology industry, including, but not limited to, government and private spending on healthcare, insurance coverage and funding of the health care system in general. The adoption of new laws or the application of existing laws may decrease growth in the demand for healthcare products, which could decrease the demand for our products and services, increase our cost of doing business or otherwise have a material adverse effect on our business, results of operations, financial condition and profitability.

**Competition in the healthcare technology market is ever present and will likely intensify over time.**

Competition in the healthcare technology market is ever present and will likely intensify over time. We cannot predict whether we will obtain or maintain a significant market share or pricing levels that we need to become and remain profitable. By using the same standards upon which our products are based, a competitor with sufficient resources could design and market a similar product that competes directly with our products. This could have a significant effect on our ability to expand the range of our product offerings over time.

Our products compete with other healthcare technology produced by our competitors. Competition from healthcare technology companies and healthcare technology subsidiaries of healthcare and pharmaceutical companies is intense and is expected to increase.

Our CALM suite of products consists of Decision Support Systems and Clinical Information Systems. We believe that there are no direct competitors with respect to our Decision Support Tools, but this is no indication that this may not change. However, as more fully disclosed in the competition section, existing competition does exist in the market of Clinical Information Systems.

With respect to Clinical Information Systems, our existing and potential competitors have longer operating histories, including GE Medical Systems, Phillips Medical Systems, Hill-Rom Company, Inc. and SpaceLabs Medical, larger customer bases, greater brand name recognition and significantly greater financial, technical, sales, marketing and other resources than we have. There are numerous existing competitive products on the market, with respect to Clinical Information Systems. GE Medical Systems offers the QS Perinatal Clinical Information System that includes central surveillance, archival and charting functionality. Their solution is web enabled. Their Central Information System is also complemented by a product suite of fetal monitors. Philips offers a Central Information System called OB TraceVue. This perinatal information management system provides surveillance, alerting, documentation and data storage. OB TraceVue is also complemented by a product suite of fetal monitors. Hill-Rom Company, Inc. offers a Central Information System called WatchChild. This perinatal

information management system provides surveillance, alerting, documentation and data storage. SpaceLabs, newly acquired by OSI Systems, offers the BirthNet solution. This perinatal information management system provides surveillance, alerting, documentation and data storage. BirthNet is also complemented by a product suite of fetal monitors. If we are unable to continuously improve our products and if we cannot generate effective responses to our competitors' products, pricing strategies, advertising campaigns, strategic partnerships and other initiatives, sales of our products and our profit margins may suffer, and we may not become profitable.

**The sale and use of our products, and the conduct of our clinical studies involving human subjects, may entail risks of product liability and subject us to litigation.**

The sale and use of our products, and the conduct of our clinical studies involving human subjects, may entail risks of product liability and subject us to litigation. Such liability or litigation might result from claims made directly by our customers or by regulatory agencies. Obstetrics is currently one of the most frequently litigated areas of medicine in both Canada and the US. The costs of caring for children with birth related brain injury are significant and incidences of birth related brain injury often lead to litigation. Litigation in connection with birth related brain injury can result in the award of significant monetary damages to the plaintiffs. Aside from the potential imposition of damages against healthcare professionals, merely defending birth related brain injury litigation can often be costly. As a result, the premiums payable to obtain product liability insurance for our products will likely increase significantly over time and there may even come a time when we are no longer able to obtain appropriate levels of product liability insurance. An inability to obtain insurance on economically feasible terms or to otherwise protect against potential product liability claims could inhibit or prevent the commercialization of products developed by us. The obligation to pay any product liability claim or recall a product may have a material adverse effect on our business, operating results, financial condition and profitability. Claims against our Company, regardless of the merit or potential outcome, may also have a material adverse effect on our ability to obtain physician endorsement of our products or expand our business.

**If we fail to hire and retain needed management and other personnel, the implementation of our business plan could slow or our growth could halt.**

To manage our potential growth, we must continue to implement and improve our operational and financial systems and must expand, train and manage our managers and employee base. Moreover, our existing senior management must be able to adhere to and comply with a myriad of rules and regulations pertaining to operating as a public company. Most of our senior management has not had any previous experience managing a growing public company.

If we fail to hire and retain needed management and other personnel, the implementation of our business plan could slow or our growth could halt. Competition for highly skilled technical, sales, marketing and support personnel is intense because there are a limited number of people available with the necessary technical skills, knowledge of the industry and understanding of the market. As our business grows, we may need to hire additional technical support, sales and marketing personnel. Any failure to attract, assimilate, train or retain qualified management personnel to fulfill our current or future needs could negatively affect our business plan and profitability. The unanticipated departure of any key member of management could have a material adverse effect on us.

**If we fail to develop and maintain relationships with industry participants, our business could suffer.**

If we fail to develop and maintain relationships with industry participants, our business could suffer. In particular, if our relationship with any of our distribution and marketing partners fails or is not as

successful as anticipated there may be a material adverse effect upon our business, results of operations, financial condition and profitability.

**A significant portion of our revenues, and year-end receivables, is generated through a limited number of distributors. Should this level not be maintained, it would take an extensive period of time to replace and could negatively affect our revenues and business.**

For the year ended March 31, 2008, 85% of our revenues (2007 - 73%) were generated through one distributor. Should this level not be maintained, it would take an extensive period of time to replace and could negatively affect our revenues and business.

