LMS Medical Systems Inc.
Contact: Yves Grou, Chief Financial Officer
5252 de Maisonneuve West, Suite 314
Montreal, Quebec, Canada, H4A 3S5
Tel : (514) 488-3461 ext.238 Fax: (514) 488-1880
www.lmsmedical.com / yves.grou@lmsmedical.com

For Immediate release

LMS SECOND QUARTER 2008 FINANCIAL RESULTS
Q2 REVENUE INCREASES 166% TO $735,000
YTD REVENUE INCREASES 87% TO $1.7 MILLION

Montreal, Quebec, November 14, 2007 - 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 reported its unaudited financial results for the second quarter ended September 30, 2007. All amounts are in Canadian dollars.

On the strength of new installations and growing recurring maintenance and technical service revenues, our comparative quarterly revenues for Q2 2008 grew 166% to $735,000 from $276,000 in Q2 2007. Our recurring maintenance and technical revenues continue to grow from our installed client base and increased by 36% to $703,000 from $517,000 for the comparative six-month period. For the second quarter these revenues increased 85% to $339,000 from $184,000. Year-to-date revenues increased by 87% to $1.7 million from $907,000. Management estimates that the recently implemented program to streamline operations will reduce operating cash expenses by $1.5 million to March 31, 2008. In conjunction with seasonally stronger winter and spring quarters (Q3 and Q4) and streamlining of operations, management anticipates reaching a cash flow break even at the end of the current fiscal year.

The backlog of signed and recurring contracts was maintained at $4.6 million as well as sales opportunities which were maintained at $25 million. The overall increases of $US 200,000 in the backlog and US$2.0 million in the sales opportunities, were offset by reduction in the US dollar in which most of our contracts are denominated. Our committed (signed) and installed client base has grown on a consistent basis over the last 6 quarters. We anticipate reaching 100 committed client sites by the end of the current fiscal year.

The combination of the increase in revenues of $459,000 and lower overall expenses of $183,000 reduced the comparative operating loss by $642,000 from $2.36 million ($0.13 per share) in Q2 2007 to $1.74 ($0.08 per share) million in Q2 2008. Decreases in research and development expenses of $125,000, lower selling marketing product management expenses of $73,000, lower stock option expense of $48,000 and a gain on foreign exchange of $117,000, were offset slightly by smaller increases in other expenses.

Cash, cash equivalents and short-term investments held to maturity, as at September 30, 2007 totaled $1.93 million compared to $3.38 as at March 31, 2007.

SECOND QUARTER HIGHLIGHTS:

- Revenues in Q2 2008 increased by 166% to $735,000 from $276,000 in Q2 2007.
- In conjunction with seasonally stronger winter and spring quarters (Q3 and Q4) and corporate streamlining of operations, we anticipate reaching a cash flow break even at the end of the current fiscal year.
- Our recurring maintenance and technical revenues continue to grow from our installed client base and increased by 36% to $703,000 from $517,000 for the comparative six-month period. For the second quarter these revenues increased 85% to $339,000 from $184,000.

- Year-to-date revenues increased by 87% to $1.7 million from $907,000 in F2007.
- The backlog of signed contracts was maintained at $4.6 million and identified sales opportunities stayed the same at $25 million. The overall increases of $US 200,000 in the backlog and US$2.0 million in the sales opportunities, were offset by reduction in the US dollar in which most of our contracts are denominated.
- Horizon Perinatal Care™ ("HPC"), the first seamlessly integrated perinatal information system achieved general availability. This system was developed in conjunction with McKesson Provider Technologies, our distributor. HPC is designed to support continuity of care between the labor and delivery department and other hospital departments and units.
- CALM Patterns, an innovative risk management software tool specifically directed at the health of the fetus, was released. Fetal distress during labor 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.
- Saint-Mary's Health Center in Montreal, affiliated with McGill University signed on to implement CALM Patterns.
- LMS entered into an agreement with Best Practices Medical Partners for the use of CALM Shoulder Screen by its insured OB/GYNs.

LMS complete results for the quarter ended September 30, 2007 along with Management's Discussion and Analysis will be released in normal course on or about November 14th and will be available in Canada at www.sedar.com, in the United States at www.sec.gov 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 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.

