LMS Medical Systems Inc.

2004 Financial Information

lms

Table of Contents

MANAGEMENT'S DISCUSSION & ANALYSIS

Management's discussion and analysis ("MD&A") prepared as of July 26, 2004 provides a review of the performance of our Company and should be read in conjunction with the audited financial statements and notes included herewith which are prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

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 consolidated pro forma balance sheet presented in note 1 of LMS Medical Systems Ltd as of March 31st, 2004 represents a continuation of LMS Medical Systems Ltd, which has been renamed LMS Medical Systems (Canada) Ltd.

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 May 31, 2004.

Common shares	14,343,778
Warrants to purchase common shares	3,247,338
Options to purchase common shares (350,000 options are subject to shareholders' approval)	828,593

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 Statements

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 our 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 (CALMTM) was developed as a research project at the Faculty of Medicine of McGill University in Montréal, with Dr. Emily Hamilton as the principal investigator.

Over the last 8 years, we have expensed over $24 million to research, develop and validate our technologies for the obstetrics market.

As at June 1st, 2004, we had approximately $14 million in working capital compared to $2 million as at March 31, 2004 and no long-term debt. The change in our working capital position can be attributed to funds raised through financing activities and the liquidities accruing to our Company upon completion of the reverse take-over 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.

Significant changes over the last 12 months

The most significant changes for our Company in the past 12 months are set out below:

- We completed 2 rounds of financing raising total gross proceeds of $17.8 million.
- We completed a capital reorganization whereby all of our preferred shares and a $1.2 million principal amount secured convertible debenture were converted into common shares.
- A fully secured $1.1 million principal amount debenture was fully repaid by our Company before year-end without penalty.
- Our Company's common shares were listed on the Toronto Stock Exchange.
- We expanded our existing sales channels by signing a distribution contract with a US distributor (Mckesson). This agreement covers USA, Canada, UK and Mexico.

Strategies for development

We intend to expand our presence in the North-American marketplace. To this end, we will focus on the growth of our install base.

We intend to develop our presence in the European Union to lay a foundation for additional marketing and distribution agreement(s) in this geographic region.

We intend to pursue a variety of marketing programs and campaigns to enhance our visibility within the healthcare technology marketplace.

We intend to develop new versions of our core technology with enhanced functionality.

Our Company's objectives for fiscal 2005 are to:

- Obtain regulatory approval for CALM™ Patterns in the United States and Canada
- Complete development of CALM™ ANNi
- Initiate activities with risk managers and insurance companies to raise their awareness of the role that our decision support tools can play in addressing medical/legal concerns in obstetrics
- Generate product sales in both Canada and the United States thereby increasing our install base
- Complete the integration of CALM™ products with Mckesson's charting applications

Financial performance analysis

For the 5-month period ended March 31st, 2004, our net loss was $2,272,139 or $0.72 per share compared to $5,279,480 or $3.71 per share for the 12-month year ended October 31st, 2003.

As at March 31st, 2004, our total assets were $4,040,164 and shareholders' equity was $2,409,527. Our cash and short-term investment amounted to $1,481,123 at year-end compared to $17,719 as of October 31st, 2003.

Subsequent to year-end, we completed an equity financing through the issuance of 3,000,000 common shares at a price of $4.00 per share raising gross proceeds of $12 million. The pro forma impact on our balance sheet of this financing and the reverse takeover transaction is disclosed in the note 1 of our financial statements.

Our expenses have been comprised primarily of research and development, administrative, selling and market development and customer support. Based on our accounting practice, it has been our policy to expense research, development and clinical trial costs.

Our operating results are primarily affected by the following factors:

- Customer demand for our products
- Costs associated with sales promotions and sales campaigns
- Expenses related to product development (which are driven by the time frame required to complete a project and staffing requirements)

Critical accounting policies and estimates

Our financial statements are prepared in accordance with Canadian generally accepted accounting principles, applied on a consistent basis. Our critical accounting policies and estimates include the following:

Revenue recognition

The Company recognizes its revenues from systems upon the installation and acceptance by the client. Amounts billed in accordance with customer agreements, but not yet earned, are recorded as deferred revenue. Revenues related to sales of software licenses are deferred and amortized over the term of the license agreement. Service revenues are recognized at the time services are performed.

Research and development expenses

Research and development costs are charged to expenses in the year of expenditure. We may defer and amortize such expenses in the future if a development project meets the criteria under Canadian generally accepted accounting principles for deferral and amortization. We separately disclose our investment tax credits, which are based on estimates of amounts expected to be recovered and are subject to audit by taxation authorities.

Stock-based compensation plan

We have a stock-based compensation plan. During the 5-month period ending March 31st, 2004, we adopted the fair value method of accounting for stock-based compensation plan as recommended by Canadian Institute of Chartered Accountants. We adopted these changes using the prospective application transitional alternative in accordance with the transitional provisions of Canadian Institute of Chartered Accountants Handbook Section 3870. Accordingly the fair value based method is applied to awards granted, modified or settled on or before November 1, 2003. Prior to the adoption of the fair value based, we, as permitted by Section 3870, had chosen to continue its existing policy of recording no compensation cost on the grant of stock options to employees. However, as required, we provide pro forma disclosure of the compensation costs based on the fair value method (see note 7 to our financial statements). The fair value of an option to purchase one of our common shares is calculated using Black-Scholes option-pricing model, which requires making assumptions of the volatility factor of the market price of our common shares and the expected life of the option.

Income taxes

We account for income tax following the liability method. Further income tax assets are recognized if realization is considered "more likely than not". Since we have never been profitable since our inception, the tax benefits from our research and development expenditures, non-capital tax losses and other items which are available to reduce future taxable income have been fully provided for by a valuation allowance.

Change in accounting policies

As disclosed above, we adopted the new Canadian Institute of Chartered Accountants recommendation with respect to our new stock-based compensation plan.

Selected annual information

	Five-month period ended March 31, 2004 $	Year ended October 31, 2003 $
Statements of operations and cash flows data		
Revenues	**42,019**	130,168
Cost of revenues	11,039	2,447
	30,980	127,721
Expenses		
Research and development costs	**915,476**	2,373,485
Less: Tax credits	**(361,873)**	(1,024,097)
	553,603	1,349,388
Administrative	**716,071**	1,471,056
Selling and market development	**586,524**	1,533,438
Customer support	**238,574**	445,975
Quality assurance	**80,923**	196,874
Other expenses, net	**127,424**	410,470
Net loss	**(2,272,139)**	(5,279,480)
Basic and diluted loss per share	**(0.72)**	(3.71)
Cash flow related to:		
Operating activities	**(2,717,463)**	(4,614,776)
Investing activities	**(22,294)**	(35,906)
Financing activities	**4,203,161**	4,634,498

	March 31, 2004 $	October 31, 2003 $
Balance sheet data		
Total assets	**4,040,164**	1,810,777
Total long term debt and loan payable	**94,763**	1,157,787
Total shareholders' equity (deficiency)	**2,409,527**	(633,636)

During the year ended October 31st, 2003, we declared a stock dividend on our preferred shares. The dividend was payable in preferred shares and had a value for accounting purposes of $907,227. Pursuant to a subsequent capital reorganization, our preferred shares were converted into common shares of our Company. No dividend was declared on our common shares during the last fiscal year. We do not anticipate paying dividends in the next fiscal year.

Results of operations

FIVE MONTHS ENDING MARCH 31, 2004 COMPARED TO THE TWELVE MONTHS ENDING OCTOBER 31, 2003.

In general our company is not subject to any seasonal or cyclical factors. Therefore our results can be compared on a pro rata basis.

Revenues

Our revenues for both the period ended March 31, 2004 and the year ended October 31, 2003 were derived from fees we earned from existing maintenance service agreements with our customers.

Research and Development

Our expenditures before investment tax credit amounted to $915,476 compared to $2,373,485 in 2003. These sums were used to complete a United States Food & Drug Administration ("FDA") and Health Canada compliant development quality system implementation used in connection with the release of new versions of CALM™ which included 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 reduction on a pro rata basis was largely the result of a temporary decrease in staff during the period. Investment tax credits totaled $361,873 in 2004 compared to $1,024,097 the prior year. All research, development and clinical trial costs are expensed by our Company. Since we became public on April 1, 2004, our Research and Development tax credit rates changed at the federal level from 35% to 20% and from 35% to 17.5% at the provincial level. Moreover the federal tax credits will be applied in the future against our income taxes payable and will not be refunded in the year we incurred the Research and Development expense.