**If our customers fail to meet their obligations, our business could suffer.**

Our business could be adversely affected by the deterioration in the creditworthiness of any of our customers and the ability of our customers to meet their obligations. The credit quality of our customers may be affected by various factors, such as an economic downturn, lack of liquidity, or an unexpected political event. If any of these events occurs, our business could suffer and there may be a material adverse effect upon our business, results of operations, financial condition and profitability.

**There can be no assurance that the holders or purchasers of our Common Shares will be able to resell their Common Shares at prices equal to or greater than their cost.**

The market price of our Common Shares could be subject to significant fluctuations in response to quarterly variations in our operating results, announcements of technological innovations through new services or products by us or our competitors, changes in financial estimates by securities analysts or other events or factors, many of which are beyond our control. In addition, the stock markets have experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of many companies whose businesses are dependent on technology and that often have been unrelated to the operating performance of such companies. These broad market fluctuations may adversely affect the market price of our Common Shares. There can be no assurance that the holders or purchasers of our Common Shares will be able to resell their Common Shares at prices equal to or greater than their cost.

**We may need to raise additional capital, which may not be available on terms acceptable to us, if at all.**

As we continue to expand our sales efforts, and as we increase our marketing and research and development activities, we may need to raise additional capital, which may not be available on terms acceptable to us, if at all. If we cannot raise necessary additional capital on acceptable terms, we may not be able to increase sales, develop or enhance our products and services, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements, any of which could cause our business to suffer.

**Our international operations are subject to certain other risks common to international operations.**

Our international operations are subject to certain other risks common to international operations, including without limitation, government regulations, import restrictions, and, in certain jurisdictions, reduced protection for our intellectual property rights. Government regulation in various jurisdictions may also restrict the willingness or ability of health service providers to purchase our products.

**Exchange rate fluctuations are beyond our control and there can be no assurance that such fluctuations will not have a material adverse effect on our business, operating results, financial condition and profitability.**

Currency exchange rates are subject to fluctuation. We sell our products in the currency of each marketplace and as such any increase in value of the Canadian dollar relative to these currencies may impact our competitive advantage. We are currently exposed to market-rate risk only to the extent of a fluctuation in the foreign exchange rates between the Canadian and US dollars. Fluctuations could affect the portion of our Company's expenses and sales, which are incurred in US dollars. The majority of our Company's expenses and sales denominated in US dollars are derived from the US market. Exchange rate fluctuations are beyond our control and there can be no assurance that such fluctuations will not have a material adverse effect on our business, operating results, financial condition and profitability.

We expect that international sales will account for an increasing portion of our revenues. Any negative change in foreign denominated revenues would have a material adverse effect on our business, operating results, financial condition and profitability. Additionally, we may be materially and adversely affected by increases in customs and duty rates, exchange or price controls, repatriation restrictions, or other restrictions on foreign currencies.

**Some of our directors and officers may have conflicts of interest.**

Some of our directors and officers may have conflicts of interest as to management resources, ownership and interests between our Company and their own professional or corporate business(es) in which they may be involved. Benoit La Salle, the Chairman of our Board of Directors, and Yves Grou, our CFO, are also directors of Groupe Conseils Grou, La Salle Inc. We enter into transactions in the normal course of business with Groupe Conseils Grou, La Salle Inc. Our officers are appointed by our Board of Directors and may be changed at any time.

**Our products are subject to US federal and state and Canadian federal and provincial environmental and health and safety laws and regulations.**

Our products are subject to US federal and state and Canadian federal and provincial environmental and health and safety laws and regulations. Compliance with these laws has not, to date, had any material effect upon our capital expenditures, our net income or our competitive position. Environmental health and safety laws and regulations and their interpretation, however, have changed in recent years and may continue to do so in the future.

**The discontinuance of commercial agreements currently in place would negatively impact our revenues.**

We have multiple agreements in place that are important to growing our revenues and promoting our products. The discontinuance of these agreements would negatively impact our revenues and delay further market penetration. In addition, in our product installations, we use third party software which is subject to a license and royalties. Absence of this agreement would delay our installations until a suitable replacement is found.

**No history of paying dividends.**

Since our incorporation, we have not paid any cash dividends on our Common Shares and we do not expect to pay such dividends in the foreseeable future as all available funds will be invested to finance the growth of our business. We will need to achieve profitability prior to any dividends being declared, which may never happen.

**Investors may not be able to secure foreign enforcement of civil liabilities against our management.**

The enforcement by investors of civil liabilities under the federal securities laws of the US may be adversely affected by the fact that we are organized under the federal laws of Canada, that some of our officers and directors are residents of a foreign country and that all, or a substantial portion, of our assets and such person's assets are located outside of the US. As a result, it may be difficult for holders of our Common Shares to effect service of process on such persons within the US or to realize in the US upon judgments rendered against them.

**We may be classified as a “passive foreign investment company” for US income tax purposes, which could have significant and adverse tax consequences to US holders.**

We do not believe we should be considered as a passive foreign investment company (“PFIC”) in 2007 and 2008 taxable years. We also believe that we should not be classified as a PFIC in 2009 taxable year. Due to the nature of calculations related to the PFIC classification, it may be possible that this classification may change in the subsequent years. Classification as a PFIC could have significant and adverse tax consequences for US holders of our Common Shares. It may be possible for US holders to mitigate these consequences by making a so-called “qualified electing fund” election.

