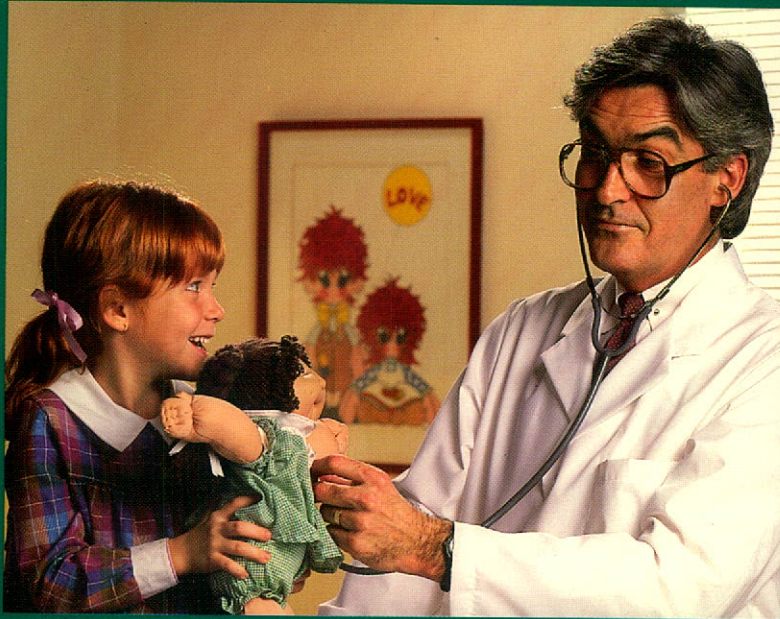


1986

MDS HEALTH GROUP LIMITED
ANNUAL REPORT

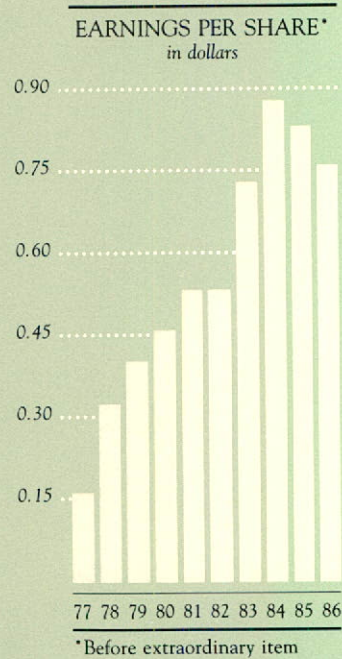
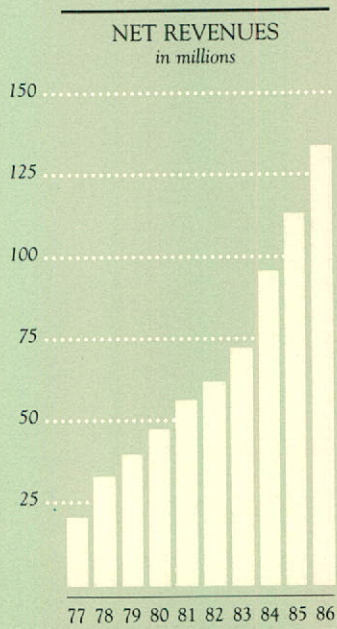


*Our mission is to be a premier
provider of services and products
that contribute to the health and
well-being of people.*



FINANCIAL HIGHLIGHTS

Years ended October 31 and stated in thousands of dollars	1986	1985
Net revenues	\$134,356	\$113,942
Income before extraordinary item	\$ 5,879	\$ 6,261
Net income	\$ 5,879	\$ 1,318
Shareholders' equity	\$ 47,518	\$ 41,901
Total assets	\$118,296	\$100,519
Long term debt as a percentage of capital employed	39%	43%
Current ratio	2 : 1	2.8 : 1



MDS HEALTH GROUP LIMITED

The primary objective of MDS is to provide physicians, institutions, corporations, government agencies and communities with quality services and products that they need in order to improve the health and well-being of the people under their care.

Fundamental to the overall strategy of MDS are a commitment

to excellence in quality and service, responsiveness to the changing needs of our clients and strong emphasis on operating efficiency to control costs in a highly competitive environment.

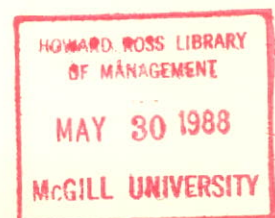
The company's main business is the provision of cost-effective clinical and analytical testing services and systems to assist in the diagnosis of disease and in the early

identification of occupational, environmental and lifestyle conditions that are harmful to health.

The company believes that it can best carry out its mission by creating a working climate for competent people that fosters teamwork, rewards innovation and encourages exceptional performance.



The main business of MDS is the provision of cost-effective clinical and analytical testing services and systems.



LETTER TO SHAREHOLDERS

In the year ended October 31, 1986, revenues increased 17.9% to \$134 million, whereas income before extraordinary item decreased to \$5.9 million or 76 cents per share as compared to 82 cents in fiscal 1985. The decline in income as a percentage of revenues was primarily the result of the withdrawal of services by Ontario physicians during the dispute with the Provincial Government in the company's third quarter and the continued operating losses in the Michigan laboratory operation prior to its sale in August.

