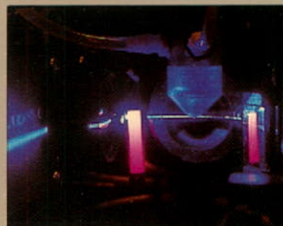




**Annual Report 1984**



**Combining technology,  
professional  
commitment and  
human concern.**



## Profile

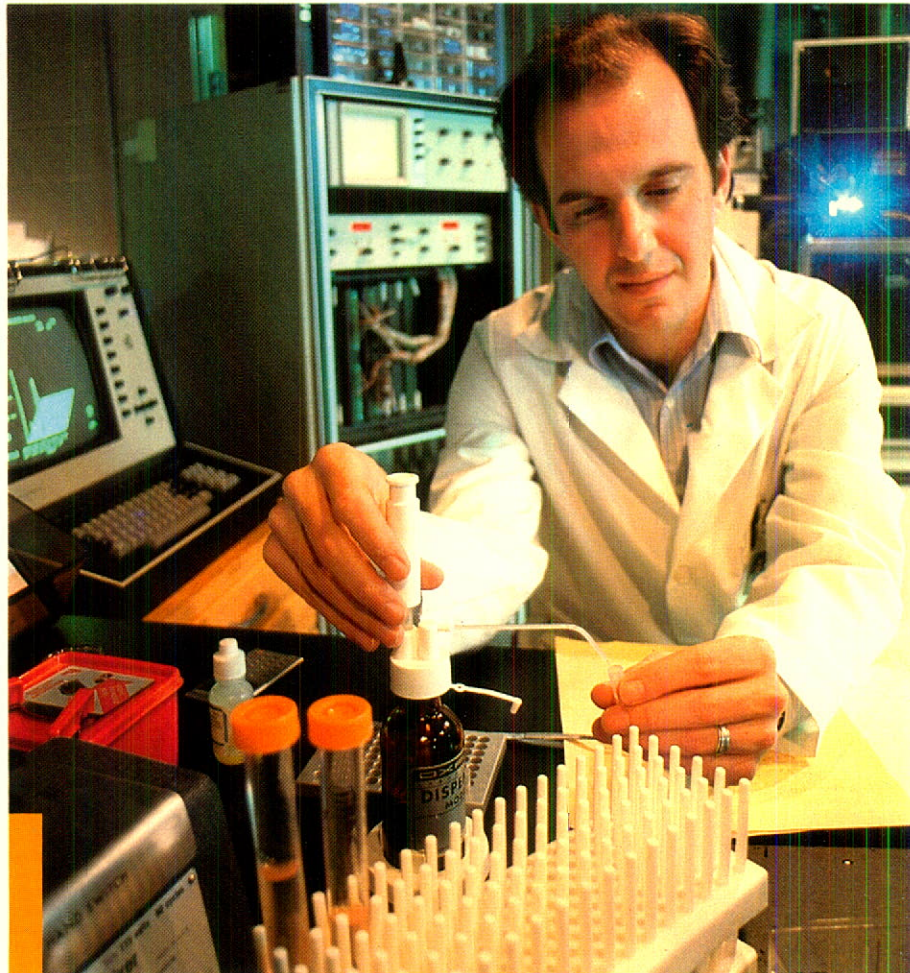
**MDS is a technology-based health care company providing professionally directed testing and measurement services and systems to physicians, hospitals, nursing homes, industry and government.**

**A network of 155 clinical laboratories and specimen collection centres in Canada and the United States is the principal contributor to the company's revenues and profits.**

**Other activities include the provision of a variety of diagnostic and paramedical services and a broad spectrum of occupational health programs. MDS also manufactures and markets mass spectrometer systems under the SCIEX trademark for the detection of trace amounts of organic and inorganic substances.**

**MDS—  
Dedicated to  
excellence in  
quality and  
service.**

In the continuing search to improve and expand its range of services MDS has entered into working arrangements with university groups to provide clients with access to highly specialized test procedures.



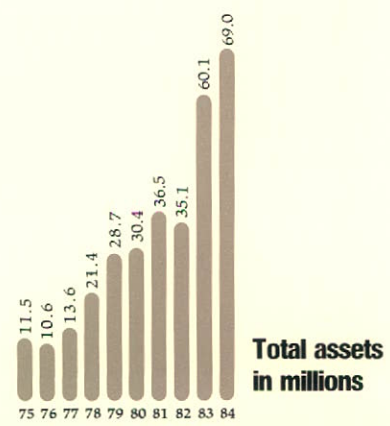
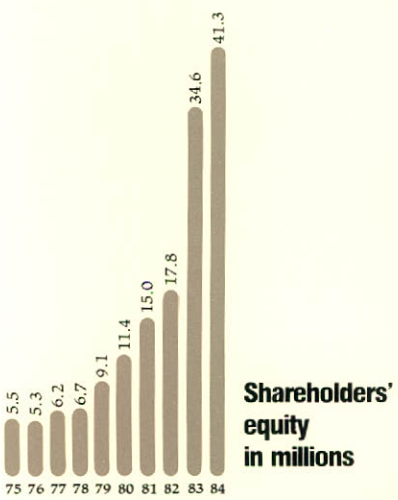
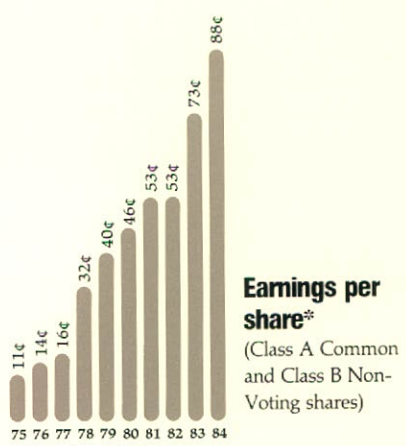
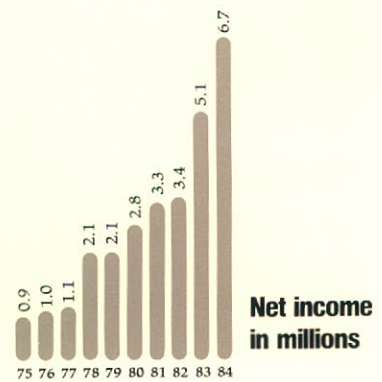
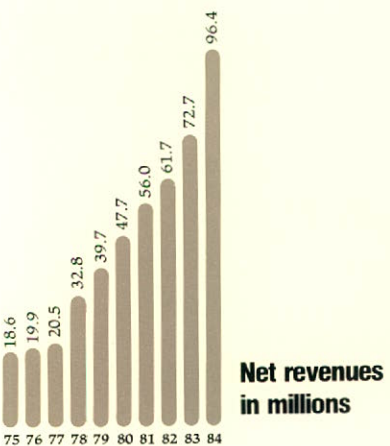
# Corporate Direction

Looking to the future, MDS' strategy is to provide cost effective testing services for the diagnosis of disease and to supply complementary analytical services and products for the identification of occupational, environmental and life-style conditions that are harmful to health.