**Interest Rate Risk**

The primary objective of our investment activities is to preserve principal by maximizing the income we receive from such activities without significantly increasing risk. Securities that we invest in are generally highly liquid short-term investments such as term deposits with terms to maturity of less than one year. Due to the short-term nature of these investments, we believe there is no material exposure to interest rate risk arising from such investments and accordingly, no quantitative tabular disclosure is required.

As at March 31, 2008, we do not have long-term debt except our capital leases. The carrying value of the cash equivalents, short-term investments, accounts receivable, tax credits receivable and accounts payable is a reasonable estimate of their fair value because of their short maturities.

The carrying value of our capital leases included in long-term debt 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 the Company on capital leases with similar terms and remaining maturities.

**Currency Risk**

Large portion of our revenues and some of our expenses are generated in the US. From April 1, 2007 to March 31, 2008 the Canadian dollar has appreciated against the US dollar by approximately 13%. The continued weakness of the US dollar has a negative effect on our revenues, offset somewhat by the expenses generated in the US.

## **ITEM 6 – DIVIDENDS**

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### **6.1 – Dividends**

Since our incorporation, we have not paid any cash dividends on our Common Shares and we do not expect to pay such dividends in the foreseeable future as all available funds will be invested to finance the growth of our business.

#### **Dividend Policy**

We have no present intention of paying dividends on our shares as we anticipate that all available funds will be invested to finance the growth of our business. Our directors will determine if and when dividends should be declared and paid in the future based upon our financial position at the relevant time. All of our Common Shares are entitled to an equal share of any dividends declared and paid.

## **ITEM 7 – CAPITAL STRUCTURE**

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### **7.1 – Capital structure**

Our capital structure consists of an unlimited number of common shares without par value. Holders of our Common Shares are entitled to one vote for each Common Share held at all meetings of shareholders of our Company, to participate rateably in any dividend declared by our Board of Directors on the Common Shares and to participate equally with all outstanding shares on any distribution of our Company's assets on a winding-up, liquidation or dissolution of our Company.

## **ITEM 8 – MARKET FOR SECURITIES**

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### **8.1 – Trading price and volume**

Our Common Shares were listed on the TSX and the AMEX for the year ended March 31, 2008 under the trading symbol "LMZ".

The following table sets forth the reported high and low closing prices and the aggregate volume of trading for our Common Shares on the TSX and the AMEX during the twelve-month period ended March 31, 2008.

Month	TSX			AMEX		
	High	Low	Volume	High	Low	Volume
April 2007	1.28	1.15	585,400	1.19	1.00	37,700
May 2007	1.97	1.15	1,455,800	2.03	1.01	276,300
June 2007	1.89	1.66	502,000	1.79	1.58	78,900
July 2007	1.95	1.46	454,000	1.85	1.42	53,500
August 2007	1.70	1.26	511,800	1.59	1.17	142,600
September 2007	1.32	0.98	271,600	1.50	0.97	127,200
October 2007	1.16	0.85	285,600	1.21	0.97	121,600
November 2007	0.93	0.54	351,500	1.05	0.61	191,900
December 2007	0.73	0.46	571,600	0.68	0.45	172,300
January 2008	0.60	0.50	419,900	0.61	0.52	224,000
February 2008	0.60	0.51	1,186,500	0.59	0.51	131,800
March 2008	0.61	0.54	496,400	0.64	0.56	203,900

On May 1, 2008, our Board of Directors announced their unanimous decision to delist our Common Shares from AMEX. The decision was in keeping with our Company's goal of streamlining operations and controlling costs. Our Common Shares ceased trading on AMEX on May 22, 2008.

### Prior Sales

On February 28, 2008, we completed the first tranche of a financing by way of a private placement of 2,700,000 units at a purchase price of \$0.50 per unit (each, a "Unit"). On March 6, 2008, we completed the second tranche of the financing by way of a private placement of 1,300,000 Units at a purchase price of \$0.50 per Unit. Each Unit was comprised of one Common Share and a quarter warrant. Each full warrant entitles the holder thereof to acquire one Common Share at an exercise price of \$0.60 per Common Share for a period of five years from the date of issue.

### ITEM 9 – ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER

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To our knowledge, no securities of our Company are in escrow nor are any securities of our Company subject to contractual restrictions on transfer during the fiscal year ended March 31, 2008.

## **ITEM 10 – DIRECTORS, OFFICERS AND EMPLOYEES**

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### **10.1 - Directors and Officers**

The members of our Board of Directors and our executive officers, including their province or state of residence, their respective positions and offices held with our Company, their respective principals occupations during the preceding five years and the date on which they were first elected or appointed are as follows:

*Benoit La Salle, CA – Chairman since March 31, 2004*

Mr. La Salle, a chartered accountant and member of the Canadian Institute of Chartered Accountants and the Order of Chartered Administrators of Quebec, holds a Commerce degree from McGill University and a Masters of Business Administration from IMEDE, Switzerland. In 1980, along with Yves Grou, our CFO, he founded Grou La Salle & Associés, Chartered Accountants. Mr. La Salle is currently CEO of Semafo Inc. and serves on the boards of public companies such as 20-20 Technologies Inc.; and ART Advanced Research Technologies, Inc., among others. Mr. La Salle is a member of our Audit Committee and our Governance, Compensation and Nominating Committee. He currently resides in Outremont, Québec, Canada.

