

# LMS Medical Systems Inc.

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For Immediate Release

## **LMS ANNOUNCES FIRST QUARTER FINANCIAL RESULTS REVENUES MORE THAN DOUBLE OVER PREVIOUS YEAR Q1 TO \$631,000**

**Montreal, Quebec, August 9, 2006** - LMS Medical Systems (TSX: LMZ, AMEX: LMZ), a healthcare technology company and developer of the CALM™ clinical information system and risk management software tools for obstetrics, today announced results of operations for the first quarter of F2007 ended June 30, 2006. All amounts are in Canadian dollars.

Revenues in Q1 2007 increased by 136% to \$631,000 from \$268,000 in Q1 2006. The increase in revenues is a result of new hospital installations of CALM clinical information systems, CALM risk management software and technical, maintenance support and other revenues resulting from a growing client base. LMS backlog of signed contracts has grown to \$2.0 million. Identified sales opportunities currently total \$25 million. The net loss for 2006 was in line with expectations at \$2.55 million (\$0.15 per share) compared to \$2.46 million (\$0.15 per share) in 2005. Approximately one-half of the increase in expenditures of \$0.4 million related to increased product management initiatives. The remainder of the increase related to increased development salaries and consulting expenses and increased administrative expenses. Non-cash stock based compensation expense totaled \$0.35 million in Q1 2007 compared to \$0.28 million in Q1 2006.

Cash, cash equivalents, short-term investments and investments held to maturity, as at June 30, 2006 totaled \$5.6 million compared to \$5.6 million as at March 31, 2006. The decrease of \$2.25 million related to operating activities was offset by private placement financing inflows of \$2.3 million, net of issue costs of \$0.17 million.

### **FIRST QUARTER HIGHLIGHTS:**

- Revenues more than double over Q1 the prior year;
- Back log of signed contracts has grown to \$2.0 million;
- Identified sales opportunities up sharply to \$25 million;
- LMS new product, CALM Shoulder Screen, continues to attract gratifying attention in the marketplace.

An expanded Management's Discussion and Analysis for the quarter, and previous periods, is accessible on the LMS website at [www.lmsmedical.com](http://www.lmsmedical.com) and with Company's regulatory filings in Canada at [www.sedar.com](http://www.sedar.com) and in the United States at [www.sec.gov](http://www.sec.gov).

### **ABOUT LMS:**

LMS is a leader in the application of advanced mathematical modeling and neural networks for medical use. The LMS CALM™ Decision Support Suite provides physicians, nursing staff, risk managers and hospital administrators with clinical information systems and risk management tools designed to improve outcomes and patient care for mothers and their infants during labor and delivery.

*Except for historical information contained herein, the matters discussed in this news release are forward-looking statements. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed implied by the forward-looking statements including, but without limitation, economic conditions in general and in the healthcare market, the demand for and market for our products in domestic and international markets, our current dependence on the CALM product suite, the challenges associated with developing new products and obtaining regulatory approvals if necessary, research and development activities, the uncertainty of acceptance of our products by the medical community, the lengthy sales cycle for our products, third party reimbursement, competition in our markets, including the potential introduction of competitive products by others, our dependence on our distributors, physician training, enforceability and the costs of enforcement of our patents, potential infringements of our patents and the other factors set forth from time to time in the Company's filings with the United States Securities and Exchange Commission and with the Canadian Securities Commissions. The Company has no intention of or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

*Interim Consolidated Financial Statements [Unaudited]  
(Not reviewed by the Company's external auditors)*

## LMS Medical Systems Inc.

*As at June 30, 2006 and March 31, 2006 and for the three-month  
periods ended June 30, 2006 and 2005*



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### **NOTICE OF DISCLOSURE OF NON-AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS FOR THE PERIODS ENDED JUNE 30, 2006 AND 2005**

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if the external auditors have not performed a review of the interim financial statements, the interim financial statements must be accompanied by a notice indicating that they have not been reviewed by the external auditors.

The accompanying unaudited interim consolidated financial statements of the Company for the periods ended June 30, 2006 and 2005 have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of the Company's management.

The Company's external auditors, Ernst & Young LLP, have not performed a review of these interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by the external auditors of an entity.

*Dated this August 9, 2006*

LMS Medical Systems Inc.