Administrative

Administrative expenses for the period ended March 31st, 2004 totaled $716,071 compared to $1,471,056 for the year ended October 31st, 2003. The *pro rata* increase is the result of an allowance for bad debt in 2004, an increase in the office leases expenses due to a renewal of the lease and an increase in insurance premiums.

Selling and Market Development

Expenses decreased from $1,533,438 in 2003 to $586,524 in 2004. This change on a pro rata basis is the result of a reduction of support staff and special one-time costs incurred in 2003 to update our website. During this period, 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

Our Customer Support department provides for the operation of a dedicated 24/7-service center for customers. The total expenses for this department went from $445,975 in 2003 to $238,574 in 2004. The increase on a pro rata basis is largely attributable to the hiring of additional staff required to support anticipated increases in activities.

Quality Assurance

In 2002, we created the departments of Quality Assurance and Regulatory Affairs with the responsibility of ensuring compliance with all applicable requirements and regulations of each country where the Company's products are to be marketed. Expenses include the salary of a full-time Quality Assurance and Regulatory Affairs Director and costs associated with obtaining approval to market our products in Canada, the United States and Europe. During the last two years, through the auspices of these departments, we have 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 decreased on a pro rata basis from $196,874 in 2003 to $80,923 in 2004. Last year, we incurred special non-recurring consulting fees of $20,000 relating to regulatory approval under United States HIPPA.

Other expenses

Other net expenses totaled $127,424 in 2004 compared to $410,470 in 2003. The decrease in a pro rata basis mostly explained by net financial expenses which totaled $70,472 for the five-month period ended March 31, 2004 compared to $270,304 for the year ended October 31, 2003. The repayment of $1,100,000 of loans and promissory notes during 2004 explained the decrease on a pro-rata basis of the interest expense.

Net Loss
As a result, net loss for the five-month period ended March 31st, 2004 totaled $2,272,139 ($0.72 per share) compared with $5,279,480 ($3.71 per share) for the year ended October 31st, 2003.

Liquidity And Capital Resources

Operating Activities
Cash flow used for operations totaled $2,717,463 for the five-month period ending March 31, 2004 compared to $4,614,776 during the year ended October 31, 2003.

In 2004, cash used in our operating activities is mainly explained by our net loss of $2,272,139 and by a negative net change in non-cash operating working capital item of $489,496 mainly due to fees and costs paid in advance in connection with the subsequent reverse takeover transaction and issuance of our capital-stock. In 2003, it is mainly explained by our net loss of $5,279,480 and by non-cash items which include amortization of expenses for $248,916 and bonus to be paid in shares for $329,378.

Investing Activities
Our investing activities consist of acquisition of property, plant and equipment required for our activities for $22,294 and $35,906 in 2004 and 2003 respectively. It excludes acquisitions financed by capital leases which totaled $49,117 and $68,359 in 2004 and 2003 respectively.

Financing Activities
To date, we have financed our operations, technology development, patent filings and capital expenditures primarily through issuance of shares and issuances of convertible notes by way of private placements, with the receipt of investment tax credits 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 $41 million from equity-based financings including $12 million raised subsequent to the end of the five-month fiscal period ended March 31, 2004.

As of March 31, 2004, we had cash, cash equivalents and short-term investments amounting to $1,481,123 compared to $17,719 as of October 31, 2003. As of June 1, 2004 we had cash and cash equivalents of $12.8 million.

During the five-month period ended March 31, 2004, we issued unsecured convertible debentures for net proceeds of $5,315,302. In 2003, we raised $6,855,163 by issuing convertible preferred shares and warrants. In 2004, we used $1,112,141 out of these proceeds to repay the majority of our long-term debt ($3,045,665 in 2003). Consequently the net cash flows generated by our financing activities totalled $4,203,161 for the 5-month period ended March 31, 2004 compared to $4,634,498 in 2003. The remainder of the proceeds has been used to provide liquidities necessary to support our operating activities.

The convertible preferred shares issued in 2003 included an annual cumulative dividend of 18% payable in shares of the same category. Prior to October 31, 2003, shareholders approved that these securities and accumulated dividends in the amount of $907,227 be converted into our common shares. In connection with this conversion, it was approved on November 14, 2003 to decrease the exercise price of our warrants from $14.50 to $8.75 per share. Following this decision, we revalued the fair value of these warrants to $1,005,500 and accounted for as a reduction of value attributed to our common shares issued in connection with the conversion of the preferred shares.

As a result of the above, our cash and cash equivalents increased (decreased) by $1,463,404 and ($16,184) in 2004 and 2003 and our cash and cash equivalents was stated at $1,431,123 and ($32,281) as at March 31, 2004 and October 31, 2003 respectively.

As at March 31, 2004, we had no debt other than obligations under capital leases, which totaled $94,763 repayable over the next 5 years. Our other operating obligations originating from our operating leases are as follows:

Less than 1 year	$ 200,126
1 to 3 years	$ 566,594
Total	$ 766,720

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.

Risk factors

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

(a) we have a limited operating history on which to base an evaluation of our business and prospects; as such, our business is essentially dependent on our success in developing and successfully selling our products and services;

(b) the market for our products is always evolving. As is typical for new and rapidly evolving industries, demand and market acceptance for recently introduced services and products are subject to a high level of uncertainty. If we fail to introduce new features and functionality in our products or if our new products are unsuccessful, our growth prospects will be limited;

(c) rapid technological advances or the adoption of new standards could impair our ability to deliver our products to health service providers in a timely manner, and as a result, our revenues would suffer. In addition, our success depends in large part on our ability to keep our products current and compatible with evolving technologies and standards, and unexpected changes in technology or standards could disrupt the development of our products and prevent us from meeting deadlines for the delivery of our products;

(d) demand for our products is dependent on a number of social, political and economic factors that are beyond the control of our Company. While we believe that demand for our products will continue to grow, there is no assurance that such demand will exist or that our products will be purchased to satisfy that demand;

(e) certain of our existing products such as CALM™ ANNi are still in the development stage. There are significant risks, expenses and difficulties frequently encountered in establishing new products in the evolving healthcare technology industry, which is heavily regulated and characterized by an increasing number of market entrants, intense competition and a high failure rate;

(f) the process of obtaining regulatory approvals for our Company's products can be expensive, uncertain and lengthy. There can be no assurance that regulatory authorities will approve the use of new products developed by our Company or once obtained, will not withdraw such approval;

(g) because much of our Company's potential success and value lies in our ownership and use of intellectual property, our inability or failure to protect our intellectual property may negatively affect our business and value;

(h) legislative and regulatory proposals in the United States and Canada may lead to laws or regulations concerning various aspects of the healthcare technology industry, including, but not limited to, government and private spending on healthcare, insurance coverage and funding of the healthcare system in general;

(i) our products are subject to United States federal and state as well as Canadian federal and provincial health and safety laws;

(j) competition in our market place will be ever present and likely intensify over time;

(k) the sale and use of our products, and the conduct of our clinical studies involving human subjects, may entail risks of product liability and subject us to litigation. Obstetrics is currently one of the most frequently litigated areas of medicine in both Canada and the United States. As a result, the premiums payable to obtain product liability insurance for our products will likely increase significantly over time and there may even come a time when we are no longer able to obtain appropriate levels of product liability insurance;

(l) our Company requires highly qualified individuals who are essential to the successful research and development of our products. Loss of services from a large part of this group or the inability of our Company to attract highly qualified personnel could compromise our Company's growth;

(m) to manage our Company's potential growth, we must continue to implement and improve our operational and financial systems and must expand, train and manage our managers and employee base;

(n) if we fail to develop and maintain relationships with industry participants, our business could suffer;

(o) our international operations are subject to certain other risks common to international operations, including without limitation, government regulations, import restrictions, and, in certain jurisdictions, reduced protection for our intellectual property rights;

(p) currency exchange rates are subject to fluctuation. We sell our products in the currency of each marketplace and as such any increase in value of the Canadian dollar relative to these currencies may impact our competitive advantage. We are currently exposed to market-rate risk only to the extent of a fluctuation in the foreign exchange rates between the Canadian and United States dollars. Fluctuations could affect the portion of our Company's expenses and sales, which are incurred in United States dollars. The majority of our Company's expenses and sales denominated in United States dollars are derived from the United States market; and

(q) our products are subject to United States federal and state and Canadian federal and provincial environmental and health and safety laws and regulations. Compliance with these laws has not, to date, had any material effect upon our capital expenditures, our net income or our competitive position. Environmental health and safety laws and regulations and their interpretation, however, have changed in recent years and may continue to do so in the future.

