



LMS Medical Systems Inc.

NOTICE OF 2004  
ANNUAL AND  
SPECIAL MEETING  
OF SHAREHOLDERS  
AND  
MANAGEMENT  
PROXY CIRCULAR



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## NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN THAT the annual and special meeting (the "Meeting") of shareholders of LMS Medical Systems Inc. (the "Company") will be held at the Queen Elizabeth Hotel, Hochelaga 4, 900 René Levesque Boulevard Ouest, Montréal, Québec, H3B 4A5, on Wednesday, September 15, 2004, at 4:15 p.m. (Montréal time) for the following purposes:

1. to receive the 2003 Annual Report of the Company, containing the audited financial statements of the Company for the financial year ended March 31, 2004, and the auditor's report thereon;
2. to elect six (6) directors;
3. to reappoint Ernst & Young LLP as the auditor and to authorize the directors to fix the auditor's remuneration;
4. to consider and, if deemed advisable, to approve, with or without variation, the resolution, the text of which is set forth in Schedule "A" to the accompanying Management Proxy Circular and incorporated herein by reference, approving the establishment of a stock plan for the Company;
5. to consider, and if deemed advisable, to approve, with or without variation, the resolution, the text of which is set forth in Schedule "B" to the accompanying Management Proxy Circular and incorporated herein by reference, confirming By-Law Number 2, which amends By-Law Number 1 of the Company;
6. to consider, and if deemed advisable, to approve, with or without variation, the resolution, the text of which is set forth in Schedule "C" to the accompanying Management Proxy Circular and incorporated herein by reference, approving an amendment to the articles of the Company to establish, as the sole province in Canada in which the Company will have a registered office, the Province of Ontario; and
7. to transact such further and other business as may properly come before the Meeting or any adjournment or adjournments thereof.

The specific details of the matters proposed to be put before the Meeting are set forth in the Management Proxy Circular that accompanies and forms part of this Notice.

DATED at Montréal, Québec, this 30th day of July, 2004.

### BY ORDER OF THE BOARD OF DIRECTORS



*Diane Côté*  
*President and Chief Executive Officer*

### Notes:

1. A Management Proxy Circular, Proxy, and the 2003 Annual Report accompany this Notice of Meeting. Registered shareholders who are unable to be present at the Meeting are kindly requested to specify on the accompanying form of proxy the manner in which the shares represented thereby are to be voted, and to sign, date, and return same in accordance with the instructions set out in the Proxy and the Management Proxy Circular.
2. As provided in the Canada Business Corporations Act, the directors have fixed a record date of July 30, 2004. Accordingly, shareholders registered on the books of the Company at the close of business on July 30, 2004 are entitled to notice of the Meeting.
3. Persons who are registered as shareholders on the books of the Company at the close of business on July 30, 2004 are entitled to vote at the Meeting.
4. If you are a beneficial shareholder and receive these materials through your broker or another intermediary, please complete and return the materials in accordance with the instructions provided to you by your broker or intermediary..

**MANAGEMENT PROXY CIRCULAR OF LMS MEDICAL SYSTEMS INC.****FOR USE AT THE ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS  
TO BE HELD ON September 15, 2004****SOLICITATION OF PROXIES**

THIS MANAGEMENT PROXY CIRCULAR IS FURNISHED IN CONNECTION WITH THE SOLICITATION OF PROXIES BY THE MANAGEMENT OF LMS MEDICAL SYSTEMS INC. (THE "COMPANY") for use at the annual and special meeting of the shareholders of the Company (the "Meeting") to be held at the Queen Elizabeth Hotel, Hochelaga 4, 900 René Levesque Boulevard Ouest, Montréal, Québec, H3B 4A5, commencing at 4:15 p.m. (Montréal time) on Wednesday, September 15, 2004, for the purposes set out in the accompanying Notice of Meeting and at any adjournment(s) thereof. Registered shareholders who are unable to be present at the Meeting in person are requested to complete, sign, date, and return the accompanying form of proxy to the Secretary of the Company, c/o National Bank Trust Inc., 1100 University Street, 9th Floor, Montréal, Québec H3B 2G7, Attention: Martine Gauthier, in time for use at the Meeting. The addressed envelope that accompanies this Management Proxy Circular may be used for such purpose. It is expected that this solicitation will be primarily by mail; however, officers, directors, and employees of the Company may also solicit proxies by telephone, by facsimile, or in person. The cost of solicitation by Management will be borne by the Company.

The persons named in the accompanying form of proxy are officers and/or directors of the Company and shall represent Management at the Meeting. **A shareholder desiring to appoint some other person (who need not be a shareholder of the Company) to represent the shareholder at the Meeting may do so** by inserting such person's name in the blank space provided in the form of proxy and delivering the completed form of proxy addressed to either (a) the Secretary of the Company, c/o National Bank Trust Inc., 1100 University Street, 9th Floor, Montréal, Québec H3B 2G7, Attention: Martine Gauthier, before 5:00 p.m., two business days preceding the day of the Meeting or any adjournment(s) thereof or (b) the Chairman or the Secretary of the Meeting, at the beginning of the Meeting or any adjournment(s) thereof.

The persons named in the accompanying form of proxy will vote for or against or withhold from voting the shares in respect of which they are appointed proxyholder on any ballot that may be called for in accordance with the instructions of the shareholder executing the proxy. **In the absence of such instructions, such shares will be voted (i) for the election of the directors named in this Management Proxy Circular; (ii) for the reappointment of Ernst & Young LLP, Chartered Accountants, as the auditor of the Company and to authorize the directors to fix the auditor's remuneration; (iii) for the resolution set forth in Schedule "A" to this Management Proxy Circular approving the establishment of a stock option plan for the Company; (iv) for the resolution set forth in Schedule "B" to this Management Proxy Circular approving and confirming By-Law Number 2; and (v) for the resolution set forth in Schedule "C" to this Management Proxy Circular approving an amendment to the articles of the Company to establish, as the sole province in Canada in which the Company will have a registered office, the Province of Ontario.**

The accompanying form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the accompanying Notice of Meeting, and to other matters that may properly come before the Meeting. At the time of the printing of this Management Proxy Circular, Management knows of no such amendments, variations, or other matters to come before the Meeting other than the matters identified in the accompanying Notice of Meeting. If, however, amendments or other matters properly come before the Meeting, the persons designated in the accompanying form of proxy will vote thereon in accordance with their judgment, pursuant to the discretionary authority confirmed by such proxy with respect to such matters.