*Diane Côté – Director since March 31, 2004*

Diane Côté is our President, Chief Executive Officer and one of our Directors. Ms. Côté is responsible for developing strategic and operating plans for our future growth and profitability. Ms. Côté joined our Company in October 2001 after 10 years as Vice President for Business Development and a Partner at Innovitech, a management consulting firm based in Montreal, where she was actively involved in strategic planning and business development with a special focus on the positioning of innovative technologies. From 1975 to 1992, she worked at IBM where she held numerous positions, gaining solid IT, marketing, and corporate experience. Ms. Côté is a member of the Board of Directors and of the Executive Committee of the Association of Health Technologies Industry (AITS). She is also a member of the council of the Canadian Health Industries Partnership (CHIP). She graduated from the University of Montreal with a Bachelor degree in Translation. She currently resides in Montréal, Québec, Canada.

*Elaine Beaudoin, CA - Director since March 31, 2004*

Élaine Beaudoin. A chartered accountant and a member of the Québec Order of Chartered Accountants and the Canadian Institute of Chartered Accountants, as well, Madame Beaudoin was Chief Executive Officer of Unifix, Inc., a Québec-based manufacturer of concrete panels, from 1989 to 1998. She serves on the board of several institutions and private and public companies, including the Canam Group, Inc.; Hebdo Litho, Inc.; and Lower Canada College. Madame Beaudoin is a member of our Audit Committee. She currently resides in Westmount, Québec, Canada.

*Terrance H. Gregg – Director since April 29, 2004*

Mr. Gregg was the President of Medtronic MiniMed, a world leader in diabetes management systems, and was instrumental in Medtronic's \$3.4 billion acquisition of MiniMed, Inc. in 2001. He became President and Chief Operating Officer of MiniMed, Inc. in 1996. He also served in executive positions with Smith & Nephew plc, a diversified healthcare product company, and Allergan, Inc., a leading ophthalmic device and pharmaceutical company. Mr. Gregg currently serves as Chairman of the Health Advisory Board of the School of Policy, Planning and Development, at the University of Southern California, and as a member of the Board of the Southern California Biomedical Council. Additionally, he is on the boards of Amylin Pharmaceuticals, Inc.; Ocular Sciences, Inc.; and Specialty Laboratories. He is also CEO of Vasogen Inc. Mr. Gregg is a member of our Audit Committee and our Governance, Compensation and Nominating Committee. He currently resides in Malibu, California, USA.

*Harry G. Hohn – Director since May 11, 2004*

Harry Hohn spent four decades at New York Life Insurance Company having retired as Chairman of the Board and Chief Executive Officer of the company in 1997. During his tenure, New York Life grew to \$120 billion in assets and \$25 billion in revenue. Born in New York City, Mr. Hohn holds a Bachelor of Science degree from New York University, a Master of Laws degree from New York University Graduate School of Law, and a Doctor of Law degree from Fordham University School of Law, where he was editor of the *Fordham Law Review*. Mr. Hohn has served, amongst others, as Chairman of the Board of the American Council of Life Insurance, the Life Insurance Council of New York, the National AIDS Foundation and The Foundation for Independent Higher Education and the International Center for the Disabled. Mr. Hohn is a member of our Governance, Compensation and Nominating Committee. He currently resides in Cutchogue, New York, USA.

*Michael Maher – Director since October 2, 2006*

Mr. Maher has forty years of Wall Street investment banking experience having most recently served as a Managing Director of Merrill Lynch. Prior, Mr. Maher served as a senior Vice-President of Lehman Bros. and as Managing Director and a member of the Board of Directors of Morgan Grenfeld, C.J. Lawrence. His two decades at Morgan Grenfeld, C.J. Lawrence culminated in assisting in its merger and integration into Deutsche Bank. Mr. Maher serves on the board of The Gregorian University Foundation, the largest University in Rome. He also serves as Vice Chairman of a New Jersey based symphony. He currently resides in Garden City, New York, USA.

Each of the Company's directors holds office until the next meeting of shareholders or until his or her successor is duly elected, unless prior thereto the director resigns or the director's office becomes vacant by reason of death or other cause.

*Yves Grou, CA – Chief Financial Officer since 2001*

Yves Grou is our full-time Chief Financial Officer and Secretary. Mr. Grou is responsible for all financial matters including budget, revenue projections and management, investor advisory, cost control and procedures, legal compliance, audit, pricing and other related functions. Mr. Grou brings corporate financial expertise with new economy public and venture capital funded companies. Mr. Grou joined LMS in 2001 as CFO. Prior to 2001, Mr. Grou was a partner at Grou, La Salle & Associates, Chartered Accountants which he co-founded in 1980. As part of his practice, he acted as CFO for several public and private companies. Prior to 1980, he held the position of senior staff accountant with Ernst & Young. Mr. Grou graduated from McGill University with a Bachelor of Commerce degree in 1976 and received his Chartered Accountant designation in 1977. He currently resides in Outremont, Québec, Canada.

