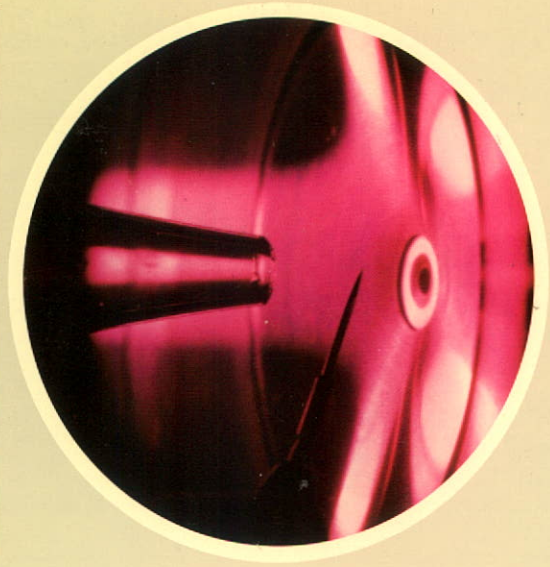


MDS
Health Group
Limited

Annual Report
1981

C

*Combining Technology,
Professional Commitment
and Human Concern*



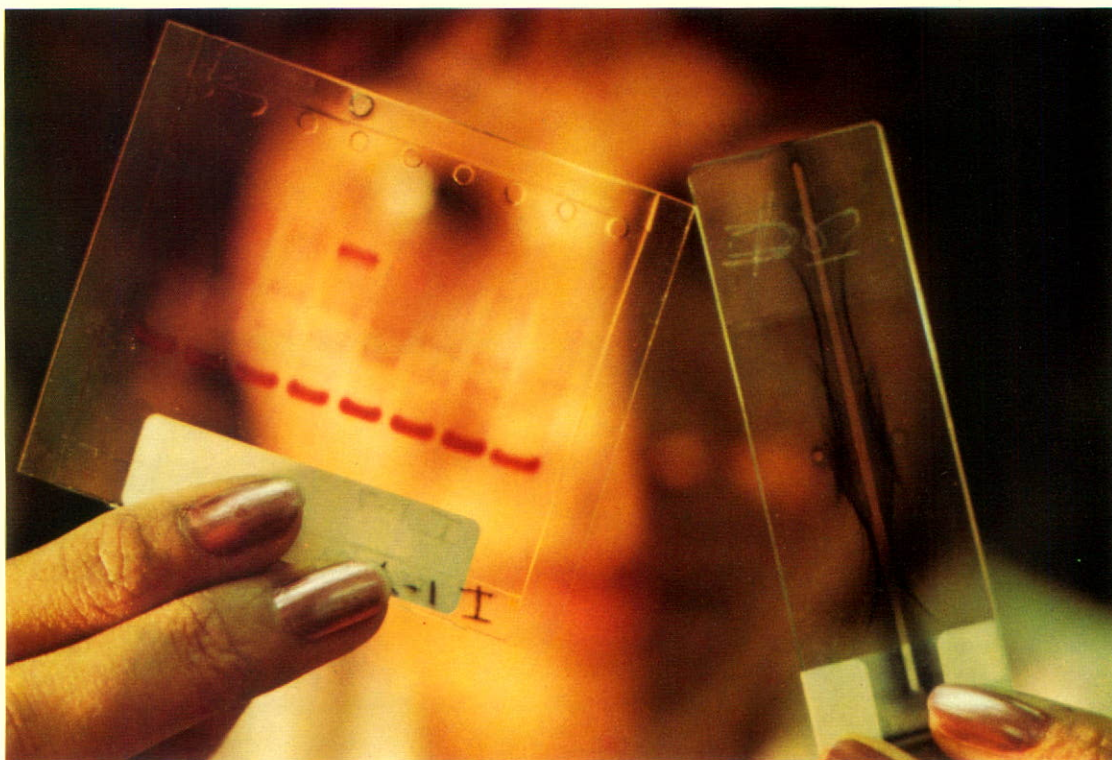
(Cover photo) The multi-purpose chemical ionization source module is one of several patented developments of SCIEEX™, a recently acquired subsidiary. This innovation along with several other patented developments has been incorporated with tandem mass spectrometry to create a new instrument capable of precisely identifying and measuring on an instantaneous basis critical levels of compounds in complex mixtures. Information so obtained is particularly important for environmental, health and forensic sciences and for a broad variety of industrial applications.

(Opposite page photo) The use of sophisticated technology requires a high level of professional input. Many laboratory procedures like the examination of electrophoresis assays featured on the opposite page require a high level of interpretive skills. People — their attitudes, their dedication to excellence, their willingness to work together — are perhaps more essential than in most other fields of endeavour.

Annual Meeting

Shareholders are invited to attend the company's Annual Meeting at 4 p.m., March 15, 1982 in the Alberta Room of the Royal York Hotel, Toronto, Ontario.

MDS - 2,000 People Serving Millions



Diagnosis, prevention, treatment and rehabilitation: MDS Health Group provides the spectrum of health services, combining technology, professional commitment and human concern.

The growth of MDS reflects recognition, by health professionals and the public, of the quality

and ready availability of the company's services and products and the dedication of the people of MDS.

Operating in both Canada and the United States, MDS offers diagnostic services and products to hospitals, physicians and nursing homes, provides occupational health services

and products to industry and government, and uses a new technology to help people with learning and communication difficulties.

The company has more than 2,000 employees. In the 1981 fiscal year they served more than 3 million people.

Financial Highlights

	1981	1980	Change
Revenues	\$55,971,000	\$47,702,000	+17.3%
Depreciation and amortization	1,892,000	1,461,000	+29.5%
Net earnings for the year	3,297,000	2,812,000	+17.2%
Earnings per share *†	\$2.22	\$1.89	+17.5%
Total assets employed	36,526,000	30,426,000	+20.0%
Shareholders' equity	15,021,000	11,404,000	+31.7%
Dividends paid per share †	\$.40	\$.35	+14.3%

* Adjusted basic (fully diluted in 1980)

† Combined total of Class A Common and Class B

To Our Shareholders

Although the fiscal year which ended October, 31, 1981 was a difficult period for the North American economies, MDS Health Group had a satisfactory year. Revenues rose by 17% to \$56 million; net earnings were up 17% to \$3.3 million; and the combined earnings for Class A Common and Class B shares increased from \$1.89 to \$2.22 per share.

MDS laboratories in Ontario continued their growth in fiscal 1981, however, laboratory fees, which are set by government, again failed to increase at the level of inflation. The company was able to maintain satisfactory profit levels only through further improvements in operational efficiency and the effective handling of the increased demand for laboratory testing.

