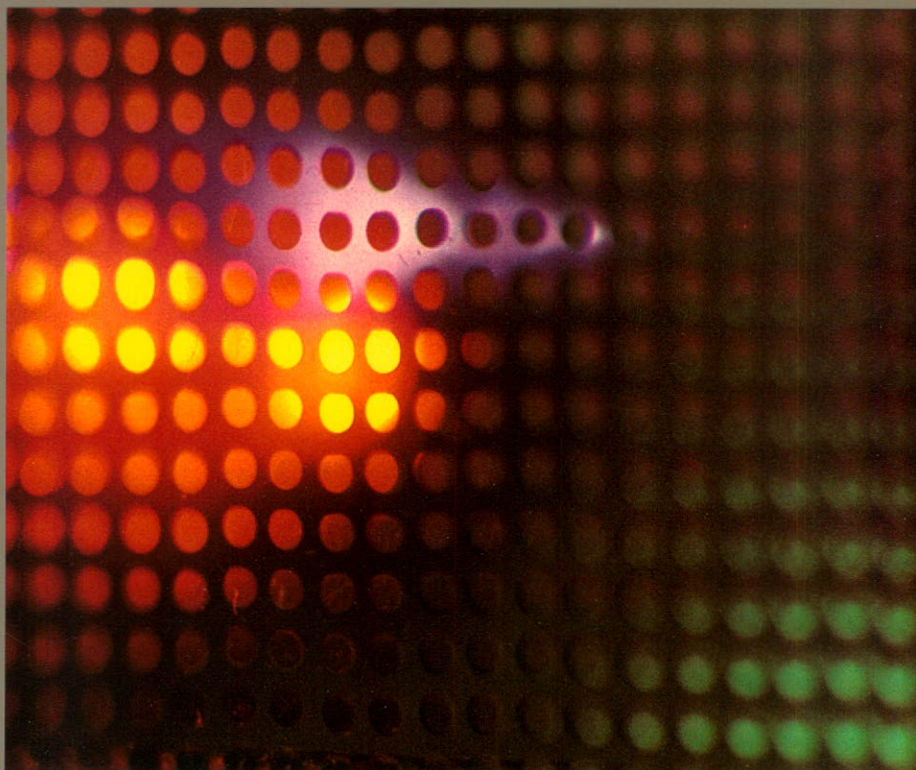
MDS Health Group Limited

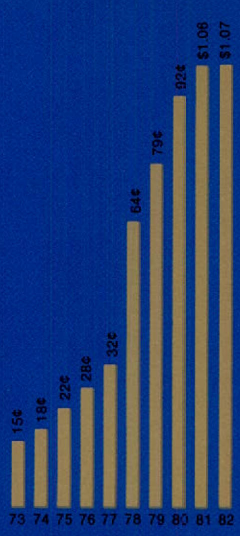


MDS
Combining technology, professional commitment and human concern.

(Cover) Macrophotography reveals a mosaic of tiny mirrors within the optical system of an Atomic Absorption Spectrophotometer.

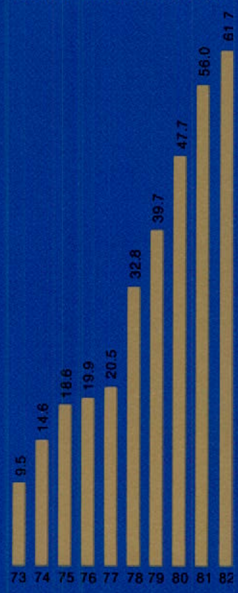
(Upper right and page 1) The microprocessor of the Atomic Absorption Spectrophotometer displays operating parameters in real time, allowing the laboratory analyst to optimize measurements. These could include the measurement of minute amounts of potentially harmful substances in human blood.

Earnings per share
Class A Common and Class B Shares*

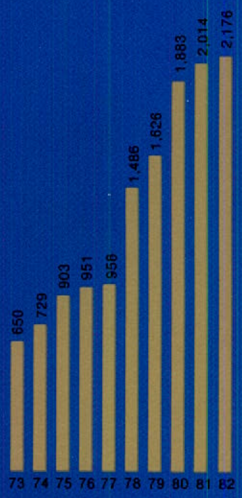


*Adjusted basic or fully diluted in prior years after giving retroactive effect to the common share split into Class A Common and Class B Shares.

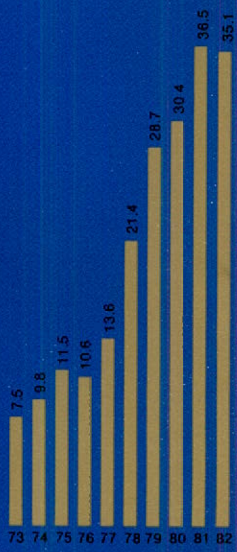
Revenues in millions



Total employees
(Includes part-time employees)



Total assets in millions



MDS is a professionally directed, technology based service company, providing testing, measurement and related services for health care and associated markets.