**REVOCATION OF PROXY**

A proxy may be revoked by a shareholder by depositing an instrument in writing executed by the shareholder or by the shareholder's attorney authorized in writing (or, if the shareholder is a corporation, by an officer or attorney thereof, authorized in writing), with either (a) the Secretary of the Company at the registered office of the Company at 5252 Blvd. de Maisonneuve Ouest, Suite 314, Montréal, Québec, H4A 3S5, before 5:00 p.m., two business days preceding the day of the Meeting or any adjournment(s) thereof at which the proxy is to be used or (b) the Chairman or the Secretary of the Meeting, up to the beginning of the Meeting or any adjournment(s) thereof. A proxy may also be revoked in any other manner permitted by law.

## VOTING BY BENEFICIAL SHAREHOLDERS

The information set forth in this section is important to the shareholders of the Company who do not hold their common shares in their own name.

Shareholders who hold shares through their brokers, intermediaries, trustees, or other nominees (such shareholders being collectively called "Beneficial Shareholders") should note that only proxies deposited by shareholders whose names appear on the share register of the Company may be recognized and acted upon at the Meeting. If shares are shown on an account statement provided to a Beneficial Shareholder by a broker, then in almost all cases the name of such Beneficial Shareholder **will not** appear on the share register of the Company. Such shares will most likely be registered in the name of the broker or an agent of the broker. Such shares can only be voted by brokers, agents, or nominees ("Intermediaries") and can only be voted by them in accordance with instructions received from Beneficial Shareholders. **As a result, Beneficial Shareholders should carefully review the voting instructions provided by their broker, agent, or nominee with this Management Proxy Circular and ensure that they communicate how they would like their shares voted in accordance with those instructions.**

Most brokers delegate responsibility for obtaining voting instructions from clients to a service company (a "Service Company"). The Service Company typically supplies voting instruction forms, mails those forms to Beneficial Shareholders, and asks those Beneficial Shareholders to return the forms to the Service Company or to follow the alternative voting procedures detailed on the voting instruction form. The Service Company then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of shares at the Meeting. **A Beneficial Shareholder receiving a voting instruction form from the Service Company cannot use that form to vote shares directly at the Meeting. Instead, the Beneficial Shareholder must return the voting instruction form to the Service Company or follow the alternative voting procedures, as mentioned above, well in advance of the Meeting in order to ensure that such shares are voted.** Alternatively, a Beneficial Shareholder may be given a proxy that has already been signed by the Intermediary (typically by a facsimile stamped signature), which is restricted as to the number of shares beneficially owned by the Beneficial Shareholder but which is not otherwise completed. Because the Intermediary has already signed the form of proxy, this form of proxy is not required to be signed by the Beneficial Shareholder when submitting the proxy. In this case, the Beneficial Shareholder who wishes to vote by proxy should otherwise properly complete the form of proxy and deliver it as specified above under "Solicitation of Proxies".

In either case, the purpose of these procedures is to permit Beneficial Shareholders to direct the voting of the common shares of the Company, which they beneficially own. A Beneficial Shareholder who wishes to attend and vote at the Meeting in person (or to have another person attend and vote on behalf of the Beneficial Shareholder) should print the Beneficial Shareholder's (or such other person's) name in the blank space provided for that purpose in the first paragraph of the proxy form or, in the case of a voting instruction form, follow the corresponding instructions on that form. **In either case, Beneficial Shareholders should carefully follow the instructions of their Intermediary and its service company, as applicable.**

## VOTING SECURITIES AND PRINCIPAL HOLDERS OF VOTING SECURITIES

As at July 30, 2004, there were issued and outstanding 14,343,778 common shares without nominal or par value, each carrying the right to one vote per share. To the knowledge of the directors and officers of the Company, no person or company beneficially owns, directly or indirectly, or exercises control or direction over more than 10% of the issued and outstanding common shares of the Company other than BDC, which owns 1,674,685 common shares representing 11.7% of the issued and outstanding common shares. Each holder of issued and outstanding common shares of record at the time of the close of business on July 30, 2004 (the "record date") will be given notice of the Meeting and will be entitled to vote at the Meeting, in person or by proxy, the number of shares held by such holder on the record date.

## PARTICULARS OF MATTERS TO BE ACTED ON

### 1. ELECTION OF DIRECTORS

The Articles of the Company provide that the Board of Directors of the Company shall consist of a minimum of three (3) and a maximum of eleven (11) directors. The Board of Directors has fixed at six (6) the number of directors to be elected at the Meeting. Unless authority to vote is withheld, the persons named in the accompanying form of proxy intend to vote for the election of the six (6) nominees whose names are set forth below.

All of the nominees are now members of the Board of Directors of the Company and have been since the dates indicated. Management does not contemplate that any of the nominees will be unable to serve as directors, but if that should occur for any reason prior to the Meeting, the persons named in the accompanying form of proxy reserve the right to vote for another nominee at their discretion, unless the shareholder has specified in the form of proxy that such shareholder's shares are to be withheld from voting on the election of directors.

The following table and the notes thereto state the names of all persons proposed to be nominated for election as directors and all other positions and offices with the Company now held by them, their principal occupations or employments and abbreviated biographies, their periods of service as directors of the Company, and the approximate number of shares of the Company beneficially owned or over which control or direction is exercised by each of them as at July 30, 2004. Each director will hold office until the next annual meeting of shareholders or until his successor is duly elected, unless prior thereto the director resigns or the director's office becomes vacant by reason of death or other cause.

<b>Name and Municipality of Residence</b>	<b>Principal Occupations and Biography</b>	<b>Director Since – Common Shares owned or over which control of direction is exercised, as at July 30</b>
Elaine Beaudoin <sup>(1)(3)</sup> Montréal, Québec	Corporate Director	March 31, 2004 7,100
André Bérard <sup>(1)</sup> Montréal, Québec	Business Consultant, Former Chairman and Chief Executive Officer of National Bank of Canada	April 17, 2004 20,000
Diane Côté <sup>(3)</sup> Montréal, Québec	President and Chief Executive Officer of LMS since October 2001; Vice-President of Business Development and Partner of Innovitech Inc.	March 31, 2004 40,473
Terrance H. Gregg <sup>(2)</sup> Malibu, California	Business Consultant, Former President of Medtronic MiniMed (medical device manufacturer)	April 29, 2004 99,216
Harry G. Hohn <sup>(2)</sup> New York, New York	Business Consultant, Former Chief Executive Officer of New York Life Insurance Company	May 11, 2004 50,000
Benoit La Salle <sup>(1)(2)(3)</sup> Montréal, Québec	Chairman of the Board of LMS; Chairman of the Board and Chief Executive Officer, Semafo Inc. (mining company)	March 31, 2004 235,749 <sup>(4)</sup>