*Emily Hamilton, MDCM, FRCSC – Vice President Medical Research since 1997*

Emily Hamilton, – Founder, Vice President Medical Research. Dr. Hamilton is an Obstetrician Gynecologist with over 2 decades of experience as a practicing obstetrician. Dr. Hamilton designed and led the research project that conceived CALM. In 1975, she obtained her medical degree from McGill and was awarded the Wood's Gold medal for academic achievement, and the Forsythe Prize for excellence in surgery. She joined the McGill Faculty in 1980. From 1988 to 1996, Dr. Hamilton was the Director of the McGill Residency training program for Obstetrics and Gynecology. She has held various other academic positions with McGill University including Acting University Chair in 1994, Director of Maternal Fetal Medicine from 1995-97, and is currently an Associate Professor of Obstetrics and Gynecology in the Faculty of Medicine at McGill University. She currently resides in Verdun, Québec, Canada.

*Bruno Bendavid – Vice President of Product Development since 2006*

Mr. Bendavid has held several positions at LMS of increasing seniority, and is currently the Vice President of Product Development. He has occupied the roles of Vice-President, Technical Operations from 2003 to 2005, and of Development Manager from 2002 to 2003. He joined LMS as a software developer at the beginning of operations in 1997. Mr. Bendavid holds a Bachelor of Computer Science

degree from Concordia University and brings proven leadership abilities to LMS through his extensive experience as an army officer from 1983 to 1988. He currently resides in Montréal, Québec, Canada.

## **10.2 - Share Ownership**

The following table discloses the number of Common Shares (each share possessing identical voting rights) held and the percentage of Common Shares outstanding beneficially owned, or controlled or directed, directly or indirectly, by our directors and executive officers as at March 31, 2008.

<b>Name</b>	<b>Title</b>	<b>No. of Shares</b>	<b>Percent of Shares Outstanding<sup>(6)</sup></b>
Benoit La Salle <sup>(1)(5)</sup>	Chairman of the Board	366,749	1.41%
Diane Côté <sup>(4)</sup>	President and Chief Executive Officer and Director	276,999	1.06%
Yves Grou <sup>(1)(2)(4)</sup>	Chief Financial Officer and Secretary	461,210	1.8%
Emily Hamilton <sup>(4)</sup>	Vice-President, Medical Research	372,276	1.43%
Bruno Bendavid <sup>(4)</sup>	Vice-President, Product Development and Operations	90,671	less than 1%
Harry G. Hohn <sup>(5)</sup>	Director	105,000	less than 1%
Terrance H. Gregg <sup>(3)(5)</sup>	Director	188,502	less than 1%
Elaine Beaudoin <sup>(5)</sup>	Director	7,100	less than 1%
Michael Maher <sup>(5)</sup>	Director	125,714	less than 1%

(1) Mr. La Salle and Mr. Grou own together 316,749 Common Shares, held through PGL Capital Inc. in which they jointly have a 100% controlling interest.

(2) Mr. Grou owns 139,461 common shares directly and 5,000 indirectly.

(3) Held by Gregg Family Trust.

(4) Excludes 395,232 shares issuable subsequent to June 12, 2008, relating to the 2008 Bonus Plan, which have been authorized, and the \$237,139 which is to be issued in common shares subsequent to shareholder approval.

(5) Excludes 129,629 DSU Plan units issuable at May 31, 2008, and the balance of \$75,764 which is to be issued in DSU units subsequent to shareholder approval.

(6) Information as to shares beneficially owned, or controlled or directed, directly or indirectly, not being within our knowledge, has been furnished by the respective directors and executive officers individually.

As at March 31, 2008, the total number of our issued and outstanding Common Shares beneficially owned, or controlled or directed, directly or indirectly, by our directors and officers as a group was 1,994,221 (or 7.6% of our Common Shares).

Each of our directors will hold office until the next annual meeting of our shareholders in 2009 or until his or her successor is duly elected, unless prior thereto the director resigns or the director's office becomes vacant by death or other cause. None of our directors has a service contract with the Company providing benefits upon termination of their term as a director. Executive officers of our Company are appointed by the Board of Directors.

## **10.3 - Audit Committee Information**

### **Charter**

The text of our Audit Committee charter is attached as Exhibit 1 to this AIF.

## **Composition of the Audit Committee**

Our Audit Committee is comprised of Elaine Beaudoin, Benoit La Salle and Terrance H. Gregg. Each of Madame Beaudoin, Mr. La Salle and Mr. Gregg are “independent” and “financially literate”, as those terms are defined Multilateral Instrument 52-110 – *Audit Committees*.

## **Relevant Education and Experience of Audit Committee Members**

*Elaine Beaudoin, CA, Chair of the Audit Committee*

Élaine Beaudoin. A chartered accountant and a member of the Québec Order of Chartered Accountants and the Canadian Institute of Chartered Accountants, as well, Madame Beaudoin was Chief Executive Officer of Unifix, Inc., a Québec-based manufacturer of concrete panels, from 1989 to 1998. She serves on the board of several institutions and private and public companies, including the Canam Group, Inc.; Hebdo Litho, Inc.; and Lower Canada College.

*Benoit La Salle, CA*

Mr. La Salle, a chartered accountant and member of the Canadian Institute of Chartered Accountants and the Order of Chartered Administrators of Quebec, holds a Commerce degree from McGill University and a Masters of Business Administration from IMEDE, Switzerland. In 1980, along with Yves Grou, he founded Grou La Salle & Associés, Chartered Accountants. Mr. La Salle is currently CEO of Semafo Inc. and serves on the boards of public companies such as 20-20 Technologies Inc.; and ART Advanced Research Technologies, Inc., among others.