Other MD&A requirements

All relevant information related to our Company is filed electronically at www.sedar.com in Canada. This document forms an integral part of the Company's Annual Information Form.

Outlook

As a result of our intention to focus on 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 expect to incur an operating loss in fiscal 2005.

Management's Responsibility for Financial Statements

The management of the Company is responsible for the preparation and integrity of the financial statements and all other financial information contained in the Annual Report. These statements have been prepared in accordance with accounting principles generally accepted in Canada and necessarily include some amounts that are based on management's best estimates and judgement. Management considers that the statements present fairly the financial position of the Company, the results of its operations and the changes in its financial position. Financial information contained elsewhere in this Annual Report is consistent with the information contained in the financial statements.

The Board of Directors oversees management's performance of its financial reporting and internal control responsibilities. The Board of Directors carries out its responsibility with regard to the consolidated financial statements primarily through its Audit Committee.

The Audit Committee, which is composed exclusively of outside directors, meets regularly with the external auditors, and with management, to discuss accounting policies and practices, internal control systems, the scope of audit work and to assess reports on audit work preformed. The external auditors have direct access to the Audit Committee, with or without the presence of management, to discuss results of their audits and any recommendations that they have for improvements in internal controls, the quality of financial reporting and any other matters of interest. The financial statements have been reviewed and approved by the Board of Directors on the recommendation of the Audit Committee.

Diane Côté
President and Chief Executive Officer

Yves Grou, CA
Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of LMS Medical Systems Ltd.

We have audited the consolidated balance sheet of LMS Medical Systems Ltd. as at March 31, 2004 and as at October 31, 2003 and the consolidated statements of operations, deficit and cash flows for the five-month period ended March 31, 2004 and the year ended October 31, 2003. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2004 and as at October 31, 2003 and the results of its operations and its cash flows for the five-month period ended March 31, 2004 and the year ended October 31, 2003 in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Montréal, Canada,
May 21, 2004

Consolidated Financial Statements
LMS Medical Systems Ltd.
Incorporated under the laws of Canada

CONSOLIDATED BALANCE SHEET

As at	March 31, 2004 $	October 31, 2003 $
	[note 1]	
ASSETS		
Current assets		
Cash and cash equivalents	**1,431,123**	–
Short-term investments		
[market value $50,000 in 2004; $50,000 in 2003]	**50,000**	50,000
Accounts receivable *[note 3]*	**207,377**	473,023
Income taxes receivable	**–**	4,839
Research and development tax credits receivable		
[note 12]	**1,210,326**	848,453
Prepaid expenses	**755,359**	75,722
Total current assets	**3,654,185**	1,452,037
Property, plant and equipment *[note 4]*	**343,973**	315,289
Patents *[note 5]*	**42,006**	43,451
	4,040,164	1,810,777
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current liabilities		
Cheques issued in excess of bank deposits	**–**	32,281
Accounts payable and accrued liabilities	**1,053,356**	959,706
Deferred revenue	**482,518**	294,639
Loan payable	**–**	100,000
Current portion of long-term debt *[note 6]*	**39,981**	20,930
Total current liabilities	**1,575,855**	1,407,556
Long-term debt *[note 6]*	**54,782**	1,036,857
	1,630,637	2,444,413
Shareholders' equity (deficiency)		
Capital stock *[note 7]*	**21,755,681**	20,768,740
Warrants *[note 7]*	**1,134,100**	–
Shares to be issued	**–**	814,158
Unsecured convertible debentures *[note 8]*	**5,800,000**	1,019,674
Deficit	**(26,280,254)**	(23,236,208)
Total shareholders' equity (deficiency)	**2,409,527**	(633,636)
	4,040,164	1,810,777

Commitments and contingencies *[note 9]*

Subsequent events *[note 1]*

See accompanying notes

On behalf of the Board:

Diane Côté
Director

Benoit Lasalle
Director

Consolidated Financial Statements
LMS Medical Systems Ltd.

CONSOLIDATED STATEMENT OF OPERATIONS

	Five-month period ended March 31, 2004 $	Year ended October 31, 2003 $
Revenues	**42,019**	130,168
Cost of revenues	**11,039**	2,447
	30,980	127,721
Expenses		
Research and development costs	**915,476**	2,373,485
Less: Tax credits *[note 12]*	**(361,873)**	(1,024,097)
	553,603	1,349,388
Administrative	**716,071**	1,471,056
Selling and market development	**586,524**	1,533,438
Customer support	**238,574**	445,975
Quality assurance	**80,923**	196,874
Technological showcase project	**13,720**	119,727
Interest on long-term debt	**74,928**	219,825
Amortization property, plant and equipment	**42,727**	184,902
Amortization of patents	**1,445**	3,466
Amortization of deferred financing costs	**–**	60,548
Government grant	**–**	(52,690)
Foreign exchange gain	**(1,210)**	(115,239)
	2,307,305	5,417,270
Loss before interest income	**(2,276,325)**	(5,289,549)
Interest income	**4,186**	10,069
Net loss	**(2,272,139)**	(5,279,480)
Basic and diluted loss per share	**(0.72)**	(3.71)
Weighted average number of Common shares	**3,136,995**	1,424,751

See accompanying notes

Consolidated Financial Statements
LMS Medical Systems Ltd.

CONSOLIDATED STATEMENT OF DEFICIT

	Five-month period ended March 31, 2004 $	Year ended October 31, 2003 $
Deficit, beginning of period	**(23,236,208)**	(16,511,692)
Net loss	**(2,272,139)**	(5,279,480)
Stock dividends on Preferred shares	–	(907,227)
Shares and unsecured convertible debentures issuance costs	**(613,299)**	(395,371)
Interest on unsecured convertible debentures	**(158,608)**	(142,438)
Deficit, end of period	**(26,280,254)**	(23,236,208)

See accompanying notes

Consolidated Financial Statements
LMS Medical Systems Ltd.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Five-month period ended March 31, 2004 $	Year ended October 31, 2003 $
OPERATING ACTIVITIES		
Net loss	**(2,272,139)**	(5,279,480)
Adjustments for non-cash items:		
Amortization property, plant and equipment	**42,727**	184,902
Amortization of patents	**1,445**	3,466
Bonus to be paid in shares	**–**	329,378
	(2,227,967)	(4,701,186)
Net changes in non-cash operating working capital items	**(489,496)**	86,410
Cash flows related to operating activities	**(2,717,463)**	(4,614,776)
INVESTING ACTIVITIES		
Additions to property, plant and equipment	**(22,294)**	(35,906)
Cash flows related to investing activities	**(22,294)**	(35,906)
FINANCING ACTIVITIES		
Decrease in bank loan	**–**	(275,000)
Increase in long-term debt and loan payable	**–**	1,100,000
Repayment of long-term debt and loan payable	**(1,112,141)**	(3,045,665)
Shares and unsecured convertible debentures issuance costs	**(484,699)**	(316,175)
Issuance of capital stock	**1**	7,171,338
Issuance of unsecured convertible debentures	**5,800,000**	–
Cash flows related to financing activities	**4,203,161**	4,634,498
Net change in cash and cash equivalents	**1,463,404**	(16,184)
Cash and cash equivalents, beginning of period	**(32,281)**	(16,097)
Cash and cash equivalents, end of period	**1,431,123**	(32,281)
Supplementary information		
Interest paid	**74,928**	219,825
Tax credits received	**–**	925,517

See accompanying notes

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND REVERSE TAKEOVER TRANSACTION

Description of business

LMS Medical Systems Ltd. [the "Company"] is incorporated under the Canada Business Corporations Act. The Company is an early stage company operating in a single business segment and its principal activities have been devoted to the development of leading-edge technology in care management tools in the labor and delivery setting. The Company is currently pursuing its research and development activities as well as the implementation of its distribution network.

