

LMS Medical Systems Inc.

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For Immediate Release

LMS FIRST QUARTER 2009 FINANCIAL RESULTS Q1 REVENUES TOTAL \$801,000

Montréal, Québec, August 12, 2008 - LMS Medical Systems (TSX: LMZ), a healthcare technology company and developer of the CALM® clinical information system and risk management software tools for obstetrics, today reported its unaudited financial results for the first quarter ended June 30, 2008. All amounts are in Canadian dollars.

Revenues totaled \$801,000 for Q1 2009, a decrease of 17% from \$962,000 for Q1 2008. Revenues did not meet expectations due to a delay with our distributor's software release which integrates our product. Notwithstanding lower than expected revenues, we believe this will rectify itself with the new release. The Company's sales have increased significantly on a year to year basis over the past three years, a trend which, based on our backlog and growing pipeline, we believe will continue.

Recurring revenues for the quarter totaled \$471,000, an increase of 50% over Q1 2008 when they totaled \$314,000.

Our backlog remained stable at \$3.9 million. However, our pipeline of opportunities increased to \$34 million from \$31 million.

LMS continues to concentrate its efforts on revenue generation, servicing the Company's growing customer base and profitability. LMS looks to develop additional partnerships to increase market presence.

Total expenses for Q1 2009 amounted to \$2,278,000 compared to \$2,928,000 for Q1 2008, a decrease of \$650,000 or 22%, which contributed to the reduction of the comparative operating loss by \$504,000 or 24%, from \$2,090,000 (\$0.10 per share) to \$1,586,000 (\$0.06 per share). The cash used in operating activities before net changes in non-operating working capital items decreased by \$422,000 to \$1,461,000 for Q1 2009 compared to \$1,883,000 for Q1 2008, due primarily to a lower net loss for Q1 2009 compared to Q1 2008.

Under our contract with a distributor, LMS is entitled to receive amounts for contracts contained in our backlog. As at June 30, 2008, this amount, which does not qualify as a receivable under generally accepted accounting principles, amounted to \$907,000 and will provide short term additional liquidity. As such, the total cash, cash equivalents, short term investments and accounts receivable, including this amount, amounted to \$2,546,000 as at June 30, 2008. To date, we have funded our research and development phase and the regulatory process with equity issuance. We intend to seek additional financing to fund operations and sales activities through sales ramp up.

HIGHLIGHTS FOR THE FIRST QUARTER ENDED JUNE 30, 2008:

- Included in revenues of \$801,000 for Q1 2009 are revenues of a recurring nature, totaling \$471,000, or 59% of total revenues, compared to \$314,000, or 33% of total revenues for Q1 2008.
- We increased the value of identified sales opportunities being pursued from \$31 million to \$34 million.
- Our backlog remained stable at \$3.9 million.
- We expanded our sales and marketing team, as we continue to concentrate on increasing our presence in the market.
- Our current total client base has grown to 98 with those additional customer commitments won during the quarter having been secured through our direct sales channel.
- We signed a contract with Premier Purchasing Partners, LP, one of the largest group purchasing organizations in the United States. Premier has awarded LMS a group contract, making us a contracted supplier for its Clinical Situational Awareness tools.
- We signed our first consulting agreement regarding our OB/Performance Excellence Program with Princeton Insurance of New Jersey.



LMS complete results for the first quarter ended June 30, 2008 along with an expanded Management's Discussion and Analysis will be released in normal course on or about August 12th and will be available at www.sedar.com and at www.lmsmedical.com.

ABOUT LMS

LMS is a leader in the application of advanced mathematical modeling and neural networks for medical use. The LMS CALM™ 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 childbirth.

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 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.

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LMS Medical Systems Inc.

*Interim Consolidated Financial Statements
(Not reviewed by the Company's external auditors)
For the three months ended June 30, 2008*



NOTICE OF DISCLOSURE OF NON-AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS FOR THE PERIODS ENDED JUNE 30, 2008 AND 2007

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, 2008 and 2007 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 12, 2008

LMS Medical Systems Inc.