(1) Member of the Audit Committee

(2) Member of the Governance, Compensation and Nominating Committee

(3) On April 1, 2004, the Company acquired (such acquisition, the "qualifying transaction") approximately 3.4 million issued and outstanding common shares of LMS Medical Systems Ltd. (subsequently renamed LMS Medical Systems (Canada) Ltd. ("LMS") and \$5.8 million principal amount of convertible debentures of LMS by issuing common shares of the Company to the holders of issued and outstanding common shares of LMS ("LMS Shares") and to the holders of issued and outstanding convertible debentures of LMS ("LMS Convertible Debentures") on the basis of 2.70727 of the Company's common shares for each LMS Share tendered and 300 of the Company's common shares for each \$1,000 principal amount of LMS Convertible Debentures tendered (in replacement options and warrants to holders of options and warrants of LMS who surrendered such securities to the Company. The replacement options and warrants that issued are identical to the options and warrants of LMS surrendered, except in respect of the number of shares to which a holder is entitled upon exercise and the exercise price, which terms were modified to give effect to the qualifying transaction and the share consolidation. Upon completion of the qualifying transaction the Company held and continues to hold more than 99.98% of the issued and outstanding shares of LMS.

Ms. Beaudoin, Ms. Côté and Mr. La Salle were directors of LMS Medical Systems Ltd.

(4) Mr. La Salle and Mr. Yves Grou, the Chief Executive Officer of the Company, own together 235,749 common shares of the Company, held through Groupe PGL Inc. in which they jointly have a 100% controlling interest and through Bridge Capital Corporation Inc. in which they jointly have an 80% controlling interest.

On December 9, 2002, BridgePoint International Inc., a company in which Mr. La Salle was a director and Chairman, announced in a press release that cease trade orders had been issued with respect to its shares by the securities regulatory authority in each of Québec, Ontario, Manitoba, Alberta and British Columbia as a consequence of its default in filing its audited annual financial statements for the year ended June 30, 2002 within the prescribed time period. On or before April 1, 2003, these cease trade orders had been revoked by the above-mentioned regulatory authorities.

## **2. APPOINTMENT AND REMUNERATION OF AUDITOR**

Unless authority to vote is withheld, the persons named in the accompanying form of proxy intend to vote for the reappointment of Ernst & Young LLP, Chartered Accountants, as the auditor of the Company, to hold office until the next annual meeting of the shareholders and to authorize the directors to fix the auditor's remuneration. Ernst & Young LLP, Chartered Accountants, has been the auditor of the Company since April 1, 2004, being the date of the completion by the Company of the qualifying transaction. Ernst & Young LLP was the auditor of LMS Medical Systems Ltd. For a description of the qualifying transaction, please refer to footnote (3) to the table under the section entitled "Election of Directors".

## **3. 2004 STOCK OPTION PLAN**

The Meeting has been called in part to consider, and if thought fit, to approve, with or without variation, the establishment of the Company's 2004 Stock Option Plan (the "Plan"). The objectives of the Company's compensation policies and programs are to recruit and retain directors and employees of a high caliber by offering compensation that is competitive with that offered for comparable positions in other technology companies across North America, and to align directors and employees' interests with the long-term interest of shareholders and the intermediate and long-term objectives of the Company. The Plan is an integral part of achieving these objectives as it provides directors and employees of the Company and its subsidiaries, as well as other persons who provide ongoing consulting services to the Company and its subsidiaries, with the opportunity to participate in the growth and development of the Company. The Plan was approved by the Board on June 15, 2004.

The Company currently has conditionally granted options under the Plan to purchase a maximum of 925,465 shares, representing 6.5% of the number of shares issued and outstanding. The grant of these options is subject to the shareholders approving the Plan. The Company proposes to reserve for issuance under the Plan a maximum of 2,149,942 common shares (925,465 of which have been conditionally granted as described above), representing approximately 15% of the number of common shares of the Company currently issued and outstanding. For clarity, the 2,149,942 options that may be granted under the Plan, should it be approved by the shareholders, will not be granted immediately, but rather are anticipated to be granted over the next several years to achieve the objectives of the Company's compensation programs as described above and to meet the needs of the Company as it grows.

Pursuant to the terms of the proposed Plan, the Board is authorized to grant to directors, officers, and employees of the Company and its subsidiaries, as well as to other persons who provide ongoing management or consulting services to the Company or its subsidiaries, options to acquire common shares of the Company at such prices as may be fixed at the time of the grant, provided however that the option exercise price shall not be less than the closing sale price of the Company's common shares on the Toronto Stock Exchange on the last trading day prior to the grant of the option. If there is no closing price on such date, then the exercise price shall not be less than the simple average of the closing bid and ask prices for the common shares on the Toronto Stock Exchange on such date. Options granted under the Plan shall be non-assignable and non-transferable, and shall have a maximum term of 10 years. The Company will not provide any financial assistance to any individual in connection with the exercise of any options under the Plan. The Company will not reprice any options under the Plan.

An option may not be granted to an "insider" or an "associate" of any insider (as such terms are defined by the *Securities Act* (Ontario)) of the Company if such option, together with any other options previously granted by the Company (collectively, "Share Compensation Arrangements") could result in (i) the number of common shares reserved for issuance to insiders and their associates collectively, exceeding 10% of the number of common shares then issued and outstanding, less the number of common shares issued pursuant to the Share Compensation Arrangements within the previous 12 months (the "Outstanding Issue"); (ii) the issuance to insiders and their associates, collectively, within the 12 months immediately preceding or 12 months immediately following the date of grant of such options, of a number of common shares exceeding 10% of the Outstanding Issue; or (iii) the issuance to any one insider and such insider's associates, within the 12 months immediately preceding or 12 months immediately following the date of grant of such option, of a number of common shares exceeding 5% of the Outstanding Issue.

The number of common shares reserved for issuance under the Plan at any time to any one person shall not exceed 5% of the number of common shares then issued and outstanding.

The Plan includes provisions usual to these types of plans to provide for appropriate adjustments to be made to the type, number, and/or price of securities subject to options upon the occurrence of certain events, such as the subdivision, consolidation, reclassification, conversion, or substitution of the Company's common shares; payment of stock dividend; or amalgamation of the Company.