As at June 30, 2006 and March 31, 2006 and for the three-month  
 periods ended June 30, 2006 and 2005



**INTERIM CONSOLIDATED BALANCE SHEETS**

As at	[Unaudited]	
	June 30, 2006 \$	March 31, 2006 \$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	4,972,247	5,481,202
Short-term investments	505,174	-
Accounts receivable	631,132	563,436
Investment tax credits receivable	305,000	260,000
Prepaid expenses	212,251	155,223
<b>Total current assets</b>	<b>6,625,804</b>	<b>6,459,861</b>
Investments - restricted <i>[at cost]</i>	100,000	100,000
Property, plant and equipment	655,198	550,167
Patents	210,153	191,172
	<b>7,591,155</b>	<b>7,301,200</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	1,638,448	1,436,442
Deferred revenues and deposits from distributors	954,345	984,180
Current portion of obligations under capital leases	31,483	36,437
<b>Total current liabilities</b>	<b>2,624,276</b>	<b>2,457,059</b>
Long-term portion of obligations under capital leases	43,697	49,379
	<b>2,667,973</b>	<b>2,506,438</b>
<b>Shareholders' equity</b>		
Capital stock <i>[note 2]</i>	50,635,469	47,665,694
Warrants <i>[note 2]</i>	228,760	234,027
Contributed surplus <i>[note 2]</i>	2,323,095	2,153,743
Accruals for expected bonus to be paid in Common Shares <i>[note 2]</i>	165,598	485,373
Deferred share units <i>[note 2]</i>	261,941	226,925
Deficit	(48,691,681)	(45,971,000)
<b>Total shareholders' equity</b>	<b>4,923,182</b>	<b>4,794,762</b>
	<b>7,591,155</b>	<b>7,301,200</b>

See accompanying notes

LMS Medical Systems Inc.

As at June 30, 2006 and March 31, 2006 and for the three-month  
periods ended June 30, 2006 and 2005



**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS**

For the three-month periods ended

[Unaudited]

	June 30, 2006 \$	June 30, 2005 \$
<b>Revenues</b>		
Software licenses	298,229	179,869
Technical support and other	332,922	88,046
<b>Total revenues</b>	<b>631,151</b>	<b>267,915</b>
<b>Operating expenses</b>		
Research and development	1,100,603	975,747
Investment Tax Credits	(45,000)	(56,350)
<b>Net research and development</b>	<b>1,055,603</b>	<b>919,397</b>
Royalties and other direct costs	81,271	33,938
Selling and market development	790,524	583,067
Administrative	756,691	669,739
Customer support	247,911	253,830
Quality assurance	49,091	55,188
Stock option expense	164,085	225,000
Amortization of property, plant and equipment	81,127	48,006
Amortization of patents	4,356	1,403
Foreign exchange loss (gain)	(5,411)	6,852
	<b>3,225,248</b>	<b>2,796,420</b>
<b>Operating loss</b>	<b>(2,594,097)</b>	<b>(2,528,505)</b>
Interest and other income, net	(43,691)	(66,479)
<b>Net loss</b>	<b>(2,550,406)</b>	<b>(2,462,026)</b>
<b>Basic and diluted loss per share [note 3]</b>	<b>(0.15)</b>	<b>(0.15)</b>

See accompanying notes

LMS Medical Systems Inc.

As at June 30, 2006 and March 31, 2006 and for the three-month periods ended June 30, 2006 and 2005



**INTERIM CONSOLIDATED STATEMENTS OF DEFICITS**

For the three-month periods ended

[Unaudited]

	June 30, 2006 \$	June 30, 2005 \$
<b>Deficit, beginning of period</b>	<b>(45,971,000)</b>	(36,564,828)
Net loss	(2,550,406)	(2,462,026)
Share issue costs	(170,275)	-
<b>Deficit, end of period</b>	<b>(48,691,681)</b>	(39,026,854)

See accompanying notes

**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the three-month periods ended

[Unaudited]

	June 30, 2006 \$	June 30, 2005 \$
<b>OPERATING ACTIVITIES</b>		
Net loss	(2,550,406)	(2,462,026)
Adjustments for non-cash items:		
Amortization of assets	85,483	49,409
Stock based compensation	349,101	381,625
	(2,115,822)	(2,030,992)
Net changes in non-cash operating working capital items	(132,666)	808,586
<b>Cash flows related to operating activities</b>	<b>(2,248,488)</b>	(1,222,406)
<b>INVESTING ACTIVITIES</b>		
Maturity of short-term investments	-	8,963,583
Purchase of short-term investments	(505,174)	-
Additions to property, plant and equipment	(51,045)	(83,117)
Additions to patents	(23,337)	(35,780)
<b>Cash flows related to investing activities</b>	<b>(579,556)</b>	8,844,686
<b>FINANCING ACTIVITIES</b>		
Repayment of obligations under capital leases	(10,636)	(10,694)
Issuance of common shares	2,500,000	-
Share issue costs	(170,275)	-
<b>Cash flows related to financing activities</b>	<b>2,319,089</b>	(10,694)
<b>Net change in cash and cash equivalents</b>	<b>(508,955)</b>	7,611,586
Cash and cash equivalents, beginning of period	5,481,202	2,843,989
<b>Cash and cash equivalents, end of period</b>	<b>4,972,247</b>	10,455,575