For further information about LMS Medical Systems please contact:

Yves Grou, Chief Financial Officer
LMS Medical Systems Inc.
Tel: (514) 488-3461 Ext. 238
Fax: (514) 488-1880
yves.grou@lmsmedical.com / www.lmsmedical.com

NOTICE OF DISCLOSURE OF NON-AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS FOR THE PERIODS ENDED September 30, 2007 AND 2006

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 September 30, 2007 and 2006 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 November 14, 2007

INTERIM CONSOLIDATED BALANCE SHEETS

As at	September 30, 2007 $	[Unaudited] March 31, 2007 $
ASSETS		
Current assets		
Cash and cash equivalents	**1,892,615**	3,358,995
Short-term investments *[at market value]*	**37,500**	25,000
Accounts receivable	**378,227**	1,567,463
Investment tax credits receivable	**184,000**	124,000
Prepaid expenses	**308,204**	106,042
Total current assets	**2,800,546**	5,181,500
Investments - restricted *[at cost and market value]*	**62,500**	75,000
Capital assets	**319,850**	500,308
Patents	**301,633**	236,956
	3,484,529	5,993,764
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities *[note 4]*	**1,225,264**	1,351,635
Leasehold inducements	**32,615**	62,818
Amounts due under the bonus and deferred share unit plans *[note 5]*	–	387,000
Deferred revenues and deposits from distributors	**2,351,599**	1,168,238
Current portion of obligations under capital leases	**40,179**	35,186
Total current liabilities	**3,649,657**	3,004,877
Long-term portion deferred revenues and deposits from distributors	**96,500**	358,922
Long-term portion of obligations under capital leases	**19,510**	36,588
Total long-term liabilities	**3,765,667**	3,400,387
Shareholders' equity [note 5]		
Capital stock	**55,496,277**	54,706,512
Warrants	**409,139**	411,333
Contributed surplus	**2,944,008**	2,729,235
Accruals for expected bonus to be paid in Common Shares	**150,000**	297,000
Deferred share units	**507,462**	419,816
Deficit	**(59,788,024)**	(55,970,519)
Total shareholders' equity (deficiency)	**(281,138)**	2,593,377
	3,484,529	5,993,764

See accompanying notes

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

[Unaudited]

	Three-months ended September 30,		Six-months ended September 30,	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
Revenues				
Software licenses	**396,054**	92,187	**994,094**	390,416
Technical support services, consulting and other	**338,753**	183,999	**702,396**	516,921
Total revenues	**734,807**	276,186	**1,696,490**	907,337
Royalties and other direct costs	**123,429**	39,929	**247,605**	121,200
Revenues net of direct costs	**611,378**	236,257	**1,448,885**	786,137
Operating expenses				
Research and development expenses	**745,744**	869,928	**1,585,543**	1,970,531
Investment tax credits	**(30,000)**	(45,000)	**(60,000)**	(90,000)
Net research and development expenses	**715,744**	824,928	**1,525,543**	1,880,531
Selling, marketing and product management	**589,984**	663,221	**1,336,685**	1,453,745
Administrative	**649,668**	613,871	**1,418,293**	1,370,562
Customer support	**224,744**	227,439	**474,543**	475,350
Quality assurance	**90,025**	51,717	**167,063**	100,808
Stock option expense	**115,157**	163,013	**218,278**	327,098
Amortization of capital assets	**86,905**	79,700	**185,102**	160,827
Amortization of patents	**6,745**	4,498	**12,704**	8,854
Foreign exchange loss (gain)	**(112,326)**	4,696	**(44,056)**	(715)
Total operating expenses	**2,366,646**	2,633,083	**5,294,155**	5,777,060
Operating loss	**(1,755,268)**	(2,396,826)	**(3,845,270)**	(4,990,923)
Interest and other income, net	**(13,809)**	(36,305)	**(27,765)**	(79,996)
Net loss and comprehensive loss	**(1,741,459)**	(2,360,521)	**(3,817,505)**	(4,910,927)
Basic and diluted loss per share [note 6]	**(0.08)**	(0.13)	**(0.18)**	(0.28)

See accompanying notes

INTERIM CONSOLIDATED STATEMENTS OF DEFICITS

[Unaudited]