OPERATING HIGHLIGHTS

MDS Laboratories

The Laboratory Division's overall revenues were up 17% in 1986. U.S. laboratory operations, excluding Michigan, improved in all aspects during the year and we are looking to further improvements in 1987. The legal action brought against the company with regard to its Michigan activities was settled without material cost and in August, an agreement was signed to sell the Michigan laboratory to Metric Laboratories of Southfield, Michigan. Under terms of the sale,



Metric will pay MDS a percentage of revenues over the next seven years based on the retention of the acquired business.

The Canadian laboratory operations were adversely affected by the withdrawal of services by the Ontario physicians, but in all other respects had a very good year. The installation and start-up of the computer system to link the Ontario laboratories was all but completed and the development expenses fully absorbed in operating costs.

Sciex

Sciex sold a record number of mass spectrometer-based systems during fiscal 1986, which resulted in a revenue increase of over 15% for the division. Sciex continued to spend a substantial portion of its revenues on the development of new applications and products during the year.

The Sciex Aromic Cargo Examination System joint venture with British Aerospace PLC resulted in the installation and site acceptance of two Sciex Aromic units for the first customer, a Middle Eastern country. In July, British Aerospace announced the mobile version of the Sciex Aromic system called the Condor and took delivery of a third Aromic unit for market development purposes in the United Kingdom.

In October, Sciex formed a 50/50 joint-venture partnership with The Perkin-Elmer Corporation, the world's largest manufacturer and distributor of analytical instrumentation for chemical analysis. Under this arrangement, Perkin-Elmer will draw upon its extensive sales and service operation to market the Elan system, while Sciex will have prime responsibility for manufacturing and product development. The new joint venture will greatly enhance Sciex penetration of the worldwide analytical instrumentation market.

Corporate Ventures

The combined revenues of the business units organized under the Corporate Ventures Division increased 43% during this fiscal

MDS HEALTH GROUP LIMITED

year. Revenue growth was spread more or less equally over each of the following business areas: Diagnostic Imaging Services, Insurance Paramedical Services, and Corporate and Occupational Health Programs. The division acquired the executive medical business of Canhealth Systems Limited in January 1986, the operations of Ontario Mobile Ultrasound in August and the operations of a small mobile x-ray service in New York State in October.

OTHER INTERESTS

In January 1986, MDS acquired a 49% interest in the Medical Products and Scientific Division of Ingram & Bell, a subsidiary of American Sterilizer. The management of Ingram & Bell acquired the remaining interest in this profitable medical and scientific distribution company which has annualized revenues of over \$70 million.

During the year, MDS made the decision to expand its medical facilities development activities by merging its real estate operations with those of Spinnaker Development Corporation, a publicly-held company listed on the Toronto Stock Exchange. In exchange for this real estate business, MDS received 12% of

Spinnaker with an option to acquire a majority interest based upon future performance. This merger will strengthen and expand MDS real estate development expertise in health-related fields both in Canada and in the United States. Spinnaker has subsequently changed its name to Health Development Services Inc.

OUTLOOK

In June, construction commenced on a new 60,000 square foot addition to the existing 40,000 square foot Toronto Reference Laboratory. The expansion will house the company's corporate offices and permit consolidation of a number of different functions under one roof. The building is expected to be ready for occupancy by May 1987.

The company's financial position continues to be strong, with working capital of over \$39 million (including cash and marketable securities of \$36 million), and should provide the necessary funds to maintain historic growth. While MDS, like all sectors of health care, is subject to constant cost pressures, we feel the reorganization accomplishments in 1986 will give impetus for improved earnings in 1987.

APPRECIATION

Fundamental to its past and future performance are the commitment by MDS to excellence in the provision of services to its

customers and the continuing growth in skills exhibited by its dedicated employees and professional consultants.

On behalf of the Board of Directors, I thank all the members of the MDS team for their efforts during this last year and on behalf of the more than 3,000 employees, consultants and associates, I extend a special note of appreciation to our clients and our shareholders for their support.



W. G. Lewitt, President
January 9, 1987

CORPORATE OVERVIEW

MDS Health Group operates three main divisions: MDS Laboratories, Sciex and Corporate Ventures. Approximately 3,000 people, including full-time and part-time employees and consultants, are employed by or associated with the company. Services are provided through facilities occupying in excess of 600,000 square feet maintained in 76 communities.

MDS LABORATORY DIVISION
MDS Laboratories, one of the ten largest private medical laboratory operations in North America, provides clinical diagnostic services to more than three million people each year through a network of 152 laboratories and specimen collection centres located in Ontario and the states of New York, Pennsylvania and New Jersey.

The MDS Laboratory network offers its client base of approximately 9,000 physicians, 100 hospitals and 530 nursing homes more than 500 individual laboratory diagnostic tests. In excess of 70,000 procedures per day are requested by physicians as an integral part of their patients' care.



Sophisticated equipment providing hematological determinations is directly connected to the MDS central computer system.