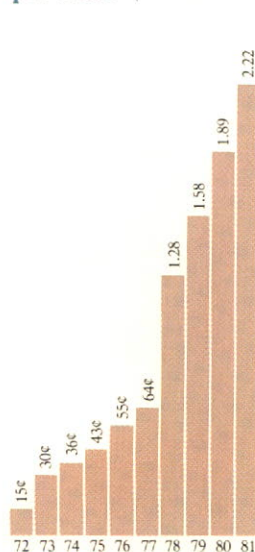
Growth in U.S. laboratory revenues was impressive. The laboratories located in the United States, a market first entered by the company in 1977, now account for approximately one-quarter of total MDS revenues. The 34% increase over the previous year's revenues resulted primarily from expansion of existing operations. Approximately one-third of the increase reflects the full impact of the acquisitions made during the preceding fiscal period. Now that a

reasonable market position has been established, management emphasis will be focused on improving the profitability of operations to desired levels.

Although operating results from the Tomatis division were disappointing, MDS remains convinced that this system for aiding children and adults with learning disabilities holds promise. The number of centres was not expanded during the past year, but significant progress was made in the establishment of independent research programs — an essential step in building awareness and acceptance of the Tomatis system among educators, psychologists, government officials and parents.

Occupational health and related industrial medicine services provided through the MDS Health Care Services division reached a wider market during fiscal 1981. Moderate growth also occurred in the provision of paramedical examinations for life insurance policy applicants. This increased volume, combined with systems improvements, contributed to increases in efficiency and higher profits for the division. Continued growth in revenues and profits is expected over the next fiscal period.

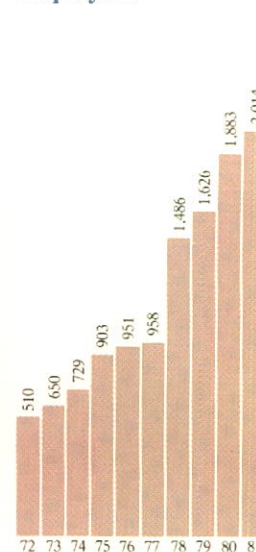
Earnings per share*†



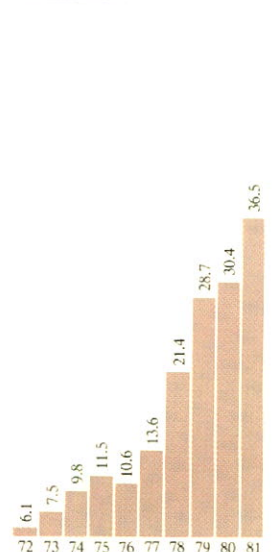
Revenues in millions



Total employees



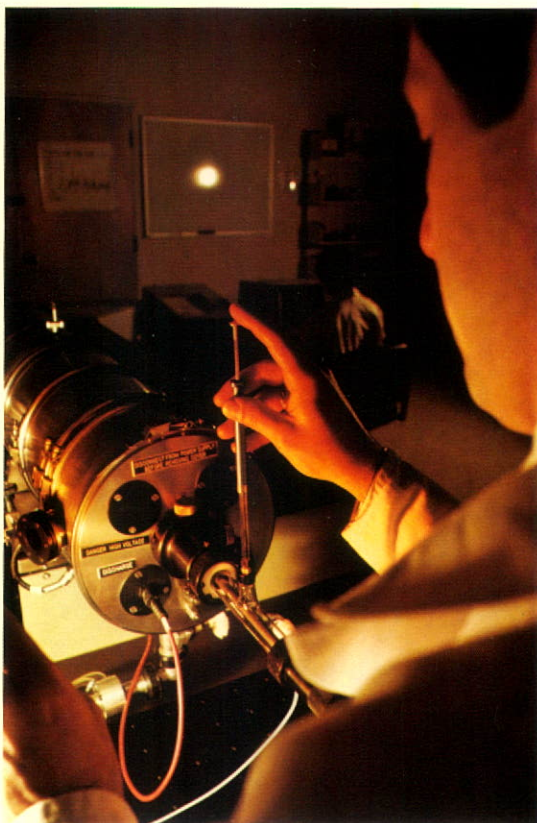
Total assets in millions



* Adjusted basic (fully diluted in prior years)
† Combined total of Class A Common and Class B

Our main emphasis on future growth will continue to be in health care and related fields. However, we are alert to opportunities in new compatible major growth areas as we perceive them.

In 1981 MDS acquired SCIEX™ INC., a company that has received international recognition for its breakthrough in developing sensitive, computer-controlled chemical analysis systems.



National Scientific, the company's external marketing arm for clinical and educational supplies, continued to have unsatisfactory results during the year and the decision was made to discontinue its operations. The growth opportunities the company had anticipated did not materialize and high interest rates, changes in customs duty levels and declining markets for some scientific and educational products, made it very difficult to justify expending continued company resources in this area in comparison to other available opportunities.

One major acquisition was made during the year — SCIEX™ INC. — the originator of an ultrasensitive chemical analysis system. This acquisition is in keeping with MDS' objective of expanding its technological base into complementary areas and provides MDS with leading edge technology to service

the ever expanding demand for chemical analyses in the health, environmental and forensic sciences and for a broad variety of industrial applications.

During the next fiscal period the company will be adding new facilities, including a new regional head office in Buffalo, New York, for the U.S. laboratory operations. Additional investment will be put into the purchase of computing equipment to further streamline existing operations and to provide the capability to handle future growth efficiently. In addition increased emphasis is being placed on the recruitment and development of the middle management personnel that will be necessary to facilitate the next stage of MDS development. MDS is well positioned financially for these undertakings. At October 31, 1981 the company had an unused bank line of credit of \$5 million in addition to its current cash position of \$3.3 million.

During the last decade we have built the business base, market position and committed team that are the foundation for future growth. The challenge is to capitalize on this groundwork in the years ahead. We look forward with enthusiasm and confidence to this task.

The successes of the past year are clearly the result of the combined efforts of the employees and professional consultants who constitute the MDS team. The Directors express their sincere thanks for an outstanding performance.

A handwritten signature in dark ink, appearing to read 'W. G. Lewitt'.

W. G. Lewitt
President

January 14, 1982

MDS - Serving and Caring

In a service organization the quality of service delivered is only as good as the quality of the people who deliver it.



MDS at the Service of Physicians, Hospitals and Nursing Homes

The principal part of MDS' clinical diagnostics business is a network of laboratories providing diagnostic clinical testing services to physicians, hospitals and convalescent institutions both in Canada and the United States. In addition, the company manufactures diagnostic reagents and microbiological media; services diagnostic equipment; and acts as a consultant in the planning and development of medical buildings.