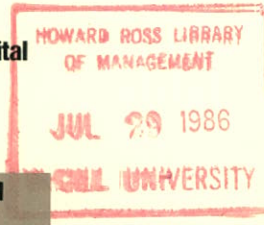
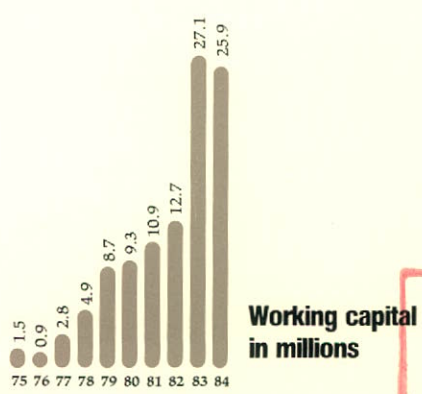
Fundamental to MDS' overall strategy is a commitment to excellence in quality and service, a responsiveness to the changing needs of its clients, and a strong emphasis on operating efficiency to control costs in a highly competitive environment.

The company believes its objectives can be best achieved by employing talented people and by providing them with a working climate that fosters teamwork, rewards innovation and encourages exceptional performance.

MDS' future growth will be based primarily on the expansion of its existing businesses and markets, through both internal business development programs and acquisitions. In addition, MDS will continue to seek out new areas of opportunity which are complementary to its current activities and compatible with the organization's capabilities.



\*Reflects share split in July, 1983 and September, 1980



## Financial Highlights

## Report to the Shareholders

1984 was a record year in every respect for MDS Health Group Limited. Revenue, income, and earnings per share before extraordinary items all increased for the fourteenth consecutive year.

Revenues for fiscal 1984 were \$96 million representing a 33% increase over 1983. Operating income rose 19% to \$10.8 million. Net income increased 29% to \$6.7 million or 88¢ per share compared with 73¢ in the previous year. The increase in net income is attributable to higher clinical laboratory testing revenues and the improved performance of the SCIEX Division.

While the 1984 results were excellent, development and expansion costs did affect two areas. SCIEX, which is involved in the design, manufacture and marketing of mass spectrometer systems, experienced higher than expected development costs. Further, the operating results of the U.S. laboratory operations were adversely affected by the start-up costs associated with expansion into Michigan and the severe price pressure that developed in the U.S. marketplace with the introduction of a prospective reimbursement system for hospitals and a revised Medicare fee schedule for outpatients.

In fiscal 1984, the company paid total dividends of 10¢ for every Class A Common share and 15¢ for every Class B Non-Voting share. In September the company introduced a Stock Dividend Plan and Share Purchase Plan for holders of both Class A Common and Class B Non-Voting shares.



(000's)	Year ended October 31, 1984	Year ended October 31, 1983
Net revenues	\$96,430	\$72,699
Net income	\$ 6,653	\$ 5,142
Shareholders' equity	\$41,307	\$34,557
Total assets	\$68,963	\$60,133
Debt as a percentage of capital employed	21%	24%
Current ratio	2.6:1	2.9:1

## Financial Conditions

The company's working capital position of \$26 million, provided a ratio of current assets to current liabilities of 2.6 to 1. Net income provided a seven times coverage for the servicing of MDS' long term debt of \$11 million. During the year the company invested \$7.8 million in fixed assets, of which \$5.6 million was for new equipment, and paid \$2.7 million for goodwill on the purchase of four laboratories. Approximately \$2.4 million of the expenditure for new equipment was for computer hardware and software being installed as part of a program to further expand the capability and efficiency of the laboratory operations.

## Significant Events

A number of significant events occurred in fiscal 1984, a few of which are outlined below:

- The Toronto regional and reference testing laboratory was moved into a new modern facility to provide increased capacity for the continued growth of the company's laboratory operations.
- The company concluded the acquisition of two laboratories in Canada and two in the United States adding approximately \$9 million in new revenue.
- In November, 1983 SCIEX received a \$1.6 million Source Development Fund contract from the Federal Government for the supply and development of ELAN systems for various departments.

- On August 29, 1984 SCIEX signed a 15-year joint venture agreement with British Aerospace (BAe) for the supply of a new SCIEX AROMIC Cargo Examination product. The joint venture arrangement will result in minimum revenues of \$6 million over the 20 month period after signing.

- With regret, MDS announced that it was curtailing its direct involvement with the individual auditory programs offered through the Tomatis Centre. MDS will continue to market a standard version of the program to school boards.

## Fiscal 1985 Outlook

MDS is in a period of substantial growth and change. The change is being driven by increasing public demand for health care services and the health care delivery system's limited ability to respond technically and clinically to this constantly increasing demand. At the same time, government, industry and the public are seeking major realignments on total costs and the relative share of such costs to be borne by the public and private sectors. MDS' ability to provide quality health services on a cost effective basis places the company in an excellent position to benefit from these trends.

MDS enters 1985 with annualized revenues of nearly \$100 million and every indication that this base will continue to grow. To meet the challenge ahead, the company is adding physical capacity and computer capabilities to ensure MDS remains a low cost provider of high quality laboratory services in the regions it services.

During the next fiscal period, however, the overall profitability growth rate could be affected by the development and start-up costs associated with regional expansion, computerization and the pursuit of new opportunities.

## Appreciation

The performance achieved in 1984 must be credited to the commitment to excellence, the desire to serve and the growth in skills exhibited by MDS' dedicated employees and professional consultants. Their efforts made possible the high quality of MDS services and products and the successful results of the past year.

In June, Alan Grieve resigned as a director of the company. Alan acted as a director of MDS since its inception in 1969 and we are indebted to him for his significant contribution to the growth of the company over the past 15 years.

On behalf of the Board of Directors, I thank all members of the MDS team for their efforts during this last year and offer a special note of appreciation to our clients for their support.



W. G. Lewitt  
President

January 16, 1985

## Business Overview

MDS services and products are provided through three operating business units:

MDS Laboratories provide clinical testing services and supportive diagnostic procedures such as X-ray, audiometric, ECG and other cardiac and pulmonary function tests to a client base of 7,000 physicians, 200 hospitals and 300 nursing homes located in Ontario and the states of New York, Pennsylvania, New Jersey and Michigan. Clinical testing represents approximately 75% of the company's revenue.

MDS Health Care Services provides a variety of health assessment and testing services to industry. Included are pre-employment, periodic, third party and overseas placement health assessments; specialized occupational health programs; and mobile paramedical assessments for the insurance industry. In addition, a listening training program is made available to school boards and private teaching facilities for children and adults who have an auditory processing deficiency.

The SCIEX\* Division manufactures and markets mass spectrometer systems under the TAGA\* and ELAN\* trademarks for

the detection of trace amounts of organic and inorganic substances. The rugged and flexible nature of these systems allows them to be used in either a fixed or mobile laboratory facility.