Physicians have the exclusive responsibility for ordering laboratory tests. In selecting a laboratory organization to help them serve their patients, doctors consider the reliability of results, patient convenience and speed of response. Doctors generally place great emphasis on the reputation of the laboratory organization for integrity and technical excellence. Private laboratories, such as MDS, provide a complementary and cost-effective adjunct to hospital resources. The many community locations provide convenience to patients. This, combined with highly efficient operating methods, means minimal demand on the time of the patient.

SCIEX DIVISION
Sciex develops, manufactures and markets mass spectrometers for the detection of trace amounts of organic and inorganic substances. It has received international recognition for its leadership in this field.

The growing need for trace chemical analyses in clinical, environmental and occupational health, in forensic sciences, security and a broad variety of industrial applications is providing increased demand for Sciex products. Based on the same proprietary and patented technology, three distinct product lines have been developed:

1. TAGA systems for the identification of ultra-trace amounts of organic contaminants.

2. The ICP/MS Elemental Analysis System (ELAN) for the measurement of trace quantities of elements. Technical and marketing support are provided for this product line through a joint venture agreement with The Perkin-Elmer Corporation of Norwalk, Connecticut, the world's largest supplier of analytical instruments.

3. The AROMIC Cargo Examination System, designed for the detection of trace quantities of contraband such as explosives, firearms, drugs and alcohol. The product, initially developed by Sciex, is being further developed and marketed under a fifteen-year joint venture agreement with British Aerospace.

CORPORATE VENTURES DIVISION
In order to generate new business opportunities and to provide the special environment needed to develop them, MDS has established a Corporate Ventures Division.



Testing for elements is performed at MDS reference laboratories.

MDS HEALTH GROUP LIMITED

Where appropriate, embryonic businesses and new product lines or services are transferred for development to this division. Current emphasis is in the following areas:

Occupational Health Programs to help industrial clients comply with health and safety regulations established for the protection of the health of their employees.

Health Surveillance Programs for corporate clients include pre-employment, pre-placement, annual health assessments and lifestyle risk assessments for their employees. Through the AMBA program, MDS works with health agencies, hospitals, medical groups and sponsoring community groups to conduct annual health education and risk assessment programs in the community.

Mobile Diagnostic Imaging Services for physicians, hospitals, nursing homes and bedridden patients.

Mobile Paramedical Services for Canadian life insurance companies.

MINORITY INTERESTS AND JOINT VENTURES

Ingram & Bell Inc. (49% interest) is a major distributor and



Prototype circuit boards for the SCIEX ELAN system go through performance evaluation.

manufacturer of medical and scientific supplies and equipment for Canadian hospitals, nursing homes, medical offices, universities, and public, private and industrial laboratories. Ingram & Bell, with annual revenues in excess of \$70 million, represents more than 500 Canadian, U.S. and other foreign manufacturers worldwide.

Health Development Services, Inc. (12% interest) is a public company listed on the Toronto Stock Exchange with a business strategy to provide development, marketing and operational services to the rapidly growing health-related real estate development section of the U.S. and Canadian economies. Specific areas of interest include medical office buildings, retirement homes, personal care facilities and nursing homes.

Perkin-Elmer/Sciex Instruments – This new joint venture partnership, in which Sciex and Perkin-Elmer each hold a 50% interest, contracts with Sciex for manufacturing and development. Perkin-Elmer supplies the marketing and customer service support for developed instrumentation. The current ICP/MS Elemental Analysis System (ELAN) is the first mass spectrometer product undertaken by the joint venture.

The principal office of Perkin-Elmer/Sciex Instruments is in Toronto.

Healthlink Systems Ltd. This joint venture provides physicians with computer equipment and a range of medical and health-related software and services. The new company operates as a partnership with the Ontario Medical Association.

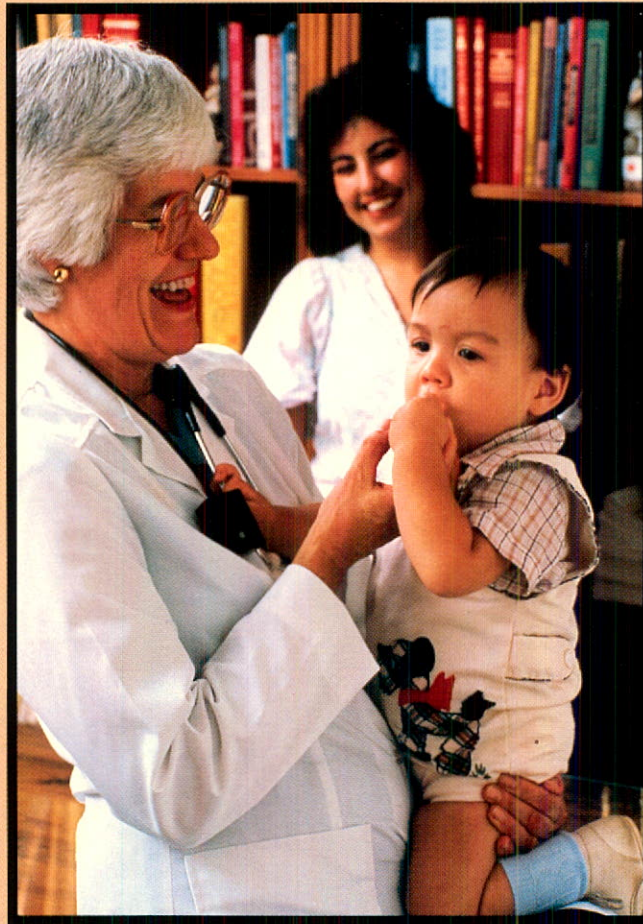
Health and Research Services Inc. is a joint venture partnership with the Toronto General Hospital to support medical research and development in areas which may lead to commercially viable products. Current research programs are directed towards orthopaedic prostheses and enzyme chemistry diagnostics.