To date the Company has financed its cash requirements primarily from shares, loans payables, convertible debentures, investment tax credits and contract revenues. The success of the Company is dependent on obtaining the necessary regulatory approvals, generating revenue from the licensing of its technology in care management tools or directly from its technology and achieving future profitable operations. It will be necessary for the Company to raise additional funds for the continuing development and marketing of its technology in addition to the funds received subsequent to March 31, 2004 as described below.

In connection with the reverse takeover transaction described below, the Company changed its year-end to March 31 effective in 2004.

Reverse takeover transaction

On April 1, 2004, LMS Medical Systems Inc. [formerly Trophy Capital Inc.] acquired substantially all shares and unsecured convertible debentures from the shareholders and the debenture's holder of the Company in exchange for 2.70727 shares of LMS Medical Systems Inc. for each share of the Company acquired and 300 shares of LMS Medical Systems Inc. for each $1,000 of principal amount of the unsecured convertible debentures. As a result, the Company became a subsidiary of LMS Medical Systems Inc. All options granted and warrants issued by the Company have been transferred to the parent company, LMS Medical Systems Inc. [see note 7].

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 the Company. As a result, this transaction is viewed as the issuance of equity by the Company to the extent of the net cash available in LMS Medical Systems Inc. Accordingly, the following consolidated pro forma balance sheet of LMS Medical Systems Inc. represents a continuation of the Company.

The consolidated pro forma balance sheet also includes the issuance, on April 9, 2004, by LMS Medical Systems Inc. of 3,000,000 Class A Common shares for a cash consideration of $12,000,000 before issuance costs of $509,950 and the issuance on April 1, 2004 of 40,000 Class A Common shares for a cash consideration of $120,000 as a result of the exercise of options. No consolidated pro forma statement of operations is presented since the result of operations of LMS Medical Systems Inc. prior to the reverse takeover transaction would be the same as the one of the Company.

Consolidated Financial Statements
LMS Medical Systems Ltd.
March 31, 2004 and October 31, 2003

PRO FORMA CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 2004

	LMS Medical Systems Inc. [formerly Trophy Capital Inc.] $	LMS Medical Systems Ltd. $	Pro forma Adjustments $	Note	LMS Medical System Inc. Pro forma consolidated balance sheet $
ASSETS					
Current assets					
Cash and cash equivalents	970,428	1,431,123	12,120,000	[b and d]	14,521,551
Short-term investments	–	50,000	–		50,000
Accounts receivable	236	207,377	–		207,613
Research and development tax credits	–	1,210,326	–		1,210,326
Prepaid expenses	–	755,359	(658,766)	[c and d]	96,593
Total current assets	970,664	3,654,185	11,461,234		16,086,083
Property, plant and equipment	–	343,973	–		343,973
Patents	–	42,006	–		42,006
	970,664	4,040,164	11,461,234		16,472,062
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities					
Accounts payable and accrued liabilities	12,232	1,053,356	–		1,065,588
Deferred revenue	–	482,518	–		482,518
Current portion of long-term debt	–	39,981	–		39,981
Total current liabilities	12,232	1,575,855	–		1,588,087
Long-term debt	–	54,782	–		54,782
	12,232	1,630,637	–		1,642,869
Shareholders' equity					
Capital stock	1,125,000	21,755,681	17,753,432	[a, b and d]	40,634,113
Warrants	–	1,134,100	–		1,134,100
Contributed surplus - options	56,000	–	–		56,000
Unsecured convertible debentures	–	5,800,000	(5,800,000)	[a]	–
Deficit	(222,568)	(26,280,254)	(492,198)	[a, c and d]	(26,995,020)
	958,432	2,409,527	11,461,234		14,829,193
	970,664	4,040,164	11,461,234		16,472,062

[a] As at April 1, 2004, LMS Medical Systems Inc. acquired substantially all shares and unsecured convertible debentures of the Company in exchange for 10,897,434 Common shares of LMS Medical Systems Inc. subsequent to a 20 to 1 consolidation. The authorized capital stock reflects that of LMS Medical Systems Inc., whereas the stated value of the capital stock is that of the Company. For purposes of this consolidated pro forma balance sheet, the attributed value for accounting purposes of the issuance of equity is $958,432. The stated value of LMS Medical Systems Inc.'s capital stock and deficit as at March 31, 2004, amounting to $1,125,000 and $222,568, respectively, are eliminated on consolidation of LMS Medical Systems Inc. and the Company, except for $56,000 of deficit that was created in connection with the valuation of options granted as part of the reverse takeover transaction which were recorded as contributed surplus.

[b] Following the exercise of 40,000 options, LMS Medical Systems Inc. issued 40,000 Common shares on April 1, 2004 for cash consideration of $120,000.

[c] Legal and other transaction costs associated with the reverse takeover transaction amounted to $148,816.

[d] As at April 8, 2004, LMS Medical Systems Inc. issued 3,000,000 Common shares at a price of $4 per share for a cash consideration of $12,000,000. The net proceeds amounted to $11,490,050, after the share issuance costs of $509,950.

The continuity of LMS Medical Systems Inc.'s Common capital stock after giving effect to the proposed reverse takeover transaction and other transactions described above is set out below:

	Number of shares	$
Common shares issued and outstanding as at March 31, 2004	406,344	958,432
Common shares issued and outstanding after giving effect to the proposed reverse takeover transaction and subsequent issuances of shares:		
To common shareholders of the Company	9,157,434	21,755,681
To unsecured convertible debentures' holders of the Company	1,740,000	5,800,000
Issuance of Common shares for stock options exercised	40,000	120,000
Issuance of Common shares for a cash consideration	3,000,000	12,000,000
Common shares issued and outstanding after giving effect to the proposed reverse takeover transaction and subsequent issuances of shares	**14,343,778**	**40,634,113**

As at March 31, 2004, the Company had 491,927 outstanding options for Common shares based on the exchange of 2.70727 options of the Company for 1 option of LMS and LMS Medical Systems, Inc. had a total of 376,666 options outstanding for a grand total of 828,593 options outstanding after the reverse takeover transaction and the exercice of 40,000 options on April 1, 2004. However, 350,000 options granted are subject to shareholders' approval.

As at March 31, 2004, the Company had 3,247,338 outstanding warrants for Common shares based on the exchange of 2.70727 warrants of the Company for 1 warrant of LMS.

Following these transactions, the Company changed its name to LMS Medical Systems (Canada) Ltd. and its wholly owned subsidiary also changed its name from LMS Medical Systems, Inc. to LMS Medical Systems (USA), Inc.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements by management in accordance with generally accepted accounting principles requires the selection of accounting policies from existing acceptable alternatives. The significant accounting policies used in their preparation are as follows:

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions including tax credits that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at year-end and the reported amounts of revenues and expenses during the period. Actual results may vary, and such differences may be material.

Consolidated financial statements

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, LMS Medical Systems (USA), Inc., an American company. All significant intercompany balances and transactions have been eliminated on consolidation.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances available after payment of lines of credit, and cash equivalents with an initial maturity date of less than three months and recorded at cost, which approximates the market value.

Short-term investments

Short-term investments are recorded at the lower of cost and market value.

Government assistance

Amounts received or receivable resulting from government assistance programs, including grants and investment tax credits for research and development, are reflected as reductions of the cost of the assets or expenses to which they relate at the time the eligible expenditures are incurred, provided there is reasonable assurance the benefits will be realized.

Research and development costs

Research costs are charged against income in the year of expenditure. Development costs are charged against income in the period of expenditure unless a development project meets the criteria under Canadian generally accepted accounting principles for deferral and amortization.

Property, plant and equipment

Property, plant and equipment are recorded at cost. Amortization is provided over their estimated useful lives using the following methods and rates:

	Methods	Rates
Computer hardware	Declining balance	30%
Computer software	Straight-line	2 years
Furniture and fixtures	Declining balance	20%
Office equipment	Declining balance	20%
Leasehold improvements	Straight-line	Over the term of the lease
Computer hardware under capital lease	Straight-line	3 years

Patents

Costs related to patents and registration of trademarks are recorded at cost. Amortization is provided over their estimated useful lives on a straight-line basis over 15 years.