	Three-months ended September 30,		Six-months ended September 30,	
	2007	2006	2007	2006
	$	$	$	$
Deficit, beginning of period	**(58,046,565)**	(48,691,681)	**(55,970,519)**	(45,971,000)
Net loss	**(1,741,459)**	(2,360,521)	**(3,817,505)**	(4,910,927)
Share issue costs	**–**	(7,182)	**–**	(177,457)
Deficit, end of period	**(59,788,024)**	(51,059,384)	**(59,788,024)**	(51,059,384)

See accompanying notes

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

[Unaudited]

	Three-months ended September 30,		Six-months ended September 30,	
	2007	2006	2007	2006
	$	$	$	$
OPERATING ACTIVITIES				
Net loss	**(1,741,459)**	(2,360,521)	**(3,817,505)**	(4,910,927)
Adjustments for non-cash items:				
Amortization expense	**93,650**	84,198	**197,806**	169,681
Amortization of leasehold inducements	**(15,995)**	–	**(30,203)**	–
Stock based compensation	**461,869**	366,638	**564,990**	715,739
	(1,201,935)	(1,909,685)	**(3,084,912)**	(4,025,507)
Net changes in non-cash operating working capital items	**611**	(40,511)	**1,712,642**	(173,177)
Cash flows related to operating activities	**(1,201,324)**	(1,950,196)	**(1,372,270)**	(4,198,684)
INVESTING ACTIVITIES				
Purchase of short-term investments	**–**	(500,302)	**–**	(1,005,476)
Additions to capital assets and patents	**(31,951)**	(30,617)	**(82,025)**	(104,999)
Cash flows related to investing activities	**(31,951)**	(530,919)	**(82,025)**	(1,110,475)
FINANCING ACTIVITIES				
Repayment of obligations under capital leases	**(4,614)**	(9,133)	**(12,085)**	(19,769)
Issuance of common shares	**–**	–	**–**	2,500,000
Share issue costs	**–**	(7,182)	**–**	(177,457)
Cash flows related to financing activities	**(4,614)**	(16,315)	**(12,085)**	2,302,774
Net change in cash and cash equivalents	**(1,237,889)**	(2,497,430)	**(1,466,380)**	(3,006,385)
Cash and cash equivalents, beginning of period	**3,130,504**	4,972,247	**3,358,995**	5,481,202
Cash and cash equivalents, end of period	**1,892,615**	2,474,817	**1,892,615**	2,474,817

See accompanying notes

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Description of business

LMS Medical Systems Inc. ["LMS"] is incorporated under the Canada Business Corporations Act. Since inception, LMS has actively been 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 interim consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that LMS will continue its 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. LMS may 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 customers, start of profitable operations and the ability to generate sufficient cash from operations. These matters are dependent on a number of items outside of LMS's control and there is uncertainty about LMS's ability to successfully execute its plans.

As described in the subsequent events note 8, LMS has implemented a program to streamline operations leading to reduced operating cash expenses.

Management believes that with these actions and the support of LMS's current shareholders, distributors and customers, it will be able to continue operating as a going concern. There can, however, be no assurance that such actions and plans described above will be sufficient to continue operating as a going concern. The accompanying management discussion and analysis and the interim consolidated financial statements do not reflect 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 unaudited interim consolidated financial statements of LMS 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, 2007 and 2006 and for the years ended March 31, 2007, 2006 and 2005. As further described in note 16 of the audited annual consolidated financial statements, these accounting principles differ in certain respects from those that would have been followed had these financial statements been prepared in conformity with United States generally accepted accounting principles [US GAAP] and the related rules and regulations adopted by the United States Securities and Exchange Commission.

1. DESCRIPTION OF BUSINESS, GOING CONCERN AND BASIS OF PRESENTATION [CONT'D]

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, 2007 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 or US GAAP for complete financial statements.

2. CHANGES IN ACCOUNTING POLICIES

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

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

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

Changes in the fair value of financial instruments designated as held-for-trading and recognized derivative financial instruments are charged or credited to the statement of operations for the relevant period, while changes in the fair value of financial instruments designated as available-for-sale are charged or credited to other comprehensive income. All other financial assets and liabilities are accounted for at cost or at amortized cost depending upon the nature of the instrument. Financial assets and liabilities designated as held-to-maturity are initially recognized at their fair values, with any resulting premium or discount from the face value being amortized to income or expense using the effective interest method. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.