MDS provides diagnostic ultrasound services to smaller Ontario hospitals.

CUSTOMER PERSPECTIVE

*To provide services and products which
will assist physicians, health care
institutions, corporations, government
agencies and communities to improve the
health and well-being of the people for
whom they are responsible.*



*MDS has a broad client base of
9,000 physicians, 100 hospitals
and 530 nursing homes.*

MDS HEALTH GROUP LIMITED

In serving its primary customer groups – physicians, hospitals, governments, corporations and communities – MDS participates in a broad range of activities.

- With a client base of approximately 9,000 physicians, 100 hospitals and 530 nursing homes, MDS receives requests for more than 21 million clinical laboratory procedures and 65,000 diagnostic imaging services per year. Through this network, the company provides services to more than three million patients annually.

- Through approximately 430 registered nurses and 100 physicians, 70,000 examinations are performed annually across Canada for 126 life insurance companies.

- MDS provides a wide variety of occupational health programs for more than 1,100 industrial clients.

- More than 700 corporate clients retain MDS to conduct a variety of executive health assessment programs.



MDS collects specimens from more than three million people annually.

- 115,000 patients in 235 different U.S. communities participate in MDS-directed health surveillance programs.

- MDS has under development, or has completed, in excess of 600,000 square feet of medical office building space for physician clients.

- MDS through its SCIEX division has placed mass spectrometer systems with 80 government and corporate clients located in North America, Europe and the Middle East.

- Through Ingram & Bell, MDS provides regular distribution services to 1,100 hospitals, 10,000 physicians and 500 laboratories.

MDS will continue to strengthen its position as one of the largest Canadian health care service companies by expanding broadly across Canada and selectively in the United States. In the current fiscal year, MDS will place special emphasis on new emerging technologies in satisfying its customers' needs in the following areas:

- Clinical testing and diagnostic imaging.

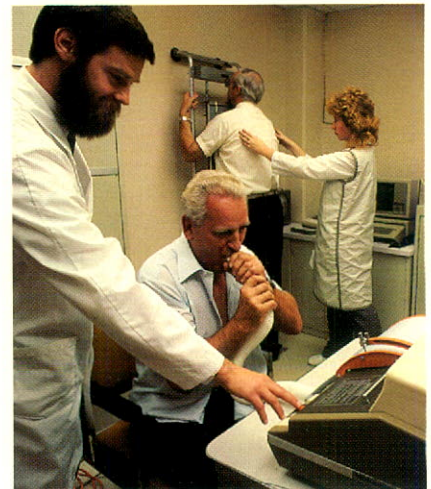


SCIEX provides systems to scientists in industry and government to measure organic and inorganic substances at the ultra-trace level.

- Preventive services including corporate, occupational and lifestyle-oriented health programs.

- Enviro-health related analytical testing equipment and services.

In addition, there will be a concentrated effort to address the demand for medical office buildings and other health-related facilities, as well as the growing need for computers and selected other technology to lower the cost of paperwork and provide essential medical information.



Occupational Health Programs are conducted for more than 1,100 industrial clients.

LEADERSHIP PERSPECTIVE

To demonstrate leadership through an ongoing responsiveness to the changing needs of clients and customers and to carry on our business in conformity with the public policy principles and goals of the jurisdictions in which we operate.



MDS is continually exploring new ways to use computerization to provide meaningful, cost-effective medical information.

MDS HEALTH GROUP LIMITED

Diagnosis, prevention, treatment and rehabilitation: MDS Health Group provides a spectrum of health services combining technology, professional direction and human concern. MDS has achieved its leadership position as a premier health care provider through commitment to the following operating principles:

- Maintaining quality services and products through continuing adherence to the highest standards and the active involvement of professional advisory boards.
- Enhancing the cost-effectiveness of MDS services and products to clients and customers through continuing service improvements and product innovations.
- Continually developing programs to move the delivery of health care services to the lowest cost facility.
- Using technology to adapt services to meet individual circumstances.



SCIEX leadership has produced the world's only mobile tandem mass spectrometer system.

- Responding to changing needs in existing markets by expanding the range of MDS services and products.
- Working with the government bodies that are concerned with the company's activities to achieve mutual understanding and to ensure that MDS conforms with the public policy principles and goals of the jurisdictions in which we operate.