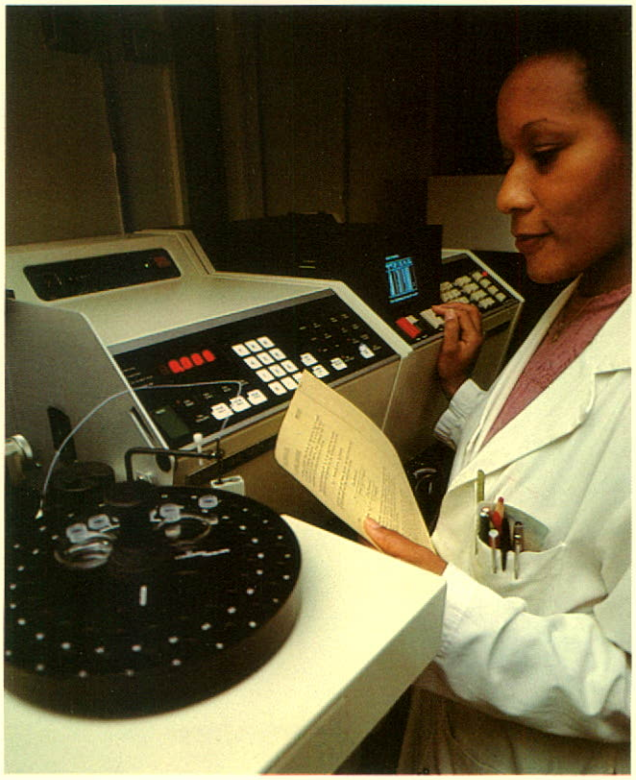
MDS' principal area of activity is the provision of clinical laboratory testing services to physicians, hospitals and nursing homes, both in Canada and the United States. A growing area of involvement is the supply of occupational health and environmental testing services and equipment for industry and government. Other services include the administering of paramedical examinations for insurance policy applicants and the testing and treatment of children with learning and communication difficulties. MDS activities are organized into four operating divisions: Clinical Laboratories, SCIEX®, Health Care Services and Tomatis.

MDS clients in the last year included more than 5,000 physicians, 300 hospitals, 200 nursing homes and 1,300 industrial concerns. Approximately 75% of its revenues are in Canada and 25% are in the United States.

MDS is a public company with more than 2,100 employees and consultants.

The Class A Common and Class B shares trade on The Toronto Stock Exchange under the symbols MHG.A and MHG.B. The employees, through their Deferred Profit Sharing Plan, represent the largest shareholder in MDS Health Group with an equity interest of approximately 24% of the outstanding Class A Common shares.

In fiscal 1982, the company paid total dividends of 15¢ for every Class A Common share and 25¢ for every Class B share.



Year Ending October 31	1982	1981
Net Revenues	**$61,722,000**	$55,971,000
Net Earnings	**3,405,000**	3,297,000
Shareholders' Equity	**17,814,000**	15,021,000
Total Assets Employed	**35,094,000**	36,526,000
Debt as a Percentage of Capital Employed	**37%**	42%
Current Ratio	**3.0:1**	2.1:1

The financial performance of MDS in fiscal 1982 must be considered satisfactory when compared with the overall economic conditions that prevailed during the year. Revenues increased by 10% to $62 million and generated net earnings of $3.4 million.

On a larger weighted average number of shares outstanding during the 1982 fiscal year adjusted basic earnings per share of the Class A Common and Class B shares increased from $1.06 to $1.07.

As at October 31, 1982, the company's working capital position increased to $13 million, including cash and marketable securities of $3 million. In addition, the company has an unused bank line of credit in excess of $5 million. Because of its strong financial position, MDS was able to continue its emphasis on future development during these difficult times.

During the year MDS spent $450,000 to upgrade existing facilities and to add new facilities, $1,800,000 on the purchase of new equipment and, including funding from outside sources, $2,700,000 on research and development activities. In addition, significant funding was provided for the recruitment costs and salaries of the additional middle management

New MDS Regional Head Office, Amherst, New York personnel that were added to facilitate the next stage of MDS growth.

Operating Highlights

The Ontario Laboratory Division continued its revenue growth during fiscal 1982 but at a lower rate than that of the previous year. During the year, a two-year agreement was reached with the Ontario Ministry of Health for fee increases of 7.1% effective April 1, 1982, 3% on October 1, 1982 and 6% effective April 1, 1983. These fee increases were less than hoped for, but when combined with increased volume, the division was able to maintain satisfactory financial results.

Although the United States laboratory revenues increased 19% over the previous period, the growth in revenue was less than originally anticipated. The establishment of a new regional head office for the U.S. laboratory operation in Amherst, New York and the recruitment of additional management personnel necessary for future growth contributed to higher operating costs and lower operating margins for the year. Management emphasis continues to focus on improving the profitability of this division and we believe the steps taken in 1982 will provide the necessary base for improved results.

MDS Health Care Services Division reported its best ever operating results despite the poor economic climate. The acquisition during the year of the insurance paramedical division of Equifax Canada Ltd. contributed to the improved results.

SCIEX® and Tomatis were severely affected by the recession and the revenues of both divisions were significantly lower than anticipated. After the write-off of all research and development expenses for the year, both programs experienced larger than forecast operating losses. It is expected that the performance of both divisions will improve when the economy begins to recover.

In the interim the company continues to support fully the developmental programs that are critical to their long term success while tightly controlling day-to-day operating costs.

Future Outlook

Given some improvement in the economic climate in fiscal 1983, MDS expects a return to higher growth rates in revenues and income in the current fiscal period.

Although some of the business units will continue to be adversely affected by the lingering recession, the company's base laboratory business is strong and will continue to grow. The company's investment in people, equipment and facilities during the last fiscal period will begin to generate returns this year.

Board and Management Changes

During the year the Board of Directors approved the consolidation of the laboratory operations into one division, MDS Laboratories, and appointed Douglas Phillips as President of this division.