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

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

Financial assets:	**Classification**	**Measurement**
• Cash and cash equivalents	Held for trading	Fair value
• Short-term investments	Held-to-maturity	Amortized Cost
• Accounts receivable	Held-to-maturity	Amortized Cost
• Accounts payable	Held-to-maturity	Amortized Cost
• Long-term debt	Loans Payable	Amortized Cost
• Long-term capital leases	Loans Payable	Amortized Cost

In addition, LMS has elected to account for transaction costs related to the issuance of financial instruments as a reduction of the carrying value of the related financial instruments. With respect to embedded derivatives, LMS has elected to recognize only those derivatives embedded in contracts issued, acquired or substantively modified on or after April 1, 2003 as permitted by the transitional provisions set out in section 3855. The adoption of this new section

2. CHANGES IN ACCOUNTING POLICIES [CONT'D]

did not result in any significant adjustments to the carrying values of LMS's previously recognized financial assets and liabilities as at April 1, 2007.

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

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

c) Section 3865, "Hedges"

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

3. NEW ACCOUNTING PRONOUNCEMENTS

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 noncompliance. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically April 1, 2008 for LMS. LMS has not yet determined the impact of the adoption of this change on the disclosure in its financial statements.

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 exposure to risks arising from financial instruments, including specified minimum disclosures about liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically April 1, 2008 for LMS. LMS has not yet determined the impact of the adoption of this change on the disclosure in its financial statements.

Financial Instruments Presentation

CICA Handbook Section 3863, Financial Instruments - Presentation, replaces the existing requirements on presentation of financial instruments which have been carried forward unchanged to this new section. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically April 1, 2008 for LMS. LMS has not yet determined the impact of the adoption of this change on the disclosure in its financial statements.

General Standards on Financial Statement Presentation

CICA Handbook Section 1400, General Standards on Financial Statement Presentation, has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The changes are effective for LMS for interim and annual financial statements beginning on or after January 1, 2008. LMS has not yet determined the impact of the adoption of this change on the disclosure in its financial statements.

4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2007 $	March 31, 2007 $
Trade accounts payable	**392,494**	384,838
Accrued liabilities	**273,999**	285,272
Salaries, benefits and commissions and vacation accruals	**558,771**	681,525
	1,225,264	1,351,635

5. 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	$
Common shares		
Balance as at March 31, 2007	**21,228,724**	**54,706,512**
Issued under the DSU plan	18,211	29,125
Issued under the bonus plan	562,438	760,640
Balance as at September 30, 2007	**21,809,373**	**55,496,277**

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 award 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. 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 this plan was increased from 250,000 to 500,000.

For the year ended March 31, 2007, LMS has recorded total bonus expense related to the Bonus Plan in the amount of $675,000. As at March 31, 2007, shares reserved, available and unissued and approved by the shareholders under the Bonus Plan were 250,510 whereas the required number of shares to settle the 2007 bonus is 567,227. As a result of this shortfall, only a portion of the $675,000, or $297,000, representing 249,580 common shares was recorded within the shareholders' equity section as accruals for bonus expected to be paid by issuing common shares. The remaining balance of $378,000 was recorded as a current liability on the balance sheet.

During the six-month period ended September 30, 2007, 562,438 ($760,640) of the reserved shares were issued. The remaining balance of 4,789 common shares relating to employees who left since March 31, 2007, was cancelled and balance of $5,699 was applied to contributed surplus.

During the six-month period ended September 30, 2007, relating to 2008 fiscal year, LMS has recorded $150,000 as bonus expected to be paid in common shares.

At the August 2007 annual shareholder meeting, LMS shareholders approved the increase the number of shares issuable under the Bonus Plan at which time the accrued balances were transferred to shareholders' equity. The difference of $79,941 relating to the difference between the accrued as at March 31, 2007 and amount paid, by issuing shares, in the six-month period ended September 30, 2007, was recorded as an adjustment of bonus 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.

5. CAPITAL STOCK [CONT'D]

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. At the 2005 annual and special meeting of shareholders, the DSU Plan was approved.

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

Total director compensation expense for the period end September 30, 2007 was $116,771 [2006 - $109,250], but no deferred share units were granted until plan has been modified as described above.