Incorporated under the Canada Business Corporations Act
 Interim Consolidated Financial Statements
 (Not reviewed by the Company's external auditors)
 For the three months ended June 30, 2008



INTERIM CONSOLIDATED BALANCE SHEETS (See Note 1 - Description of Business, Going Concern and Basis of Presentation)

(Unaudited)

As at

(in Canadian dollars)	June 30, 2008 \$	March 31, 2008 \$
ASSETS		
Current assets		
Cash and cash equivalents	–	1,809,482
Short-term investments	50,000	50,000
Accounts receivable	1,682,415	1,106,864
Investment tax credits receivable	93,000	84,000
Prepaid expenses	136,075	104,271
Total current assets	1,961,490	3,154,617
Investments - restricted	50,000	50,000
Fixed assets	201,918	230,664
Patents	331,946	311,501
Total assets	2,545,354	3,746,782
LIABILITIES AND SHAREHOLDERS' (DEFICIENCY) EQUITY		
Current liabilities		
Bank overdraft	142,740	–
Accounts payable and accrued liabilities (note 4)	1,149,623	1,042,110
Amounts due under the bonus and deferred share unit plans (note 5)	909,260	705,635
Current portion of deferred revenues and deposits from distributors	1,532,584	1,650,825
Current portion of obligations under capital leases	27,632	35,336
Total current liabilities	3,761,839	3,433,906
Deferred revenues and deposits from distributors	–	29,129
Obligations under capital leases	2,369	4,694
Total long-term liabilities	3,764,208	3,467,729
Shareholders' (deficiency) equity (note 5)		
Capital stock	57,562,921	57,271,326
Warrants	679,328	679,328
Contributed surplus	3,277,815	3,187,050
Accruals for expected bonus to be paid in Common Shares	1,591	293,186
Deferred share units	538,948	538,948
Deficit	(63,279,457)	(61,690,785)
Total shareholders' (deficiency) equity	(1,218,854)	279,053
Total liabilities and shareholders' (deficiency) equity	2,545,354	3,746,782

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

LMS Medical Systems Inc.

Incorporated under the Canada Business Corporations Act
 Interim Consolidated Financial Statements
 (Not reviewed by the Company's external auditors)
 For the three months ended June 30, 2008



INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS (Unaudited)

(in Canadian dollars)	For the three months ended June 30,	
	2008	2007
	\$	\$
Revenues		
Software licenses	369,816	598,040
Technical support services, consulting and other	431,605	363,643
Total revenues	801,421	961,683
Royalties and other direct costs	109,282	124,176
Revenues, net of royalties and other direct costs	692,139	837,507
Operating expenses		
Research and development expenses	481,466	839,799
Investment tax credits	(9,000)	(30,000)
Net research and development expenses	472,466	809,799
Administrative	655,362	768,625
Selling, marketing and product management	747,128	746,701
Customer support	235,304	249,799
Quality assurance	47,546	77,038
Stock option expense (note 5)	90,765	103,121
Amortization of fixed assets	28,746	98,197
Amortization of patents	7,903	5,959
Foreign exchange loss (gain)	(6,806)	68,270
Total operating expenses	2,278,414	2,927,509
Operating loss	(1,586,275)	(2,090,002)
Interest on long-term debt	3,914	–
Interest revenue and other income	(1,517)	(13,956)
Net loss and comprehensive loss	(1,588,672)	(2,076,046)
Basic and diluted loss per share (note 6)	(0.06)	(0.10)
Weighted average number of common shares - basic and diluted	26,374,991	21,663,523

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

INTERIM CONSOLIDATED STATEMENTS OF DEFICIT (Unaudited)

(in Canadian dollars)	For the three months ended June 30,	
	2008	2007
	\$	\$
Deficit, beginning of year	(61,690,785)	(55,970,519)
Net loss	(1,588,672)	(2,076,046)
Deficit, end of year	(63,279,457)	(58,046,565)

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For the three months ended June 30, 2008



INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in Canadian dollars)	For the three months ended June 30,	
	2008	2007
	\$	\$
OPERATING ACTIVITIES		
Net loss	(1,588,672)	(2,076,046)
Adjustments for non-cash items:		
Amortization expense	36,649	104,156
Amortization of leasehold inducements	–	(14,208)
Stock based compensation	90,765	103,121
	(1,461,258)	(1,882,977)
Net changes in non-cash operating working capital items	(452,587)	1,712,031
Cash flows related to operating activities	(1,913,845)	(170,946)
INVESTING ACTIVITIES		
Additions to fixed assets	–	(683)
Additions to patents	(28,348)	(49,391)
Cash flows related to investing activities	(28,348)	(50,074)
FINANCING ACTIVITIES		
Repayment of long-term debt, obligations under capital lease	(10,029)	(7,471)
Cash flows related to financing activities	(10,029)	(7,471)
Decrease in cash and cash equivalents	(1,952,222)	(228,491)
Cash and cash equivalents, beginning of period	1,809,482	3,358,995
Cash and cash equivalents (bank overdraft), end of period	(142,740)	3,130,504

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

LMS Medical Systems Inc.

Notes to Interim Consolidated Financial Statements

As at June 30, 2008 (unaudited)

(All tabular amounts are in Canadian dollars except where otherwise stated)



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

Description of business

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

Going Concern and Basis of Presentation

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

LMS is a software development company and has not generated profits since inception. Further, there can be no assurance that LMS will achieve profitability in the future. As at June 30, 2008, the Company had a working capital and shareholders’ equity deficiency. To date, LMS has financed its cash requirements primarily from software and technical support revenues, share and warrant issuances, loans payable, convertible debentures and investment tax credits. During the third quarter of fiscal 2008, LMS implemented a program to streamline operations and reduce operating cash expenses. During the fourth quarter of fiscal 2008, LMS obtained additional financing to help fund its operations and sales activities. LMS will require additional financing to fund its operations and sales activities. In addition, LMS’s continuation as a going concern is dependent upon the continuing support of its distributors, customers and shareholders, attaining a satisfactory revenue level, continued sales to its existing customers, the start of profitable operations and the ability to generate sufficient cash from operations. These matters are dependent on a number of items beyond LMS’s control and there is uncertainty about LMS’s ability to successfully execute its plans. These unaudited interim consolidated financial statements do not reflect any adjustments in the carrying values of the assets and liabilities, the reported revenue and expenses and the balance sheet classifications used that would be necessary if the going concern assumption were not appropriate should LMS not be able to continue its normal course of business.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) for interim financial information. Accordingly, they do not include all of the 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, 2008 and 2007 and for the years ended March 31, 2008, 2007 and 2006.

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, except as described in note 2. The consolidated balance sheet as at March 31, 2008 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. CHANGES IN ACCOUNTING POLICIES

Effective April 1, 2008, LMS adopted the following Canadian Institute of Chartered Accountants (“CICA”) Handbook Sections:

a) Capital Disclosures

CICA Handbook Section 1535, “Capital Disclosures”, requires disclosure of an entity’s objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. Disclosure requirements pertaining to Section 1535 are contained in note 7.

b) Financial Instruments Disclosures

CICA Handbook Section 3862, “Financial Instruments - Disclosures”, increases the disclosures currently required that will enable users to evaluate the significance of financial instruments for an entity’s financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable. Disclosure requirements pertaining to Section 3862 are contained in note 8.

c) Financial Instruments Presentation

CICA Handbook Section 3863, “Financial Instruments - Presentation”, establishes standards for presentation of financial instruments and non-financial derivatives. It carries forward the presentation related requirements of Section 3861, “Financial Instruments - Disclosure and Presentation”. Disclosure requirements pertaining to Section 3863 are contained in note 8.

d) General Standards on Financial Statement Presentation

CICA Handbook Section 1400, “General Standards on Financial Statement Presentation”, has been amended to include requirements to assess and disclose an entity’s ability to continue as a going concern. The adoption of this Section had no impact on the Company’s unaudited interim consolidated financial statements.