*Terrance H. Gregg*

Mr. Gregg was the President of Medtronic MiniMed, a world leader in diabetes management systems, and was instrumental in Medtronic’s \$3.4 billion acquisition of MiniMed, Inc. in 2001. He became President and Chief Operating Officer of MiniMed, Inc. in 1996. He also served in executive positions with Smith & Nephew plc, a diversified healthcare product company, and Allergan, Inc., a leading ophthalmic device and pharmaceutical company. Mr. Gregg currently serves as Chairman of the Health Advisory Board of the School of Policy, Planning and Development, at the University of Southern California, and as a member of the Board of the Southern California Biomedical Council. Additionally, he is on the boards of Amylin Pharmaceuticals, Inc.; Ocular Sciences, Inc.; and Specialty Laboratories. He is also President and CEO of Vasogen Inc.

## **Audit Committee Financial Expert**

Our Board of Directors has determined that at least two audit committee financial experts serve on our audit committee. The named audit committee financial experts are Mme. Elaine Beaudoin and Mr. Benoit La Salle, and both are independent directors.

## **Principal Accountant Fees and Services**

The fees from Ernst & Young LLP, Chartered Accountants, for services in the financial years ended March 31, 2008 and March 31, 2007, were as follows:

	<b>2008</b>	<b>2007</b>
Audit services	\$105,000	\$133,000
Audit related	20,000	21,000
Tax services <sup>(1)</sup>	<u>15,000</u>	<u>51,000</u>
	<b>\$140,000</b>	<b>\$205,000</b>

<sup>(1)</sup> Tax fees consist mainly of assistance provided by Ernst & Young LLP in connection with tax compliance, including US Corporate tax returns, research and development tax credit claims and other returns.

We have introduced procedures for the review and pre-approval of any services performed by Ernst & Young LLP. The procedures require that all proposed engagements of Ernst & Young LLP for audit and permitted non-audit services be submitted to the audit committee for approval prior to the beginning of any such services.

During fiscal years ended March 31, 2008 and March 31, 2007, the audit committee approved 100% of the audit, audit related and tax services.

### *Employees*

As at March 31, 2008, in Canada, we have a staff of 15 research scientists, technicians and staff dedicated solely to our research and development and commercialization activities as well as a staff of 19 dedicated to our marketing, distribution and customer support efforts. In the US, we have a staff of 7 dedicated to our marketing, distribution and customer support efforts.

<b>Fiscal year ended</b>	<b>Canada</b>	<b>US</b>	<b>Total</b>
March 31, 2008	34	7	41

## **ITEM 11 – PROMOTERS**

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No person or company has been, within the two most recently completed financial years or during the current financial year, a promoter of our Company or a subsidiary of our Company.

## **ITEM 12 – LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

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### **12.1 - Legal Proceedings**

There are no legal proceedings, including those relating to bankruptcy, receivership or similar proceedings and those involving any third party, which involve our Company or our property as at the date of this AIF and we know of no such proceedings currently contemplated.

### **12.2 - Regulatory Actions**

As at March 31, 2008, there were no penalties or sanctions imposed against our Company by a court relating to securities legislation or by a securities regulatory authority, nor were there any other penalties or sanctions imposed by a court or regulatory body against our Company that would likely be considered important to a reasonable investor in making an investment decision, nor were there any settlement agreements our Company entered into before a court relating to securities legislation or with a securities regulatory authority.

## **ITEM 13 – INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Except as disclosed elsewhere in this AIF, we are not aware of any material interest, directly or indirectly, of (i) a director or executive officer of our Company, (ii) a person or company that beneficially owns, controls or directs, directly or indirectly, more than 10% of our Common Shares, or (iii) any associate or affiliate of any person or company referred to in (i) or (ii), in any transaction during the 3 most recently completed financial years or within the current financial year that has materially affected or is reasonably expected to materially affect our Company.

### **13.1 - Related Party Transactions**

Other than as set out below and in Note 10 to the audited consolidated financial statements of LMS, our management is not aware of any material interest, direct or indirect, of any of our directors or officers, any person beneficially owning, directly or indirectly, more than 10% of our voting securities, or any associate or affiliate of any such person in any transaction within the last three years or in any proposed transaction which in either case has materially affected or will materially affect us or our subsidiaries.

LMS Ltd. was acquired by our Company by way of a capital transaction. Pursuant to the terms of the transaction, we acquired 99.98% of the issued and outstanding shares of LMS Ltd. in exchange, after giving effect to the 20 for 1 share consolidation, for 10,897,434 of our Common Shares, at a deemed price for regulatory purposes of \$4.00 per share for aggregate consideration of \$43,589,736. Pursuant to the terms and conditions of an agreement dated October 7, 2004, we acquired the 0.02 percent of the issued and outstanding shares of LMS Ltd. that we did not own. LMS Ltd. is now our wholly-owned subsidiary. In addition, we acquired all of the issued and outstanding warrants and options of LMS Ltd. in exchange for warrants and options to purchase our Common Shares. The transaction was negotiated entirely at arm's length. As a result of the share exchange, control of our Company passed to the former shareholders of LMS Ltd.. Under this capital transaction, we are considered to be a continuation of the operations formerly carried on by LMS Ltd.