### Highlights 1984

- A major new reference laboratory facility was completed for the Ontario laboratory operations.
- Two laboratories in Ontario and two laboratories in the United States were acquired, adding approximately \$9 million in revenue.



MDS' new reference facility will support the continued growth of its Ontario operations.



Computerization will link MDS laboratories electronically to speed distribution of test results.

- The first stages of a new laboratory computing system were implemented to link all MDS laboratories in Ontario for regional transmission of test results.
- A health education and risk assessment program was administered under the direction of Blue Cross for 25,000 civil servants of New York State.
- As a result of the introduction of new mobile and in-plant programs, industry based testing services increased by 40% and overall industrial health care service revenue increased by 25%.
- The Environmental Protection Agency of the U.S.A. commissioned its first order for a mobile TAGA 6000E.

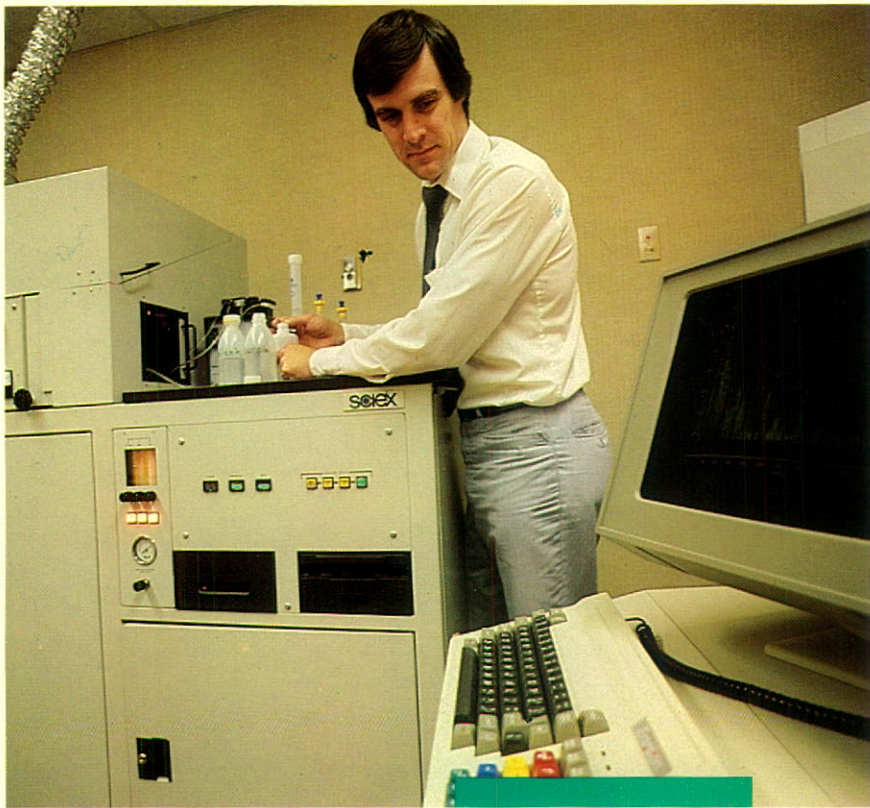
- SCIEX completed the design of the ELAN which is used for the measurement of trace amounts of elements and in the latter part of the year, shipments commenced to a wide variety of customers including environmental and geological survey agencies, universities, industrial laboratories, testing service companies and research institutions.
- MDS consummated a 15-year joint venture agreement with British Aerospace for the supply and ongoing development of a new SCIEX product—the AROMIC\* Cargo Examination System. This system is designed for the detection of trace quantities of contraband such as explosives, firearms, drugs and alcohol.

\*Trademarks of MDS Health Group Limited

**The common focus for MDS Health Group Limited is the provision of those testing and measurement services that are necessary for the maintenance of a quality environment and the health and well-being of people.**

**MDS seeks innovative ways to meet the challenge and deliver excellent, yet cost effective, health care services to individuals, communities, business organizations and governments.**

**Though technology-**



In 1984 the first production units of the ELAN, a system for the measurement of trace amounts of inorganic substances, were shipped to SCIEX customers.



**dependent, these endeavours are expressions of caring and concern for the quality of life and the importance of human issues.**

## Focus on the Future

Several factors are expected to provide a series of unique opportunities for MDS' current business units in their existing markets. The steps currently being taken by MDS are focused on these trends.

### Cost Containment

The trend towards cost containment in health care, particularly in the United States, and the incentive for increasing efficiency will continue to create new opportunities and challenges for MDS. Changing reimbursement practices are de-emphasizing hospital-based services and are stimulating the

development of alternate modes of delivering health care services. Increasing emphasis on ambulatory services is reflected by the growing number of shopping plaza medicentres, free-standing emergencentres and surgicentres, expanded use of home care and, in the United States, prepaid health plans. MDS' new reference testing facilities and internal computerization programs are designed to increase efficiency and enhance our ability to capitalize on these new opportunities.

### Demographics

The need for new services will increase as the population ages. Statistics show that within the next 10 to 15 years, the over 65 age

group will grow by approximately 30% and the per capita expenditure on health care for persons aged 65 and over will be three times the national average. MDS is actively engaged in providing mobile services to nursing homes, homes for the aged and retirement homes and is well positioned to provide services in the community on a mobile basis as demand for this type of service increases.

### Trends in Medicine

In a period of increasing competition, physicians are searching for ways to offer an improved service by providing a wider spectrum of assistance to their patients. The increased use by physicians of state-of-the-art diagnostics as well as



Today's pressure to contain health service costs has created the opportunity to manage hospital laboratories.

Computerization and new facilities will provide the efficiency edge needed to pursue and capitalize on emerging modes of health care delivery.





services emphasizing patient convenience are trends which will be helpful to MDS.

Most significantly, there appears to be a growing appreciation for preventive care programs and occupational health programs—areas in which MDS is actively involved. Last year, MDS conducted a health education and risk assessment program for the employees of New York State as well as a number of community sponsored screening programs for more than 100,000 patients. Through its Health Care Services Division, MDS assisted hundreds of corporations and their employees with occupational health programs.