Impairment of long-lived assets

When events or changes in circumstances indicate the carrying amount of a long-lived asset or group of assets held for use, including property, plant and equipment and patents, may not be recoverable, an impairment loss is recognized when the carrying amount of those assets exceeds the sum of the undiscounted future cash flows related to them. The impairment loss is included in the statement of operations and the carrying value of the asset or group of assets is reduced to its fair value as determined by the sum of the discounted future cash flows related to those assets. The impairment loss is presented within amortization expense of the related assets.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the assets or liabilities are expected to be realized or settled. Future income tax assets are recognized if realization is considered “more likely than not”. Changes in these balances are included in net earnings of the period in which they arise.

Stock-based compensation

As a result of amendments made in October 2003 to the provisions of the CICA Handbook Section 3870; effective November 1, 2003, the Company changed its method of accounting for employees stock-based compensation and decided to adopt the fair value based method of accounting for all its stock-based compensation. The Company adopted these changes using the prospective application transitional alternative in accordance with the transitional provisions of CICA Handbook Section 3870. Accordingly, the fair value based method is applied to awards granted, modified or settled on or after November 1, 2003. Prior to the adoption of the fair value based method, the Company, as permitted by Section 3870, had chosen to continue its existing policy of recording no compensation cost on the grant of stock options to employees.

When employees exercise their stock options, the capital stock is credited by the sum of the consideration paid by employees or consultants together with the related portion previously credited to additional paid-in capital when compensation costs were charged against income. The prospective method omits the effects of awards granted, modified or settled before November 1, 2003. This change has no impact on the net loss for the five-month period ended March 31, 2004 since no options were granted during that period.

As required by Section 3870, the Company provides pro forma disclosure of the compensation costs based on the fair value method for all awards granted under the employee stock option plan *[see note 7]*.

Such stock-based compensation expense and pro forma disclosure of the stock-based compensation expense for all options granted under the Company's option plans is determined using the fair value method and the fair value of the stock options is determined using the Black Scholes option pricing model and is recognized over the vesting period of such options.

Financing and share issuance costs

Share and equity instrument issued costs are recorded as an increase of the deficit. Debt issue costs are deferred and amortized over the life of the debt to which they relate using the effective interest rate method.

Earnings per share

Basic earnings per share are calculated using the weighted average number of Common shares outstanding during the period. Diluted earnings per share is calculated using the treasury stock method and are not presented since the exercise of stock options and warrants, and the conversion of the unsecured convertible debentures would be anti-dilutive for all periods presented.

Revenue recognition

The Company recognizes its revenues from systems upon the installation and acceptance by the client. Amounts billed in accordance with customer agreements, but not yet earned, are recorded as deferred revenue. Revenues related to sales of software licenses are deferred and amortized over the term of the license agreement. Service revenues are recognized at the time services are performed.

Foreign currency translation

Accounts in foreign currencies have been translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the rates in effect at the balance sheet date. Other assets and liabilities are translated at the rates prevailing at the transaction dates. Revenues and expenses are translated at average rates prevailing during the year, except for the cost of inventory used and amortization, which are translated at exchange rates prevailing when the related assets were acquired. Gains and losses arising from fluctuations in exchange rates are reflected in net earnings of the period.

Financial instruments

The Company classifies financial instruments as a liability or as equity in accordance with the substance of the contractual arrangement on initial recognition and the definition of a financial liability and an equity instrument.

3. ACCOUNTS RECEIVABLE

	March 31, 2004 $	**October 31, 2003 $**
Trade accounts receivable	**177,201**	317,201
Allowance for bad debts	**(155,686)**	–
Commodity taxes	**183,997**	54,952
Other receivables	**1,865**	101,050
	207,377	473,203

4. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2004		October 31, 2003	
	Cost $	Accumulated amortization $	Cost $	Accumulated amortization $
Computer hardware	**494,463**	**385,828**	475,569	372,140
Computer software	**357,288**	**353,781**	357,288	338,342
Furniture and fixtures	**104,343**	**69,138**	104,343	65,471
Office equipment	**99,474**	**52,053**	96,074	44,852
Leasehold improvements	**71,829**	**46,724**	71,829	43,517
	1,127,397	**907,524**	1,105,103	864,322
Computer hardware under capital leases	**239,941**	**115,841**	190,824	116,316
	1,367,338	**1,023,365**	1,295,927	980,638
Accumulated amortization	**(1,023,365)**		(980,638)	
	343,973		315,289	

The acquisitions under capital leases totaled $49,117 and $68,359 for the period ended March 31, 2004 and for the year ended October 31, 2003 respectively.

5. PATENTS

	March 31, 2004		October 31, 2003	
	Cost $	Accumulated amortization $	Cost $	Accumulated amortization $
Patents cost	**52,007**	**10,001**	52,007	8,556
Accumulated amortization	**(10,001)**		(8,556)	
	42,006		43,451	

6. LONG-TERM DEBT

	March 31, 2004 $	October 31, 2003 $
Loan and promissory notes from a syndicate of lenders, bearing interest at rate of 14.15% with monthly interest instalments of $11,792 and repayable upon maturity in January 2006. The loan and promissory notes are collateralized by a charge on all assets excluding the federal and provincial research & development tax credits receivable ceded to secure the Corporation bank loan	**–**	1,000,000
Obligations under capital leases bearing interest at rates ranging from 7% to 22%, repayable by monthly principal and interest instalments ranging from $75 to $798, guaranteed by the leased assets and maturing until April 2007	**94,763**	57,787
	94,763	1,057,787
Less: Current portion of long-term debt	**(39,981)**	(20,930)
	54,782	1,036,857

Capital payments required over the next years are as follows:

	$
2005	52,073
2006	44,768
2007	18,484
2008	90
Total future minimum payments	115,415
Less: Interest	(20,652)
	94,763

7. CAPITAL STOCK

Authorized

An unlimited number of voting Class A Common shares, without par value.

An unlimited number of non-voting Class B, Common shares, without par value

An unlimited number of Convertible Preferred shares, voting, with an annual cumulative dividend of 18%, payable in Preferred shares of the same category. Each Convertible Preferred share and all accumulated but unpaid dividends thereon, whether or not declared, shall be automatically converted into Common shares, at a rate of 1 common share for each Convertible Preferred share, subject to an adjustment of Preferred conversion rate clause. The conversion could occur: (i) upon the adoption of a resolution by the holders of at least two thirds [66 2/3%] of the then outstanding Convertible Preferred shares

Issued and paid

	March 31, 2004		October 31, 2003	
	Number	**$**	**Number**	**$**
Class A Common shares				
Balance, beginning of period	**3,136,320**	**20,768,740**	1,420,049	12,690,175
Issued:				
On conversion of Preferred shares	–	–	1,716,271	8,078,565
On conversion of Convertable debentures	**168,326**	**1,178,282**	–	–
On shares to be issued	**75,390**	**814,158**	–	–
On exercise of options	**2,500**	**1**	–	–
Fair value of the warrent's modification	–	**(1,005,500)**	–	–
Balance, end of period	**3,382,536**	**21,755,681**	3,136,320	20,768,740

During the period ended March 31, 2004 and the year ended October 31, 2003, the Company completed the following transactions:

2004

The Company converted the 2003 unsecured convertible debentures and issued 168,326 Class A Common shares for a total consideration of $1,178,282, which included the capital amount and accreted interest at a conversion price of $7 per share [see note 8].

The Company issued 75,390 Class B Common shares to employees granted under the bonus plan which were included as shares to be issued as of October 31, 2003. These shares were immediately converted into Class A Common shares at a conversion rate of 1:1.

The Company issued 2,500 Class A Common shares following the exercise of 2,500 options granted under its stock option plan for a cash consideration of $1.

2003

The Company issued 494,671 convertible Preferred shares for a cash consideration of $7,171,338. The Company also issued 62,474 convertible Preferred shares as payment for the cumulative dividend declared on convertible Preferred shares issued during 2003.

The conversion of the convertible Preferred shares was approved at a special preferred shareholders' meeting held on October 30, 2003 but conditional upon closing of financing for a minimum amount of $2,000,000. This financing was concluded on January 28, 2004. The 557,415 convertible Preferred shares were converted into 1,716,271 Class A Common shares.