The leadership position of MDS is evident in its many activities, a few of which are highlighted below:

- MDS is a founding member of the Ontario Association of Medical Laboratories and is active in its various committees.
- The Ontario Medical Association formed a joint venture with MDS Health Group to provide computer equipment and software to its individual members.
- The Toronto General Hospital, one of Canada's premier teaching hospitals, entered into a joint venture with MDS for the funding and commercialization of research and development.



Proprietary SCIEX technology allows the measurement of toxic substances in the parts per trillion level.

- SCIEX is known worldwide for its leadership role in the development of ultra-trace analyzers. Perkin-Elmer, the world's largest supplier of analytical instrumentation, formed a joint venture with the SCIEX division of MDS for the development of mass spectrometry-based analytical instruments. In the contraband detection field, MDS has a joint venture with British Aerospace, one of the U.K.'s largest industrial companies.

- MDS was a pioneer in establishing mobile paramedical and occupational health services which are effective in themselves, improve public access to services and are less costly than alternative methods of providing such services.



MDS leadership in providing the highest standards is evident in the active participation of its professional advisory committees.

GROWTH PERSPECTIVE

To expand and improve the range of services and products that we offer to each of our customer groupings as well as geographically expanding our customer and client base.



Growing again! – MDS expands its major laboratory facility in Toronto.

MDS HEALTH GROUP LIMITED

MDS Health Group is committed to the provision of quality care and services to its many clients in a variety of business sectors and geographic areas. MDS believes its focus on customer requirements and high standards of quality are responsible for the consistent achievement over the last ten years against the following growth objectives:

1. To maintain a 20% annual growth in revenues over the next five years.
2. To have a continually increasing market share in all areas in which MDS operates.
3. To establish a significant revenue base in each customer service grouping.
4. To acquire or take minority equity positions in well-managed technology-related businesses and to engage in strategic alliances with similar or complementary companies.
5. To maintain a significant base of international operations with revenues equal to at least 30% of the company's total revenues.



Investment in new equipment and automation will allow for further growth.

Several factors are expected to provide opportunities for the company's current business units to grow in their existing markets.

Cost Containment

The emphasis on cost containment in health care will continue to create new growth opportunities and challenges for MDS. Changing reimbursement practices are de-emphasizing institution-based services and are stimulating the development of alternate modes of delivering health care. The company's 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%. 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. The company 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 cost pressure, physicians are searching for ways to provide a wider spectrum of assistance and

improved service to their patients. The growing use by physicians of state-of-the-art diagnostics as well as services adapted to the convenience of patients are trends which will be helpful to MDS.

Of equal significance is the apparent growing appreciation for preventive care programs and occupational health programs – areas in which MDS is actively involved.

Advances in Technology

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



The MDS joint venture with Perkin-Elmer will give SCIEX the capability of selling the ELAN and future products on a worldwide basis.

PEOPLE PERSPECTIVE

*To maintain a climate of mutual trust
which provides employee satisfaction and
encourages and rewards competent
caring people to work together to achieve
innovative responses to our client and
customer needs.*

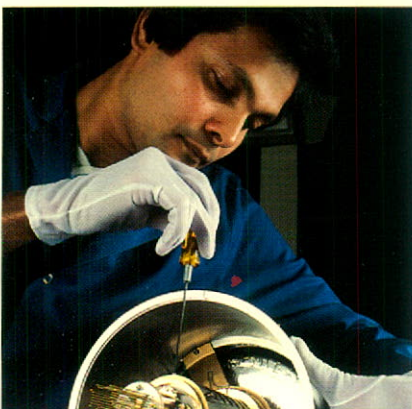


*Members of the Employee Assembly meet with
Ed Boyce, Senior Vice-President,
Human Resources, to provide input on matters
that directly affect employees.*

MDS HEALTH GROUP LIMITED

MDS believes that a company's greatest asset is its employees. In order to be responsive to client needs and to deliver services and products of the highest quality, a company must have motivated, competent employees working in an environment of trust that fosters teamwork. To achieve this goal, MDS is committed to a number of principles:

- To communicate our goals and objectives so that every employee understands them and knows how he or she can help to achieve them.
- To build and maintain mutual trust through honesty and integrity in all matters.
- To recruit the best people available and to encourage and reward competence and caring.
- To structure the organization to promote participative management as well as innovative and timely response to our customers' needs.
- To encourage employees to improve their skills and education through in-house training programs



Competent, motivated employees are the key to the long-term success of MDS.

and sponsorship of employees in relevant external courses.

- To maintain the Employee Assembly and Employee Council as viable vehicles for communication and input to decisions in matters that directly affect employees and the quality of their work life.
- To ensure that employees, through profit sharing plans, are significant voting shareholders.

Some of the more significant programs implemented include:

Employee Equity Participation and Profit Sharing

MDS allocates 10% of the profits before tax to the employees. The proceeds are directed to a Deferred Profit Sharing Plan and used to purchase shares on behalf of the employees. 73,882 Class A Common shares were purchased on behalf of participants in 1986. The Deferred Profit Sharing Plan is the largest shareholder in MDS Health Group.