### **Advance in Technology**

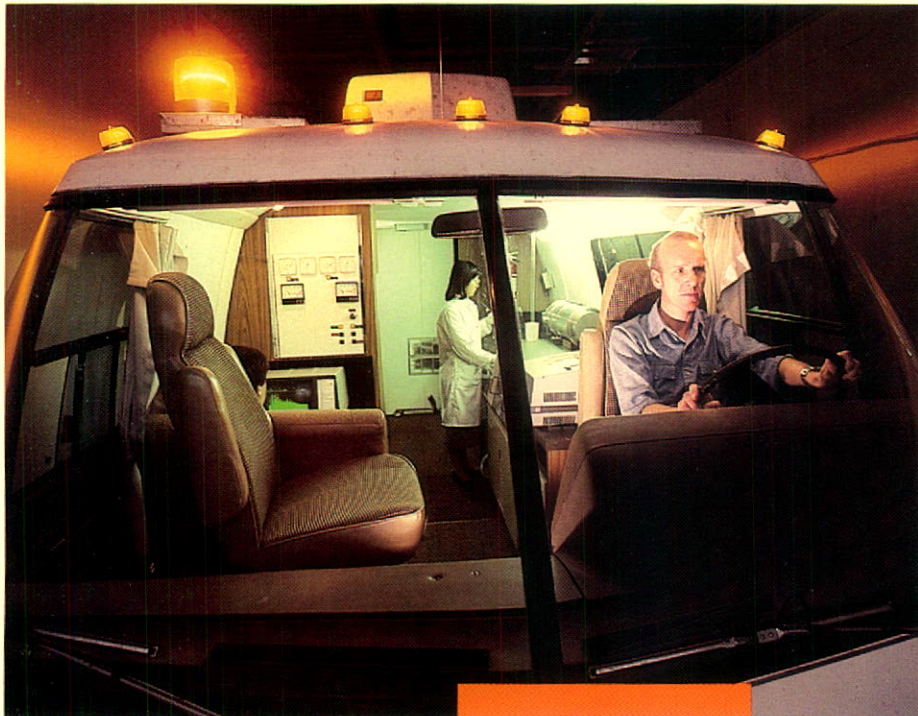
Increasingly, advanced technology will be used to identify occupational, environmental and life style conditions which may be harmful to health. With increasing pressure to control costs, new technologies will be evaluated under more stringent price/performance criteria than in the past. SCIEX equipment such as the TAGA and ELAN systems, which are capable of high productivity testing at trace levels with minimal sample preparation, are ideally suited to compete in this cost conscious environment.

**Economic pressure, the aging population and changing lifestyles create new vectors for health care delivery.**

**A shopping plaza medicentre makes a complete spectrum of health services available and accessible seven days a week.**

**Communities and employees participate in preventive care programs that include the measurement of key health parameters.**

**Bedridden patients receive a wide variety of diagnostic, therapeutic**



The catastrophic potential of spills of industrial toxins is of increasing concern. SCIEX's mobile TAGA system shown above can identify, measure and track the contaminants to assist in their control and containment.



**and nursing services in the comfort and convenience of their homes.**

**MDS works with physicians, employees and health agencies to provide the measurement technology and diagnostic information systems to support these new approaches.**

## Focus on People

A sound future would not be possible for any company without the necessary human resources to convert plans into programs. This is particularly true in MDS' scientific and technology-based service environment, where the quality of its products and services is dependent on the calibre and motivation of its people. MDS believes it can attract and keep the best people by providing a working environment that encourages employee development and provides the opportunity to participate in the ownership of the company. The company is proud that MDS employees, through their Deferred Profit Sharing Plan, are

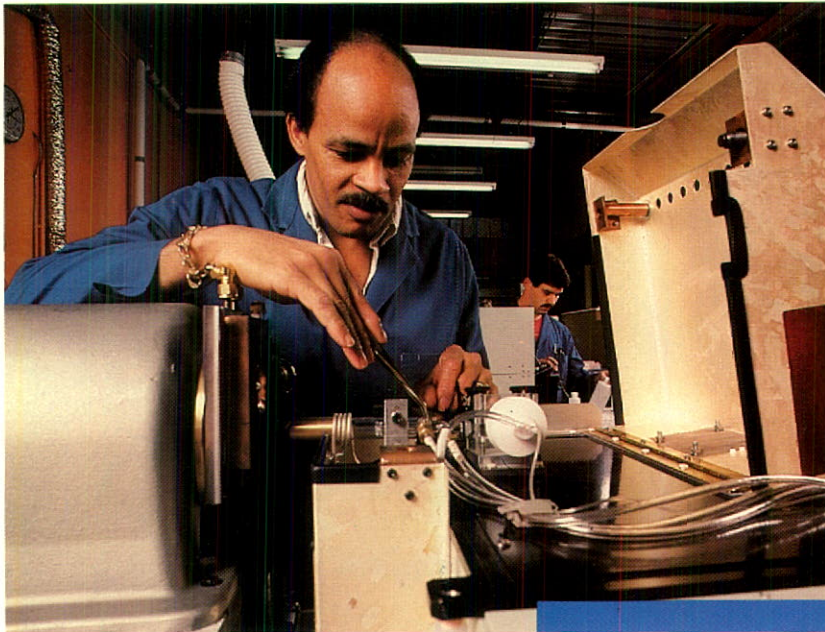
the largest shareholder group in MDS Health Group Limited, with 30% of the outstanding Class A Common shares.

As in previous years, the company allocated 10% of pre-tax profits to a Deferred Profit Sharing Plan, the proceeds of which were used to purchase shares of MDS on behalf of employees. More than 83,000 Class A Common shares were purchased on behalf of approximately 1,100 employee participants in 1984.

MDS believes that shareholders' return on equity will be maximized if employees are responsive to client needs and develop a professional pride in satisfying those needs with services and products of the highest

quality. To this end, MDS endeavours to promote and maintain an organizational environment which encourages:

- A participative approach to management decision making.
- Decisions to be made in a manner that ensures that the broader ramifications of individual actions are considered.
- Responsibilities to be carried out by employees in a climate in which straight talk prevails and where there is a caring for not only producing results, but how team members interact in the production of these results.



"Each one of us is the company and all of us work together to make things happen."





**Financial Report  
for the Year ended  
October 31, 1984**



## MDS Health Group Limited

(Incorporated under the Canada Business Corporations Act)

### 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 judgment. In recognizing that the company 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 company 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 company'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 company'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 company'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 company's accounting systems and internal control procedures as well as obtaining a sound understanding of the company's business. The external auditors conduct appropriate tests of the company'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 company to serve as the company's external auditors, have examined the consolidated financial statements of the company for the year ended October 31, 1984 and have reported thereon in their January 16, 1985 report as set out below.

### 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, 1984 and the consolidated statements of income, 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 company as at October 31, 1984 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.

Mississauga, Canada,  
January 16, 1985.

Clarkson Gordon  
Chartered Accountants.

## MDS Health Group Limited

(thousands of dollars)

	1984	1983
<b>Consolidated Statement of Income</b>		
Net revenues	\$96,430	\$72,699
Operating costs before the following:	80,456	59,428
Depreciation and amortization	2,958	2,555
Interest expense—long term	2,039	1,491
—other	225	187
	85,678	63,661
Operating income	10,752	9,038
Investment income	2,122	1,149
Income before income taxes	12,874	10,187
Income taxes—current	6,247	5,195
—deferred	(26)	(150)
	6,221	5,045
<b>Net income</b>	<b>\$ 6,653</b>	<b>\$ 5,142</b>

Year ended  
October 31, 1984

<b>Earnings per Class A Common and Class B Non-Voting share</b>	<b>\$ .88</b>	<b>\$ .73</b>
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Note: Class B Non-Voting shareholders are entitled to an additional 5¢ per share by means of a non-cumulative dividend which was paid in both 1984 and 1983.