A copy of the Plan is available upon request in writing to the Chief Financial Officer of LMS Medical Systems Inc., 5252 Blvd. de Maisonneuve Ouest, Suite 314, Montreal, Quebec H4A 3S5.

The rules of the Toronto Stock Exchange require that the Plan be approved by a majority of votes cast at the Meeting. Unless a choice is otherwise specified, it is intended that the common shares represented by the proxies hereby solicited will be voted in favour of the resolution set out in Schedule "A" hereto approving the establishment of the Plan.

The Toronto Stock Exchange has approved of the establishment of the Plan, subject to shareholder approval of the Plan being obtained.

#### **4. AMENDMENT TO BY-LAW NUMBER 1**

The Meeting has been called in part to consider, and if thought fit, to approve, with or without variation, an amendment to the by-laws of the Company with respect to the quorum requirements for shareholder meetings. These quorum requirements are set out in section 3.2 of By-Law Number 1, which reads as follows:

"Section 3.2 Quorum at Meetings of Shareholders – A quorum at meetings of shareholders consists of one or more voting persons present and authorized to cast in the aggregate not less than 25% of the total number of votes attached to all shares carrying the right to vote at that meeting."

The board of directors believes that this requirement is too restrictive and not reflective of quorum requirements for public companies. To this end, the board has passed a resolution setting the quorum requirement at two or more shareholders present in person or by proxy and authorized to cast an aggregate not less than 2% of the total number of votes attaching to all shares carrying the right to vote at that meeting. The full text of the proposed amendment to By-Law Number 1 is set out in Exhibit 1 to this Circular. In order to be effective, By-Law Number 2 must be approved by a majority of votes cast at the Meeting. Unless a choice is otherwise specified, it is intended that the common shares represented by the proxies hereby solicited will be voted in favour of the resolution set out in Schedule "B" hereto confirming the amendment to By-Law Number 1.

#### **5. CHANGE OF ADDRESS OF REGISTERED OFFICE**

This Meeting has been called in part to approve the special resolution, the text of which is set forth in Schedule "C" hereto ("Special Resolution") approving an amendment to the articles of the Company to establish, as the sole province in Canada in which the Company will have a registered office, the Province of Ontario.

As the Company is a reporting issuer for purposes of Canadian securities laws, and as the Company may, depending on its capital requirements and other factors access the capital markets in the future, by having its registered office in Ontario, the Company's principal jurisdiction for securities law purposes will be Ontario with the Ontario Securities Commission as the Company's principal regulator. As Ontario is the principal capital market in Canada, the Company believes that having Ontario as its principal jurisdiction for securities law purposes may enable more efficient access to any required capital.

The Board of Directors has approved the change of address of the registered office of the Company as of May 12, 2004.

The Special Resolution requires the approval of not less than two-thirds of the total votes cast in respect thereof by shareholders of the Company.

If the Special Resolution is approved by the requisite majority, articles of amendment in the prescribed form will, as soon as possible thereafter, be filed with the Director under the *Canada Business Corporations Act* to give effect to the change of place of the registered office.

**EXECUTIVE COMPENSATION**

As a result of the qualifying transaction, the deemed year-end of the Company became March 31 (prior to the qualifying transaction, the year-end was October 31). In 2003, there were no changes in the salaries of the named executive officers ("NEOs") listed in the chart below, and no bonuses were paid to the NEOs. The compensation paid to the NEOs was paid in their capacities as officers and employees of LMS.

NEO Name and Principal Position	Year <sup>(1)</sup>	Annual Compensation			Long-Term Compensation			All Other Compensation (\$)
		Salary (\$)	Bonus <sup>(3)</sup> (\$)	Other Annual Compensation <sup>(4)</sup> (\$)	Awards		Payouts	
					Securities Under Options Granted <sup>(5)</sup> SARS <sup>(6)</sup> (#)	Shares or Units Subject to Resale Restrictions (\$)	LTIP Payouts (\$)	
Diane Côté President and Chief Executive Officer	2004	\$75,000	NIL		NIL		NIL	NIL
	2003	\$180,000	\$69,750		NIL		NIL	NIL
	2002	\$180,000	\$90,000		NIL		NIL	NIL
Yves Grou, CA Chief Financial Officer	2004	\$75,000 <sup>(2)</sup>	NIL		NIL		NIL	NIL
	2003	\$180,000 <sup>(2)</sup>	\$41,850		NIL		NIL	NIL
	2002	\$180,000 <sup>(2)</sup>	NIL		NIL		NIL	NIL
Timothy S. Betts Product Development Lead	2004	\$78,750	NIL		NIL		NIL	NIL
	2003	\$189,000	\$42,525		NIL		NIL	NIL
	2002	\$189,000	\$53,280		13,536		NIL	NIL
Emily Hamilton, MDCM FRCP Vice President, Medical Research	2004	\$62,500	NIL		NIL		NIL	NIL
	2003	\$150,000	\$33,750		NIL		NIL	NIL
	2002	\$150,000	\$49,500		66,328		NIL	NIL

- (1) The compensation shown for 2004 covers the period from November 1, 2003 to March 31, 2004. The compensation shown for 2003 covers the period from November 1, 2002 to October 31, 2003. The compensation shown for 2002 covers the period from November 1, 2001 to October 31, 2002.
- (2) These amounts represent consulting fees paid to Bridge Capital International Inc.
- (3) The bonuses were declared under the bonus plan approved for the year 2002-2003. The bonuses were paid in Class B non-voting shares of LMS Medical Systems Ltd., which after giving effect to the qualifying transaction, represent the following common shares of the Company:

Name	Number of Common Shares
Diane Côté	40,423
Yves Grou	12,589
Timothy S. Betts	24,333
Emily Hamilton	25,502

For a description of the qualifying transaction, see footnote (3) to the table under the section entitled "Election of Directors".

- (4) Perquisites and other personal benefits do not exceed the lesser of \$50,000 or 10% of the total of the annual salary and bonus for the above-named officers.
- (5) All options have been stated after giving effect to the qualifying transaction.
- (6) To date, no stock appreciating rights ("SARS") have been granted.

## 2. OPTIONS AND SARS

During the financial year ended March 31, 2004, no options or stock appreciation rights ("SARS") were granted to any named executive officer.