Modern diagnostic medicine relies on the clinical laboratory. Test results of tissue and fluid samples are used in the diagnosis of disease, the detection of malfunctioning organs, and the evaluation of patient response to treatment. Speed is often essential in detecting the source and cause of an ailment and may enable the physician to treat the

patient without admission to a hospital. Frequently, prompt diagnosis reduces the length of time a patient must spend in hospital.

Physicians have the exclusive responsibility for ordering laboratory tests. In selecting a laboratory organization to help them serve their patients, doctors consider reliability of results, patient convenience and speed of response, and they generally place great emphasis on the laboratory organization's reputation for integrity and technical excellence. The physician may order one or more of the 500 individual tests offered by MDS to assist him in his diagnosis or in monitoring treatment. Private laboratories such as MDS provide a complementary and cost effective adjunct to hospital resources. The many community locations provide convenience to patients. This, combined with highly efficient operating methods, means minimal demand on the time of the patient.

MDS provides a business climate that encourages employees to develop their capacities so as to provide physicians, hospitals and patients with a professional service of the highest calibre.



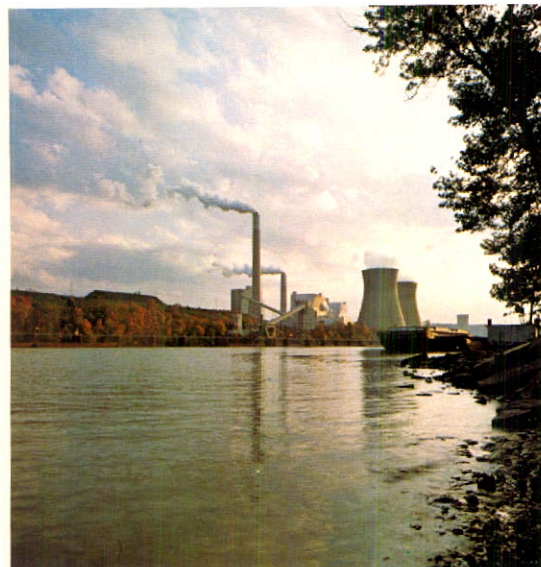
Technicians collect specimens from patients who cannot come in for testing. This is of particular benefit to the elderly. Specimens for testing are also picked up from physicians who are either not near an MDS patient centre or who prefer to take specimens themselves. These extensive courier services

deliver specimens from rural areas and remote locations so that distance is far less of a disadvantage in the case of rural patients.

MDS laboratories also specialize in certain types of testing or analysis requiring expensive technical equipment which some hospitals, particularly smaller ones, do not have.

Last year, through MDS' network of some 160 courier routes, approximately 10,000 specimens were picked up on an average day from doctors, hospitals, clinics and nursing homes. The company performed an average of 5 tests on each specimen and reported the results to the physician or institution normally within 48 hours.

More than 1300 companies in the United States and Canada utilize MDS services in their preventive and occupational health programs.



MDS at the Service of Industry and Government

One in every 11 workers in the private sector in Canada and the United States — a total of more than 7 million people — suffers a job-related injury or illness annually. As a result companies are not only placing increased emphasis on employee health surveillance, but are also enhancing their knowledge regarding their own products and manufacturing processes and their effects on health. Government is of course also involved in every aspect of this marketplace; regulation, research, education, and financial aid.

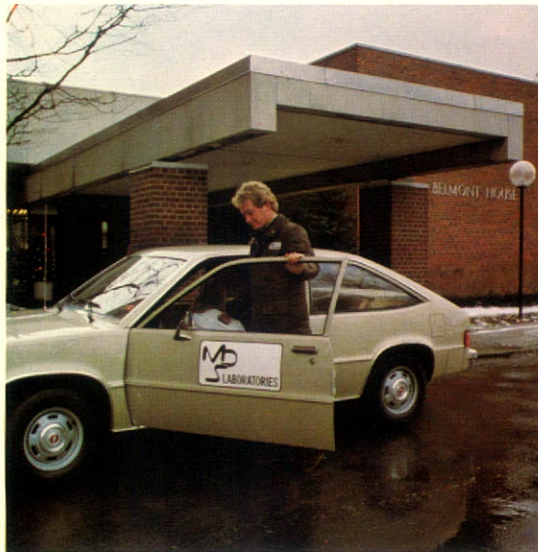
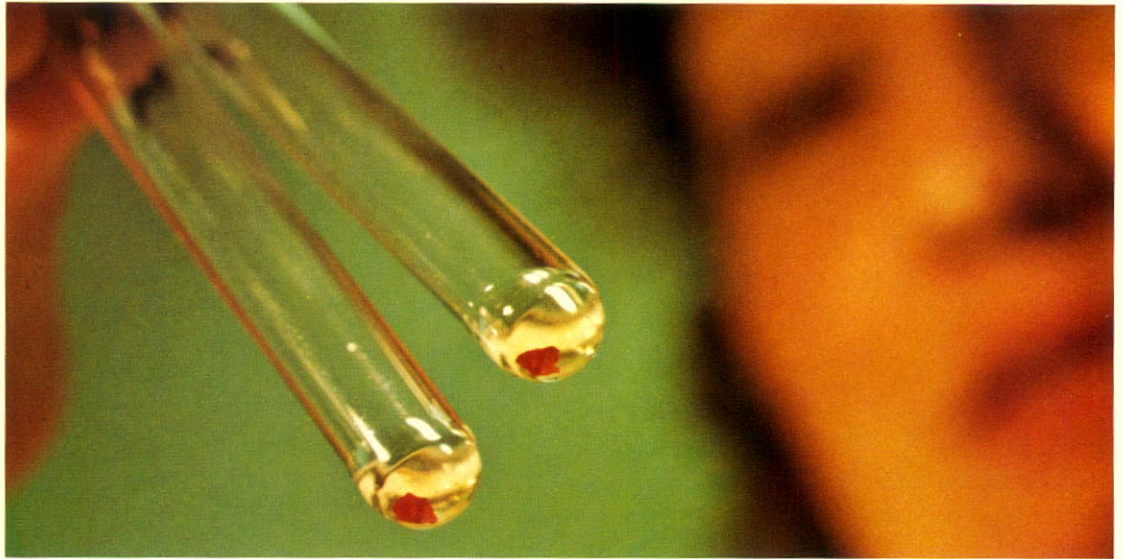
MDS provides services to more than 1300 companies in the United States and Canada with a wide range of health assessment testing services. These include pre-employment and periodic health assessments to establish physical fitness for employment and to detect any impact of health hazards in the workplace; regular screening of workers exposed to hazardous substances; diagnosis and treatment of occupational injuries and diseases; and rehabilitation assistance. The acquisition of SCIEX™ provides MDS with a unique capability for environmental monitoring and for the testing of industrial products and processes to identify harmful substances.