(thousands of dollars)

	1984	1983
<b>Consolidated Statement of Retained Earnings</b>		
Retained earnings, beginning of year	\$17,590	\$13,227
Net income	6,653	5,142
Dividends—cash	(907)	(779)
—stock	(55)	
<b>Retained earnings, end of year</b>	<b>\$23,281</b>	<b>\$17,590</b>

Year ended  
October 31, 1984

(See accompanying notes)



# MDS Health Group Limited

(thousands of dollars)

## Consolidated Statement of Financial Position

As at October 31, 1984

	1984	1983
<b>Current assets:</b>		
Cash and short term deposits	\$ 5,261	\$11,613
Marketable securities (market value 1984—\$8,031; 1983—\$11,619)	8,031	11,339
Accounts receivable	19,343	13,615
Inventory	7,114	3,754
Prepaid expenses	954	946
Income taxes recoverable	915	
Current deferred income taxes	468	231
	<b>42,086</b>	<b>41,498</b>
<b>Current liabilities:</b>		
Bank indebtedness	2,715	2,035
Accounts payable and accrued liabilities	9,577	7,263
Current portion of long term debt	1,619	638
Deposits	2,235	764
Income taxes payable		3,702
	<b>16,146</b>	<b>14,402</b>
<b>Working capital</b>	<b>25,940</b>	<b>27,096</b>
Fixed assets	15,263	9,563
Other assets	661	648
Excess of amounts paid over the fair value of net tangible assets acquired on the purchases of shares and assets, less amortization	10,953	8,424
<b>Capital employed</b>	<b>\$52,817</b>	<b>\$45,731</b>
Represented by:		
Long term debt	\$11,187	\$11,062
Deferred income taxes	323	112
<b>Shareholders' equity:</b>		
Share capital	18,026	16,967
Retained earnings	23,281	17,590
	41,307	34,557
	<b>\$52,817</b>	<b>\$45,731</b>
<b>Total assets</b>	<b>\$68,963</b>	<b>\$60,133</b>

On behalf of the Board:

Director

(See accompanying notes)

Director

# MDS Health Group Limited

(thousands of dollars)

1984

1983

## Consolidated Statement of Changes in Financial Position

Year ended  
October 31, 1984

	1984	1983
<b>Funds were provided from:</b>		
Operations—		
Net income	\$ 6,653	\$ 5,142
Add (deduct) items not affecting working capital:		
Depreciation and amortization	2,760	2,413
Amortization of goodwill	198	142
Deferred income taxes	211	(108)
Funds provided from operations	9,822	7,589
Issue of shares for cash	291	12,380
Proceeds on disposal of fixed assets	383	633
Total funds provided	10,496	20,602
<b>Funds were applied to:</b>		
Acquisitions		
Goodwill	2,727	413
Fixed assets	1,028	11
Less: Long term debt assumed	(1,049)	
Issue of shares	(713)	
	1,993	424
Purchase of fixed assets	7,815	4,586
Reduction in long term debt	924	431
Payment of cash dividends	907	779
Increase (decrease) in other assets	13	(37)
Total funds applied	11,652	6,183
Increase (decrease) in working capital	\$ (1,156)	\$14,419
<b>Changes in components of working capital:</b>		
Increase (decrease) in current assets—		
Cash and short term deposits	\$(6,352)	\$ 9,959
Marketable securities	(3,308)	10,217
Accounts receivable	5,728	2,208
Inventory	3,360	(175)
Prepaid expenses	8	302
Income taxes recoverable	915	
Current deferred income taxes	237	42
	588	22,553
Increase (decrease) in current liabilities—		
Bank indebtedness	680	1,386
Accounts payable and accrued liabilities	2,314	2,692
Current portion of long term debt	981	(153)
Income taxes payable	(3,702)	3,458
Deposits	1,471	751
	1,744	8,134
Increase (decrease) in working capital	\$ (1,156)	\$14,419

(See accompanying notes)



# Notes to Consolidated Financial Statements

October 31, 1984

## 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 subsidiary companies are consolidated on a purchase basis from the date of acquisition.
- (b) **Fixed assets**—Fixed assets are carried in the accounts at cost. Gains and losses arising on the disposal of individual assets are recognized in income in the year of disposal.
- Assets leased by the company under agreements which transfer substantially all of the benefits and risk of ownership of the assets to the company are accounted for as capital leases.
- Depreciation is provided on a straight-line basis at rates based on the estimated useful lives of the assets, as follows:
- |  |   |
|--|---|
| Buildings                                  | 4%  |
| Major equipment                            | 20%   |
| Other equipment,<br>furniture and fixtures | 10%   |
| Computer hardware and software             | 20%–33%   |
| Motor vehicles                             | 33%–50%   |
| Leasehold improvements                     | Lesser of 10% or the term of the lease plus<br>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 and finished goods include materials, direct labour and variable overhead. Revenues derived from contracts extending for more than one year relating to the development and supply of certain products are recorded using the percentage of completion method of accounting.
- (d) **Short term investments**—Marketable securities are recorded at the lower of cost and market value. Interest income is recorded on an accrual basis, dividend income is recorded as received and capital gains are recorded as realized.
- (e) **Research and start-up costs**—Certain costs associated with new products and start-up of new businesses are expensed as incurred. Research and development funding is recorded on a billed basis as approved under the terms of individual agreements.
- (f) **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 amortized over periods not exceeding forty years. For acquisitions prior to April 1, 1974, the excess has been capitalized and is not being amortized.
- (g) **Debt issue expense**—Debt issue expense is amortized over the term of the debt.
- (h) **Investment in and advances to other companies**—Investment in and advances to other companies are recorded at cost less allowance for doubtful realization.
- (i) **Income taxes**—The company 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 company 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.
- Investment tax credits related to the acquisition of assets are deferred and amortized to income on the same basis as the related assets while those related to current expenses are included in the determination of operating costs for the year (see note 11(b)).
- (j) **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; revenue 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 income except for unrealized gains and losses on long term debt which are deferred and charged to income over the unexpired term of the debt.

(k) **Earnings per share**—Basic earnings per share, which approximate fully diluted earnings per share, have been calculated using the weighted monthly average number of Class A Common and Class B Non-Voting shares outstanding during the year after deducting the extra dividends paid on the Class B Non-Voting shares.