In June, J. Lynn Fordham resigned as a director of the company. Lynn was an active director of MDS Health Group for more than ten years and we are indebted to him for the significant contribution he has made to the company.

Appreciation

On behalf of the Board of Directors, I thank all our employees and professional consultants for their dedicated efforts during the last year. Their efforts made possible the high quality of MDS services and products, and the continued growth of the company.

W. G. Lewitt
President
January 13, 1983

Divisional Overview and Review of Activities

The growth of MDS Health Group Limited reflects recognition within the markets served of the quality and availability of the company's services and products and the dedication to excellence of MDS employees and professional consultants.

More than 2,100 people, including full-time and part-time employees and consultants, were employed by MDS as of October 31, 1982. Approximately 1,700 of these people are involved in laboratory operations and the remaining are involved in MDS' related activities.

MDS clinical laboratories provide a comprehensive diagnostic service to more than 5,000 physicians, 300 hospitals and 200 nursing home clients located in New York, Pennsylvania and New Jersey in the United States and Ontario in Canada. Services are provided through 132 laboratories and laboratory patient centres that are organized into nine regional laboratory networks. The core of each regional laboratory network is a central, automated, reference laboratory offering multitest profiles and complex procedures in various laboratory disciplines. More than 500 individual tests are offered by the MDS laboratory networks.

A battery of centrifugal analyzers performs multi-test health assessment profiles in an MDS regional reference laboratory.

Seconds after injecting an industrial sample a readout in parts per trillion of Dioxin is obtained by TAGA® technology.

SCIEX®

SCIEX® is involved in the design, development, manufacturing and marketing of mass spectrometers for trace chemical analyses and has received international recognition for developments in this field.

There is a growing demand for trace chemical analyses in clinical, environmental, occupational health and forensic sciences and for a broad variety of industrial applications. Organizations which have already purchased TAGA® systems include such major companies as IBM, Xerox, General Electric as well as numerous government agencies in Canada, the United States and the United Kingdom.

Health Care Services

The Health Care Services Division operates throughout Canada and provides a wide range of health assessment testing services for the employees of more than 1,000 companies. These services include pre-employment and periodic health assessments, personnel exposure monitoring, diagnosis and treatment of occupational injuries and rehabilitation assistance.

In addition, MDS nurses in major cities across Canada carry out through a mobile service more than 75,000 paramedical examinations on policy applicants for the Canadian life insurance industry.

Tomatis

The Tomatis Division provides a program of auditory training designed to establish or re-establish the ability to listen or to ''tune in'' to sound. One of the fundamental precepts of the Tomatis Method is that some children lose the motivation or the ability to listen properly although their hearing may be normal.

Auditory perceptual deficit is recognized as a significant obstacle to proper academic development. The condition is not uncommon. It is estimated that in North America and Europe 10%-12% of children are affected to some degree by such learning disabilities.

Therapeutic drug monitoring by high pressure liquid chromatography allows a physician to individualize his patients' therapeutic regimens.

The electronic ''ear'' is a key component of the Tomatis auditory training program designed to establish or re-establish the ability to listen.

Management of the Canadian laboratory operations focussed on internal growth and the effective handling of the increased demand for laboratory testing during the last fiscal period.

The timeliness of MDS laboratory services was maintained with the extension of shift work, the expansion of courier services and the increasing utilization of automated testing equipment.

Increased volume, the continued rationalization and refinement of testing facilities and improved volume purchasing and materials control contributed to keeping operating margins at budgeted levels.

Planning was started on a new Ontario laboratory facility that will incorporate state-of-the-art technology for specimen preparation and control, laboratory testing and information processing. This new facility will provide the company with the flexibility to deal effectively with future cost pressures and market requirements. Target date for occupancy has been set for the latter part of 1983.

During the last year, the U.S. laboratory management group concentrated on the implementation of several changes to improve the longer term profitability of the division.

Though progress was made in a number of areas, the financial impact of these changes was offset by lower than expected revenues as a result of the extended recession. In other cases the operational changes will have longer term effects and are not expected to influence the financial results before the 1983 fiscal period.

On May 1, the U.S. head office was relocated from Olean, New York to newly constructed facilities in Amherst, New York. A General Manager, a Personnel Manager, a Systems and Data Processing Manager, a Business Development Manager and a U.S. Medical Director were added to

The management group for MDS U.S. laboratory operations is shown at its headquarters in Amherst, New York.

the U.S. management team, and U.S. operating responsibility was delegated to this management group.

In addition to relocating the U.S. head office, MDS upgraded four community laboratories, relocated one community laboratory and consolidated two regional reference facilities. New community laboratories were acquired in Albany and Niagara Falls, N.Y. and new patient centres were established in several communities to increase MDS' penetration in these areas.

New computerized billing systems were implemented in several locations, and planning was completed for the implementation in February 1983 of a computerized laboratory management and reporting system at the regional facility in Reading, Pennsylvania.

During 1982, MDS continued to install computer terminals in some community laboratories and client accounts to link them with the computer at the regional facility in Olean. Because of MDS' network of community laboratories and extensive logistics system, this link is not essential today but will become more beneficial as the company spreads its geographical service boundaries.

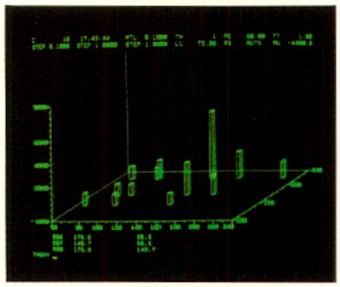
In the next fiscal period the U.S. laboratory operation will focus on significantly increasing revenues and realizing profit improvement from the efforts of the last two years.