3. NEW ACCOUNTING PRONOUNCEMENTS

Goodwill and Intangible Assets

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

International Financial Reporting Standards

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

LMS Medical Systems Inc.

Notes to Interim Consolidated Financial Statements

As at June 30, 2008 (unaudited)

(All tabular amounts are in Canadian dollars except where otherwise stated)



4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2008	March 31, 2008
	\$	\$
Trade accounts payable	531,754	311,490
Accrued liabilities	219,016	272,722
Salaries, benefits, commissions and vacation accruals	398,853	457,898
	1,149,623	1,042,110

5. CAPITAL STOCK

Authorized

An unlimited number of common shares without par value.

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

	Common shares	
	Number	\$
March 31, 2008	25,856,040	57,271,326
Issued under the Bonus Plan	485,992	291,595
June 30, 2008	26,342,032	57,562,921

Bonus Plan

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

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

For the year ended March 31, 2008, LMS recorded bonus expense of \$380,000 for the 2008 fiscal year, expected to be paid in common shares or DSUs. As at March 31, 2008, shares reserved, available and unissued and approved by the shareholders under the Bonus Plan were 272,374 whereas the required number of shares to settle the 2008 bonus was 633,333. As a result of this shortfall, only a portion of the \$380,000, or \$163,424, representing 272,374 common shares was recorded within the shareholders' equity section as accruals for bonus expected to be paid by issuing common shares. The remaining balance of \$216,576 was recorded as a current liability on the balance sheet. On August 12, 2008, at the annual general meeting, LMS shareholders approved the increase of the number of shares issuable under the Bonus Plan from 1,300,000 to 2,200,000, and the amount recorded as a current liability on the balance sheet as at March 31, 2008 will be reversed and recognized in shareholders' equity.

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



5. CAPITAL STOCK (Cont'd)

During the three months ended June 30, 2008, 485,992 (\$291,595) of the reserved shares were issued. 216,270 common shares were issued to management for settlement of the 2008 suspended salaries and the 25% premium, and 269,722 common shares were issued to employees for settlement of the 2008 bonuses. LMS recorded \$150,000 as bonus expected to be paid in common shares relating to the 2009 fiscal year within current liabilities, bringing the total bonus payable within current liabilities for 2008 and 2009 to \$909,260.

Deferred Share Unit Plan

In fiscal 2005, LMS established the DSU Plan that provides for the payment of director's quarterly compensation with DSUs. Each DSU is a right granted by LMS to an eligible director to receive one common share upon termination of service. The number of DSUs to be granted under the DSU Plan is determined by dividing the quarterly director compensation by the five day average quarter end closing market price of the common shares on the TSX. At the 2005 annual and special meeting of shareholders, the DSU Plan was approved. At the 2006 annual general meeting, the maximum number of DSUs issuable under this plan was increased from 125,000 to 250,000.

LMS has the option to remit either cash or common shares to settle the DSUs. At the 2007 annual general meeting, the shareholders approved the increase of the number of DSUs issuable under this plan from 250,000 to 400,000. As well, the shareholders approved the following amendments to the DSU Plan: (a) to add full-time officers and employees as eligible participants; (b) to permit eligible officers and employees to elect to receive all or a portion of any bonus under the Company's Bonus Plan in the form of DSUs; and (c) permit officers to elect to receive a portion of their annual base salary in the form of DSUs.

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

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

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

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

For the three months ended June 30, 2008, LMS recorded director compensation expense of \$53,625, representing 87,912 DSUs, which was recorded as a current liability due to the shortfall of reserved, available and unissued DSUs.

On August 12, 2008, at the annual general meeting, LMS shareholders approved the increase of the number of DSUs issuable under the DSU Plan from 400,000 to 2,000,000. As such all amounts recorded as current liability will be reversed and recognized as shareholders' equity.

LMS Medical Systems Inc.

