

# LMS Medical Systems Inc.

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*For Immediate Release*

## LMS ANNOUNCES FIRST QUARTER 2005 RESULTS

**Montreal, Quebec, August 12, 2004** – LMS Medical Systems (TSX: LMZ), a healthcare technology company and developer of the CALM™ system (Computer Assisted Labor Management) today reported results of operations for the first quarter of 2005. All amounts are in Canadian dollars.

Revenue for the quarter totaled \$268,784 versus \$30,105 the year previous. The loss for the first quarter of 2005, inclusive of special charges, was \$1,801,260 (\$0.13 per share) versus a loss of \$1,447,579 (\$0.55 per share) in 2004. The increased loss resulted primarily from additional administrative expenses in the amount of \$157,615 related to being a public company, a decrease in foreign exchange gain from \$64,045 in 2004 to \$4,268 in the current quarter and a special charge of \$223,441 in connection with listing of the Company's shares on the TSX.

Cash, cash equivalents and marketable securities held to maturity totaled \$11,603,136 versus \$1,481,123 at year-end 2004. The increase relates to the completion of the private placement and the reverse takeover transaction, which generated gross proceeds of \$12,958,432. Interest income totaled \$54,442 versus an interest expense of \$17,017 last year. The total number of shares outstanding at the end of the first quarter totaled 14.3 million compared to 9.2 million the year previous.

An expanded Management's Discussion and Analysis for the first quarter is accessible on the LMS website at [www.lmsmedical.com](http://www.lmsmedical.com)

### Highlights

- Harry G. Hohn was appointed to the board of directors. Mr. Hohn spent over four decades with the New York Life Insurance Company having joined the company initially as an attorney. Formerly Chief Executive Officer, he also served as Chairman of the Board. During his watch, New York Life grew to \$120 billion of assets and \$25 billion of revenue.
- Terrance H. Gregg was appointed to the board of directors. Mr. Gregg, who resides in Los Angeles California, recently retired as President of Medtronic MiniMed, a world leader in diabetes management systems. Mr. Gregg was instrumental in Medtronic's US\$3.4 billion acquisition of MiniMed, Inc. in 2001.
- Received the Genesis 2004 Award from the Association of Health Technologies Industry (AITS). The award, granted in partnership with BioQuebec, recognizes innovators in biotechnology, life sciences and health technology industries.
- CALM™ PATTERNS was submitted to the United States Food & Drug Administration for regulatory review. PATTERNS is an advanced obstetrical tool that uses the power of the computer to provide objective, real-time detection, classification and labelling of fetal heart rate patterns in the assessment of fetal distress.
- Demonstrated its proprietary obstetrical systems at the Association of Women's Health, Obstetric and Neonatal Nurses (AWHONN) Conference held in Tampa, Florida, June 26-30, 2004. AWHONN is a leader among nursing associations serving more than 22,000 health care professionals. At the conference, the Company unveiled its CALM™ obstetrical technology seamlessly interfaced to the hospital-wide clinical information solutions of its US distribution partner.

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- Announced having signed contracts with the following centers of excellence for CALM™ technology to be installed in the coming months.

Dallas based Medical City Hospital will be installing the CALM™ Curve decision support component of the CALM™ technology in order to provide consistent, standardized assessment of labor management. With over 95 medical specialties being practiced under one roof, Medical City Hospital offers an unparalleled breadth and depth of medical care in North Texas. Its obstetrics department alone is responsible for some 3500 births a year. Medical City Hospital Center is a member of the Hospital Corporation of America group of hospitals which comprises over 150 HCA managed hospitals and outpatient surgery centers in 23 states.

Chicago based Rush Presbyterian-St.Luke's Medical Center has been focusing on standardizing labor management evaluation and will be installing the CALM™ Curve decision support component of the CALM™ technology. The 824-bed Rush Presbyterian-St.Luke's Hospital handles some 2500 births each year and is frequently ranked among the best hospitals in the nation by U.S. News & World Report. In June 2002, Rush became just the 51st medical center in the country to earn the prestigious Magnet Award for excellence in nursing services, the highest honor awarded by the American Nurses Association. The hospital is the main medical facility of Rush University, one of the first medical colleges in the Midwest and a top-ranked nursing college.