Looking at the longer term, MDS is well positioned both in Canada and the U.S. to respond to the additional demands for an increasing range and volume of diagnostic services. Clinical laboratory testing has been increasing at an annual rate of 8%-10%. This real rate of growth is expected to continue in the foreseeable future as a result of new and more precise diagnostic procedures, the demographics of an aging population and the changing practice of medicine which incorporates the use of more specific diagnostic testing.

Computer terminals provide clients and MDS network laboratories with direct access to current information about reports, billing and other laboratory transactions.

In a matter of minutes hundreds of blood samples can be assayed for constituents such as Vitamin B_{12} by a high speed automatic gamma counter.

An MDS Laboratory Service Representative demonstrates specimen collection aids to a client physician.



SCIEX® software presents a three dimensional fingerprint of TAGA® derived measurements of complex mixtures of organic chemicals.

SCIEX® was affected more than other MDS operations by the severity of the recession during the past fiscal period. This has resulted in anticipated sales being spread over a longer timeframe. Notwithstanding, a decision was made to maintain the level of support for new product research and development efforts. Resources were redeployed to make this possible within the constraint of the current economic climate, including the cutback of staff in a number of non-critical areas. The hiring of a General Manager and a Manufacturing Manager during fiscal 1982 has significantly enhanced the SCIEX® management team.

During the early part of fiscal 1982, a new wet chemistry laboratory with facilities for the handling of toxic and hazardous materials was opened at SCIEX®. This facility will allow the division to handle micro quantities of such materials with precision and safety.

Consistent with SCIEX® marketing strategy, TAGA® equipment was displayed and demonstrated at major international trade shows. Thirteen scientific papers relating to the use of TAGA® technology were presented at three international conferences.

Specific application development activities using this technology

Major design and development programs are aimed at expanding the existing patented TAGA® technology into new market areas.

continued with a number of government and industry groups and preliminary results in several application areas are promising. In particular, methods have been developed for the rapid screening of food products and environmental samples for trace quantities of natural or man-made contaminants. The results of these studies are now being published and discussed in international journals and conferences as part of an overall international marketing strategy for these applications.

Under a joint program with the U.S. Army, the National Research Council and the Department of National Defence of Canada, SCIEX® has completed a significant and successful evaluation of the potential of the TAGA® technology to satisfy critical national defense needs. It is confident that this effort will result in future sales of TAGA® equipment to military agencies.

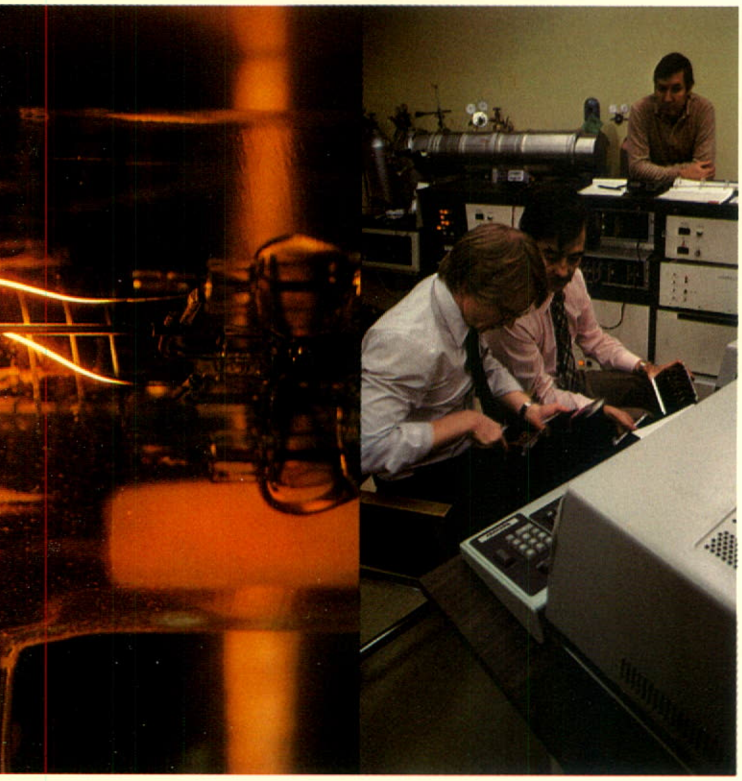
Major development and engineering programs are now underway to expand the existing patented technology into other market areas. Announcements relating to the availability of the first products emerging from this program will be made in the spring of 1983.

Mobile TAGA® equipment was used for various studies during the year including characterization of fugitive emissions caused by landfill sites, a growing public concern.

Two mobile TAGA®'s, one belonging to SCIEX® and the other belonging to the Ontario Ministry of the Environment, obtained extensive media coverage when they were used to monitor the air after the Orillia train derailment in April 1982, a precautionary move to safeguard the health of the population in surrounding communities.

In late spring 1982, the Department of Environment and Conservation of New York took delivery of a mobile TAGA® system and has been pleased with the results of its preliminary field programs. The activities outlined above, along with other exposures, have increased the awareness of the TAGA® capability internationally.