## 2. Long term debt

	Maturity	Current portion	Total	
			1984	1983
Canadian operations:				
1979 debentures	1999	\$234,000	\$ 9,205,000	\$ 9,413,000
Mortgage at 10%	1985	701,000	701,000	701,000
Obligations under capital leases at an average rate of 13%	1985-1987	290,000	743,000	569,000
Other debt	1985-1998	84,000	861,000	600,000
		1,309,000	11,510,000	11,283,000
U.S. operations:				
10% Note and other debt	1985-1987	71,000	194,000	97,000
Obligations under capital leases at 13%	1989	239,000	1,102,000	320,000
		\$1,619,000	12,806,000	11,700,000
Less current portion			1,619,000	638,000
			\$11,187,000	\$11,062,000

The 1979 debentures bear interest at a rate of 1¾% over the prime rate (with a minimum rate of 10% and a maximum rate of 13¼% to October 31, 1991) and have been collateralized by a fixed and floating charge issued by the parent company and its U.S. subsidiary. Under the terms of the trust indenture, the company 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 mortgage loan is collateralized by land with a book value of approximately \$950,000. Other debt is unsecured and includes a \$400,000 non-interest bearing loan which will be forgivable provided certain conditions are fulfilled.

The company has an operating line of credit of \$10,000,000 with a Canadian chartered bank for which a specific charge on accounts receivable and inventory has been given. At October 31, 1984, \$2,700,000 has been advanced to the company as a demand loan in connection with this line of credit.

Principal repayments of long term debt required in the next five fiscal years are:

1985 — \$1,619,000; 1986 — 890,000; 1987 — 964,000; 1988 — 686,000; 1989 — 447,000

At October 31, 1984, the company has satisfied all covenants under the trust deed relating to the debentures.

## 3. Other information

In early 1984 the SCIEX Division recorded revenue of \$1.6 million which was received from the Source Development Fund of the Federal Government to assist in the development of an advanced high technology product, the ELAN (Elemental Analyzer). As part of the agreement the Federal Government received three ELANS, two of which are leased, and will receive royalties on future ELAN sales.

In August 1984 the SCIEX Division entered into an agreement with a British firm for the development and supply of a new product, the AROMIC Cargo Examination System. This arrangement included the sale of a related patent for \$2.0 million which has been included in income and the placement of a contract for the new product.

#### 4. Share capital

##### (a) Summary of issued share capital—

	Balance October 31, 1983	Issued during year	Conversions and Repurchases during year	Balance October 31, 1984
(i) <b>Voting shares</b>				
<b>Class A Common shares</b>				
Number	2,948,832	3,568	(711)	2,951,689
Amount	\$ 2,360,000	\$ 64,000	\$ (1,000)	\$ 2,423,000
(ii) <b>Non-Voting shares</b>				
<b>Class B Non-Voting shares</b>				
Number	4,345,508	45,674	711	4,391,893
Amount	\$14,580,000	\$ 724,000	\$ 1,000	\$15,305,000
<b>Class C Series 1 shares</b>				
Number	89,250			89,250
Amount	\$ 1,000			\$ 1,000
<b>Class C Series 2 shares</b>				
Number	11,900			11,900
Amount				
<b>Class C Series 3 shares</b>				
Number	24,255		(1,260)	22,995
Amount	\$ 24,000		\$ (1,000)	\$ 23,000
<b>Class C Series 4 shares</b>				
Number	3,234		(168)	3,066
Amount	\$ 2,000			\$ 2,000
<b>Class D Series 1 shares</b>				
Number		30,000	(10,000)	20,000
Amount		\$ 408,000	\$ (136,000)	\$ 272,000
Total amount of issued share capital	\$16,967,000	\$1,196,000	\$ (137,000)	\$18,026,000

(b) **Authorized share capital**—The authorized share capital of each class consists of an unlimited number of shares without par value except for Class D shares of which 100,000 are authorized.

- (i) Class A Common shares are convertible on a one for one basis into Class B Non-Voting shares and participate equally in dividends with the Class B Non-Voting shares after the declaration of a 2½¢ per share non-cumulative dividend on the Class B Non-Voting shares in each fiscal half year of the company. Class B Non-Voting shares are not convertible into Class A Common shares.
- (ii) Class C shares are non-voting and non-dividend bearing. The ultimate value of the Class C shares is dependent upon the after-tax income of the SCIEX Division.

Under a specific formula, the conversion of the Class C Series 1 shares into Class A Common and Class B Non-Voting shares will commence when the SCIEX Division attains cumulative after-tax income of \$2,450,000 in the period June 1, 1981 to May 31, 1986. After all Class C Series 1 shares have been converted, Series 2 shares shall become redeemable at the rate of \$100 per share or the equivalent number of Class A Common and/or Class B Non-Voting shares at the then market value of those shares, at the option of the company. If the maximum after-tax income level of \$8,050,000 in aggregate is achieved for the five year period ending May 31, 1986, 80,325 Class A Common and 98,175 Class B Non-Voting shares will have been issued and either a cash payment of \$1,190,000 or the equivalent value by way of Class A Common and Class B Non-Voting shares will have been issued. For the period June 1, 1981 to October 31, 1984, the SCIEX Division has not attained the base period income of \$2,450,000; accordingly no Class C Series 1 and Series 2 shares are as yet convertible.

The Series 3 and Series 4 shares, which are reserved for certain SCIEX employees under a Key Employee Trust Plan, are similar to the Series 1 and Series 2 shares respectively except that the income period for conversion purposes is November 1, 1982 to October 31, 1987, the after-tax income formula is not subject to a base income level and maximum convertibility arises when SCIEX after-tax income reaches \$5,600,000 in aggregate for the five year period. If the maximum income level is achieved, 20,695 Class A Common shares and 25,295 Class B Non-Voting shares will

have been issued and either a cash payment of \$307,000 or the equivalent value by way of Class A Common and Class B Non-Voting shares will have been issued, based on the outstanding number of Series 3 and Series 4 shares issued to date.

All Series 1 and Series 2 shares not converted at May 31, 1986, and all Series 3 and Series 4 shares not converted at October 31, 1987, will be redeemed by the company at a price not to exceed their paid-in value. In addition, Series 3 and Series 4 shares are repurchasable on the same basis upon termination of the employee.

(iii) Class D shares, which were created for the Employee Stock Purchase Plan, are non-voting, bear a variable quarterly dividend calculated at a rate equal to two-thirds of the Bank prime rate and are convertible into Class A Common shares on a one for one basis in the third, fourth and fifth year from date of issue. These shares are redeemable at their issue price at the earlier of the termination date of the employee or five years from the date of issue.

(c) **Employee Stock Option Plan**— Under the Employee Stock Option Plan 100,000 Class B Non-Voting shares of the company have been reserved. During the year no options were granted and 4,500 options were cancelled. As at October 31, 1984 options were outstanding to purchase 55,500 shares at \$12.15 per share. These options are exercisable at various dates up to January 2, 1989.

(d) **SCIEX Key Employee Trust Plan**—Under a Key Employee Trust Plan for certain SCIEX employees, 31,500 Class C Series 3 and 4,200 Class C Series 4 shares are authorized for issue. During the year, no Class C Series 3 or Class C Series 4 shares were issued and 1,260 Class C Series 3 and 168 Class C Series 4 shares were repurchased at their issue price.

(e) **Employee Stock Purchase Plan**—During the year, 30,000 previously allotted Class D shares were issued at \$13.63 per share, of which 10,000 Class D shares were subsequently repurchased at their issue price.

