LMS Medical Systems Inc.

Management's Discussion & Analysis

Management discussion and analysis ("MD&A) provides a review of the performance of our company and should be read in conjunction with our unaudited interim consolidated financial statements as at March 31,2004 and for the three month-period then ended. We prepared these unaudited interim consolidated financial statements in accordance with Canadian generally accepted accounting principle (Canadian GAAP) for interim financial information but they have not been subject of a review by our auditors.This MD&A is current as of August 9, 2004.

On April 1, 2004, LMS Medical Systems Inc. (formerly Trophy Capital Inc.) acquired substantially all of the shares and unsecured convertible debentures from the shareholders and the debenture holder of LMS Medical Systems Ltd. in exchange for 2.70727 shares of LMS Medical Systems Inc. for each share of LMS Medical Systems Ltd acquired and 300 shares of LMS Medical Systems Inc. for each $1,000 of principal amount of the unsecured convertible debentures of LMS Medical Systems Ltd acquired. As a result, LMS Medical Systems Ltd became a subsidiary of LMS Medical Systems Inc. All options granted and warrants issued by LMS Medical Systems Ltd have been transferred to the parent company, LMS Medical Systems Inc.

This transaction involving LMS Medical Systems Inc., a non-operating public enterprise with nominal net non-monetary assets, is a capital transaction in substance for LMS Medical Systems Ltd. As a result, this transaction is viewed as the issuance of equity by LMS Medical Systems Ltd to the extent of the net cash available in LMS Medical Systems Inc. Accordingly, the following interim financial statements as of June 30, 2004 represent a continuation of LMS Medical Systems Ltd., which has been renamed LMS Medical Systems (Canada) Ltd. In addition, the year end of both companies has been changed to March 31st.

The chart below sets out the number of our issued and outstanding common shares as well as the number of issued and outstanding warrants and options to purchase our common shares in each case as at July 30, 2004.

Common shares	14,343,778
Options to purchase common shares	* 1,429,216
Warrants to purchase common shares	3,247,338

* *Including 925,465 options subject to shareholders' approval.*

All dollar figures are in Canadian dollars unless otherwise indicated. Where we say "we", "us", "our" or "our Company" we mean LMS Medical Systems Ltd ("LMS") and its subsidiaries, unless otherwise indicated.

Note regarding forward-looking statement

Our MD&A contains forward-looking statements which reflect our Company's current expectations regarding future events. The forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "estimate", "expect" and "intend" and statements that an event or result "may", "will", "should", "could" or "might" occur or be achieved and other similar expressions. These forward-looking statements involve risk and uncertainties, including the difficulty in predicting product approvals, acceptance of and demands for new products, the impact of the products and pricing strategies of competitors, delays in developing and launching new products, the regulatory environment, fluctuations in operating results and other risks, any of which could cause actual results, performance, or achievements to differ materially from the results discussed or implied in the forward-looking statements. Many risks are inherent in the industry; others are more specific to our Company. Investors should consult the "Risk Factors" section of the MD&A as well as our Company's ongoing quarterly filings, annual reports and Annual Information Form for additional information on risks and uncertainties relating to these forward-looking statements. Investors should not place undue reliance on any forward-looking statements. We assume no obligation to update or alter any forward-looking statements whether as a result of new information, further events or otherwise.

Overall performance

We are an obstetrics-focused healthcare technology company. Based on advanced medical research focusing on the Labor & Delivery (L&D) cycle, our unique technology provides OB/GYN teams and hospitals with state-of-the-art clinical decision support tools to assist them in achieving effective and cost effective interventions.

Our core technology, Computer Assisted Labor Management (CALM™) was developed as a research project at the Faculty of Medicine of McGill University in Montréal, with Dr. Emily Hamilton as the principal investigator.

As of July 30, 2004, LMS has approximately $12.0 M in working capital compared to $2.1 M as at March 31, 2004. The change in the working capital condition over the last months results mainly from the funds raised through financing activities and the liquidities accruing to our Company upon completion of the reverse takeover of Trophy Capital Inc.

Overview

For the past 8 years, we have been actively developing a series of software-based products that are focused in the areas of obstetrics. Our products specifically deal with the labor and delivery process. In particular, our products focus on how labor develops in the mother and on the fetus. It is well known that distress created by the labor and delivery process often results in birth related brain damage.