### Aggregated Option/SAR Exercises During the Most Recently Completed Financial Year And Financial Year-End Option/SAR Values

NEO Name	Securities, Acquired on Exercise (#)	Aggregate Value Realized (\$)	Unexercised Options/SARS at FY-End (#) Exercisable/Unexercisable	Value of Unexercised in-the-Money Options/SARS at FY-End (\$) Exercisable/Unexercisable <sup>(2)</sup>
Diane Côté	NIL	NIL	139,018 / 210,982	2,046/-
Yves Grou, CA	NIL	NIL	NIL/200,000	-/-
Timothy S. Betts	NIL	NIL	13,536/19,964	-/-
Emily Hamilton, MDCM FRCP	NIL	NIL	75,524/66,188	5,150/-

(1) Mr. Grou exercises control of 323,795 warrants to obtain common shares of the Company held by Bridge Capital International Inc. and PGL Capital Inc. Mr. Grou did not exercise these warrants during the financial year ended March 31, 2004.

(2) The value of an unexercised in-the-money option at financial year-end is the difference between the exercise price of the option and the closing price of common shares on the Toronto Stock Exchange at July 29, 2004 (\$4.25), multiplied by the number of shares under option. The options have not been and may never be exercised, and actual gains, if any, upon exercise will depend upon the value of the common shares on the date of exercise. There can be no assurance that these values will be realized. Values of unexercised in-the-money options are based on the exercise prices varying from \$3.69 to \$4.62.

## 3. EMPLOYMENT CONTRACTS

### Diane Côté

Diane Côté, President and Chief Executive Officer of the Company, is employed pursuant to a written employment contract entered into as of October 9, 2001. The contract provides for a base compensation of \$180,000 and a performance bonus payable upon the achievement of personal goals and corporate objectives as agreed upon. The agreement also contains certain non-competition and non-disclosure provisions and is subject to certain termination provisions. In the event that her employment is terminated as a direct consequence of a change of control, Ms. Côté is entitled to receive a 24-month indemnity based on the remuneration package and bonus for the previous year.

### Yves Grou, CA

Yves Grou, Chief Financial Officer of the Company, has been employed with the Company in his current position since October 2001. His base salary is \$180,000 in addition to which he may qualify for a performance bonus payable upon the achievement of personal goals and corporate objectives as agreed upon.

### Emily Hamilton, MDCM FRCP

Emily Hamilton, Vice-President, Medical Research of the Company, is employed pursuant to a written employment contract entered into on September 9, 1996. The contract provides for a base compensation of \$115,000 (currently \$150,000) and a performance bonus payable upon the achievement of personal goals and corporate objectives as agreed upon. The agreement also contains certain non-competition and non-disclosure provisions and is subject to certain termination provisions.

## Timothy S. Betts

Timothy Betts, Product Development Lead of the Company, is employed pursuant to a written employment contract entered into on March 1, 2002. The contract provides for a base compensation of US\$135,000 and a performance bonus payable upon the achievement of personal goals and corporate objectives as agreed upon. The contract provides for payment of an amount equal to 75% of Mr. Betts' yearly basic salary (less certain amounts) if Mr. Betts resigns as a result of (i) a change-in-control of the Company; (ii) the Company's development department is outsourced and an equivalent position cannot be offered to Mr. Betts or (iii) certain other officers of the Company resign and the Company either changes its business plan or delays development of its products or marketing plans. The agreement also contains certain non-competition and non-disclosure provisions and is subject to certain termination provisions.

## 4. COMPOSITION OF THE GOVERNANCE, COMPENSATION AND NOMINATING COMMITTEE

The Governance, Compensation and Nominating Committee consists of Terrance H. Gregg, Harry G. Hohn, and Benoit La Salle.

## 5. REPORT ON EXECUTIVE COMPENSATION

The Governance, Compensation and Nominating Committee of the Board of Directors (the "Committee") is charged with the responsibility of reviewing the Company's compensation policies and practices, compensation of officers (including the Chief Executive Officer), and succession planning. As appropriate, recommendations regarding these issues are made to the Board of Directors (the "Board"). The Committee consists of three independent directors (as defined in proposed Multilateral Instrument 58-101-*Disclosure of Corporate Governance Practices*).

The objectives of the Company's compensation policies and programs for executive officers are to:

- (a) motivate and reward executive officers for the achievement of corporate and functional objectives;
- (b) recruit and retain executive officers of a high caliber by offering compensation that is competitive with that offered for comparable positions in other healthcare technology companies; and
- (c) align the interests of the executive officers with the long-term interests of shareholders and the intermediate and long-term objectives of the Company.

The Committee endeavors to position its executive compensation near the mean of the range of compensation levels for comparable companies. The comparative companies have historically been other Canadian healthcare technology companies at a similar stage of development. Independent surveys are also used to provide compensation data for comparable knowledge, skills, and expertise. The Company's compensation policies and programs for executive officers currently consist of base salary, annual incentive bonus, and other customary employment benefits. The relative emphasis of the two main components of the annual compensation of executives is approximately 75% base salary and 25% annual bonus. Total compensation of executive officers of the Company is reviewed on an annual basis.

### Base Salary

In determining base salary for each executive officer, the Committee considers the executive's experience and position within the Company. The Committee also utilizes industry compensation surveys provided by independent organizations and data from the comparative group described above. Salaries for executive officers also take into account the recommendations of the Chief Executive Officer or, in the case of the Chief Executive Officer, the recommendation of the Chairman of the Committee.

### Annual Bonus

Prior to the beginning of each fiscal year, the Board approves annual corporate objectives, and these, along with personal performance objectives, are reviewed at the end of the year for the purpose of determining annual bonuses. Annual assessments of senior management also evaluate other performance measures, including the promotion of teamwork, leadership, and the development of individuals responsible to the applicable officer. The Chief Executive Officer's annual bonus is weighted 100% on the achievement of corporate objectives, and the annual bonus of the other executive officers is weighted 50% on the achievement of corporate objectives and 50% on the achievement of

individual objectives. For 2003, the Company received from the Board an assessment of 40% on the achievement of corporate objectives. The Company's corporate objectives for 2003 primarily focused on performance associated with the advancement of its clinical development programs, with other performance objectives being related to the development of its product pipeline and its intellectual property portfolio, its ability to operate within budget, and certain other corporate priorities. The maximum bonus payable as a percentage of base salary to the Chief Executive Officer and to the other executive officers is 50%. In order to calculate the bonus payable, the individual's weighted average performance assessment is multiplied by the maximum bonus percentage and by the individual's base salary.

### Stock Options

A portion of executive compensation is also directly aligned with growth in share value. In reviewing option grants, the Committee gives consideration to the number of options already held by an individual. Stock options may be awarded to executive officers at the commencement of their employment, annually on meeting corporate and individual objectives, and from time to time by the Committee based on regular assessments of the compensation levels of comparable companies. An executive officer may earn an annual option grant on a basis similar to that described above under "Annual Bonus," with similar weightings applied to the achievement of corporate objectives and individual objectives.