During the latter part of fiscal 1982, several large environmental and industrial consulting and engineering firms in the U.S. were including the use of mobile TAGA® equipment in proposals dealing with problems related to fugitive emissions from landfill sites, incinerators, industrial processes and other sources. As a result, MDS made a decision late in 1982 to proceed with the development of an analytical service business based on the TAGA® technology. Several options are currently being studied to expand this service on a broad scale and plans should be well underway by spring 1983.



Reliable operation of TAGA® systems in harsh environments for industrial, military, and emergency response applications demands exhaustive testing of every component during manufacture and assembly.

MDS Health Care Services Division continued to grow in revenues and profits during fiscal 1982 despite the recession.

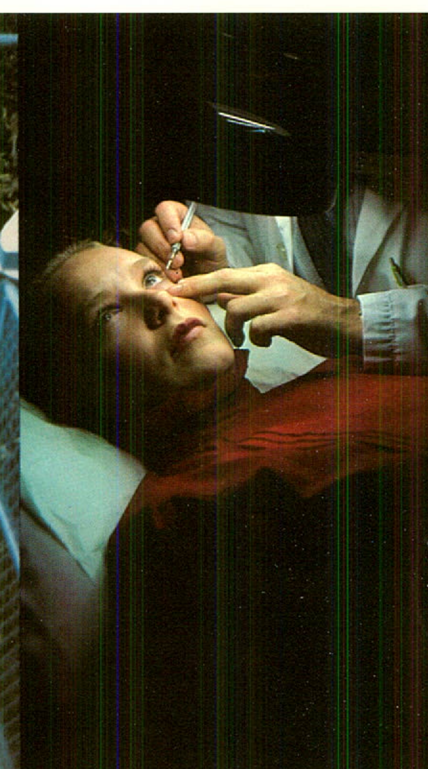
MDS' mobile paramedical service for the life insurance industry was expanded throughout the provinces of Quebec and Saskatchewan. Internal growth, the acquisition of the paramedical division of Equifax Canada Ltd. and designation as an approved examiner by several additional insurers significantly increased the scope of this unit and resulted in a 20% growth rate for the year.

MDS Executive Health Clinics in Toronto, Montreal and Ottawa performed an increasing number of health assessments for senior personnel of several hundred Canadian corporations. Revenues for these units were 10% greater in 1982 than for the comparable prior period.

Revenue from occupational health and related industrial medical services was higher than last year but lower than planned. Reduced industrial activity resulted in reductions in pre-employment assessments, occupational health programs and the treatment of work-related injuries.

During 1982, the Ontario Government legislated occupational health programs for workers exposed to lead, mercury, asbestos, vinyl chloride and coke oven emissions. Other legislated programs are expected to follow. During 1983 MDS plans to continue to help both existing and new clients in the implementation of these legislated occupational health programs. The objective of the MDS Health Care Services Division is to provide comprehensive occupational health services to a growing clientele on a clinic and mobile basis.

An occupational health physician and nurse tour a manufacturing plant along with its manager. This is an important feature of comprehensive occupational health programs offered by MDS to industrial clients.



Rehabilitation and emergency treatment services are provided to injured workers through the Evans Medical & Industrial Clinic in Toronto.

The 1982 fiscal year was significant for the Tomatis Division. In the last decade, North American researchers have become increasingly aware of the important role that auditory problems play in the learning disabilities experienced by 10% to 12% of all school age children. Independent controlled studies to measure the efficacy of the Tomatis Method were conducted under the direction of Dr. Barbara Wilson, Chief, Department of Neuropsychology, North Shore University Hospital, a teaching facility of Cornell University Medical Centre, and Dr. Byron Rourke, Head of Neuropsychology, Windsor Western Hospital Centre, University of Windsor. The outcome and the trends of these studies highlight a significant positive benefit and indicate no detrimental effect as a result of the Tomatis Program.

A standard version of the Tomatis Program, entitled the Listening Training Program, is being made available to school boards across Canada.

An International Symposium for Educators on November 1 and 2, 1982 was the forum for the formal presentation of the Cornell and Windsor studies. This MDS sponsored conference was attended by internationally known researchers from five countries and by more than 700 education professionals, and is believed to be the first of its kind in Canada. Significantly, this conference highlighted the growing international recognition of the relationship between an auditory deficit and a learning disability—one of the concepts on which the Tomatis Program is based.

A significant accomplishment in 1982 was the development of a standard version of the Tomatis Program, entitled the Listening Training Program, which is being made available to school boards in Ontario and the rest of Canada. This program was designed to aid children with less severe listening-based learning difficulties and has been in use since 1979 in the Sudbury Roman Catholic Separate School Board and more recently in the Timiskaming District Roman Catholic Separate School Board. It is MDS' expectation that through this outreach program the benefits of the Tomatis Method will be made available to the widest group of children regardless of socio-economic background.

Brickwall House, a centre for children with learning disabilities in England, as well as The Country Day School, an independent school in Toronto, have received formal approval to implement pilot programs in 1983. Negotiations are proceeding with other selected school boards and the short term objective is to have an initial group of four to six public and independent school boards using the standard version of the Listening Training Program in 1983.

Because of the severe impact of the recession on the revenues of this division, MDS has consolidated its clinic activities into one facility in Toronto. This centre will continue to serve those children who have learning disabilities and associated problems in emotional and behavioural areas and who cannot be served through the standard listening program.

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, 1982 and have reported thereon in their report set out below which is dated January 13, 1983.

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, 1982 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, 1982 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 13, 1983.