See accompanying notes

## LMS Medical Systems Inc.

As at June 30, 2006 and March 31, 2006 and for the three-month periods ended June 30, 2006 and 2005



### 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

#### Description of business

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

To date LMS has financed its cash requirements primarily from shares issuances, loans payable, convertible debentures, investment tax credits and software and maintenance revenues. The success of LMS is dependent on obtaining the necessary regulatory approvals, generating revenue from the sale of its products and achieving future profitable operations.

#### Basis of presentation

These unaudited interim consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles [Canadian GAAP] for interim financial information. Accordingly, they do not include all of the disclosures required by Canadian GAAP for annual financial statements. In the opinion of management all adjustments of a normally recurring nature considered necessary for a fair presentation have been included. Operating results for the interim period are not necessarily indicative of the results that may be expected for the full year. These unaudited interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements of LMS as at March 31, 2006 and 2005 and for the years ended March 31, 2006 and 2005, the five-month period ended March 31, 2004 and the year ended October 31, 2003. The accounting policies and methods followed in the preparation of these unaudited interim consolidated financial statements are the same as those in the audited annual consolidated financial statements of LMS. The consolidated balance sheet as at March 31, 2006 has been derived from the audited consolidated financial statements of LMS at this date but does not include all of the information and footnotes required by Canadian GAAP for complete financial statements.

### 2. CAPITAL STOCK

An unlimited number of common shares without par value are authorized.

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

	Number	\$
<b>Common shares</b>		
<b>Balance as at March 31, 2006</b>	<b>16,523,449</b>	<b>47,665,694</b>
Shares issued under the Bonus Plan	228,046	469,775
Shares issued under a private placement	1,250,000	2,500,000
<b>Balance as at June 30, 2006</b>	<b>18,001,495</b>	<b>50,635,469</b>

During the three-month period ending June 30, 2006, LMS issued 1,250,000 common shares, in form of a private placement, at \$2.00 per share. Share issue expenses of \$170,275 were recorded within deficit.

## LMS Medical Systems Inc.

As at June 30, 2006 and March 31, 2006 and for the three-month periods ended June 30, 2006 and 2005



### 2. CAPITAL STOCK [Cont'd]

#### Bonus Plan

In fiscal 2005, LMS established a Bonus Plan [the "Bonus Plan"] that provides for annual awards to eligible executives and employees based on achievement of corporate and individual performance objectives. The fair value of these awards is paid in common shares, the number of which is based upon dividing the total award by the five day average year-end closing market price of the common shares on the Toronto Stock Exchange. On September 14, 2005, at the annual and special meeting of shareholders, the Bonus Plan was approved. The maximum number of shares issuable under this plan is 250,000. For the year ending March 31, 2006, LMS has recorded bonus expense in the amount of \$485,373 [235,618 common shares], within the shareholders' equity section. Upon the approval by the Board of Directors, 228,046 shares were issued by LMS during the three-month period ending March 31, 2006, relating to the year ended March 31, 2006. During the three month period ended June 30, 2006, relating to 2007 fiscal year, LMS has recorded \$150,000 as bonus expected to be paid in common shares.

#### Deferred Share Unit Plan

In fiscal 2005, LMS established a Deferred Share Unit plan [the "DSU Plan"] that provides for the payment of director's quarterly compensation with deferred share units. Each deferred share unit is a right granted by LMS to an eligible director to receive one common share upon termination of service. The number of deferred share units to be granted under the DSU Plan is determined by dividing the quarterly director compensation by the five day average quarter end closing market price of the common shares on the Toronto Stock Exchange. On September 14, 2005, at the annual and special meeting of shareholders, the DSU Plan was approved.

The maximum number of deferred share units issuable under this plan is 125,000. Also following the approval of the DSU Plan, the Company has the option to remit either cash or common shares to settle the deferred share units.