Warrants

	March 31, 2004		October 31, 2003	
	Number	$	Number	$
Balance, beginning of period	**1,472,318**	–	334,374	–
Granted	**38,083**	**128,600**	1,182,944	–
Expired	–	–	(45,000)	–
Cancelled	**(310,913)**	–	–	–
Effect of the repricing	–	**1,005,500**	–	–
Balance, end of period	**1,199,488**	**1,134,100**	1,472,318	–

Each warrant allows to its holder to acquire one Class A Common share for a cash consideration of $8.75. The warrants expire from April 2004 to September 2011 with an average remaining life of 2.4 years as at March 31, 2004.

On April 1, 2004, all warrants were cancelled and holders received 2.70727 warrants from the new parent company, LMS Medical Systems Inc. for each warrant of the Company [see note 1].

During the period ended March 31, 2004 and the year ended October 31, 2003, the Company also completed the following transactions:

2004

Following the decision to convert the Preferred shares into Common shares on October 30, 2003 and in connection with the issuance of equity instruments, the shareholders approved on November 14, 2003 to decrease the exercise price from $14.50 to $8.75 per share of the 1,182,944 warrants issued during the year ended October 31, 2003. It was further approved to allocate the same exercise price for all outstanding warrants which will expire from January 2005 to March 2009. Following this modification, the Company revalued the fair value of these warrants to $1,005,500 and accounted for as a deduction of value attributed to Class A Common shares issued in connection with the conversion of Preferred shares which occurred on October 30, 2003.

2003

The Company issued 1,182,944 warrants for no consideration when the shareholders bought 494,671 convertible Preferred shares. Each warrant entitles the holder to acquire convertible Preferred shares for cash at a price of $14.50 per share. The fair value of these warrants was then not significant and no value was given to the warrants.

Stock option plan

The Company has an employee stock option plan in place for the benefit of employees whereby non-voting Class B Common shares can be issued. The maximum number of non-voting Class B Common shares issuable under the plan shall not exceed 15% of the outstanding shares of the Company.

The maximum number of options to be issued each year is 25% of the pool of shares available. The effective date of the plan was October 25, 1997. Stock options are available each year and options are vested when granted. The plan provides that annual options not granted in a given year shall be added to the annual options offered in the following year.

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

	March 31, 2004		October 31, 2003	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Balance, beginning of period	**184,206**	**11.85**	187,167	12.01
Granted	–	–	2,500	–
Exercised	**(2,500)**	–	–	–
Expired	–	–	(5,461)	12.50
Balance, end of period	**181,706**	**12.01**	184,206	11.85

	Options outstanding			Options exercisable	
Exercise price	Number Outstanding as at March 31, 2004	Weighted average Contractual Life	Weighted average exercise price	Number Exercisable as at March 31, 2004	Weighted average exercise price
10.00	39,921	1.9 years	10.00	26,175	10.00
12.50	141,785	2.8 years	12.50	35,446	12.50

On April 1, 2004, all options were cancelled and holders received 2.70727 options from the new parent company, LMS Medical Systems Inc. for each option of the Company [see note 1].

The fair value of options granted and warrants issued were determined by the Company based on the Black Scholes option pricing model of the exercise price of the options and warrants in comparison to the value of the share at the time of granting the option or issuance the warrant, using the following assumptions:

Risk-free interest rate	5%
Dividend yield	nil
Volatility factor (nil when private)	0.278
Expected life of options	5 years

If the remuneration expense had been calculated, using the fair value method of accounting for employee stock-based compensation for all options granted over the years using Black Scholes option pricing model to estimate the fair value of the options using the following assumptions: risk-free interest rate of 5%, dividend yield of nil, a volatility factor of 0.278, an estimated life of the options of five years, and if the fair value had been amortized on the option's vesting period, the net loss of the Company for the five-month period ended March 31, 2004 would have been increased by $64,590 to $2,336,729 and the net loss for the year ended October 31, 2003 would have been increased by $119,221 to $5,398,701 and the loss per share would have been $0.74 for 2004 and $3.79 for 2003.

8. UNSECURED CONVERTIBLE DEBENTURES

	March 31, 2004 $	October 31, 2003 $
Unsecured convertible debentures for an amount of $5,800,000, non-interest bearing, without maturity date. Debentures are convertible, at the holder's discretion, at any time after January 1, 2004. An automatic conversion of the unsecured debentures to equity will take place at the time the Company will get a written acceptance for public trading on the Toronto Stock Exchange or TSX Venture Exchange at the following rate: 111 Common shares for each $1,000 denomination of the unsecured debentures if the Company is accepted for public listing by June 1, 2004 or the conversion rate will be increased to 122 Common shares after that date *[see note 1]*.	**5,800,000**	–
Convertible debentures converted in Class A Common shares during the period *[see note 7]*.	**–**	1,019,674
	5,800,000	1,019,674

9. COMMITMENTS AND CONTINGENCIES

Operating leases

The minimum rentals payable under long-term operating leases for equipment and premises, exclusive of certain operating cost for which the Company is responsible, are as follows:

	$
2005	200,126
2006	195,052
2007	193,848
2008	177,694
	766,720

The rental expense was $145,557 for the five-month period ended March 31, 2004 [Year ended October 31, 2003 – $114,746].

License agreement

The Company entered into a license agreement with a third party in connection with databases to be used within its monitoring system. The license agreement provides non-transferable, non-exclusive licenses until June 2004 and is subject to royalties of 7.5% on revenues derived from the product of the third party.

Claims and actions

In the normal course of its business, the Company is exposed to various claims and actions. These cases often have numerous uncertainties and the outcome of each case is unpredictable. In management's opinion, the settlement of these claims and actions, if any, should not have any significant impact on the Company's financial position.

10. RELATED PARTY TRANSACTIONS

The Company enters into transactions in the normal course of business with a related company having one common director. These transactions are measured at the exchange amount, which is the amount of consideration determined and agreed to by the related parties. The related party transactions are management fees expense amounting to $75,000 for the five-month period ended March 31, 2004 [Year ended October 31, 2003 – $180,000]. Balance due in connection with these transactions amounts to $69,015 and $120,776 as at March 31, 2004 and October 31, 2003 respectively and are included with accounts payable and accrued liabilities.

11. FINANCIAL INSTRUMENTS

Credit risk

The Company continually evaluates its customers' credit standing and generally does not require a guarantee. Provision has been established for possible credit losses. As at March 31, 2004, three customers represent 100% of accounts receivable [As at October 31, 2003 – one customer represented 75% of accounts receivable]. Also for 2004, five customers represented 94% of total sales and one customer represented 31% of total sales for the year ended October 31, 2003.

Fair values

The carrying value of the cash and cash equivalents, short-term investments, accounts receivable, tax credits receivable, cheques issued in excess of bank deposits and accounts payable is a reasonable estimate of their fair value because of their short maturities.

The carrying value of the loans included in long-term debt approximates their fair value because management estimates that these loans with fixed interest rates have no significant difference between their fair value and their carrying value, based on rates currently available to the Company on loans with similar terms and remaining maturities.

Bank account

Cash is held in one Canadian chartered bank and one foreign bank.

Exchange risk

As at March 31, 2004, accounts receivable denominated in US dollars amounted to nil [As at October 31, 2003 – $83,353] and accounts payable denominated in US dollars amounted to $76,261 [As at October 31, 2003 – $124,350]. Also, cash and cash equivalents denominated in US dollars amounted to $42,716 [As at October 31, 2003 – $13,145].

12. INCOME TAXES

The reconciliation of income tax computed at the statutory Canadian tax rates with income tax expense form operations is as follows:

	March 31, 2004 $	October 31, 2003 $
Tax expense (recovery) at statutory rate:	**(722,000)**	(1,768,000)
Increase (decrease) in income tax recovery resulting from:		
Non-deductable expenses	**6,000**	13,000
Quebec non-taxable tax credits	**(5,000)**	(52,000)
Differences in effective rate attributable to income taxes of other country	**(37,000)**	(56,000)
Financing fees	**(59,000)**	(69,000)
Unrecognized tax benefits from operating losses	**817,000**	1,932,000
	–	–

The tax effects of temporary differences and net operating losses that give rise to future income tax assets are as follows:

	March 31, 2004 $	October 31, 2003 $
Future income tax assets		
Tax basis of property, plant and equipment and patents in excess of carrying value	**182,000**	188,000
Non-capital losses carried forward	**6,496,000**	5,802,000
Research and development expenditures	**203,000**	287,000
Financing fees	**43,000**	51,000
Investment tax credits	**(11,000)**	(86,000)
Total future income tax assets	**6,913,000**	6,242,000
Valuation allowance	**(6,913,000)**	(6,242,000)
Net future income tax assets	**–**	–

During the period ended March 31, 2004, the Company has recorded as a reduction of research and development expenses, an amount of $361,873 [Year ended October 31, 2003 – $1,024,097] in connection with scientific research and experimental development tax credits. The tax credits recorded are based on management's estimates of amounts expected to be recovered and are subject to audit by Tax Authorities. Also, the Company has research and development expenditures of $292,000 which have not been deducted for federal income tax purposes and $1,556,000 for provincial income tax purposes. These expenditures are available to reduce future taxable income and have an unlimited carry-forward period. Research and development tax credits and expenditures are subject to verification by the tax authorities, and accordingly, these amounts may vary.