Presented by the Governance, Compensation and Nominating Committee:

Terrance H. Gregg  
Harry G. Hohn  
Benoit La Salle

## 6. COMPENSATION OF DIRECTORS

The directors of the Company received no directors' fees in the year ended March 31, 2004.

### EQUITY COMPENSATION PLANS

<b>Plan Category</b> <i>Equity compensation plans not approved by securityholders<sup>(1)</sup></i>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b> <b>(a)</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b> <b>(b)</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b> <b>(c)</b>
1. 2004 Stock Option Plan (the "Plan")	925,465 <sup>(2)</sup>	\$4.18	1,224,477
2. Other Options <sup>(3)</sup>	491,927	\$4.32	NIL <sup>(4)</sup>

(1) This is the Plan to be approved by shareholders.

(2) These options are conditional upon approval of the Plan.

(3) "Other Options" represents options to purchase common shares of the Company issued to holders of LMS options.

(4) No further options will be issued under this category.

## INDEBTEDNESS OF DIRECTORS, EXECUTIVE OFFICERS, AND SENIOR OFFICERS

It is the policy of the Company to not make loans to directors, executive officers, and senior officers. Since the beginning of the Company's last financial year, no present or former director, executive officer, or senior officer of the Company is currently or has been indebted to the Company.

## DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company maintains liability insurance for its directors and officers acting in their respective capacities. The annual premium payable by the Company in respect of such insurance is \$53,000, and the total amount of insurance purchased for the directors and officers as a group is \$5 million, subject to a deductible amount up to \$50,000 for each loss. The policy does not specify that any part of the premium is paid in respect of either the directors or officers as a group. The policy contains standard industry exclusions, and no claims have been made thereunder to date.

## INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

There are no material interests, direct or indirect, of directors, senior officers, or any shareholders who beneficially own, directly or indirectly, more than 10% of the outstanding common shares, or any known associates or affiliates of such persons, in any transaction during the past year or in any proposed transaction that has materially affected or would materially affect the Company.

## STATEMENT ON CORPORATE GOVERNANCE PRACTICES

The Toronto Stock Exchange (the "TSX") has issued guidelines for effective corporate governance. These guidelines deal with matters such as the constitution and independence of corporate boards, their functions, the effectiveness and education of board members, and other items pertaining to sound corporate governance. The TSX requires that each listed company disclose, on an annual basis, its approach to corporate governance with reference to the guidelines.

The Company's Board of Directors (the "Board") has adopted a formal mandate outlining its responsibilities. Codes of ethics for the Board and the Company's employees have also been implemented. The mandate and the codes of ethics, along with the charters of each of the Company's Audit Committee and Governance, Compensation and Nominating Committee, may be viewed on the Company's website at [www.lmsmedical.com](http://www.lmsmedical.com).

The Company believes that its corporate governance practices ensure that the business and affairs of the Company are effectively managed so as to enhance shareholder value. The TSX guidelines and a commentary on the Company's approach with respect to each are set forth below.

TSX Corporate Governance Guideline	Does the Company Comply?	Comments
1. The Board of Directors should explicitly assume responsibility for the stewardship of the corporation and specifically for:	Yes	The Company's Board of Directors is responsible for the stewardship of the Company and for supervising the management of the business and affairs of the Company. Copies of the Board's Mandate and Code of Conduct can be obtained on the Company's Web site at <a href="http://www.lmsmedical.com">www.lmsmedical.com</a> .
(a) adoption of a strategic planning process	Yes	One Board meeting a year is specifically set aside for strategic planning. The Board is responsible for approving and reviewing the strategic plan, which takes into account the opportunities and risks of the Company. The Company's strategies, the implementation thereof, and any changes thereto are discussed regularly at meetings of the Board.

(Continued from page 11)

TSX Corporate Governance Guideline	Does the Company Comply?	Comments
(b) identifying the principal risks of the corporation's business and ensuring the implementation of the appropriate systems to manage these risks	Yes	The principal risks of the Company's business are identified in "Management's Discussion and Analysis" contained in the Annual Report and interim financial statements of the Company and the Company's Annual Information Form, which is in the form of a registration statement on Form 20-F under the <i>Securities Exchange Act of 1934</i> . The Board considers the principal risks of the Company's business and receives reports of Management's assessment and management of these risks. The Audit Committee reviews financial risk management activities. The Company aims to limit its operational liabilities through a combination of contractual protection and insurance.
(c) succession planning for the corporation, including identifying, appointing, training, and monitoring senior management	Yes	The Board periodically reviews the Company's organizational plan and structures. The Board has directors who participate actively in the activities of the Company. Under the reporting structure, senior management reports to the CEO and the CEO reports to the Board. Senior Management regularly attends meetings of the Board.
(d) communications policy	Yes	Management, supported by the Board, has put structures in place to ensure effective communication between the Company and its stakeholders and the public. The Company provides appropriate disclosure as required by law, and legal counsel reviews all press releases and shareholder reports.
(e) overseeing the integrity of the corporation's internal controls and management information systems	Yes	Senior management has the primary responsibility for the Company's internal controls. Through the Audit Committee, which meets regularly with the Company's external auditor, the Board assesses the strength of these controls. Internal controls and management of information are upgraded as required for the Company's continuing and growing operations.

(Continued from page 12)

TSX Corporate Governance Guideline	Does the Company Comply?	Comments
2. Majority of directors should be unrelated and independent from management and free from conflicting interests.	Yes	The Board is composed of six directors, a majority of whom are independent (as defined in proposed Multilateral Instrument 58-101- <i>Disclosure of Corporate Governance Practices</i> ). After consideration of the above criteria, the Board has concluded that 5 of the directors are independent. The remaining director is an officer of the Company. According to the TSX Guidelines a significant shareholder is able to exercise a majority of the votes for the election of the board of directors. Based on this definition, the Company does not have a significant shareholder.
3. Disclose for each director whether such director is independent, and how that conclusion was reached.	Yes	Diane Côté, the President and Chief Executive Officer of the Company, is the only Board member who is considered not independent (as defined in proposed Multilateral Instrument 58-101 - <i>Disclosure of Corporate Governance Practices</i> ). For more information about each director, please refer to page 4 of this Management Proxy Circular.
4. Appoint a committee responsible for the appointment and assessment of directors.	Yes	The Governance, Compensation and Nominating Committee has the responsibility for recommending new directors and ensuring the appropriate mix of skill sets and experience on the Board. The Governance, Compensation and Nominating Committee is composed solely of independent directors (as defined in proposed Multilateral Instrument 58-101- <i>Disclosure of Corporate Governance Practices</i> ).
5. Implement a process for assessing the effectiveness of the Board, its committees, and the contribution of individual directors.	Yes	The Board has the responsibility for assessing the Board's effectiveness as a whole and the effectiveness of the individual members of the Board and the Board's committees.
6. Provide orientation and education programs for new directors.	Yes	The Board's policy is to ensure that a full program of orientation and education is provided to any new nominee. The Board has the responsibility for orientation and education programs.
7. The Board should examine its size and, where appropriate, reduce the number of directors, with a view to improving effectiveness.	Yes	The Board considers its size to be appropriate at the current time. The Governance, Compensation and Nominating Committee has the responsibility for reviewing the size of the Board and Board Committees. The Board, as presently constituted, brings together a mix of skills and backgrounds that the Board considers appropriate for the stewardship of the Company.