**LMS will hold its Annual and Special Meeting of Shareholders on Wednesday September 15th at 4:15p.m. Eastern Time at the Queen Elizabeth Hotel in Montreal.**

LMS is a leader in the application of advanced mathematical modeling and neural networks for medical use. The LMS CALM™ Decision Support Suite provides physicians, nursing staff, risk managers and hospital administrators with clinical information systems and decision support tools designed to improve outcomes and patient care for mothers and their infants during labor and delivery.

*Statements in this press release and any other statements, managements' future expectations, beliefs, goals, plans or prospects constitute forward-looking statements that involve risks and uncertainties, which may cause actual results to differ materially from the statements made. For this purpose, any statements that are contained herein that are not statements of historical fact may be deemed to be forward-looking statements made pursuant to the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. Without limiting the foregoing, the words "believes", "anticipates", "plans", "intends", "will", "should", "expects", "projects", and similar expressions are intended to identify forward-looking statements. You are cautioned that such statements are subject to a multitude of risks and uncertainties that could cause actual results, future circumstances, or events to differ materially from those projected in the forward-looking statements. These risks include, but are not limited to, those associated with the success of research and development programs, the regulatory approval process, competition, securing and maintaining corporate alliances, market acceptance of the Company's products, the availability of government and insurance reimbursements for the Company's products, the strength of intellectual property, financing capability, the potential dilutive effects of and financing, reliance on subcontractors and key personnel and other risks detailed from time-to-time in the Company's public disclosure documents or other filings with the Canadian and U.S. securities commissions or other securities regulatory bodies. The forward-looking statements are made as of the date hereof, and the Company disclaims any intention and has no obligation or responsibility, except as required by law, to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.*



Unaudited – for the three-month period ended June 30, 2004

## INTERIM CONSOLIDATED BALANCE SHEETS

As at	June 30, 2004 \$	Unaudited March 31, 2004 \$
		<i>[Note 1]</i>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	11,553,136	1,431,123
Short-term investments	50,000	50,000
Accounts receivable	542,946	207,377
Research and development tax credits receivable	1,352,246	1,210,326
Prepaid expenses	198,206	755,359
<b>Total current assets</b>	<b>13,696,534</b>	<b>3,654,185</b>
Property, plant and equipment	375,920	343,973
Patents	41,139	42,006
	<b>14,113,593</b>	<b>4,040,164</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	758,817	1,053,356
Deferred revenue	479,507	482,518
Current portion of long-term debt	39,981	39,981
<b>Total current liabilities</b>	<b>1,278,305</b>	<b>1,575,855</b>
Long-term debt	47,355	54,782
	<b>1,325,660</b>	<b>1,630,637</b>
Shareholders' equity		
Capital stock <i>[notes 1 and 2]</i>	40,634,113	21,755,681
Contributed surplus <i>[note 1]</i>	56,000	–
Warrants	1,134,100	1,134,100
Unsecured convertible debenture <i>[note 1]</i>	–	5,800,000
Deficit	(29,036,280)	(26,280,254)
<b>Total shareholders' equity</b>	<b>12,787,933</b>	<b>2,409,527</b>
	<b>14,113,593</b>	<b>4,040,164</b>

See accompanying notes




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**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS**

Unaudited

	Three-month period ended June 30, 2004 \$	Three-month period ended June 30, 2003 \$
		<i>[Note 1]</i>
<b>Revenues</b>		
Software & maintenance	158,729	30,105
Hardware	110,055	-
	<b>268,784</b>	30,105
Cost of revenues	110,316	-
	<b>158,468</b>	30,105
<b>Expenses</b>		
Research and development costs	691,346	661,345
Less: Tax credits	(127,235)	(229,708)
	<b>564,111</b>	431,637
Administrative	475,735	318,120
Selling and market development	509,939	512,661
Special charges <i>[note 3]</i>	223,441	-
Customer support	167,293	125,367
Quality assurance	42,517	40,363
Technological showcase project	700	28,812
Amortization of property, plant and equipment	27,627	41,442
Amortization of patents	866	866
Foreign exchange gain	(4,268)	(64,045)
	<b>2,007,961</b>	1,435,223
Operating loss	(1,849,493)	(1,405,118)
Interest on long-term debt	6,209	25,444
Other Interest (income) expenses net	(54,442)	17,017
<b>Net loss</b>	<b>(1,801,260)</b>	<b>(1,447,579)</b>
<b>Basic and diluted loss per share</b>	<b>(0.13)</b>	<b>(0.55)</b>
<b>Weighted average number of Common shares</b>	<b>14,343,778</b>	<b>3,503,256</b>