Employee Assembly and Employee Council

Recognizing that participation in decision making is as important as profit sharing, MDS has established an Employee Assembly and Employee Council. These are organized forums



Paul Mountain, Vice-President, Technical Standards conducts a session during the "Focus on Fundamentals" seminar.

where employees can have input to Senior Management in matters that directly affect them and their work environment.

Management Conference

To emphasize the importance of a healthy balance between personal and professional growth, MDS invites all managers, supervisors, medical directors, scientists, consultants and their spouses to attend the annual MDS Management Conference. The 1986 Conference, *Focus on Human Potential*, attended by 534 people, was the largest to date.

Continuing Education

MDS encourages all employees to continue to improve their skills and education. In this regard, MDS offers in-house training and education in both technical topics and management skills. During 1986, MDS conducted four-day *Focus on Fundamentals* seminars which 173 supervisors and managers attended over a five-week period.



MDS people – dedicated to excellence in quality.

PROFIT PERSPECTIVE

To achieve a level of profitability that will provide an above average return to our shareholders, will allow us to justly compensate our employees and attract financial resources to fund our growth.



Fundamental to MDS performance is the commitment to excellence exhibited by the company's dedicated employees and professional consultants.

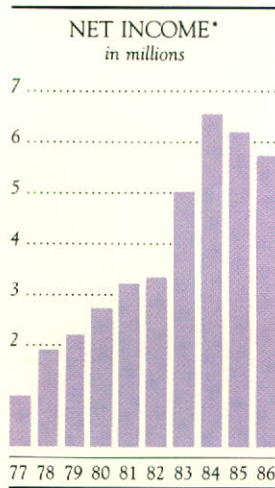
MDS HEALTH GROUP LIMITED

The overall MDS financial objective is to provide its shareholders with real, long-term earnings growth and a solid return on their investment. Primary performance targets are:

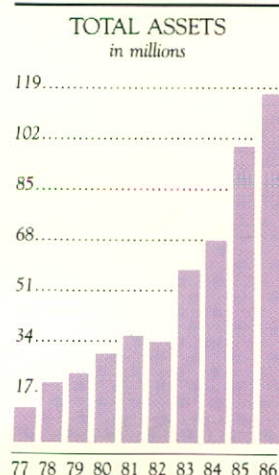
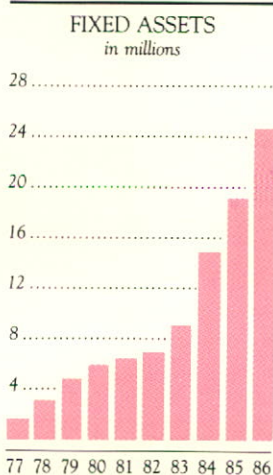
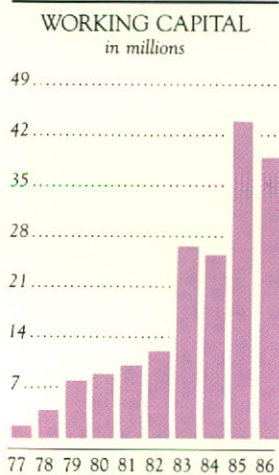
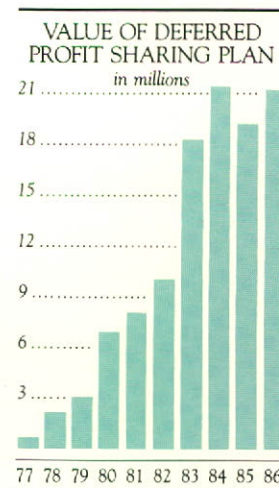
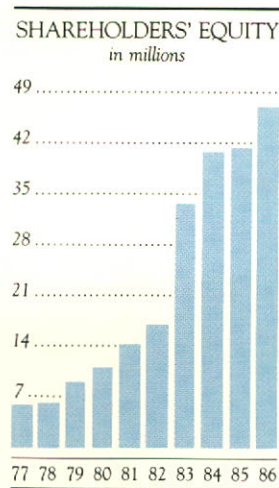
1. To maintain a five-year annual average growth rate in after-tax earnings and earnings per share of 15%.
2. To maintain a five-year average return on equity of 20% in mature businesses.
3. To maintain a consistent record of payment of dividends to shareholders.

To achieve these objectives, MDS strategically invests in new assets while maintaining a sound financial structure consistent with its business mix and capital investment requirements. During the fiscal period, shareholders' equity increased to \$48 million and book value per share increased to \$6.39. During fiscal 1986, the company allocated approximately \$1.2 million, or 10% of the pretax profits of the company to the employees' Deferred Profit Sharing Plan, increasing the value of the plan to \$21.2 million.

The company's \$39 million working capital position provided a ratio of current assets to current liabilities of 2:1. During the past year, MDS was able to finance growth from funds generated from operations and \$30 million of new debt financing arranged October 1, 1985. Of this amount, \$9 million was used to retire existing debt, \$4.5 million was used for updating old facilities and creating new facilities and \$2.5 million was used for new technical equipment. An additional \$3.0 million was paid to fund new acquisitions.