Government agencies in both Canada and the United States are already clients of SCIEX™, relying on SCIEX™ services and equipment for



biomedical research and environmental monitoring. In addition, the equipment is being evaluated by a number of government bodies for use in military and other public and national security applications.

MDS services and procedures touch every segment of the population, both young and old, and are carried out with professional commitment and human concern.



MDS at the Service of the Handicapped, the Aged, Adolescents, Children . . .

The committed team of MDS employees is making an ever increasing contribution to the work of physicians, institutions and others dedicated to saving lives, preserving health and improving the quality of life. MDS activities touch every segment of society. Home care nurses collect specimens from non-ambulatory patients; physicians and nurses treat workers injured in industrial accidents; phlebotomists at MDS patient

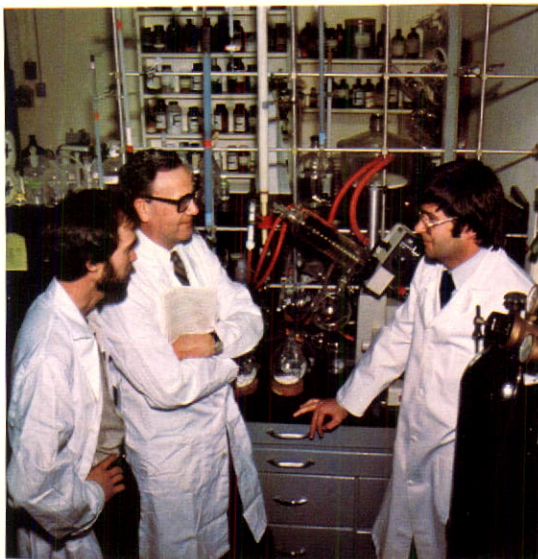
centres annually see more than 2 million patients referred by physicians; MDS nurses in major cities across Canada carry out more than 60,000 paramedical examinations each year on life insurance policy applicants; and other members of the MDS team work with industry and community groups on preventive programs. Hundreds of children with learning disabilities have been helped at the company's Tomatis Centres.

MDS - Pioneering in Technologies of the Future

*Meeting the challenge
of a changing world.*

(Right) Dr. G. Whiteley and Bob Leitch of MDS work closely with Dr. Malcolm Perry (middle) of the National Research Council of Canada in the development of tests for infectious diseases.

(Far Right) Nicole Dubé of MDS performs clinical trials of developed tests at the Laboratory Centre for Disease Control in Ottawa.



With its professional staff of experienced physicians, scientists, engineers, psychologists, technologists and managers, MDS is in a position to participate in several exciting scientific and technological developments which will shape the future. These include advances in the study of cellular and molecular biology and the development of monoclonal antibodies for more specific medical diagnostic tests; the development of computer-controlled chemical analysis systems capable of measuring parts per trillion of trace organic substances; and new approaches to the treatment of persons with communication and learning disabilities.

Biotechnology

Working with the National Research Council of Canada and other research groups, MDS is developing easily performed immunochemical procedures for the detection of infectious diseases. A system of procedures for the detection of gonorrhoea is now almost complete. Research in collaboration with a leading Canadian immunologist has resulted in production of monoclonal antibodies to *Neisseria Gonorrhoeae*. The increased specificity of these antibodies has led to the development of a simple ELISA (Enzyme Linked Immunosorbent Assay) test which utilizes an enzyme reaction to detect gonorrhoea.

Research work on the development of a similar system of tests for Chlamydia, another sexually transmitted disease, is well under way. Early results appear promising. Several research projects directed at other areas of infectious diseases will commence in 1982.

Potential demand for the resulting products is significant. It is estimated that more than 20 million cases of Chlamydia and gonorrhoea occur in North America each year. Current diagnostic procedures for gonorrhoea are either laborious or insufficiently specific. There is no easily performed test for the confirmation of Chlamydia.

MDS is negotiating with a major international company for the worldwide distribution of any such products commercialized.

Our increasingly complex environment is creating an ever expanding need for chemical analyses.



(Right) A mobile SCIEX™ TAGA™ system was used to provide data for evacuation and resettlement decisions during the Mississauga train derailment in 1979.

Trace Chemical Analysis

In North America and around the world, there is a concern with toxic chemicals in the environment and the effect of these chemicals on human health and on the quality of the air, water and soil. In order to assure the efficiency and safety of many production processes there is a need to understand in greater detail the chemical by-products of such processes.

In September, 1981 MDS acquired SCIEX™ INC., a company that has received international recognition for its breakthrough in developing sensitive, computer-controlled

chemical analysis systems. These systems are capable of measuring parts per trillion of trace substances in complex mixtures instantaneously. The rugged and flexible nature of these systems allows them to be applied either in the laboratory or in the field. As an example, a mobile TAGA™ (Trace Analytical Gas Analysis) system was used by the Ontario Ministry of the Environment at the time of the Mississauga train derailment in

There is an undisputed link between environment and health.

(Right) Ontario Ministry of the Environment uses a mobile TAGA™ unit to profile airborne pollutants.

(Far Right) Assays are performed in MDS laboratories to monitor the influence of hazardous substances on the health of workers.



1979 to obtain immediate analysis of levels of chlorine gas in the air. It enabled officials to monitor the spread of the escaped gas, and provided data for prompt evacuation and resettlement decisions.

TAGA™ units can be described as very sophisticated 'sniffers'. The equipment is capable of taking a sample of a gaseous, liquid or solid substance and providing an immediate analysis. There are a multitude of potential applications around the world for this technology related to scientific, industrial, environmental and occupational health concerns.

In 1978 SCIEX™ received the Canada Enterprise Award for its business achievements. In 1980, the TAGA™ was selected by the International Industrial Research and Development magazine as one of the world's 100 most significant new technical products. Organizations which have already purchased TAGA™ systems include IBM, Xerox, General



Electric and the Government of Ontario. In addition, the Governments of Canada, Britain, the United States and Saudi Arabia are presently looking at possible utilization of the equipment in a variety of applications.

Listening and Learning

More than 400 children, along with a number of adolescents and adults, have completed the "listening and learning" program offered by the Tomatis Centres established by MDS in 1978. All were diagnosed as having learning disabilities capable of improvement through the Tomatis Method of auditory stimulation. Results have been monitored closely.