We enter into transactions in the normal course of business with Groupe Conseils Grou, La Salle Inc. LMS paid management fees to Groupe Conseils Grou, La Salle Inc., in consideration for Groupe Conseils Grou, La Salle Inc. making the services of Yves Grou available to LMS in his capacity as its Chief Financial Officer, amounting to \$216,342, \$192,300 and \$191,532 for the years ended March 31, 2008, 2007 and 2006, respectively. Benoit La Salle, a member of our Board of Directors, is also a director of Groupe Conseils Grou, La Salle Inc. Yves Grou is a shareholder of Groupe Conseils Grou, La Salle Inc.

## **ITEM 14 – TRANSFER AGENTS AND REGISTRARS**

Our transfer agent for our Common Shares is Computershare Trust Company of Canada, located at 2500, rue University, suite 700, Montréal, Québec H3A 3S8.

## **ITEM 15 – MATERIAL CONTRACTS**

Other than contracts entered into in the ordinary course of business, we have not, during our financial year ended March 31, 2008, entered into any material contracts and there are no material contracts entered into prior to our financial year ended March 31, 2008 that are still in effect, except for an investor relations agreement with The Howard Group. The agreement commenced on January 28, 2008 and is valid for a one-year period. After a six month period, a performance review will be conducted at which time the agreement can be terminated. In return for services rendered, The Howard Group was granted

150,000 options, with the exercise price of the options at \$0.53 per share and a term of 5 years. Half of the options, or 75,000, vested immediately, and the balance are to be vested at the six-month mark upon meeting certain criteria. The Howard Group also receives a monthly retainer of \$3,000 for the first six months.

#### **ITEM 16 – INTEREST OF EXPERTS**

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Ernst & Young LLP, Chartered Accountants, are the auditors of our Company and signed the auditors' report for our audited financial statements for the year ended March 31, 2008. To our knowledge, our auditors do not own any registered or beneficial interests, direct or indirect, in any securities or other property of our Company or of our associates or affiliates.

#### **ITEM 17 – ADDITIONAL INFORMATION**

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Additional information relating to our Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Information, including directors' and officers' remuneration and indebtedness, principal holders of our Company's securities and securities authorized for issuance under equity compensation plans is contained in our Company's management proxy circular for the annual and special meeting of shareholders to be held on August 12, 2008.

Additional financial information is provided in our audited consolidated financial statements for the year ended March 31, 2008 and the corresponding Management's Discussion and Analysis.

## **EXHIBIT 1**

### **Audit Committee Charter**

#### **Audit Committee Purpose**

The Audit Committee (the “Committee”) is appointed by the Board to assist the Board in fulfilling its oversight responsibilities of the Company. In so doing, the Committee provides an avenue of communication among the independent auditors, management, and the Board. The Committee’s primary duties and responsibilities are to gain reasonable assurance of the following:

- that the Company complies with the applicable laws, regulations, rules, policies and other requirements of governments, regulatory agencies and stock exchanges relating to financial reporting and disclosure;
- that management of the Company has assessed areas of potential significant financial risk to the Company and taken appropriate measures;
- the independence and satisfactory performance of duties by the Company’s independent auditors;
- that the accounting principles, significant judgments and disclosures that underlie or are incorporated in the Company’s financial statements are the most appropriate in the prevailing circumstances;
- that the Company’s quarterly and annual financial statements present fairly the Company’s financial position and performance in accordance with generally accepted accounting principles; and
- that appropriate information concerning the financial position and performance of the Company is disseminated to the public in a timely manner.

#### **Composition**

Audit Committee members shall meet the requirements of the exchange(s) upon which the Company is listed as well as all governing regulatory bodies. The Committee shall be comprised of three or more Directors as determined by the Board, each of whom shall be independent<sup>i</sup> non-executive Directors, free from any relationship that would interfere with the exercise of his or her independent judgment. All members of the Committee shall be financially literate<sup>ii</sup>.

The Committee members shall be appointed by the Board. The Board shall designate the Chairman of the Committee annually.

#### **Reliance on Experts**

The Committee shall have the authority to engage independent counsel and other advisors as it determines necessary to carry out its duties and to set and pay the compensation for any advisors engaged by it. In so doing each member of the Committee shall be entitled to rely in good faith upon:

- a. financial statements of the Company represented to him or her by an officer of the Company or in a written report of the independent auditors to present fairly the financial position of the Company in accordance with generally accepted accounting principles; and
- b. any report of a lawyer, accountant, engineer, appraiser or other person whose profession lends credibility to a statement made by any such person.

The Committee shall also have the authority to communicate directly with the independent auditors.

### **Remuneration of Committee Members**

No member of the Committee may earn fees from the Company or any of its subsidiaries other than directors' fees (which fees may include cash, options or other in-kind consideration ordinarily available to directors). For greater certainty, no member of the Committee shall accept any consulting, advisory or other compensatory fee from the Company.

### **Limitations on Committee's Duties**

In contributing to the Committee's discharging of its duties under this Charter, each member of the Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this Charter is intended, or may be construed, to impose on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all Board members are subject.