(Continued from page 13)

TSX Corporate Governance Guideline	Does the Company Comply?	Comments
8. Review compensation of directors to reflect risk and responsibility and long-term orientation.	Yes	The Board, through its Governance, Compensation and Nominating Committee, periodically reviews the adequacy and form of compensation for directors. Diane Côté, the only management member of the Board, is not compensated as director. The Company has proposed the 2004 Stock Option Plan. For more information, please refer to page 5 of this Management Proxy Circular.
9. Committees of the Board should generally be composed of non-management directors, a majority of whom are unrelated directors.	Yes	The Board currently has two standing committees – the Audit Committee and the Governance, Compensation and Nominating Committee. Each committee is composed solely of independent directors (as defined in proposed Multilateral Instrument 58-101 – <i>Disclosure of Corporate Governance Practices</i> ). For more information about who is a committee member, please refer to page 4 of this Management Proxy Circular.
10. Appoint a committee responsible for determining the corporation's approach to corporate governance.	Yes	The Governance, Compensation and Nominating Committee has primary responsibility for considering corporate governance issues.
11. Define the mandate for the Board and the CEO. The Board should approve or develop corporate objectives, which the CEO is responsible for achieving.	Yes	See below.
(a) Mandate of the Board of Directors	Yes	The Board manages the business of the Company on behalf of the shareholders. The Board endeavors to meet or exceed the duties and responsibilities recommended by the TSX, outlined in Section 474 of the TSX Company Manual. These include strategic planning, monitoring, and management of the Company's principal risks. Any responsibility that is not delegated to senior management or a committee of the Board remains with the full Board. In addition to those matters, which must by law be approved by the Board, the approval of the Board is required for major transactions or expenditures. For further details, please visit our website at <a href="http://www.lmsmedical.com">www.lmsmedical.com</a> for the text of the Mandate of the Board.

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TSX Corporate Governance Guideline	Does the Company Comply?	Comments
(b) The Mandate of the Chief Executive Officer	Yes	The CEO's objectives include the general mandate to maximize shareholder value and to develop and execute the strategic plans of the Company as approved by the Board. The CEO regularly reports to and, when appropriate, seeks approval from the Board.
(c) Corporate Objectives	Yes	The CEO's objectives are discussed and reviewed annually with the Board. The Board approves the CEO's objectives on an annual basis. The Governance, Compensation and Nominating Committee measures the CEO's performance against established objectives and makes a recommendation to the Board for review and approval.
12. Establish structures and procedures to ensure the Board can function independently of management.	Yes	The Chairman of the Board, Benoit La Salle, is not a member of Management and is therefore an independent director (as defined in proposed Multilateral Instrument 58-101- <i>Disclosure of Corporate Governance Practices</i> ). Moreover, the Board considers that, by virtue of the number of independent directors (as defined in proposed Multilateral Instrument 58-101- <i>Disclosure of Corporate Governance Practices</i> ) and the fact that the committees of the Board are composed entirely of independent directors (as defined in proposed Multilateral Instrument 58-101- <i>Disclosure of Corporate Governance Practices</i> ), it is independent of Management. The Board meets regularly and independently of any related director or Management.
13. Establish an Audit Committee with a specifically defined mandate with all members being unrelated directors.	Yes	The Audit Committee has a written mandate, approved by the Board, and is composed solely of independent (as defined in Multilateral Instrument 52-110 - <i>Audit Committees</i> ) directors. The Audit Committee reviews the annual and quarterly financial statements of the Company and certain other public disclosure documents required by regulatory authorities, and makes recommendations to the Board with respect thereto. The Audit Committee also reviews with the auditor and Management the adequacy of the Company's financial reporting and internal control procedures to ensure they are effective and appropriate. The Audit Committee reviews on an ongoing basis the independence of the auditor and must approve the provision of any non-audit-related services. The Charter of the Audit Committee is available on the Company's Web site at <a href="http://www.lmsmedical.com">www.lmsmedical.com</a> and to shareholders upon request.

*(Continued from page 15)*

<b>TSX Corporate Governance Guideline</b>	<b>Does the Company Comply?</b>	<b>Comments</b>
14. Implement a system to enable individual directors to engage outside advisors at the expense of the Corporation.	Yes	Directors are permitted to contact and engage outside advisors at the expense of the Company.

**AUDIT COMMITTEE****Charter**

The text of our Audit Committee Charter can be found on our website at [www.lmsmedical.com](http://www.lmsmedical.com).

**Composition of the Audit Committee**

The members of the Audit Committee are Elaine Beaudoin, André Bérard and Benoit La Salle, each of whom is independent and financially literate.

**Relevant Education and Experience of Audit Committee Members****Elaine Beaudoin, CA**

Elaine Beaudoin is a chartered accountant and a member of the Québec Order of Chartered Accountants and the Canadian Institute of Chartered Accountants. From 1989 to 1998, she held the position of Chief Executive Officer of Unifix Inc, a Québec based manufacturer of concrete panels. Ms. Beaudoin serves on the boards of several institutions and private and public companies, including the Canam Manac Group Inc., Hebdo Litho Inc. and Lower Canada College.

**André Bérard**

André Bérard spent over four decades with the National Bank of Canada where his career culminated in service as Chief Executive Officer and most recently Chairman of the Board. Mr. Bérard also serves on a number of other boards of public companies, including amongst others, BCE Inc., Saputo Inc., Kruger Inc., and Noranda Inc. Mr. Bérard is a member of the Conseil des gouverneurs associés of the Université de Montréal, the Jeune Chambre de commerce de Montréal, and the Chambre de commerce du Québec. Mr. Bérard has received two honorary doctorates from leading Canadian universities, and is an Officer of the Order of Canada, an Officer of the Ordre national du Québec, and has received the Ordre de Saint-Jean.