In most cases, there have been significant improvements — indeed, often dramatic improvements — in the capabilities and attitudes of those who have participated in the programs. Attention, concentration and motivation to learn have improved. Self-confidence has developed. Academic performance has reached new, higher levels in virtually all cases surveyed.

The fundamental principle of the Tomatis Method is that some individuals, at an early stage of their development, lose or

Between ten and fifteen percent of children are affected to some degree by learning disabilities.

(Right) The Tomatis Method of auditory stimulation has produced significant improvements in most of the children who have completed MDS "listening and learning" program. The Tomatis Method is an adjunct to and complements the educational process.



subconsciously dispense with their ability to listen — to “tune in” — to certain parts of the normal sound spectrum used in language. Usually there is nothing organically wrong with the hearing apparatus. But the failure, the inability, to listen means these individuals have limited receptiveness to the spoken word. Their inadequacy in one element of communication — listening — is reflected in failures in other forms — speaking, writing, spelling. Those affected may tend to be frustrated, to be poorly adjusted socially, to be low achievers and to develop behavioral problems. The condition is not uncommon. It is estimated that in North America and Europe 10-15% of children are affected to some degree by such learning disabilities.

The Tomatis Method, originated by Dr. Alfred A. Tomatis, involves a program of auditory stimulation designed to establish, or re-establish, the ability to listen, thereby removing an obstacle to learning. In effect, a perceptual impairment, sometimes referred to as dyslexia, is compensated for and overcome in whole or in part.

There is clear evidence of improvement in individual cases. MDS recognizes, however, the need to provide scientific proof and clear statistical support for the effectiveness of the Tomatis Method.

During the past year, MDS has substantially expanded its external research projects. In addition to a study currently underway with Dr. Byron Rourke, a Professor of Psychology at the University of Windsor, a significant new study has been established by the North Shore University Hospital in New York, a teaching facility of Cornell University Medical Center. This study, under the direction of Dr. Barbara Wilson, Chief of the Department of Neuropsychology, commenced in October, 1981 after receiving formal approval from the Research and Publications Committee of the North Shore University Hospital.

In addition, pre and post-testing of children on the Tomatis program has been continued by MDS. The documented results of all of these projects are expected by the summer of 1982. Scientific data confirming and quantifying a significant degree of improvement should lead to increased acceptance by parents and professionals and a substantial change in structuring programs for listening-related learning disabilities. This program is a rewarding example of advanced electronic technology helping people in new ways.

Responsibility for Financial Statements

Management

The accompanying consolidated financial statements of MDS Health Group Limited have been prepared by management in accordance with generally accepted accounting principles consistently applied. The most significant of these accounting principles have been set out in note 1 to the financial statements. These statements are presented on the accrual basis of accounting and accordingly, a precise determination of many assets and liabilities is dependent upon future events which necessarily involves the use of estimates and approximations which have been made using careful judgement. In recognizing that the corporation is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been prepared with this in mind and within reasonable limits of materiality.

The Board of Directors has appointed an Audit Committee consisting of three non-management directors. The committee meets periodically during the year to review with management and the auditors any significant accounting and auditing matters and to review and finalize the annual financial statements of the corporation along with the independent auditors' report prior to the submission of the financial statements to the Board of Directors for final approval. The Audit Committee also reviews any major weaknesses in the corporation's systems of internal control reported by the auditors.

The financial information throughout the text of this Annual Report is consistent with the information presented in the financial statements.

The corporation's accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable.

External Auditors

The auditors' opinion is based upon an independent and objective examination of the corporation's financial results for the year conducted in accordance with generally accepted auditing standards. This examination includes an understanding and evaluation by the auditors of the corporation's accounting systems and internal control procedures as well as obtaining a sound understanding of the corporation's business. The external auditors conduct appropriate tests of the corporation's transactions and obtain sufficient audit evidence in order to provide them with reasonable assurance that the financial statements are presented fairly in accordance with generally accepted accounting principles thus enabling them to issue their report to the shareholders.

Clarkson Gordon, Chartered Accountants, having been appointed by the shareholders of the corporation to serve as the corporation's external auditors, have examined the consolidated financial statements of the corporation for the year ended October 31, 1981 and have reported thereon in their report set out below which is dated January 14, 1982.

Auditors' Report

To the Shareholders of MDS Health Group Limited

We have examined the consolidated statement of financial position of MDS Health Group Limited as at October 31, 1981 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at October 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson Gordon
Chartered Accountants.

Mississauga, Canada,
January 14, 1982.

Consolidated Financial Statements

Year Ended October 31, 1981



Consolidated Statement of Earnings

Year Ended October 31, 1981

(with comparative figures for 1980)

	1981	1980
	(thousands of dollars)	
Net revenues	\$55,971	\$47,702
Operating costs before the following:	46,229	39,856
Depreciation and amortization	1,892	1,461
Interest expense — long term debt	1,427	1,388
— other (net)	(374)	(193)
	49,174	42,512
Earnings before income taxes	6,797	5,190
Income taxes — current	3,350	2,236
— deferred	150	142
	3,500	2,378
Net earnings for the year	\$ 3,297	\$ 2,812
Earnings per share		
Basic		
Class A Common	\$ 1.11	\$ 1.00
Class B	1.21	1.05
Adjusted basic (fully diluted in 1980)		
Class A Common	1.06	.92
Class B	1.16	.97

Consolidated Statement of Retained Earnings

Year Ended October 31, 1981

(with comparative figures for 1980)

	1981	1980
	(thousands of dollars)	
Retained earnings, beginning of year	\$ 7,754	\$ 5,470
Net earnings for the year	3,297	2,812
Dividends paid during the year	(617)	(528)
Retained earnings, end of year	\$10,434	\$ 7,754

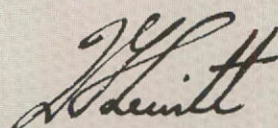
(See accompanying notes)

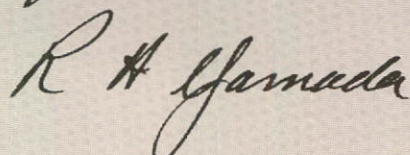
Consolidated Statement of Financial Position

as at October 31, 1981
(with comparative figures
as at October 31, 1980)