See accompanying notes


**INTERIM CONSOLIDATED STATEMENTS OF DEFICIT**

Unaudited

	Three-month period ended June 30, 2004 \$	Three-month period ended June 30, 2003 \$
		<i>[Note 1]</i>
<b>Deficit, beginning of period</b>	<b>(26,280,254)</b>	(18,615,686)
Net loss	(1,801,260)	(1,447,579)
Stock dividends on Preferred shares	-	(500,241)
Shares, options, warrants and unsecured convertible debentures issuance costs <i>[note 2]</i>	(749,950)	-
Costs related to reverse takeover transaction <i>[note 1]</i>	(204,816)	-
<b>Deficit, end of period</b>	<b>(29,036,280)</b>	(20,563,506)

See accompanying notes

**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

Unaudited

	Three-month period ended June 30, 2004 \$	Three-month period ended June 30, 2003 \$
		<i>[Note 1]</i>
<b>OPERATING ACTIVITIES</b>		
Net loss	(1,801,260)	(1,447,579)
Adjustments for non-cash items:		
Amortization of property, plant and equipment and patents	28,493	42,308
Other	-	42,136
Net changes in non-cash operating working capital items	(217,885)	1,067,577
<b>Cash flows related to operating activities</b>	<b>(1,990,652)</b>	(295,558)
<b>INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	(59,574)	(12,138)
<b>Cash flows related to investing activities</b>	<b>(59,574)</b>	(12,138)
<b>FINANCING ACTIVITIES</b>		
Repayment of long-term debt and loan payable	(7,427)	(138,815)
Capital stock and other equity instruments issuance costs <i>[note 2]</i>	(749,950)	-
Increase of capital stock resulting from the reverse takeover transaction <i>[note 1]</i>	958,432	-
Issuance of capital stock <i>[note 2]</i>	12,120,000	15,750
Costs related to the reverse takeover transaction <i>[note 1]</i>	(148,816)	-
<b>Cash flows related to financing activities</b>	<b>12,172,239</b>	(123,065)
<b>Net change in cash and cash equivalents</b>	<b>10,122,013</b>	(430,761)
Cash and cash equivalents, beginning of period	1,431,123	470,816
<b>Cash and cash equivalents, end of period</b>	<b>11,553,136</b>	40,055

See accompanying notes



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## 1. DESCRIPTION OF BUSINESS, REVERSE TAKEOVER TRANSACTION AND BASIS OF PRESENTATION

### **Description of business**

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 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, the Company [formerly known as Trophy Capital Inc.] acquired substantially all shares and \$5.8 million unsecured convertible debentures from the shareholders and the debenture's holders of LMS Medical Systems Ltd in exchange for 2.70727 Common Shares of the Company for each share of LMS Medical Systems Ltd and 300 Common Shares of the Company for each \$1,000 of principal amount of the unsecured convertible debentures. As a result, the LMS Medical Systems Ltd became a subsidiary of the Company. All options granted and warrants issued by LMS Medical Systems Ltd have also been converted in the conversion ratio of 2.70727.

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 in the Company as at April 1, 2004. Accordingly, for accounting purposes, historical financial information prior to the reverse takeover transaction originates entirely from LMS Medical Systems Ltd and the reverse takeover transaction results in the issuance of 406,344 Common Shares for a consideration of \$958,432, which consist of net cash available in the Company as at April 1, 2004. The costs of \$204,816 of the reverse takeover transaction are recorded within deficit. These costs include the estimated fair value of \$56,000 for the grant of 26,666 options to an external consultant before the finalization of the transaction. Each option allows its holder to acquire one Common Share at an exercise price of \$3.00 until its maturity in October 2005. As a result of the exchange ratio of 2.70727, the number of Common Shares and the number of warrants and options outstanding as at March 31, 2004 have been adjusted to reflect the exchange. All share and per share amounts have also been adjusted to reflect the share exchange.