Consolidated Financial Statements

Year ended October 31, 1982

Consolidated Statement of Earnings

Year ended October 31, 1982 (with comparative figures for 1981)

Net revenues

	1982	1981
	(thousands of dollars)	
Net revenues	$61,722	$55,971
Operating costs before the following:	51,988	46,229
Depreciation and amortization	2,026	1,892
Interest expense—long term	1,561	1,427
—other (net)	(183)	(374)
	55,392	49,174
Earnings before income taxes	6,330	6,797
Income taxes—current	1,600	3,350
—deferred	1,325	150
	2,925	3,500
Net earnings	$ 3,405	$ 3,297

Net earnings

Earnings per share

	1982	1981
Earnings per Class A Common and Class B share		
Basic	$1.07	$1.11
Adjusted basic	$1.07	$1.06

Note: Class B shareholders are entitled to an additional 10¢ per share by means of a non-cumulative dividend which was paid in both 1982 and 1981 (see note 3 (b)).

Consolidated Statement of Retained Earnings

Year ended October 31, 1982 (with comparative figures for 1981)

Retained earnings

	1982	1981
	(thousands of dollars)	
Retained earnings, beginning of year	$10,434	$ 7,754
Net earnings	3,405	3,297
Dividends	(612)	(617)
Retained earnings, end of year	$13,227	$10,434

(See accompanying notes)

Consolidated Statement of Financial Position

as at October 31, 1982 (with comparative figures as at October 31, 1981)

		1982	1981
		(thousands of dollars)	
Current assets	Current assets:		
	Cash and short term investments (market value approximates cost in 1982 and 1981)	$ 2,776	$ 3,287
	Accounts receivable	11,407	11,294
	Inventory	3,929	4,129
	Prepaid expenses	644	620
	Current deferred income taxes	189	259
	Future income tax reductions		1,327
		18,945	20,916
Current liabilities	Current liabilities:		
	Bank indebtedness	649	1,035
	Accounts payable and accrued liabilities	4,571	5,499
	Current portion of long term debt	791	793
	Income and other taxes payable	244	1,703
	Deposits and deferred revenue	13	1,021
		6,268	10,051
Working capital	Working capital	12,677	10,865
	Fixed assets	7,311	6,901
	Other assets	685	700
	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	8,153	8,009
Capital employed	Capital employed	$28,826	$26,475
	Represented by:		
	Long term debt	$10,792	$11,149
	Deferred income taxes	220	305
Shareholders' equity	Shareholders' equity:		
	Share capital	4,587	4,587
	Retained earnings	13,227	10,434
		17,814	15,021
		$28,826	$26,475
Total assets	Total assets	$35,094	$36,526

On behalf of the Board:

W Leavitt Director

R H Yamada Director

(See accompanying notes)

Consolidated Statement of Changes in Financial Position

Year ended October 31, 1982 (with comparative figures for 1981)

		1982	1981
		(thousands of dollars)	
Funds provided	Funds were provided from:		
	Operations—		
	Net earnings	$ 3,405	$ 3,297
	Add (deduct) items not affecting working capital:		
	Depreciation and amortization	1,894	1,769
	Amortization of goodwill	132	123
	Deferred income taxes	(85)	(128)
	Funds provided from operations	5,346	5,061
	Proceeds on disposal of fixed assets	482	406
	Reduction in other assets	15	13
	Total funds provided	5,843	5,480
Funds applied	Funds were applied to:		
	Acquisitions		
	Goodwill	276	1,990
	Fixed and other assets		1,105
		276	3,095
	Less—long term debt and deferred income taxes assumed		1,149
	—portion of purchase price satisfied by issue of shares		937
			2,086
		276	1,009
	Purchase of fixed assets	2,786	1,968
	Reduction in long term debt	357	298
	Payment of dividends	612	617
	Total funds applied	4,031	3,892
	Increase in working capital	$ 1,812	$ 1,588
Changes in components of working capital	Changes in components of working capital:		
	Increase (decrease) in current assets—		
	Cash and short term investments	$ (511)	$ (217)
	Accounts receivable	113	1,612
	Inventory	(200)	972
	Prepaid expenses	24	(53)
	Current deferred income taxes	(70)	(293)
	Future income tax reductions	(1,327)	1,327
		(1,971)	3,348
	Decrease (increase) in current liabilities—		
	Bank indebtedness	386	103
	Accounts payable and accrued liabilities	928	(1,118)
	Current portion of long term debt	2	(301)
	Income and other taxes payable	1,459	577
	Deposits and deferred revenue	1,008	(1,021)
		3,783	(1,760)
	Increase in working capital	$ 1,812	$ 1,588

(See accompanying notes)

1. Accounting policies

These financial statements are prepared in accordance with 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 earnings 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 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) Research and start-up costs—

Certain costs associated with new products and start-up of new businesses 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.

Federal and provincial investment tax credits are applied as a reduction of income taxes on the flow-through method.

(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 after deducting the extra dividends paid on the Class B shares.

In 1981, adjusted basic earnings per share were 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 1981.