	1981	1980
	(thousands of dollars)	
Current assets:		
Cash and short term investments	\$ 3,287	\$ 3,504
Accounts receivable	11,294	9,682
Inventory	4,129	3,157
Prepaid expenses	620	673
Current deferred income taxes	259	552
Further income tax reductions	1,327	
	20,916	17,568
Current liabilities:		
Bank indebtedness	1,035	1,138
Accounts payable and accrued liabilities	5,499	4,381
Current portion of long term debt	793	492
Income and other taxes payable	1,703	2,280
Deposits and deferred revenue	1,021	
	10,051	8,291
Working capital	10,865	9,277
Fixed assets	6,901	6,109
Other assets	700	607
Excess of amounts paid over the fair value of the net tangible assets acquired on the purchases of shares and assets, less amortization and write-off	8,009	6,142
Capital employed	\$26,475	\$22,135
Represented by:		
Long term debt	\$11,149	\$10,552
Deferred income taxes	305	179
Shareholders' equity:		
Share capital	4,587	3,650
Retained earnings	10,434	7,754
	15,021	11,404
	\$26,475	\$22,135
Total assets	\$36,526	\$30,426

On behalf of the Board:

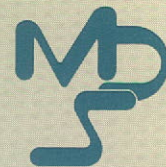
 Director

 Director

(See accompanying notes)

Consolidated Statement
of Changes
in Financial Position

Year Ended October 31, 1981
(with comparative figures
for 1980)



	1981	1980
	(thousands of dollars)	
Funds were provided from:		
Operations —		
Net earnings for the year	\$ 3,297	\$ 2,812
Add items not affecting working capital:		
Depreciation and amortization	1,769	1,390
Amortization of goodwill	123	71
Deferred income taxes	(128)	18
Other		120
Funds provided from operations	5,061	4,411
Proceeds on disposal of fixed assets	406	230
Reduction in other assets	13	65
Total funds provided	5,480	4,706
Funds were applied to:		
Investment in subsidiaries		
Goodwill	1,990	598
Fixed assets	990	
Other assets	115	
	3,095	598
Less — long term debt assumed	895	
— deferred income taxes	254	
	1,946	598
Less portion of purchase price satisfied by issue of shares	937	
	1,009	598
Purchase of fixed assets	1,968	2,677
Reduction in long term debt	298	328
Payment of dividends	617	528
Total funds applied	3,892	4,131
Increase in working capital	1,588	575
Working capital, beginning of year	9,277	8,702
Working capital, end of year	\$10,865	\$ 9,277

(See accompanying notes)

Notes to Consolidated Financial Statements

October 31, 1981

1. Accounting policies

The corporation follows generally accepted accounting principles, the most significant of which are as follows:

(a) Basis of consolidation —

The accounts of all subsidiaries are consolidated on a purchase basis from the date of acquisition.

(b) Fixed Assets —

Fixed assets are carried in the accounts at cost. Gains or losses arising on the disposal of individual assets are recognized in income in the year of disposal.

Assets leased by the corporation under agreements which transfer substantially all of the benefits and risk of ownership of the assets to the corporation are accounted for as capital leases.

Depreciation is generally provided on a straight-line basis over the estimated useful lives of assets at annual rates as follows:

Buildings	— 4%
Major equipment	— 20%
Other equipment, furniture and fixtures	— 10%
Leasehold improvements	— Lesser of 10% or the term of the lease plus one renewal period

(c) Inventories —

Inventories are valued at the lower of cost and net realizable value on the first-in, first-out basis. Work in process includes materials, direct labour and overhead.

(d) Development and start-up costs —

Costs associated with development of new products and locations and with the acquisition of new business are expensed as incurred.

(e) Amortization of intangibles —

For acquisitions after March 31, 1974, the excess of amounts paid over the fair value of the net tangible assets (also referred to as goodwill in these financial statements) acquired on the purchase of shares and assets is capitalized and is being amortized over periods not exceeding forty years. For acquisitions prior to April 1, 1974 the excess has been capitalized and no amounts are being amortized.

(f) Debt issue expense —

Debt issue expense is amortized over the term of the debt.

(g) Investments in and advances to other companies —

Investments in building projects are recorded at cost less allowance for doubtful realization.

(h) Income taxes —

The corporation follows the deferral method of income tax allocation. Deferred income taxes result from differences between amounts claimed for tax purposes and amounts charged in the accounts. Where the corporation is virtually certain of realizing a future income tax reduction from a loss for tax purposes incurred in the reporting period, such future income tax reduction is recognized in the accounts in the current year.

(i) Exchange translation —

The statements of companies whose accounts are maintained in U.S. dollars have been translated into Canadian dollars substantially as follows: inventories, fixed assets, goodwill, deferred income taxes and related expenses, at historic rates of exchange; all other assets and liabilities, at exchange rates prevailing at the end of the year; income and expenses (other than those related to assets and liabilities translated at historic rates) at average rates for the year. Translation gains and losses are included in earnings except for unrealized losses on long term debt which are deferred and charged to earnings over the unexpired term of the debt.

(j) Earnings per share —

Earnings per share have been calculated using the weighted monthly average number of shares outstanding during the year.

Adjusted basic earnings per share have been calculated on the basis that the conversion of the former outstanding Class C Preferred shares (as they existed prior to October 9, 1981) had taken place at the beginning of the year.



2. Long term debt

	Maturity	Current portion	Total	
			1981	1980
Canadian operations:				
1979 Debentures	1999	\$163,000	\$ 9,760,000	\$ 9,888,000
Debentures and loan of subsidiary company	1985-1987	108,000	1,003,000	
Obligations under capital leases (interest varies from 13% to 16%)	1982-1984	226,000	491,000	420,000
Notes & mortgages (interest varies from 8% to 10¼%)	1982-1998	91,000	292,000	303,000
		\$588,000	\$11,546,000	\$10,611,000
U.S. operations:				
Notes & mortgages (interest varies from 6% to 9¾%)	1982-1986	205,000	396,000	433,000
		\$793,000	\$11,942,000	\$11,044,000
Less current portion			793,000	492,000
			\$11,149,000	\$10,552,000

The 1979 debentures bear interest at a rate of 13⅞% over the prime rate (with a minimum rate of 10% and a maximum rate of 13¼% for the ten years ended October 31, 1991).

The 1979 debentures have been collateralized by a fixed and floating charge debenture issued by the parent corporation and its U.S. subsidiary. Under the terms of the debenture the corporation may pledge its accounts receivable and inventory as collateral for short term bank borrowings provided total bank borrowings are at least \$1,000,000 less than the book value of current assets.

The debentures of a subsidiary company are in the amounts of \$200,000 and \$403,000 and bear interest at the rates of 8% and 16½% respectively. The \$200,000 debenture is unsecured. Upon amalgamation (note 12) the \$403,000 debenture has been collateralized by a fixed charge on certain fixed assets of the corporation and a floating charge subordinated to the 1979 debenture and the bank. The loan, \$400,000, is non-interest bearing and will be forgivable provided that certain conditions are fulfilled.