### **Basis of presentation**

These unaudited interim consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles (Canadian GAAP) for interim financial information, except for comparative financial information as described below. Accordingly, they do not include all of the disclosures required by Canadian GAAP for annual financial statements. In the opinion of management all adjustments of a normally recurring nature considered necessary for a fair presentation have been included. Operating results for interim period are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with the audited consolidated financial statements of LMS Medical Systems Ltd for the five-month period ended March 31, 2004 and the reversion takeover transaction described above. The accounting policies and methods followed in the preparation of these unaudited interim consolidated financial statements are the same as those in the audited consolidated financial statements of LMS Medical Systems



Ltd for the five-month period ended March 31, 2004. The consolidated balance sheet as at March 31, 2004 has been derived from the audited consolidated financial statements of LMS Medical Systems Ltd at that date but does not include all of the information and footnotes required by Canadian GAAP for complete financial statements.

Since the Company changes its year ended from October 31 to March 31 and had no requirement to prepare interim financial information for periods that ended before it became an issuer in Canada, comparative financial information has been prepared base on the monthly interim financial statement which cover the three-month period ended June 30 2003 that were used internally by management. All adjustments of a normally recurring nature considered necessary for a fair presentation have not been necessarily included for this comparative financial information.

## 2. CAPITAL STOCK

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

	Number	\$
<b>Common shares</b>		
Balance, March 31, 2004 <i>[note 1]</i>	9,157,434	21,755,681
Issued:		
On reverse takeover <i>[note 1]</i>	406,344	958,432
On conversion of Convertible debentures <i>[note 1]</i>	1,740,000	5,800,000
On exercise of options for cash	40,000	120,000
On issuance of common shares for cash	3,000,000	12,000,000
<b>Balance, June 30, 2004</b>	<b>14,343,778</b>	<b>40,634,113</b>

Following the exercise of 40,000 options, the Company issued 40,000 Common shares on April 1, 2004 for cash consideration of \$120,000.

On April 8, 2004, the Company issued 3,000,000 Common shares at a price of \$4 per share for a total cash consideration of \$12,000,000. The net proceeds amounted to \$11,250,050, after the share issuance costs of \$749,950.

### Stock option plan

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

	Number	Weighted average exercise price \$
Balance, March 31, 2004 <i>[note 1]</i>	491,927	4.44
Reverse takeover <i>[note 1]</i>	26,666	3.00
Granted	925,465	4.19
Expired	(14,842)	(3.69)
<b>Balance, June 30, 2004</b>	<b>1,429,216</b>	<b>4.25</b>

The 925,465 options granted are subject to shareholders approval which will be proposed at the next annual meeting on September 15, 2004. The Company will record the related expenses over the remaining vesting period following their approval.



## 2. CAPITAL STOCK [Cont'd]

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:

<b>Risk-free interest rate</b>	<b>5%</b>
<b>Dividend yield</b>	<b>nil</b>
<b>Volatility factor</b>	<b>0.278</b>
<b>Expected life of options</b>	<b>5 years</b>

If the remuneration expense had been calculated, using the fair value method of accounting for employee stock-based compensation for outstanding and unrecorded options 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 three-month period ended June 30, 2004 and 2003 would have been increased by \$29,349 and \$29,349 to \$1,830,609 and \$1,476,928 and the loss per share would have been \$0.13 and \$0.55.

## 3. SPECIAL CHARGES

During the three-month period ended June 30, 2004, the Company incurred professional fees, listing fees and other totaling \$223,441 in connection with the listing of its shares on the Toronto Stock Exchange ["TSX"] which occurred on April 22, 2004.

The Company has initiated a process to become of Registrant as foreign private issue, with the Securities Exchange Commission ["SEC"] in the United States and will incurred additional special charges in convention with this process.