**Benoit La Salle, CA**

Benoit La Salle is a chartered accountant and member of the Canadian Institute of Chartered Accountants and the Order of Chartered Administrators of Québec. He holds a Commerce degree from McGill University and a Masters of Business Administration from IMEDE, Switzerland. In 1980, he founded Grou La Salle & Associés, Chartered Accountants. Mr. La Salle is currently Chairman and Chief Executive Officer of Semafo Inc. and serves on other boards of public companies, including amongst others, Afcan Mining Corporation, Pebercan Inc., Vasogen Inc., and ART Advanced Research Technologies Inc.

**External Auditor Service Fees (By Category)****Audit Fees**

The aggregate fees billed by Ernst & Young LLP, Chartered Accountants, for audit services in the financial years ended October 31, 2003 and March 31, 2004 were \$57,000.

The aggregate fees billed by Schwartz Levitsky Feldman LLP (our former auditors) for the financial year ended November 30, 2003 was \$12,000. Prior to completion of the qualifying transaction, our year end was November 30.

**Audit Related Fees**

The aggregate fees billed by Ernst & Young LLP, Chartered Accountants, for assurance and related services in the financial years ended October 31, 2003 and March 31, 2004 that are reasonably related to the performance of the audit or review of our financial statements and not reported under "Audit Fees" above were \$11,000.

Ernst & Young LLP provided special audit services in connection with certain financings undertaken by us.

**Tax Fees**

The aggregate fees billed by Ernst & Young LLP, Chartered Accountants, for professional services rendered for tax compliance, tax advice and tax planning in the financial years ended October 31, 2003 and March 31, 2004 were \$55,000.

Ernst & Young LLP assisted us with the preparation of our research and development tax credit claims and assisted with the preparation of the tax returns of LMS and LMS (USA).

**All Other Fees**

The aggregate fees billed by Ernst & Young LLP, Chartered Accountants, for products and services provided, other than the services reported under the above categories, in the financial years ended October 31, 2003 and March 31, 2004 were \$30,000.

Ernst & Young LLP participated in the preparation of the filing statement in respect of our qualifying transaction, which participation included a review of the *pro forma* statements for the prior fiscal years of LMS Medical Systems (Canada) Ltd. ("LMS") and consultation services with respect thereto. The Company owns 99.98% of the issued and outstanding shares of LMS.

**SHAREHOLDER PROPOSALS FOR THE 2005 ANNUAL MEETING**

The Company will review shareholder proposals intended to be included in proxy material for the 2005 Annual Meeting of Shareholders that are received by the Company at its offices at 5252 Blvd. de Maisonneuve Ouest, Suite 314, Montréal, Québec, HYA 3S5, Attention: Secretary, no later than April 30, 2005.

**ADDITIONAL INFORMATION**

Additional information relating to the Company is on SEDAR at [www.sedar.com](http://www.sedar.com).

Copies of the following documents are available without charge to shareholders upon written request to the Secretary of the Company at 5252 de Maisonneuve Ouest, Suite 314, Montréal, Québec, HYA 3S5:

- (i) the 2003 Annual Report to Shareholders containing the consolidated financial statements for the year ended March 31, 2004, together with the accompanying report of the auditor;
- (ii) Management's Discussion and Analysis ("MD&A") pertaining to the Company's consolidated financial statements;
- (iii) this Management Proxy Circular; and
- (iv) the Company's most recent Annual Information Form, which is in the form of a registration statement on Form 20-F.

Financial information is also provided in the Company's financial statements and MD&A for the financial year ended March 31, 2004.

**GENERAL**

The information contained herein is given as at July 30, 2004, unless otherwise stated. The Board of Directors of the Company has approved the contents and the distribution of this Management Proxy Circular.

DATED at Montréal, Québec, this 30th day of July, 2004.

**BY ORDER OF THE BOARD OF DIRECTORS**



*Diane Côté*  
President and Chief Executive Officer

**SCHEDULE "A"**

**APPROVAL OF STOCK OPTION PLAN**

**RESOLVED THAT** the establishment by the Company of the 2004 Stock Option Plan on the terms approved by the Board of Directors as summarized in the Management Proxy Circular dated August 30, 2004 (the "Plan"), which authorizes the Board of Directors to grant options to acquire common shares of the Company to directors, officers, and employees of the Company and its subsidiaries, and to persons providing ongoing management or consulting services, and the allotment and reservation for issuance of up to 2,149,942 common shares pursuant to the terms of the Plan, are hereby authorized and approved.

**SCHEDULE "B"**

**APPROVAL OF AMENDMENT TO BY-LAW NUMBER 1**

RESOLVED THAT By-Law Number 2, being a by-law to amend By-Law Number 1 of the Company, is hereby approved and confirmed as a by-law of the Company.

**SCHEDULE "C"**

**APPROVAL OF CHANGE OF PLACE OF REGISTERED OFFICE**

**RESOLVED AS A SPECIAL RESOLUTION THAT:**

1. the articles of the Company are hereby amended to establish, as the sole province in Canada in which the Company will have a registered office, the Province of Ontario; and
2. the Company is hereby authorized to apply for a certificate of amendment under the *Canada Business Corporations Act* amending its articles to give effect to the above and any one director or officer of the Company is hereby authorized to execute and deliver for and on behalf of the Company all such documents and instruments, including articles of amendment and to do such acts and things as may be considered necessary or desirable to give effect to the foregoing.

**EXHIBIT 1**

**BY-LAW NUMBER 2  
OF  
LMS MEDICAL SYSTEMS INC.**

A by-law to change the quorum requirements  
of the meetings of shareholders

BE IT ENACTED AND IT IS HEREBY ENACTED as a by-law of LMS Medical Systems Inc. (the "Company")  
as follows:

1. Section 3.2 of By-Law Number 1 of the Company is repealed.
2. A quorum at meetings of shareholders consists of two or more shareholders present in person or by proxy and authorized to cast in the aggregate not less than 2% of the total number of votes attaching to all shares carrying the right to vote at that meeting.
3. The repeal of section 3.2 of By-Law Number 1 shall not in any way affect the validity of any act done or right, privilege, obligation or liability acquired or incurred thereunder prior to this repeal.

MADE by the board on the 15th day of June, 2004.

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Secretary