Total director compensation expense for the period end June 30, 2006 was \$55,625 and 28,666 deferred share units were granted. During the three-month period ended June 30, 2006, 8,028 deferred share units were cancelled, at the request of the director, and related director compensation of \$20,609 was reversed.

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

	<b>Number of DSU Units #</b>	<b>DSU Plan balance \$</b>
<b>Balance as at March 31, 2006</b>	<b>101,230</b>	<b>226,925</b>
Units granted during the period	28,666	55,625
Units cancelled during the period	(8,028)	(20,609)
<b>Balance as at June 30, 2006</b>	<b>121,868</b>	<b>261,941</b>

#### Warrants

	<b>#</b>	<b>\$</b>
Balance as at March 31, 2006	624,683	234,027
Expired	(15,859)	(5,267)
<b>Balance as at June 30, 2006</b>	<b>608,824</b>	<b>228,760</b>

During the three-month period ended June 30, 2006, 5,267 warrants expired. These warrants were valued at \$15,859. This amount has been credited to contributed surplus. As at June 30, 2006 each outstanding warrant allows its holder to acquire one common share for cash consideration of: \$3.23 for 588,824 warrants and \$4.85 for 20,000 warrants. The warrants expire from September 2006 to September 2009 with an average remaining life of 2.18 years as at June 30, 2006. When warrants are exercised or expired, the carrying value of the warrants is credited to contributed surplus.

## LMS Medical Systems Inc.

As at June 30, 2006 and March 31, 2006 and for the three-month periods ended June 30, 2006 and 2005



### 2. CAPITAL STOCK [Cont'd]

#### Stock Options

The changes to the number of stock options outstanding and their weighted average exercise prices for the three-month period ending June 30, 2006, are as follows:

	Number	Weighted average exercise price \$
Balance as at March 31, 2006	1,563,397	3.92
Granted	362,000	2.12
Expired	(15,000)	4.30
<b>Balance as at June 30, 2006</b>	<b>1,910,397</b>	<b>3.58</b>

Additional information concerning stock options outstanding as at June 30, 2006 is as follows:

Exercise price	#	Options outstanding		Options exercisable	
		Weighted average Contractual life (Years)	Weighted average exercise price	#	Weighted average exercise price
\$1.80 - \$2.06	344,000	4.7	1.98	33,333	1.80
\$2.25 - \$2.45	323,359	4.1	2.38	20,000	2.25
\$3.69 - \$4.00	149,110	3.2	3.95	107,443	3.93
\$4.00 - \$4.62	1,093,928	2.4	4.38	835,529	4.41
\$1.80 - \$4.62	1,910,397	3.2	3.58	996,305	4.23

As at July 31, 2006, the Company had 1,910,397 share stock options outstanding

During the three-month period ended June 30, 2006 the Company issued an additional 362,000 options to its employees, directors and consultants. The fair value of these options will be recorded over the remaining vesting period. The weighted average assumptions used included: expected life of 5 years, fair value of \$1.98 per common share, dividend yield of nil, volatility factor of 0.44 and risk free interest rate of 3.35%.

During the three-month period ended June 30, 2006 and 2005, the Company recorded stock option expense of \$164,085 and \$225,000 respectively.

Prior to November 1, 2003, no compensation expense was recognized when options were issued to employees and directors. Pro forma disclosure regarding options granted under the LMS stock option plan prior to November 1, 2003 is as follows:

	June 30, 2006 \$	June 30 2005 \$
<b>Net loss</b>	<b>(2,550,406)</b>	<b>(2,462,026)</b>
Stock-based compensation costs that would have been included in the determination of net loss if the fair value based method has been applied	(2,985)	(25,525)
<b>Pro forma net loss</b>	<b>(2,553,391)</b>	<b>(2,487,551)</b>
<b>Pro forma basic and diluted loss per share</b>	<b>(0.15)</b>	<b>(0.15)</b>

## LMS Medical Systems Inc.

As at June 30, 2006 and March 31, 2006 and for the three-month periods ended June 30, 2006 and 2005



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### 3. BASIC AND DILUTED LOSS PER SHARE

The numerator and denominator for the calculation of basic and diluted loss per share are as follows:

	<b>June 30, 2006 \$</b>	<b>June 30 2005 \$</b>
<hr/>		
<b>Numerator</b>		
Net loss attributable to common shares - basic and diluted	<b>(2,550,406)</b>	<b>(2,462,026)</b>
<hr/>		
<b>Denominator</b>		
Weighted-average number of common shares - basic and diluted	<b>17,415,213</b>	<b>16,503,177</b>
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### 4. COMPARATIVE FIGURES

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