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(All tabular amounts are in Canadian dollars except where otherwise stated)



5. CAPITAL STOCK (Cont'd)

	DSU Plan balance \$	Number of DSU Units #	Weighted average price of DSU \$
Balance as at March 31, 2008	1,170,868	1,427,845	0.82
Units granted	53,625	87,912	0.61
Balance as at June 30, 2008 (issued or to be issued)	1,224,493	1,515,757	0.81

Warrants

	Number	\$
Balance as at March 31, 2008 and June 30, 2008	2,238,137	679,328

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

Exercise price \$	Number #	Remaining life in years
0.60	1,189,000	4.7
1.29	166,266	1.7
1.50	422,500	1.8
3.23	432,249	0.4
3.32	8,122	0.3
4.85	20,000	1.3
	2,238,137	

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

Stock option plan

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

	Number	Weighted average exercise price \$
Balance as at March 31, 2008	2,289,939	2.74
Granted	175,000	0.68
Balance as at June 30, 2008	2,464,939	2.59

Exercise price	Options outstanding			Options exercisable	
	Number Outstanding as at June 30, 2008	Weighted average contractual life	Weighted average exercise price \$	Number Exercisable as at June 30, 2008	Weighted average exercise price \$
0.53-0.70	400,000	4.8	0.60	75,000	0.53
1.50-1.70	550,000	4.0	1.66	144,119	1.70
1.80-2.06	337,333	2.7	1.98	251,555	1.96
2.25-2.45	235,359	2.2	2.40	176,906	2.38
3.69-4.00	146,403	1.3	3.95	146,403	3.95
4.28-4.62	795,844	1.1	4.30	795,844	4.30
0.53-4.62	2,464,939	2.7	2.59	1,589,827	3.27

LMS Medical Systems Inc.

Notes to Interim Consolidated Financial Statements

As at June 30, 2008 (unaudited)

(All tabular amounts are in Canadian dollars except where otherwise stated)



6. BASIC AND DILUTED LOSS PER SHARE

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

	For the three months ended June 30 ,	
	2008	2007
	\$	\$
Numerator		
Net loss attributable to common shares - basic and diluted	(1,588,672)	(2,076,046)
Denominator		
Weighted-average number of common shares - basic and diluted	26,374,991	21,663,523

7. MANAGEMENT OF CAPITAL

The Company's objective when managing capital is to safeguard its ability to continue as a going concern and to provide returns for shareholders and benefits to other stakeholders.

In the management of capital, LMS includes shareholders' (deficiency) equity, amounts due under the bonus and deferred share units plans and deferred revenue in the definition of capital. LMS' capital included the following:

	As at June 30, 2008	As at March 31, 2008
	\$	\$
Shareholders' (deficiency) equity	(1,218,854)	279,053
Amounts due under the bonus and deferred share unit plans	909,260	705,635
Deferred revenue	1,532,584	1,679,954
Total	1,222,990	2,664,642

LMS' primary objective with respect to its capital management is to ensure that it has sufficient cash to pursue commercialization of its products and to maintain ongoing operations. To secure the additional capital necessary to pursue these plans, the Company will raise additional funds through the issuance of equity.

There has been no change with respect to the overall capital risk management strategy during the three-month period ended June 30, 2008.

8. FINANCIAL INSTRUMENTS

Classification of financial instruments

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost, as disclosed in note 2 to the Company's 2008 consolidated financial statements under "Section 3855, 'Financial Instruments - Recognition and Measurement' ". This note describes the measurement for the financial instruments categories and how income and expenses, including fair value gains and losses, are recognized. As at June 30, 2008, the classification of the financial instruments, as well as their carrying values and fair values are shown in the table below:

LMS Medical Systems Inc.