2. Long term debt

	Maturity	Current portion	Total 1982	Total 1981
Canadian operations:				
1979 debentures	1999	$184,000	$ 9,597,000	$ 9,760,000
Other debentures and loan	1985-1987	108,000	896,000	1,003,000
Obligations under capital leases at an average rate approximating 16%	1983-1985	260,000	649,000	491,000
Notes at 8%	1983-1998	100,000	200,000	292,000
		652,000	11,342,000	11,546,000
U.S. operations:				
Notes and mortgages (interest varies from 6% to 7½%)	1984-1986	139,000	241,000	396,000
		$791,000	11,583,000	11,942,000
Less current portion			791,000	793,000
			$10,792,000	$11,149,000

The 1979 debentures bear interest at a rate of 1⅜% over the prime rate (with a minimum rate of 10% and a maximum rate of 13¼% for the ten years ended October 31, 1991) and have been collateralized by a fixed and floating charge issued by the parent corporation and its U.S. subsidiary. Under the terms of the trust indenture 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 other debentures are in amounts of $150,000 and $346,000 and bear interest at rates of 8% and 16½% respectively. The $150,000 debenture is unsecured. The $346,000 debenture has been collateralized by a fixed charge on certain fixed assets of the corporation and a floating charge subordinated to the 1979 debentures and the bank. A $400,000 loan is non-interest bearing and will be forgivable provided that certain conditions (which are presently being renegotiated) are fulfilled.

The corporation 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, 1982, $649,000 ($1,035,000 in 1981) 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:

1983 — $791,000
1984 — $589,000
1985 — $546,000
1986 — $334,000
1987 — $354,000

At October 31, 1982, the corporation has satisfied all covenants under the trust deed relating to the debentures.

3. Share capital

(a) Summary of issued share capital—

	Balance October 31, 1981	Conversions during year	Balance October 31, 1982
(i) Voting shares			
Class A Common shares			
Number	1,503,907	(8,300)	1,495,607
Amount	$2,407,000	$(13,000)	$2,394,000
(ii) Non-Voting shares			
Class B shares			
Number	1,543,263	8,300	1,551,563
Amount	$2,179,000	$ 13,000	$2,192,000
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	$4,587,000	$ —	$4,587,000

(b) Authorized share capital—

The authorized share capital of each class consists of an unlimited number of shares without par value.

Class A Common shares are convertible into non-voting Class B shares on a one for one basis. Class B shares are not convertible into Class A Common shares. Class A Common shares participate equally in dividends with Class B shares after the declaration of a 5¢ per share non-cumulative dividend on the Class B shares in each fiscal half year of the corporation.

Class C Series 1 and Series 2 shares are non-voting and non-dividend bearing. Under a specific formula, conversion of the Class C Series 1 shares will commence, on a one for one basis into Class A Common shares, if after-tax earnings of the SCIEX® division are more than $2,450,000 in aggregate from June 1, 1981 to May 31, 1986. By agreement with the owners of the Class C Series 1 shares, 55% of all Class A Common shares received on the conversion of the Series 1 shares shall immediately be converted into Class B shares. If maximum earnings levels are achieved, 40,163 Class A Common shares and 49,087 Class B shares will be issued. After all Class C Series 1 shares have been converted and subject to the attainment of certain future earnings levels of SCIEX® to May 31, 1986, Series 2 shares may become redeemable at the rate of $100 per share for cash or 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. All Series 1 and Series 2 shares not converted at May 31, 1986 will be redeemed by the corporation at their paid-in value.

(c) 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, 1982 no shares have been allocated.

4. Inventory

	1982	1981
Laboratory and other supplies	$3,781,000	$2,395,000
Work in process	148,000	1,734,000
	$3,929,000	$4,129,000

5. Fixed assets

	1982			1981
	Cost	Accumulated depreciation and amortization	Net	Net
Land	$ 37,000	$	$ 37,000	$ 37,000
Buildings	361,000	95,000	266,000	287,000
Equipment and furniture	10,842,000	5,099,000	5,743,000	5,430,000
Leasehold improvements	2,994,000	1,729,000	1,265,000	1,147,000
	$14,234,000	$6,923,000	$7,311,000	$6,901,000

6. Other assets

	1982	1981
Investment in and advances to other companies	$361,000	$330,000
Debt issue expense less amortization	201,000	220,000
Other—at cost	123,000	150,000
	$685,000	$700,000

7. Acquisitions

During the year, payments of $276,000 were made 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.

8. Research and development costs

During the year, the corporation incurred research and development costs of $2,689,000 and received Government funding and related revenues of $1,990,000 with respect to these development expenditures. The net amount of $699,000 has been charged to earnings.

9. Segmented information

The Directors have determined that the corporation operated within the one dominant segment, the provision of testing, measurement and related services and products for health care and associated markets.

The corporation also carries on operations in the United States. The following is a summary of key financial information by geographic segment.

	CANADA		U.S. (thousands of dollars)		TOTAL	
	1982	1981	1982	1981	1982	1981
Net segment revenues	$46,228	$42,946	$15,494	$13,025	$61,722	$55,971
Operating earnings (before the following):	$ 9,041	$ 9,068	$ 693	$ 674	$ 9,734	$ 9,742
Depreciation and amortization	1,328	1,343	698	549	2,026	1,892
Interest expense (income)*	1,663	1,228	(285)	(175)	1,378	1,053
Earnings before income taxes	6,050	6,497	280	300	6,330	6,797
Income taxes	2,925	3,500			2,925	3,500
Net earnings	$ 3,125	$ 2,997	$ 280	$ 300	$ 3,405	$ 3,297
Identifiable assets	$23,600	$25,500	$11,500	$11,000	$35,100	$36,500

*Interest expense (income) is directly attributable to debt or investment existing in the geographic segment indicated above.