The Company also has accumulated share issuance expenses that have not been deducted for income tax purposes amounting to approximately $189,000.

The Company has available a non-refundable investment tax credit of approximately $105,000 related to research and development expenditures which may be utilized to reduce federal income taxes payable in the future years. Also, the Company has non-capital tax losses, which are available to reduce future taxable income.The tax benefits of the above items have been fully provided for by a valuation allowance.

The detail of the non-capital tax losses is as follows:

	Loss carry-forwards		
	Federal $	Québec $	USA $
2005	798,000	790,000	–
2006	1,066,000	970,000	–
2007	2,111,000	2,017,000	–
2008	3,733,000	3,670,000	–
2009	5,377,000	5,318,000	–
2010	4,081,000	3,970,000	–
2011	1,971,000	1,971,000	–
2012 and thereafter	–	–	2,085,000
	19,137,000	18,706,000	2,085,000

13. SEGMENTED INFORMATION

Management has determined that principal activities of the Company operate in a single business segment and have been devoted to the development of leading-edge technology in care management tools in the labor and delivery setting mainly in Canada and United States of America ["USA"]. Information about geographic areas is as follows:

	Canada $	USA $	Total $
March 31, 2004			
Revenues	**25,098**	**16,921**	**42,019**
Property, plant and equipment and patents	**364,161**	**21,818**	**385,979**
October 31, 2003			
Revenues	85,738	44,430	130,168
Property, plant and equipment and patents	335,087	23,653	358,740

14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted for the current year.

This page has been deliberatly left blank

Management's Responsibility for Financial Statements

The management of the Company is responsible for the preparation and integrity of the financial statements and all other financial information contained in the Annual Report. These statements have been prepared in accordance with accounting principles generally accepted in Canada and necessarily include some amounts that are based on management's best estimates and judgement. Management considers that the statements present fairly the financial position of the Company, the results of its operations and the changes in its financial position. Financial information contained elsewhere in this Annual Report is consistent with the information contained in the financial statements.

The Board of Directors oversees management's performance of its financial reporting and internal control responsibilities. The Board of Directors carries out its responsibility with regard to the consolidated financial statements primarily through its Audit Committee.

The Audit Committee, which is composed exclusively of outside directors, meets regularly with the external auditors, and with management, to discuss accounting policies and practices, internal control systems, the scope of audit work and to assess reports on audit work preformed. The external auditors have direct access to the Audit Committee, with or without the presence of management, to discuss results of their audits and any recommendations that they have for improvements in internal controls, the quality of financial reporting and any other matters of interest. The financial statements have been reviewed and approved by the Board of Directors on the recommendation of the Audit Committee.

Diane Côté
President and Chief Executive Officer

Yves Grou, CA
Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of LMS Medical Systems Inc. [formerly Trophy Capital Inc.]

We have audited the balance sheet of LMS Medical Systems Inc. [formerly Trophy Capital Inc.] as at March 31, 2004 and the statements of operations and deficit and cash flows for four-month period then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2004 and the results of its operations and its cash flows for four-month period then ended in accordance with Canadian generally accepted accounting principles.

The financial statements for the period ended November 30, 2003 were audited by other auditors.

Ernst & Young LLP

Chartered Accountants
Montreal, Quebec
May 21, 2004

Financial Statements
LMS Medical Systems Inc.
[Formerly Trophy Capital Inc.]
March 31, 2004

BALANCE SHEET

As at	March 31, 2004 $	November 30, 2003 $
	[note 1]	
ASSETS		
Current assets		
Cash and cash equivalents	**970,428**	83,800
Accounts receivable	**236**	–
	970,664	83,800
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**12,232**	30,230
Total current liabilities	**12,232**	30,230
Shareholders' equity		
Capital stock *[note 3]*	**1,125,000**	100,000
Contributed surplus – options *[note 3]*	**56,000**	–
Deficit	**(222,568)**	(46,430)
Total shareholders' equity	**958,432**	53,570
	970,664	83,800

Subsequent events *[note 1]*

See accompanying notes

On behalf of the Board:

Diane Côté
Director

Benoit Lasalle
Director

Financial Statements
LMS Medical Systems Inc.
[Formerly Trophy Capital Inc.]
March 31, 2004

STATEMENT OF OPERATIONS AND DEFICIT

	Four-month period ended March 31, 2004 $	Year ended November 30, 2003 $
Expenses		
Bank charges	**188**	74
Professional fees	**10,485**	34,831
Public company fees	**400**	11,525
	11,073	46,430
Net loss	**11,073**	46,430
Deficit, beginning of period	**46,430**	–
Share issuance costs	**165,065**	–
Deficit, end of period	**222,568**	46,430
Basic and diluted loss per share	**(0.03)**	(0.69)
Weighted average number of Common shares	**318,252**	66,666

See accompanying notes

STATEMENT OF CASH FLOWS

	Four-month period ended March 31, 2004 $	Year ended November 30, 2003 $
OPERATING ACTIVITIES		
Net loss	**(11,073)**	(46,430)
Net changes in non-cash operating working capital items	**6,766**	30,230
Cash flows related to operating activities	**(4,307)**	(16,200)
FINANCING ACTIVITIES		
Issuance of capital stock	**1,000,000**	100,000
Share issuance costs and public company filing fees	**(109,065)**	–
Cash flows related to financing activities	**890,935**	100,000
Net change in cash and cash equivalents	**886,628**	83,800
Cash and cash equivalents, beginning of period	**83,800**	–
Cash and cash equivalents, end of period	**970,428**	83,800

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND REVERSE TAKEOVER TRANSACTION

Description of business

LMS Medical Systems Inc. [formerly Trophy Capital Inc.] [the "Company"] is listed on the TSX Venture Exchange [the "Exchange"] as a Capital Pool Company ["CPC"]. The Exchange's CPC program was designed as a corporate finance vehicle to provide businesses with an opportunity to obtain financing earlier in their development than might be possible with a regular initial public offering ["IPO"]. The CPC program permits an IPO to be conducted and an Exchange listing to be achieved by a newly created company which, other than cash, has no assets and has no business or operations. The Company then uses this pool of funds to identify and evaluate assets or businesses to be acquired which would reasonably appear to constitute significant assets and the acquisition of which would reasonably appear to constitute a "Qualifying Transaction" under the CPC program. This will, ultimately, result in the Company obtaining a listing as a regular Tier 1 or Tier 2 issuer on the Exchange. The operations of the Company were primarily funded by the issuance of seed shares. The continued operations of the Company are dependent on its ability to complete the Qualifying Transaction, complete sufficient public equity financing and generate profitable operations in the future.

In connection with the reverse takeover transaction described below, the Company changed its year-end to March 31 effective in 2004. In April 2004, the shares of the Company were listed on Toronto Stock Exchange.

Reverse takeover transaction

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

This transaction involving the Company, 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 of the Company. Accordingly, the following consolidated pro forma balance sheet of the Company represents a continuation of the LMS Medical Systems Ltd. and includes the issuance of shares completed after April 1, 2004 as described below. No consolidated pro forma statement of operations is presented since the result of operations of the Company prior to the reverse takeover transaction would be the same as the one of LMS Medical Systems Ltd. as a result of the application of the continuity of interest method. The consolidated financial statements of LMS Medical Systems Ltd. as at March 31, 2004 had been prepared and are available for readers on SEDAR at www.sedar.com.