First quarter highlights

The most significant changes for our Company in the past 3 months were the following:

- We completed in April a round of financing by which we have raised total gross proceeds of $12.0M.
- Following the acquisition of the CPC Company in April 2004, the company is now public and listed on Toronto Stock Exchange.
- We appointed Mr. André Bérard, Terrence H. Gregg and Harry G. Hohn to the Board of Directors.
- We completed the installation of our systems on new sites and signed agreements for installation of new systems in the coming quarters.

Critical accounting estimates

Our financial statements are prepared in accordance with Canadian generally accounting principles, applied in a consistent basis. Our critical accounting estimates include revenue recognition, the recording of research and development expenses, stock-based compensation expenses and income taxes. For a more detailed discussion of the Company's critical accounting, please refer to the MD&A included in the Company's March 31st, 2004 Annual report. There have been no material changes to accounting estimates since that time.

Selected information – 3 months ending June 30

Statement of operations and cash flow data	2004 $	2003 $
Revenues		
Software & maintenance	158,729	30,105
Hardware	110,055	–
	268,784	30,105
Cost of revenues	110,316	–
Net	158,468	30,105
Expenses		
Research and development costs	691,346	661,345
Less: Tax credits	(127,235)	(229,708)
	564,111	431,637
Administrative	475,375	318,120
Selling and market development	509,939	512,661
Customer support	167,293	125,367
Quality assurance	42,517	40,363
Other expenses (income), net	(23,308)	49,536
Special charges	223,441	–
Net loss	(1,801,260)	(1,447,579)
Basic and diluted loss per share	(0.13)	(0.55)
Cash flow related to:		
Operating activities	(1,990,652)	(295,558)
Investing activities	(59,574)	(12,138)
Financing activities	12,172,239	(123,065)

	June 30 2004 $	March 31 2004 $
Balance sheet data		
Total assets	14,113,593	4,040,164
Total long term debt	87,336	94,763
Total shareholders' equity (deficiency)	12,787,933	2,409,527

Results of operation

Three MONTHS ENDING JUNE 30, 2004 COMPARED TO THE THREE MONTHS ENDING JUNE 30, 2003.

REVENUE

Revenue for the period ended June 30, 2004 increased from $30,105 in 2003 to $268,784 in 2004. The change results from the installation and sales of new systems which generated revenue of $242,552 ($0 in 2003). The rest of the revenue is derived from fees earned from existing maintenance agreements which are stable.

Research and Development

The expenditures before investment tax credit amounted to $691,346 compared to $661,345 in 2003. These sums were substantially deployed in the completion of a FDA-Health Canada compliant development quality system implementation and the release of new versions including features such as connections of the product with vendor's systems, remote access capabilities, specific statistical data presentation, long-term archiving and alerts components. The salaries increase explains the difference and is mainly the result of the change in the rate of remuneration. Investment tax credits totaled $127,235 in 2004 compared to $229,708 the year prior. All research, development and clinical trial costs are expensed rather than capitalized. The change is the result of a reduction of prescribed rates announced by Fiscal authorities and a lower tax credit rate associated with the public company.

Administrative

Administrative expenses for the period ended June 30, 2004 increased to $475,735 compared to $318,120 for the period ended June 30, 2003. The increase is mostly explained by the following factors:

- The lease for office space was renewed at the end of 2003 which increased rent expenses.
- An increase in salary resulting from an adjustment in the salary base.
- Additional expenses related to the public company structure.

Selling and Market Development

Expenses remained stable over those periods where they totaled $509,939 in 2004 compared to $512,661 in 2003. During those periods, our sales and marketing team was focused on promoting a new product concept and building our potential customer list. Their mandate consisted of establishing new reference sites and finding strategic alliance partners and distributors. The team was also responsible for the development of all training programs and user guides required in the sales functions.

Customer Support

A Customer Support department, which substantially comprises staff cost provides for the operation of a dedicated 24/7-service center for customers. The total expenses for this department increased from $125,367 in 2003 to $167,293 as a result of the addition of 2 new employees to support the expansion of activities.

Quality Assurance

In 2002, departments of Quality Assurance and Regulatory Affairs were created with the responsibility of ensuring compliance with all applicable requirements and regulations of each country where the product is to be marketed. Expenses include the salary of a full-time QA&RA Director and costs associated with obtaining approval to market the LMS product in Canada, the United States and Europe. During the last two years, LMS, through the auspices of these departments, has achieved, amongst other things, the implementation of a quality system in compliance with the requirements of the United States FDA and certification to ISO 13485 standards that are required by Health Canada. The expenses increased from $40,363 in 2003 to $42,517 in 2004.