Notes to Interim Consolidated Financial Statements

As at June 30, 2008 (unaudited)

(All tabular amounts are in Canadian dollars except where otherwise stated)



8. FINANCIAL INSTRUMENTS (Cont'd)

	Held- for- trading	Held- to- maturity	Loans and receivables	Other financial liabilities	Total carrying value	Fair value
	\$	\$	\$	\$	\$	\$
Financial assets						
Short-term						
investments		50,000			50,000	50,000
Accounts receivable			1,682,415		1,682,415	1,682,415
Investments - restricted		50,000			50,000	50,000
Total	–	100,000	1,682,415	–	1,782,415	1,782,415
Financial liabilities						
Bank overdraft	142,740				142,740	142,740
Accounts payable and accrued liabilities				1,149,623	1,149,623	1,149,623
Amounts due under the bonus and deferred share unit plans				909,260	909,260	909,260
Obligations under capital leases				30,001	30,001	30,001
Total	142,740	–	–	2,088,884	2,231,624	2,231,624

Fair value of financial instruments

The Company has determined the estimated fair values of its financial instruments based on generally accepted valuation methods; however, considerable judgment is required in developing these estimates. Accordingly, the estimated fair values are not necessarily indicative of the amounts the Company could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different valuation methods or assumptions.

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

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

Management of risks arising from financial instruments

LMS does not use financial derivatives. There has been no change with respect to LMS' overall risk exposure during the three-month period ended June 30, 2008.

Market risks

a) Foreign exchange risk

A significant portion of LMS' revenue is denominated in US dollars thereby resulting in financial risk due to fluctuations in the value of the Canadian value relative to the US dollar. As at June 30, 2008 and March 31, 2008, accounts receivable denominated in US dollars ("US \$") amounted to \$1,448,650 and \$1,006,002, respectively, (US \$1,393,662 and US \$980,031, respectively) and accounts payable and accrued liabilities and deposits from distributor denominated in US \$ amounted in aggregate to \$535,685 and \$503,817, respectively (US \$480,149 and US

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As at June 30, 2008 (unaudited)

(All tabular amounts are in Canadian dollars except where otherwise stated)



8. FINANCIAL INSTRUMENTS (Cont'd)

\$447,026, respectively). Also, cash and cash equivalents (bank overdraft) denominated in US \$ amounted to (\$2,813) on June 30, 2008 and \$705,962 on March 31, 2008 (US (\$2,758) and US \$687,737, respectively).

Based on the aforementioned net exposure as at June 30, 2008, and assuming that all other variables remain constant, a 10% rise or fall in the Canadian dollar against the US dollar would have resulted in decreases (increases) in net loss as follows:

	Canadian dollar	
	Appreciates 10%	Depreciates 10%
	\$	\$
Against US dollar	(14,000)	14,000

b) Interest rate risk

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

c) Credit risk and economic dependence

The maximum exposure to credit risk of LMS as at June 30, 2008, is the carrying value of its financial assets. LMS manages credit risk by maintaining bank accounts with reputable banks and financial institutions. Cash and cash equivalents, investments - restricted and short-term investments, which consist of commercial paper as at June 30, 2008 and March 31, 2008 bearing interest at 2.55% (March 31, 2008 - 2.55%) are principally contracted with two Canadian chartered banks.

LMS provides credit to its customers in the normal course of operations. The Company continually evaluates its customers' credit standing and generally does not require a guarantee. As at June 30, 2008, a distributor represents 80% of trade accounts receivable (as at March 31, 2008 - a distributor represented 98% of trade accounts receivable) and is denominated in US dollars.

For the three months ended June 30, 2008, revenue generated through a distributor represented 33% of total revenues (for the same period in 2007 - 69%). These recurring revenues were billed in US dollars.

d) Liquidity risk

LMS is exposed to the risk of being unable to honour its financial commitments by the deadlines set out under the terms of such commitments and at a reasonable price. LMS manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of expenditures. The following represents the contractual maturities of financial liabilities as at June 30, 2008:

	Less than 3 months	3 to 6 months	6 to 9 months	9 months to 1 year	Over 1 year
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,149,623	-	-	-	-
Amounts due under the bonus and deferred share unit plans	909,260	-	-	-	-
Obligations under capital leases	10,480	10,953	3,874	2,325	2,369
Total	2,069,363	10,953	3,874	2,325	2,369

9. COMPARATIVE FIGURES

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