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:

	Number of DSU Units #	DSU Plan balance $
Balance as at March 31, 2007 [$9,000 presented within current payables and $419,816 presented within shareholders' equity]	**242,122**	**419,816**
Units issued	(18,211)	(29,125)
Units granted during the period	90,135	116,771
Balance as at September 30, 2007	**314,046**	**507,462**

Warrants

	#	$
Balance as at March 31, 2007	**1,173,022**	**411,333**
Expired	(6,606)	(2,194)
Balance as at September 30, 2007	**1,166,416**	**409,139**

During the six-month period ended September 30, 2007, 6,606 warrants expired. These warrants were valued at $2,194. This amount has been credited to contributed surplus.

As at September 30, 2007 warrants outstanding warrant have the following features:

Exercise price	#	Estimated life in years
$1.29	**166,266**	**2.40**
$1.50	**422,500**	**2.50**
$3.23	**549,528**	**0.98**
$3.32	**8,122**	**1.09**
$4.85	**20,000**	**2.00**
	1,166,416	**–**

5. CAPITAL STOCK [CONT'D]

When warrants are exercised or expired, the carrying value of the warrants is credited to contributed surplus.

Summary of amounts due under the bonus and deferred share unit plans

	September 30, 2007 $	March 31, 2007 $
Bonus payable for 2007	–	378,000
DSU payable	–	9,000
Amounts due under the bonus and deferred share unit plans	–	387,000

Stock Options

The changes to the number of stock options outstanding and their weighted average exercise prices for the three-month period ending September 30, 2007, are as follows:

	Number	Weighted average exercise price $
Balance as at March 31, 2007	**1,599,606**	**3.39**
Granted	550,000	1.66
Cancelled	(58,000)	2.25
Balance as at September 30, 2007	**2,091,606**	**2.97**

Additional information concerning stock options outstanding as at September 30, 2007 is as follows:

	Options outstanding			Options exercisable	
Exercise price	#	Weighted average Contractual life (Years) #	Weighted average exercise price $	#	Weighted average exercise price $
$1.50	**117,643**	**4.8**	**1.5**	**–**	**–**
$1.70 - $2.06	**786,357**	**4.1**	**1.8**	**151,333**	**1.9**
$2.25 - $2.45	**245,359**	**2.9**	**2.4**	**183,573**	**2.4**
$3.69 - $4.00	**146,403**	**2.0**	**4.0**	**146,403**	**4.0**
$4.28 - $4.62	**795,844**	**1.8**	**4.3**	**795,844**	**4.3**
$1.50 - $4.62	**2,091,606**	**3.0**	**3.0**	**1,277,153**	**3.7**

As at October 31, 2007, LMS had 2,091,606 share stock options outstanding

During the six-month period ended September 30, 2007 LMS board authorized the issued of additional 550,000 stock options of which 550,000 were issued during the period.

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, measurement value of $1.70 per common share, dividend yield of nil, volatility factor of 0.48 and risk free interest rate of 4.62%, for a fair value of $0.81 per share.

During the three-month period ended September 30, 2007 and 2006, LMS recorded stock option expense of $218,278 and $327,098 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 for the period presented were not material and have not been presented.

6. BASIC AND DILUTED LOSS PER SHARE

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

	Three-months ended September 30,		Six-months ended September 30,	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
Numerator				
Net loss attributable to common shares - basic and diluted	**(1,741,459)**	(2,360,521)	**(3,817,807)**	(4,910,927)
Denominator				
Weighted-average number of common shares - basic and diluted	**21,888,426**	18,123,363	**21,698,807**	17,769,288

7. COMPARATIVE FIGURES

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

8. SUBSEQUENT EVENT

On October 23, 2007 LMS implemented a program to streamline operations leading to reduced operating cash expenses. The program to streamline operations is expected to reduce operating cash expenses by approximately $1.5 million to March 31, 2008. There were reductions in consulting and salaries in research and development and other non core expenditures. All operational, sales and core development activities have been maintained. Also, management has demonstrated its commitment to the future of LMS by making a collective decision to temporarily suspend a portion of salaried compensation for the balance of fiscal 2008. Upon meeting certain milestones, the board of directors will have an option to pay the suspended salaries in form of LMS common shares or cash payment, after the year end including a 25% premium. Management believes that the aggregate of these changes will lead to the reduction in cash expenditures by approximately $300,000 per month. There are expected to be only minimal cash restructuring costs related to the implementation of this plan.