(f) **Stock Dividend and Share Purchase Plan**—The company implemented a Stock Dividend and Share Purchase Plan which was available for shareholder participation for the October 1984 dividend. Under the Plan shareholders may elect to receive dividends on their Class A Common or Class B Non-Voting shares in the form of additional Class A Common or Class B Non-Voting shares respectively, in lieu of cash dividends. Stock dividends are issued at not less than 95% of the market price. Plan participants may also make optional cash payments up to \$3,000 semi-annually to purchase additional new Class A Common or Class B Non-Voting shares, at market price.

Participation in the Plan for the October dividend resulted in the issuance of 2,895 Class A Common shares and 247 Class B Non-Voting shares as stock dividends and the issuance of 673 Class A Common and 427 Class B Non-Voting shares under the share purchase option.

## 5. Inventory

Inventory consists of:	1984	1983
Raw materials and laboratory supplies	\$4,258,000	\$2,739,000
Work in process	1,075,000	748,000
Finished goods	1,781,000	267,000
	<u>\$7,114,000</u>	<u>\$3,754,000</u>

## 6. Fixed assets

	1984		1983	
	Cost	Accumulated depreciation and amortization	Net	Net
Land	\$ 982,000	\$ —	\$ 982,000	\$ 982,000
Buildings	3,314,000	200,000	3,114,000	247,000
Equipment and furniture	13,602,000	6,559,000	7,043,000	4,924,000
Computer systems	4,220,000	1,458,000	2,762,000	902,000
Leasehold improvements	3,884,000	2,522,000	1,362,000	1,285,000
Asset under construction	—	—	—	1,223,000
	<u>\$26,002,000</u>	<u>\$10,739,000</u>	<u>\$15,263,000</u>	<u>\$9,563,000</u>

**7. Other assets**

Other assets are carried at cost less applicable amortization and allowances and consist of:

	1984	1983
Investment in and advances to other companies	\$260,000	\$378,000
Debt issue expense	164,000	183,000
Other	237,000	87,000
	\$661,000	\$648,000

**8. Acquisitions**

During the year, the company acquired four laboratory operations and a mobile diagnostic business for a total consideration of \$4,088,000, of which \$713,000 was paid with the issuance of 45,000 Class B Non-Voting shares, \$508,000 with the issuance of notes, \$946,000 with the assumption of capital leases, and the balance of \$1,921,000 in cash. Of the total purchase price, \$441,000 is attributable to net current assets, \$1,028,000 to fixed assets and \$2,619,000 to goodwill.

As part of one of the acquisition agreements, the company issued a 10% \$3.0 million U.S. debenture. The payment of the principal amount of the debenture is contingent upon the acquired operations attaining a minimum cumulative pre-tax income amount of \$2.0 million for the five-year period ended October 31, 1988 and will be recorded as the applicable pre-tax income levels are achieved. As at October 31, 1984, no portion of the principal amount has been earned. Debenture interest has been charged to income.

In addition, payments of \$108,000 were made in connection with certain previous acquisition agreements and have been ascribed to goodwill.

**9. Research and development costs**

During the year, the company incurred current research and development costs of \$2,498,000 (\$2,248,000 in 1983) which have been included in operating costs.

Also during the year, Government funding and related revenues of \$2,858,000 (\$1,489,000 in 1983) were received in connection with the company's research and development activities. These amounts have been recorded as revenues.

**10. Segmented information**

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

The following summary presents key information by geographic segment:

	Canada		United States		Total	
	1984	1983	1984	1983	1984	1983
<i>(thousands of dollars)</i>						
Net segment revenues	\$66,562	\$52,816	\$29,868	\$19,883	\$96,430	\$72,699
Operating income (loss) (before the following):	\$16,116	\$12,259	\$ (142)	\$ 1,012	\$15,974	\$13,271
Depreciation and amortization	1,704	1,652	1,254	903	2,958	2,555
Interest expense (investment income)	252	848	(110)	(319)	142	529
Income (loss) before income taxes	14,160	9,759	(1,286)	428	12,874	10,187
Income taxes	6,221	4,998		47	6,221	5,045
Net income (loss)	\$ 7,939	\$ 4,761	\$ (1,286)	\$ 381	\$ 6,653	\$ 5,142
Identifiable assets	\$46,200	\$40,400	\$22,800	\$19,700	\$69,000	\$60,100

(1) Interest expense, net of investment income, is directly attributable to debt or investments existing in the geographic segment.

(2) Inter-segment revenues on sales from Canada to the United States amounted to \$2,100,000 (\$2,200,000 in 1983) which represented cost plus an appropriate mark-up.

## 11. Income taxes

- (a) Certain of the company'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 \$4,322,000 and expire as follows: 1990—\$176,000; 1991—\$355,000; 1992—\$365,000; 1993—\$103,000; 1994—\$885,000; 1996—\$52,000; 1998—\$322,000; 1999—\$2,064,000. In addition, unused investment tax credits of \$464,000, which have not been recognized in the accounts, are available to reduce future income taxes payable. None of these credits will expire before 1989.
- (b) As a result of recent recommendations introduced by the Canadian Institute of Chartered Accountants, the company has changed its method of accounting for investment tax credits from the flow-through method to the cost reduction method whereby the available credits are applied as a reduction to the related expenses or assets. This change has been applied retroactively resulting in a decrease in operating costs and a corresponding increase in the income tax provision in amounts of \$557,000 and \$570,000 for 1984 and 1983 respectively. There is no impact on either the financial position or net income for the year of the company. The effect of this change on assets is not material.
- (c) The company's effective income tax rate consists of the following components:

	1984	1983
Combined Canadian federal and provincial tax rate	51.2%	51.6%
Increase (decrease) to tax rate as a result of:		
U.S. losses for which no taxes recoverable have been recorded	5.1%	
Tax-free dividends	(3.1%)	(2.6%)
Lower rate on capital gains	(4.7%)	
Other	(.2%)	.5%
Effective income tax rate	48.3%	49.5%

## 12. Leases, commitments and contingent liabilities

- (a) **Capital leases**—Fixed assets include vehicles and computer equipment acquired under capital leases amounting to \$2,466,000 (\$1,333,000 in 1983) at cost and accumulated depreciation of \$719,000 (\$462,000 in 1983).

Future lease payments required under capital leases are as follows:

1985	\$ 856,000
1986	756,000
1987	629,000
1988	304,000
Total future minimum lease payments	2,545,000
Less imputed interest	700,000
Present value of minimum lease payments	\$1,845,000

- (b) **Operating leases**—Under premise and equipment leases, the company is obliged to make minimum payments of approximately \$3,085,000 in 1985, \$2,310,000 in 1986, \$1,773,000 in 1987, \$1,173,000 in 1988, \$800,000 in 1989 and \$982,000 thereafter. Fixed rental expense under premise and equipment leases for 1984 was \$3,692,000 (\$2,816,000 in 1983).
- (c) **Contingent liabilities**—The company is contingently liable for the bank indebtedness of certain of its investments in other companies to a maximum amount of \$312,000. In addition, the company has also guaranteed a capital lease to a maximum amount of \$789,000.