*Before extraordinary item



MDS HEALTH GROUP LIMITED

AN ELEVEN YEAR FINANCIAL SUMMARY

Years ended October 31 and stated in thousands of dollars	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	
OPERATING RESULTS												
Net revenues	134,356	113,942	96,430	72,699	61,722	55,971	47,702	39,698	32,820	20,494	19,870	
Income before extraordinary items	5,879	6,261	6,653	5,142	3,405	3,297	2,812	2,240	2,085	1,089	957	
Net income	5,879	1,318	6,653	5,142	3,405	3,297	2,812	2,126	2,085	1,089	995	
FINANCIAL POSITION												
Working capital	39,265	44,278	25,940	27,096	12,677	10,865	9,277	8,702	4,904	2,835	912	
Fixed assets (net)	25,165	19,478	15,263	9,563	7,311	6,901	6,109	5,044	3,470	2,053	2,144	
Other assets (including goodwill)	17,008	11,875	11,614	9,072	8,838	8,709	6,749	6,415	5,561	5,063	3,895	
Total assets	118,296	100,519	68,963	60,133	35,094	36,526	30,426	28,660	21,415	13,632	10,576	
Long term debt	31,996	32,606	11,187	11,062	10,792	11,149	10,552	10,880	6,673	3,756	1,660	
Shareholders' equity	47,518	41,901	41,307	34,557	17,814	15,021	11,404	9,120	6,677	6,186	5,269	
CHANGES IN FINANCIAL POSITION**												
Cash from operations	4,845	2,388										
Working capital from operations			9,822	7,589	5,346	5,061	4,411	3,354	2,741	1,365	1,305	
Long term debt issued		30,000		701				4,198	1,000	2,540	600	
Share capital issued	46	27	291	12,380		937		766	567	1	4	
Fixed assets purchased	10,958	7,463	7,815	5,287	2,786	1,968	2,677	2,580	1,940	386	480	
Acquisitions	3,254	482	1,993	424	276	1,009	598	225	(92)	227	(8)	
Dividends on Class A Common and Class B Non-Voting shares (cash)	1,092	964	893	779	612	580	471	392	192	156	167	
Dividends on Preferred shares (cash)	10	16	14			37	57	57	20	17	17	
Repayment of long term debt	610	9,184	924	431	357	298	328	402	829	443	792	
Redemption of shares	2	142							1,949		1,073	
STATISTICS												
PER SHARE DATA*												
Earnings per Class A Common and Class B Non-Voting Before extraordinary items	.76	.82	.88	.73	.53	.53	.46	.40	.32	.16	.14	
Net income	.76	.15	.88	.73	.53	.53	.46	.37	.32	.16	.15	
Dividends							.15	.30	.15	.10	.10	
Class A Common	.120	.110	.100	.088	.075	.075	.038					
Class B Non-Voting	.170	.160	.150	.138	.125	.125	.063					
Book Value of Class A Common and Class B Non-Voting	6.39	5.68	5.62	4.74	2.93	2.47	1.92	1.54	1.19	.90	.77	
Price Range								15½-7¼	13-7¼	8¾-2¾	2¾-2¾	3-2
Common												
Class A Common	18¾-14½	21½-15½	19¼-13¼	17½-6¾	6¾-4¾	7½-5	6¼-4					
Class B Non-Voting	18½-13¾	19¼-14	18¾-13¼	16¾-6¾	6¾-4¾	6¼-4¼	5-3½					
Number outstanding								1,344	1,269	1,674	1,673	
Common												
Class A Common	2,959	2,958	2,952	2,949	2,991	3,008	2,678					
Class B Non-Voting	4,473	4,423	4,392	4,346	3,103	3,086	2,732					
RATIOS												
Current	2.0	2.8	2.6	2.9	3.0	2.1	2.1	2.1	1.7	1.9	1.3	
Long term debt/capital employed	.39	.43	.21	.24	.37	.42	.48	.52	.47	.37	.23	
OTHER												
Employees	3,013	2,990	2,711	2,281	2,176	2,014	1,883	1,626	1,486	958	951	

* 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.

** The eleven year financial summary has been reclassified for 1986 and 1985 to reflect cash from operations to conform with the presentation of the statement of cash flows. Figures prior to 1985 have not been restated.

MDS HEALTH GROUP LIMITED*

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, 1986 and have reported thereon in their January 9, 1987 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, 1986 and the consolidated statements of income, retained earnings and cash flows 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, 1986 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 9, 1987

Clarkson Gordon
Chartered Accountants

MDS HEALTH GROUP LIMITED

CONSOLIDATED STATEMENT OF INCOME

Years ended October 31 and stated in thousands of dollars	1986	1985
NET REVENUES	\$134,356	\$113,942
Operating income before the following	\$ 18,572	\$ 17,791
Depreciation and amortization	(5,177)	(3,841)
Interest expense – long term	(3,433)	(1,622)
– other	(2,409)	(1,850)
Dividend and interest income	3,534	3,077
Share in earnings of other company	542	
Income before income taxes and extraordinary item	11,629	13,555
Income taxes – current	5,140	6,529
– deferred	610	765
	5,750	7,294
Income before extraordinary item	5,879	6,261
Extraordinary item		
Provision for reorganization costs		4,943
NET INCOME	\$ 5,879	\$ 1,318