The corporation also has an operating line of credit of \$6,000,000 with a Canadian chartered bank for which a specific charge on accounts receivable and inventory has been given. At October 31, 1981, \$1,035,000 (\$1,115,000 in 1980) has been advanced to the corporation as a demand loan in connection with this line of credit.

Principal repayments required in the next five fiscal years are:

1982	—	\$793,000
1983	—	\$692,000
1984	—	\$464,000
1985	—	\$348,000
1986	—	\$323,000

At October 31, 1981, the corporation has satisfied all covenants under the trust deed relating to the debentures.

3. Share capital

(a) Changes in authorized share capital —

At a special meeting held on October 9, 1981, the shareholders of the corporation approved the deletion of the existing Class C Preferred shares (none of which were then outstanding) and the creation of a new class of shares designated as Class C shares issuable in series and more specifically described below.

(b) Authorized share capital —

The authorized share capital of the corporation consists of an unlimited number of:

- Convertible Class A Common shares;
- Class B shares;
- Class C Series 1 shares;
- Class C Series 2 shares.

The Class A Common and Class B shares are identical to each other in all respects except that:

- (i) Class B shares are non-voting;
- (ii) Class B shares entitle the shareholders thereof to non-cumulative dividends of 5¢ per share in each fiscal half year of the corporation before any dividends are paid on the Class A Common shares;
- (iii) After declaration of the preferential dividends in each fiscal half year, Class A Common and Class B shares participate equally in all further dividends during that fiscal half year;
- (iv) Class A Common shares are convertible into Class B shares on a one for one basis. The Class B shares are not convertible into Class A Common shares.

Under a specific formula, if the after-tax earnings of the SCIEX™ division are less than \$2,450,000 in aggregate for the five year period from June 1, 1981 to May 31, 1986, no Class C Series 1 or Series 2 shares can be converted.

Thereafter, depending on the after-tax earnings of the SCIEX™ division for the period June 1, 1981 to May 31, 1986, a certain number of the Class C Series 1 shares may be converted on a one for one basis into Class A Common shares of the corporation. The owners of the Series 1 shares have entered into an agreement with the corporation whereby 55% of all Class A Common shares received on the conversion of the Series 1 shares will be immediately converted into Class B shares. Accordingly, assuming the earnings levels are achieved to permit maximum conversion, the maximum number of Class A Common and Class B shares that will be issued will be 40,163 and 49,087 shares respectively.

The Class C Series 2 shares may be neither redeemed nor converted until all Class C Series 1 shares have been converted into Class A Common shares. Thereafter, depending on future earnings levels of SCIEX™ for the period June 1, 1981 to May 31, 1986, the Class C Series 2 shares may be redeemed for cash at the rate of \$100 per share, or MDS Class A Common and/or Class B shares of the corporation at the then market value of those shares at the option of the corporation.

Maximum convertibility of the Class C Series 1 and Series 2 shares will arise when SCIEX™ after-tax earnings reach \$8,050,000 in aggregate for the five year period.

Both the Class C Series 1 and Series 2 shares are non-voting and non-dividend bearing and all shares not converted as at May 31, 1986 will be redeemed by the corporation at their paid-in value.

(c) Summary of Share Capital —

	Balance October 31, 1980	Conversions during the year	Issued during the year	Balance October 31, 1981
Class A Common shares				
Number	1,338,962	131,612	33,333	1,503,907
Amount	\$ 1,609,000	\$ 357,000	\$441,000	\$2,407,000
Class B shares				
Number	1,366,184	135,412	41,667	1,543,263
Amount	\$1,374,000	\$ 310,000	\$495,000	\$2,179,000
Former Class C Preferred shares				
Number	133,512	(133,512)		
Amount	\$ 667,000	\$ (667,000)		
Class C Series 1 shares				
Number			89,250	89,250
Amount			\$ 1,000	\$ 1,000
Class C Series 2 shares				
Number			11,900	11,900
Amount			—	—
Total amount of issued share capital	\$3,650,000	\$ —	\$937,000	\$4,587,000

(d) SCIEX™ Employee Trust — 31,500 Class C Series 1 and 4,200 Class C Series 2 shares have been reserved for issue under a key employee trust for certain SCIEX™ employees. As at October 31, 1981 no shares have been allocated.

4. Other Information

Net earnings for the year includes a provision of approximately \$200,000 after-tax in connection with the wind-down of the National Scientific division.

5. Inventory

	1981	1980
Laboratory and other supplies	\$2,395,000	\$3,157,000
Work in process	1,734,000	
	<u>\$4,129,000</u>	<u>\$3,157,000</u>

6. Fixed assets

	1981		1980	
	Cost	Accumulated depreciation and amortization	Net	Net
Land	\$ 37,000	\$ —	\$ 37,000	\$ 37,000
Buildings	361,000	74,000	287,000	293,000
Equipment and furniture	10,190,000	4,760,000	5,430,000	4,469,000
Leasehold improvements	2,547,000	1,400,000	1,147,000	1,310,000
	<u>\$13,135,000</u>	<u>\$ 6,234,000</u>	<u>\$6,901,000</u>	<u>\$6,109,000</u>

7. Other assets

	1981	1980
Investment in and advances to other companies	\$ 330,000	\$ 360,000
Debt issue expense less amortization	220,000	178,000
Other — at cost	150,000	69,000
	<u>\$ 700,000</u>	<u>\$ 607,000</u>



8. Acquisitions

On September 11, 1981, the corporation acquired all of the outstanding shares of SCIEX™ Inc. for a total consideration of \$1,887,000. The purchase price was satisfied by the payment of \$950,000 in cash, and the issue of 33,333 Class A Common shares and 41,667 Class B shares. Of the purchase price, \$218,000 has been ascribed to net assets and the remaining amount, \$1,669,000, to goodwill.

The corporation also issued to the vendors 89,250 Class C Series 1 shares and 11,900 Class C Series 2 shares of the corporation. The value of these shares is contingent upon future earnings of SCIEX™ for the period from June 1, 1981 to May 31, 1986. This additional consideration, if any, will be accounted for as goodwill in the financial statements in the year of issue. The vendors may also be entitled to additional Class C Series 1 and Series 2 shares if the maximum earnings levels are achieved and the shares that are reserved for the SCIEX™ Employee Trust are not issued. The maximum additional shares that could be issued under this provision are 15,750 Series 1 and 4,100 Series 2.

In addition, payments of \$321,000 were made during the year in connection with employment and consulting agreements that were entered into by the corporation as a result of certain previous acquisitions. These payments were accounted for as an additional cost of purchase.

9. Segmented information

The Directors have determined that the corporation operated within the one dominant health care services segment for the year. The corporation has one foreign geographic segment, its U.S. clinical laboratory division. Segment revenues were \$13,000,000 (\$10,000,000 in 1980) and identifiable assets were \$11,000,000 (\$8,000,000 in 1980). This segment was marginally profitable in both 1981 and 1980 with 1981 net earnings approximating \$260,000.