10. Income taxes

Certain of the corporation's United States subsidiaries have loss carryforwards (for which no future tax benefit has been recorded in the accounts), many of which arose prior to acquisitions, which amount to $1,842,000 and expire as follows: 1990—$169,000; 1991—$250,000; 1992—$253,000; 1993—$98,000; 1994—$846,000; 1996—$47,000; 1997—$179,000. In addition, unused investment tax credits of $336,000 are available to reduce future income taxes payable which have not been recognized in the accounts. None of these credits will expire before 1989.

The corporation's tax rate is favourably affected primarily by research and development tax credits and allowances and, to a lesser extent, dividends, capital gains and the 3% inventory allowance.

11. Leases, commitments and contingent liabilities

(a) Capital leases—

Fixed assets include vehicles acquired under capital leases amounting to $1,031,000 ($839,000 in 1981) at cost and accumulated depreciation of $382,000 ($368,000 in 1981).

Future lease payments required under capital leases at October 31, 1982 are as follows:

1983	$435,000
1984	335,000
1985	223,000
Total future minimum lease payments	993,000
Less imputed interest	344,000
Present value of minimum lease payments	$649,000

(b) Operating leases—

Under premise and equipment leases entered into by the corporation and its subsidiaries to October 31, 1982, the corporation is obliged to make minimum payments of approximately $2,292,000 in 1983, $1,751,000 in 1984, $1,449,000 in 1985, $1,170,000 in 1986, $920,000 in 1987 and $1,680,000 thereafter. Fixed rental expense under premise and equipment leases for 1982 was $2,286,000 ($1,929,000 in 1981).

(c) Contingent liabilities—

The corporation is contingently liable for the bank indebtedness of certain of its building project investments to a maximum amount of $320,000.

A Ten Year Financial Summary

Years ended October 31 Figures in thousands of dollars

	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973
Operating Results										
Net Revenues	61,722	55,971	47,702	39,698	32,820	20,494	19,870	18,645	14,576	9,532
Earnings before extraordinary items	3,405	3,297	2,812	2,240	2,085	1,089	957	938	784	667
Net earnings	3,405	3,297	2,812	2,126	2,085	1,089	995	938	382	586
Financial Position										
Working capital	12,677	10,865	9,277	8,702	4,904	2,835	912	1,514	1,208	1,134
Fixed assets (net)	7,311	6,901	6,109	5,044	3,470	2,053	2,144	2,139	1,728	977
Other assets (including goodwill)	8,838	8,709	6,749	6,415	5,561	5,063	3,895	3,646	3,618	3,703
Total assets	35,094	36,526	30,426	28,660	21,415	13,632	10,576	11,469	9,769	7,471
Long term debt	10,792	11,149	10,552	10,880	6,673	3,756	1,660	1,702	1,846	1,544
Shareholders' equity	17,814	15,021	11,404	9,120	6,677	6,186	5,269	5,527	4,600	4,234
Source of Funds										
Working capital from operations	5,346	5,061	4,411	3,354	2,741	1,365	1,305	1,253	1,069	819
Long term debt				4,198	1,000	2,540	600		425	700
Share capital		937		766	567	1	4	6	1	66
Application of Funds										
Fixed assets	2,786	1,968	2,677	2,580	1,940	386	480	854	987	380
Acquisitions	276	1,009	598	225	(92)	227	(8)		351	335
Dividends on Class A Common and Class B shares	612	580	471	392	192	156	167			
Dividends on Preferred shares		37	57	57	20	17	17	17	17	19
Reduction in long term debt	357	298	328	402	829	443	792	144	204	248
Purchase of shares for cancellation					1,949		1,073			
Per Share Data										
Adjusted basic earnings for Class A Common and Class B (fully diluted and before extraordinary items)*	1.07	1.06	.92	.79	.64	.32	.28	.22	.18	.15
Dividends										
Common*			.15	.30	.15	.10	.10			
Class A Common	.15	.15	.075							
Class B	.25	.25	.125							
Book Value of Class A Common and Class B (at year end)*	5.85	4.93	3.84	3.07	2.37	1.80	1.54	1.26	1.05	.97
Price Range										
Common*			15½-7¾	13-7¼	8⅝-2⅞	2⅞-2⅜	3-2	2½-1⅜	3¼-1½	4⅛-3½
Class A Common	13⅝-8¾	15-10	12½-8							
Class B	13½-8¾	12½-9½	10-7							
Number outstanding										
Common*				1,344	1,269	1,674	1,673	2,152	2,147	2,146
Class A Common	1,496	1,504	1,339							
Class B	1,551	1,543	1,366							
Ratios										
Current	3.0	2.1	2.1	2.1	1.7	1.9	1.3	1.4	1.4	1.7
Long term debt/capital employed	.37	.42	.48	.52	.47	.37	.23	.23	.28	.27

*In September 1980 each common share outstanding was split into one Class A Common share and one Class B share. Earnings and book value per share figures for 1979 and prior years have been retroactively adjusted to reflect this share split.

Board of Directors

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University of Toronto

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Investment Consultant

°Dr. L. R. Harnick
Chief Radiologist,
Toronto Western Hospital

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Investment Consultant

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Medical Director,
MDS Laboratories

Head Office

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

Transfer Agents & Registrar

Guaranty Trust Company of Canada
Toronto

Auditors

Clarkson Gordon

Annual Meeting

Shareholders are invited to attend the company's Annual Meeting at 4 p.m., March 15, 1983 in the Alberta Room of the Royal York Hotel, Toronto, Ontario.

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

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