# A Ten-Year Financial Summary

Years ended October 31

Figures in thousands of dollars

	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975
<b>Operating results</b>										
Net revenues	96,430	72,699	61,722	55,971	47,702	39,698	32,820	20,494	19,870	18,645
Income before extra-ordinary items	6,653	5,142	3,405	3,297	2,812	2,240	2,085	1,089	957	938
Net income	6,653	5,142	3,405	3,297	2,812	2,126	2,085	1,089	995	938

## Financial position

Working capital	25,940	27,096	12,677	10,865	9,277	8,702	4,904	2,835	912	1,514
Fixed assets (net)	15,263	9,563	7,311	6,901	6,109	5,044	3,470	2,053	2,144	2,139
Other assets (including goodwill)	11,614	9,072	8,838	8,709	6,749	6,415	5,561	5,063	3,895	3,646
Total assets	68,963	60,133	35,094	36,526	30,426	28,660	21,415	13,632	10,576	11,469
Long term debt	11,187	11,062	10,792	11,149	10,552	10,880	6,673	3,756	1,660	1,702
Shareholders' equity	41,307	34,557	17,814	15,021	11,404	9,120	6,677	6,186	5,269	5,527

## Changes in financial position

### Source of Funds

Working capital from operations	9,822	7,589	5,346	5,061	4,411	3,354	2,741	1,365	1,305	1,253
Long term debt		701				4,198	1,000	2,540	600	
Share capital	291	12,380		937		766	567	1	4	6

### Application of funds

Fixed assets	7,815	5,287	2,786	1,968	2,677	2,580	1,940	386	480	854
Acquisitions	1,993	424	276	1,009	598	225	(92)	227	(8)	
Dividends on Class A Common and Class B Non-Voting shares (cash)	907	779	612	580	471	392	192	156	167	
Dividends on Preferred shares (cash)				37	57	57	20	17	17	17
Reduction in long term debt	924	431	357	298	328	402	829	443	792	144
Purchase of shares for cancellation							1,949		1,073	

## Statistics

### Per Share Data\*

Earnings per Class A Common and Class B Non-Voting (before extraordinary items)	.88	.73	.53	.53	.46	.40	.32	.16	.14	.11
Dividends										
Common					.15	.30	.15	.10	.10	
Class A Common	.100	.088	.075	.075	.038					
Class B Non-Voting	.150	.138	.125	.125	.063					
Book Value of Class A Common and Class B Non-Voting	5.62	4.74	2.93	2.47	1.92	1.54	1.19	.90	.77	.63
Price Range										
Common					15½-7¾	13-7¼	8¾-2¾	2¾-2¾	3-2	2½-1¾
Class A Common	19¼-13¾	17½-6¾	6¾-4¾	7½-5	6¼-4					
Class B Non-Voting	18%-13¼	16%-6¾	6¾-4¾	6¼-4¾	5-3½					
Number outstanding										
Common						1,344	1,269	1,674	1,673	2,152
Class A Common	2,952	2,949	2,991	3,008	2,678					
Class B Non-Voting	4,392	4,346	3,103	3,086	2,732					
Ratios										
Current	2.6	2.9	3.0	2.1	2.1	2.1	1.7	1.9	1.3	1.4
Long term debt/capital employed	.21	.24	.37	.42	.48	.52	.47	.37	.23	.23
Other										
Employees	2,711	2,281	2,176	2,014	1,883	1,626	1,486	958	951	903

\*In September, 1980 each common share outstanding was split into one Class A Common share and one Class B Non-Voting share. In July, 1983 each Class A Common and Class B Non-Voting share was split on a two for one basis. Earnings and book value per share figures have been retroactively adjusted to reflect both these share splits. In addition, only dividend, price range and number of shares outstanding figures have been restated for the two for one Class A Common and Class B Non-Voting share split.

## Corporate Information

### Board of Directors

- °Dr. William Anderson  
Vice-President of Medical Affairs,  
Toronto General Hospital
- °Dr. Louis R. Harnick  
Chief Radiologist,  
Toronto Western Hospital
- †\*Ralph Horner  
Investment Consultant
- Wilfred G. Lewitt  
President and Chief Executive Officer,  
MDS Health Group Limited
- †R. Michael Warren  
President and Chief Executive Officer,  
Canada Post Corporation
- \*Roger D. Wilson, Q.C.  
Partner, Fasken & Calvin
- Ronald H. Yamada  
Vice-President,  
MDS Health Group Limited
- †\*C. Robert Younger  
Executive Vice-President and  
Chief Operating Officer,  
Dominion Securities Pitfield Limited
- °Medical Advisory Committee  
\*Audit Committee †Compensation Committee

### Officers and Corporate Management

- Wilfred G. Lewitt  
President and Chief Executive Officer
- J. Edward Boyce  
Vice-President,  
Organization Development & Personnel
- Douglas M. Phillips  
Vice-President  
President, MDS Laboratories
- John A. Rogers  
Vice-President, Finance
- Edward K. Rygiel  
Vice-President,  
Corporate Development
- Ronald H. Yamada  
Vice-President
- Betty R. Moffatt  
Corporate Secretary
- Dr. William Anderson  
Chairman,  
Medical Advisory Committee  
MDS Health Group Limited
- Dr. John C. Nixon  
Medical Director, MDS Laboratories

## Investors' Quick Reference Guide

### Mailing Address

30 Meridian Road, Rexdale, Ontario  
M9W 4Z9  
Telephone: (416) 675-7661  
TWX: 610 492 6137

### Transfer Agents & Registrar

Guaranty Trust Company of Canada  
Toronto

### Auditors

Clarkson Gordon

### Legal Counsel

Fasken & Calvin

### Bankers

Canadian Imperial Bank of Commerce

### Stock Listing

Toronto Stock Exchange  
Symbols: MHG.A MHG.B  
Both Class A Common and Class B  
Non-Voting shares are qualified  
investments for an Indexed Security  
Investment Plan (ISIP).

### Trading Data

(by fiscal quarter)		High	Low
1st Quarter	Class A	17¼	13¾
	Class B	17⅞	13¾
2nd Quarter	Class A	16¾	14¾
	Class B	16	14¾
3rd Quarter	Class A	16¾	15½
	Class B	16¼	15½
4th Quarter	Class A	19¼	15½
	Class B	18%	15¼

### Dividend Information

Paid twice yearly in the Spring and Fall—  
The October, 1984 dividend was 5¢ on  
the Class A Common shares and 7½¢ on  
the Class B Non-Voting shares.

### Annual Meeting

Shareholders are invited to attend the  
company's Annual Meeting at 4 p.m.,  
March 5, 1985 in the Quebec Room  
of the Royal York Hotel, Toronto,  
Ontario.



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5