Financial Statements
LMS Medical Systems Inc.
[Formerly Trophy Capital Inc.]
March 31, 2004

1. Description of business and reverse takeover transaction (Cont'd)
PRO FORMA CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 2004

	LMS Medical Systems Inc. [formerly Trophy Capital Inc.] $	LMS Medical Systems Ltd. $	Pro forma Adjustments $	Note	LMS Medical System Inc. Pro forma consolidated balance sheet $
ASSETS					
Current assets					
Cash and cash equivalents	970,428	1,431,123	12,120,000	[b and d]	14,521,551
Short-term investments	–	50,000	–		50,000
Accounts receivable	236	207,377	–		207,613
Research and development tax credits	–	1,210,326	–		1,210,326
Prepaid expenses	–	755,359	(658,766)	[c and d]	96,593
Total current assets	970,664	3,654,185	11,461,234		16,086,083
Property, plant and equipment	–	343,973	–		343,973
Patents	–	42,006	–		42,006
	970,664	4,040,164	11,461,234		16,472,062
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities					
Accounts payable and accrued liabilities	12,232	1,053,356	–		1,065,588
Deferred revenue	–	482,518	–		482,518
Current portion of long-term debt	–	39,981	–		39,981
Total current liabilities	12,232	1,575,855	–		1,588,087
Long-term debt	–	54,782	–		54,782
	12,232	1,630,637	–		1,642,869
Shareholders' equity					
Capital stock	1,125,000	21,755,681	17,753,432	[a, b and d]	40,634,113
Warrants	–	1,134,100	–		1,134,100
Contributed surplus - options	56,000	–	–		56,000
Unsecured convertible debentures	–	5,800,000	(5,800,000)	[a]	–
Deficit	(222,568)	(26,280,254)	(492,198)	[a, c and d]	(26,995,020)
	958,432	2,409,527	11,461,234		14,829,193
	970,664	4,040,164	11,461,234		16,472,062

[a] As at April 1, 2004, the Company acquired substantially all shares and unsecured convertible debentures of LMS Medical Systems Ltd. in exchange for 10,897,434 Common shares of the Company. The authorized capital stock reflects that of the Company, whereas the stated value of the capital stock is that of LMS Medical Systems Ltd. For purposes of this consolidated pro forma balance sheet, the estimated value of the issuance of equity is $958,432. The stated value of the Company's capital stock and deficit as at March 31, 2004, amounting to $1,125,000 and $222,568, respectively, are eliminated on consolidation of LMS Medical Systems Ltd. and the Company, except for $56,000 of deficit that was created in connection with the valuation of options granted as part of the reverse takeover transaction which were recorded as contributed surplus.

[b] Following the exercise of 40,000 options, LMS Medical Systems Inc. issued 40,000 Common shares on April 1, 2004 for cash consideration of $120,000.

[c] Legal and other transaction costs associated with the reverse takeover transaction amounted to $148,816.

[d] As at April 8, 2004, the Company issued 3,000,000 Common shares at a price of $4 per share for cash consideration of $12,000,000. The net proceeds amounted to $11,490,050, after the share issuance costs of $509,950.

1. Description of business and reverse takeover transaction (cont'd)

The continuity of the Company's Common capital stock after giving effect to the proposed reverse takeover transaction and other transactions described above is set out below:

	Number of shares	$
Common shares issued and outstanding as at March 31, 2004	406,344	958,432
Common shares issued and outstanding after giving effect to the proposed reverse takeover transaction and subsequent issuances of shares:		
To common shareholders of the LMS Medical Systems Ltd.	9,157,434	21,755,681
To unsecured convertible debentures of LMS Medical Sytems Ltd.	1,740,000	5,800,000
Issuance of Common shares for stock options exercised	40,000	120,000
Issuance of Common shares for a cash consideration	3,000,000	12,000,000
Common shares issued and outstanding after giving effect to the proposed reverse takeover transaction and subsequent issuances of shares	**14,343,778**	**40,634,113**

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies used in their preparation are as follows:

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at year-end and the reported amounts of revenues and expenses during the year. Actual results may vary, and such differences may be material.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances available after payment of lines of credit, and cash equivalents with an initial maturity date of less than three months and recorded at cost, which approximates the market value.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the assets or liabilities are expected to be realized or settled. Future income tax assets are recognized if realization is considered "more likely than not". Changes in these balances are included in net earnings of the year in which they arise.

Share issuance costs

Share and equity instrument issued costs are recorded as an increase of the deficit.

Earnings per share

Basic earnings per share are calculated using the weighted average number of Common shares outstanding during the period. Diluted earnings per share is calculated using the treasury stock method and are not presented since the exercise of stock options would be anti-dilutive for all periods presented.

Stock-based compensation

As a result of amendments made in November 2003 to the provisions of the CICA Handbook Section 3870; effective December 1, 2003, the Company changed its method of accounting for employee stock-based compensation and decided to adopt the fair value based method of accounting for all its stock-based compensation. The Company adopted these changes using the prospective application transitional alternative in accordance with the transitional provisions of CICA Handbook Section 3870. Accordingly, the fair value based method is applied to awards granted, modified or settled on or after December 1, 2003. Prior to the adoption of the fair value based method, the Company, as permitted by Section 3870, had chosen to continue its existing policy of recording no compensation cost on the grant of stock options to employees. There was no award granted or settled before December 1, 2003.

When employees exercise their stock options, the capital stock is credited by the sum of the consideration paid by employees or consultants together with the related portion previously credited to additional paid-in capital when compensation costs were charged against income.

Stock-based compensation expense disclosure for all options granted under the Company's option plans is determined using the fair value method and the fair value of the stock options is determined using the Black Scholes option pricing model and is recognized over the vesting period of such options.

3. CAPITAL STOCK

Authorized
An unlimited number of Common shares without par value.

Issued

	March 31st, 2004		November 30, 2003	
	Number	$	Number	$
Common Shares				
Balance, beginning of the period	**66,666**	**100,000**	–	–
Issuance of Common shares	**333,333**	**1,000,000**	66,666	100,000
Issuance of Common shares	**6,345**	**25,000**	–	–
Balance, end of the period	**406,344**	**1,125,000**	66,666	100,000

On March 31, 2004, the Company's shareholders adopted a special resolution approving a consolidation of the Company's Common shares on the basis of one post-consolidated share for 20 pre-consolidated shares. As a result, the number and exercise price of all stock options issued have also been adjusted to reflect the consolidation. All shares and per share amounts included in the financial statements have been adjusted to reflect the share consolidation.

During the period ended March 31, 2004 and the year ended November 30, 2003, the Company completed the following transactions:

2004
On January 7, 2004, the Company issued 333,333 Common shares at a price of $3 for cash consideration of $1,000,000. As a result, net proceed is $890,935, after the share issuance cost of $109,065.

On January 29, 2004, in connection with the above issuance of shares, the Company granted 40,000 options to directors and also granted 26,666 options to an external consultant. Each option gives to its holders the right to purchase 1 Common share per option. These options can be exercised at a price per share of $3.

On March 31, 2004, the Board of directors authorized the creation of a stock option plan for employees, directors and consultants, and granted 200,000 options to directors and also granted 150,000 options to an external consultant. Each option gives to its holders the right to purchase 1 Common share per option and can be exercised at a price per share of $4 per share. This stock option plan is subject to the approval of the shareholders of the Company which was not obtained yet. These options are vested upon the attribution and as a results the transaction will be recorded when the approval will be obtained.

The fair value of the stock options is determined using the Black Scholes option pricing model and the value of the January 2004 options is $40,000 and $16,000, respectively. These were recorded as share issuance costs and contributed surplus.

3. Capital Stock (cont'd)

Finally, the Company issued 6,345 Common shares as a settlement and payment of an account payable of $25,000.

2003

The Company issued 66,666 Common shares for cash consideration of $100,000.

Stock options

The Company has 376,666 outstanding options for Common shares as at March 31, 2004. The relevant information is as follows:

	March 31, 2004		November 30, 2003	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Balance, beginning of period	–	–	–	–
Granted	416,666	3.84	–	–
Exercised	(40,000)	3.00	–	–
Balance, end of the period	**376,666**	**3.93**	–	–

The expiry date of the 376,666 outstanding options at March 31, 2004 is as follows:

Expiry date	Number
October 2005 [exercise price of $3]	26,666
March 2008 [exercise price of $4]	350,000
	376,666

4. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted for the current year.

This page has been deliberatly left blank

This page has been deliberatly left blank

This page has been deliberatly left blank

lms