Special charges

These expenses relate to professional fees, listing fees and other expenses incurred in connection with the listing of our shares on the Toronto Stock Exchange ["TSX"] which occurred on April 22, 2004.

Also, the Company has initiated the process to register as foreign private issuer, with the Securities Exchange Commission ["SEC"] in the United States and will incurred additional special charges in connection with this process.

Other expenses/income

Our Company incurred other expenses for an amount of $49,536 in 2003 whereas it generated income of $23,308 this year. Following the additional liquidities that we generated during the period, we generated interest income of $54,442 compared to interest expenses incurred of $17,017 last year. Our company also reduced its interest on long term financing from $25,444 to $6,209 this year.

Net Loss

The net loss for the 3-month period ended June 30, 2004 totaled $1,801,260 ($0,13 per share) compared with $1,447,579 for the 3-month period ended June 30, 2003 ($0.55 per share).

Liquidity and Capital Resources

Operating activities

Cash flow used for operations totaled $1,990,652 for the period ending June 30,2004 compared to $295,558 during the period ended June 30, cvb2003.

In 2004, cash used in our operating activities is mainly explained by our net loss of $1,801,260 ($1,447,579 in 2003) and by a negative net change in non-cash operating working capital of $217,885 (positive change of $1,067,577 in 2003) mainly due to the reduction in accounts payable and an increase in accounts receivable.

Investing activities

Our investing activities consist of acquisition of equipments required for our activities for $59,574 ($12,138 in 2003).

Financing activities

To date, we have financed our operations, technology development, patents filings and capital expenditures primarily through equity offerings of shares, private placement, issuance of convertible notes, the receipt of investment tax credit earned on eligible expenditures, by loans and promissory notes from financial institutions and by capital leases. Since our inception, we have raised gross proceeds in excess of 40.m $ from equity based transaction.

During the period, we have completed a private placement, on a reverse takeover transaction which both generated gross proceeds of $12,958,432. Also, options exercised during the period generated cash of $120,000. Our Company incurred during the period $749,950 as shares issue expenses and $148,816 as fees to complete the reverse takeover transaction.

As a result of the above, our cash and cash equivalents increased by $10,122,013 compared to $($430,761) in 2003, leaving a balance at the end of the period of $11,553,136 compared to $40,055 in 2003.

As of June 30,2004, we have no debt other than capital leases, which totaled $87,336 repayable over the next 5 years. Our operating obligations are as follows:

• Less than 1 year	$200,126
• 1 to 3 years	$479,263
• Total	$679,389

We will require additional financing to grow and expand our operations and plan to raise funds from time to time. Funding requirements may vary depending on a number of factors including the progress of our research and development program, the establishment of collaborations, the development of the international sector, and penetration rates in the North American and United Kingdom markets.

We expect to continue to incur operating losses as we focus on the integration of our system with those of our distributors, commercialization of a new product at the end of fiscal 2005 and a new release of the CALM™ View system during the year. Based on current plans, it is anticipated that total expenses will increase during fiscal 2005 as a result of the integration of our system with those of our distributors, commercialization of a new product at the end of fiscal 2005 and a new release of the CALM™ View system during the year. We believe we have sufficient resources to fund operations through fiscal 2005. However, in light of the inherent uncertainties associated with the regulatory approval process and our ability to secure sales and additional distribution agreements, further financing may be required to support our operations in the future.

When additional funds are required, potential sources of financing include strategic relationships and public or private sales of our common shares. We do not have any committed sources of financing at this time and it is uncertain whether additional funding will be available when the need arises on terms that will be acceptable to us.

If funds are raised by selling additional of our common shares, or other securities convertible into our common shares, the ownership interests of our existing shareholders will be diluted. If we are unable to obtain financing when required, we will not be able to carry out our business plan, including marketing and distribution initiatives. We would have to significantly limit our operations and business, and our financial condition and results of operations would be materially harmed.

Related party transaction

The Company incurred fees of $45,000 under a management services agreement with a related company having one common director.

Risk factors

For a more detailed discussion of the risk factors that could materially affect the results of operations and the financial condition of the company, please refer to the company's Annual Information Form.

Other MD&A requirements

All relevant information related to the company is filed electronically at www.sedar.com in Canada.