### **Meetings & Operating Procedures**

- The Committee shall meet at least four times annually, or more frequently as circumstances dictate.
- A quorum shall be a majority of the members.
- In the absence of the Chairman of the Committee, the members shall appoint an acting Chairman.
- A copy of the minutes of each meeting of the Committee shall be provided to each member of the Committee and to each Director of the Company in a timely fashion.
- The Chairman of the Committee shall prepare and/or approve an agenda in advance of each meeting.
- The Committee, in consultation with management and the independent auditors, shall develop and participate in a process for review of important financial topics that have the potential to impact the Company's financial policies and disclosures.
- The Committee shall communicate its expectations to management and the independent auditors with respect to the nature, timing and extent of its information needs. The Committee expects that written materials will be received from management and the independent auditors in advance of meeting dates.
- The Committee should meet privately in executive session at least quarterly with management, the independent auditors and as a committee to discuss any matters that the Committee or each of these groups believes should be discussed.
- In addition, the Committee or at least its Chair should communicate with management and the independent auditors quarterly to review the Company's financial statements and significant findings based upon the auditor's limited review procedures.
- The Committee shall annually review, discuss and assess its own performance. In addition, the Committee shall periodically review its role and responsibilities.

- The Committee expects that, in discharging their responsibilities to the shareholders, the independent auditors shall be accountable to the Board through the Committee. The independent auditors shall report all material issues or potentially material issues to the Committee.

## **Responsibilities and Duties**

### **Review Procedures**

- Review and reassess the adequacy of this Charter at least annually, submit it to the Board for approval and ensure that it is in compliance with applicable securities laws.
- Review the Company's annual audited financial statements and the accompanying Management Discussion and Analysis prior to filing or distribution, and report its findings for approval to the Board. Review should include discussion with management and independent auditors of significant issues regarding accounting principles, practices and judgments.
- Review the Company's quarterly unaudited financial statements and the accompanying Management Discussion and Analysis prior to filing or distribution, and report its findings for approval to the Board. Review should include discussion with management and independent auditors of significant issues regarding accounting principles, practices and judgments.
- Review and, if appropriate, recommend approval to the Board of news releases and reports to shareholders issued by the Company with respect to the Company's annual and quarterly financial statements.
- Ensure that adequate procedures are in place for the review of the Company's disclosure of financial information extracted or derived from the Company's financial statements, other than the disclosure stated above, and periodically assess the adequacy of those procedures.
- In consultation with management and the independent auditors, consider the integrity of the Company's financial reporting processes and controls. Discuss significant financial risk exposures and the steps management has taken to monitor, control, and report such exposures. Review significant findings prepared by the independent auditors together with management's responses.
- Review with management and the independent auditors the management certifications of the financial statements as required under applicable securities laws.
- Review with management and the independent auditors the appropriateness of the Company's accounting policies, disclosures, reserves, key estimates and judgments, including changes or alternatives thereto and to obtain reasonable assurance that they are in compliance with GAAP, and report thereon to the Board.
- Review the following with management with the objective of obtaining reasonable assurance that financial risk is being effectively managed and controlled:
  - a. management's tolerance for financial risks;
  - b. management's assessment of significant financial risks facing the Company;
  - c. the Company's policies, plans, processes and any proposed changes to those policies for controlling significant financial risks;

- On at least an annual basis, review with the Company’s counsel, any legal matters that could have a significant impact on the organizations’ financial statements, the Company’s compliance with applicable laws and regulations, inquiries received from regulators or governmental agencies.

### **Independent Auditors**

- The independent auditors are ultimately accountable to the Committee and the Board. The Committee shall review the independence and performance of the auditors and annually recommend to the Board the appointment of the independent auditors or approve any discharge of auditors when circumstances warrant.
- Assume direct responsibility for overseeing the work of the independent auditors engaged to prepare or issue an audit report or perform other audit, review or attest services for the Company, including the resolution of disagreements between management and the independent auditors regarding financial reporting.
- Evaluate and recommend to the Board the independent auditors to be nominated to prepare or issue an audit report or perform other audit, review or attest services for the Company, and the compensation of the independent auditors.
- Pre-approve all non-audit services to be provided to the Company or its subsidiary entities by its independent auditors. Authority to pre-approve non-audit services may be delegated to one or more independent members, provided that the pre-approval is presented to the full Committee at its first scheduled meeting following such pre-approval.
- On an annual basis, the Committee should review and discuss with the independent auditors all significant relationships they have with the Company that could impair the auditors’ independence.
- Review the independent auditors’ audit plan, discuss scope, staffing, locations, reliance upon management and internal audit and general audit approach.
- Prior to releasing the year-end earnings, discuss the results of the audit with the independent auditors. Discuss certain matters required to be communicated to audit committees.
- Consider the independent auditors’ judgments about the quality and appropriateness of the Company’s accounting principles as applied in its financial reporting.
- Review the results of independent audits and any change in accounting practices or policies and their impact on the financial statements.
- Where there are unsettled issues raised by the independent auditors that do not have a material effect on the annual audited financial statements, require that there be a written response identifying a course of action that would lead to their resolution.

### **Other**

- Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

- Review and approve the Company’s hiring policies regarding employees and former employees of the present and former independent auditors of the Company.
- Review, through its Chairman, the travel and entertainment expenses of the President and Chief Executive Officer.
- Ensure that the Company’s AIF contains the required, prescribed disclosure regarding the Committee, and if management solicits proxies from the Company’s security holders for the purpose of electing Directors to the Company’s Board, ensure that a cross-reference to the sections of the Company’s AIF containing the required, prescribed disclosure is included in the Company’s management information circular.

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1. For the definition of **independent director**, please see the Glossary of Terms.

2. An individual is **financially literate** if he/she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company’s financial statements.