10. Income taxes

Loss carryforwards (for which no future tax benefit has been recorded in the accounts), many of which arose prior to acquisitions, amount to \$1,549,000 and expire as follows: 1990 — \$83,000; 1991 — \$246,000; 1992 — \$248,000; 1993 — \$100,000; 1994 — \$826,000 and 1996 — \$46,000. In addition, certain U.S. corporations have unused investment tax credits of \$251,000 available to reduce future income taxes payable which have not been recognized in the accounts. None of these credits will expire before 1989.

The tax rate of 51% in the statement of earnings for 1981 is approximately 5% higher than that in 1980. This increase arises from the inclusion of a non-taxable gain of \$411,000 in 1980 earnings.

11. Lease commitments

(a) Capital leases—

At October 31, 1981, fixed assets include equipment and vehicles acquired under capital leases amounting to \$839,000 (\$694,000 in 1980) at cost and accumulated depreciation of \$368,000 (\$274,000 in 1980).

Future lease payments required under capital leases at October 31, 1981 are as follows:

1982	\$299,000
1983	242,000
1984	99,000
	<u>640,000</u>

Total future minimum lease payments

Less imputed interest 149,000

Present value of minimum lease payments \$491,000

(b) Operating leases —

Under premise and equipment leases entered into by the corporation and its subsidiaries to October 31, 1981, the corporation is obliged to make minimum payments of approximately \$1,928,000 in 1982, \$1,556,000 in 1983, \$1,157,000 in 1984, \$899,000 in 1985, \$698,000 in 1986 and \$1,325,000 thereafter.

12. Statutory information

On November 1, 1981, the corporation and its wholly-owned subsidiary corporations, SCIEX™ Inc. and Lakeland Laboratories Limited, amalgamated under the provisions of the Canada Business Corporations Act continuing as one corporation under the name, MDS Health Group Limited.

A Ten Year Financial Summary

Years ended October 31 – Figures in thousands of dollars



	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972
Statement of Earnings										
Net revenues	55,971	47,702	39,698	32,820	20,494	19,870	18,645	14,576	9,532	6,608
Earnings before extraordinary items	3,297	2,812	2,240	2,085	1,089	957	938	784	667	337
Net earnings for the year	3,297	2,812	2,126	2,085	1,089	995	938	382	586	624
Statement of Financial Position (selected items)										
Working capital	10,865	9,277	8,702	4,904	2,835	912	1,514	1,208	1,134	687
Fixed assets (net)	6,901	6,109	5,044	3,470	2,053	2,144	2,139	1,728	977	750
Other assets (including goodwill)	8,709	6,749	6,415	5,561	5,063	3,895	3,646	3,618	3,703	3,122
Total assets	36,526	30,426	28,660	21,415	13,632	10,576	11,469	9,769	7,471	6,117
Long term debt	11,149	10,552	10,880	6,673	3,756	1,660	1,702	1,846	1,544	892
Shareholders' equity	15,021	11,404	9,120	6,677	6,186	5,269	5,527	4,600	4,234	3,667
Sources of Funds (selected items)										
Working capital from operations	5,061	4,411	3,354	2,741	1,365	1,305	1,253	1,069	819	454
Issue of long term debt			4,198	1,000	2,540	600		425	700	
Issue of shares	937		766	567	1	4	6	1	66	1,000
Application of Funds (selected items)										
Purchase of fixed assets	1,968	2,677	2,580	1,940	386	480	854	987	380	297
Investment in subsidiaries and divisions	1,009	598	225	(92)	227	(8)		351	335	140
Dividends on Class A Common and Class B shares	580	471	392	192	156	167				
Dividends on Class C Preferred shares	37	57	57	20	17	17	17	17	19	22
Reduction in long term debt	298	328	402	829	443	792	144	204	248	603
Purchase of shares for cancellation				1,949		1,073				
Earnings Per Share* (\$ per share)										
Adjusted basic (fully diluted in prior years) before extraordinary items	2.22	1.89	1.58	1.28	.64	.55	.43	.36	.30	.15
Adjusted basic (fully diluted in prior years) after extraordinary items	2.22	1.89	1.50	1.28	.64	.57	.43	.17	.26	.28
* Combined total of Class A Common and Class B in 1981 and 1980										
Number of shares outstanding at end of period (000's)										
Common (before subdivision)			1,344	1,269	1,674	1,673	2,152	2,147	2,146	2,107
Class A Common	1,504	1,339								
Class B	1,543	1,366								
Class C Preferred		134	142	142	42	42	42	42	42	55
Class C Series 1	89									
Class C Series 2	12									

Directors and Officers

Board of Directors

- °Dr. W. Anderson
*Professor of Pathology,
University of Toronto*
- *J.W.L. Fordham
Consultant
- A. Grieve
Investment Consultant
- °Dr. L.R. Harnick
*Chief Radiologist,
Toronto Western Hospital*
- *R. Horner
Investment Consultant
- W.G. Lewitt
*President,
MDS Health Group Limited*
- R.M. Warren
*President and
Chief Executive Officer,
Canada Post Corporation*
- *R.D. Wilson, Q.C.
Partner, Fasken & Calvin
- R.H. Yamada
*Vice-President,
MDS Health Group Limited*

°Medical Advisory Committee

*Audit Committee

Head Office

30 Meridian Road, Rexdale, Ontario
M9W 4Z9
(416) 675-7661

Transfer Agents & Registrar

Guaranty Trust Company of Canada
Toronto

Auditors

Clarkson Gordon

Officers and Corporate Management

- W.G. Lewitt
*President
Chief Executive Officer*
- J.E. Boyce
*Vice-President
Organization Development &
Personnel*
- D.M. Phillips
*Vice-President
General Manager,
MDS Laboratories*
- J.A. Rogers
*Vice-President
Finance*
- E.K. Rygiel
*Vice-President
Corporate Development*
- R.H. Yamada
*Vice-President
General Manager,
Tomatis Centres*
- B.R. Moffatt
Corporate Secretary
- Dr. W. Anderson
*Chairman,
Medical Advisory Committee
MDS Health Group Limited*
- Dr. J.C. Nixon
*Medical Director,
MDS Laboratories*

Legal Counsel

Fasken & Calvin

Bankers

Canadian Imperial Bank of Commerce

Stock Listing

Toronto Stock Exchange
Symbols — MHG.A
 MHG.B



MDS Health Group Limited
30 Meridian Road
Rexdale, Ontario
M9W 4Z9