EARNINGS PER CLASS A COMMON AND CLASS B NON-VOTING SHARE

Before extraordinary item	\$.76	\$.82
Net Income	\$.76	\$.15

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Years ended October 31 and stated in thousands of dollars	1986	1985
RETAINED EARNINGS, BEGINNING OF YEAR	\$ 23,552	\$ 23,281
Net income	5,879	1,318
Dividends – cash	(1,102)	(980)
– stock	(21)	(67)
RETAINED EARNINGS, END OF YEAR	\$ 28,308	\$ 23,552

MDS HEALTH GROUP LIMITED

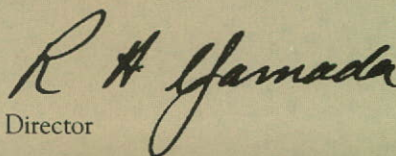
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at October 31 and stated in thousands of dollars	1986	1985
CURRENT ASSETS:		
Cash and short term deposits	\$ 7,607	\$ 25,934
Marketable securities	28,580	7,765
Accounts receivable	28,712	24,295
Inventories	7,980	7,519
Prepaid expenses	1,373	1,105
Income taxes recoverable	1,177	2,044
Deferred income taxes	694	504
	76,123	69,166
CURRENT LIABILITIES:		
Bank indebtedness	22,879	9,709
Accounts payable and accrued liabilities	12,238	14,069
Current portion of long term debt	799	962
Deposits	942	148
	36,858	24,888
WORKING CAPITAL	39,265	44,278
Fixed assets	25,165	19,478
Other assets	6,371	1,836
Excess of amounts paid over the fair value of net assets acquired, less amortization	10,637	10,039
CAPITAL EMPLOYED	\$ 81,438	\$ 75,631
Represented by:		
Long term debt	\$ 31,996	\$ 32,606
Deferred income taxes	1,924	1,124
SHAREHOLDERS' EQUITY:		
Share capital	19,210	18,349
Retained earnings	28,308	23,552
	47,518	41,901
	\$ 81,438	\$ 75,631
TOTAL ASSETS	\$118,296	\$100,519

On behalf of the Board:



Director



Director

See accompanying notes

MDS HEALTH GROUP LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended October 31 and stated in thousands of dollars	1986	1985
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Income before extraordinary item	\$ 5,879	\$ 6,261
Add (deduct) items not requiring (providing) cash:		
Depreciation and amortization	4,947	3,601
Amortization of goodwill	230	240
Deferred income taxes	610	765
Share in earnings of other company	(542)	
Other	(800)	
Changes in non-cash working capital balances relating to operations	(5,479)	(8,479)
CASH PROVIDED BY OPERATING ACTIVITIES	4,845	2,388
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Acquisitions		
Investment in other company	(3,000)	
Goodwill	(828)	(679)
Fixed Assets	(222)	(777)
Less: Long term debt assumed		603
Issue of shares	796	371
	(3,254)	(482)
Purchase of fixed assets	(10,958)	(7,463)
Proceeds on disposal of fixed assets	546	424
Increase in other assets	(193)	(1,175)
CASH (USED IN) INVESTING ACTIVITIES	(13,859)	(8,696)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Repayment of long term debt	(610)	(9,184)
Long term debt issued		30,000
Payment of cash dividends	(1,102)	(980)
Issue of shares for cash	46	27
Repurchase of shares	(2)	(142)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(1,668)	19,721
Increase (decrease) in cash during the year	(10,682)	13,413
Cash position, beginning of year	23,990	10,577
CASH POSITION, END OF YEAR	\$ 13,308	\$ 23,990

Cash position comprises cash, short term deposits and marketable securities less bank indebtedness.

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 1986

1. ACCOUNTING POLICIES

These financial statements are prepared in accordance with generally accepted accounting principles, the most significant of which are as follows:

(a) Long term investments –

The accounts of all subsidiary companies are consolidated on a purchase basis from the dates of acquisition.

The investment in a significantly influenced company is accounted for by the equity method.

Other long term corporate investments are carried at cost.

(b) 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 when declared and capital gains are recorded as realized.

(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 beyond one year relating to the development and supply of certain products are recorded using the percentage of completion method of accounting.

(d) Fixed assets –

Fixed assets are carried in the accounts at cost less accumulated depreciation and amortization. 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 over the estimated useful lives of the fixed assets as follows:

Buildings	4%
Equipment and furniture	10% – 20%
Computer systems	20% – 33%
Motor vehicles	33% – 50%
Leasehold improvements	Lesser of 10% or the term of the lease plus one renewal period

(e) Debt issue costs –

Debt issue costs are amortized over the term of the debt.

(f) Research and start-up costs –

The costs associated with new products and start-up of new businesses are expensed as incurred. Research and development funding is recorded as earned under the terms of individual agreements.

(g) Amortization of intangibles –

For acquisitions after March 31, 1974, the excess of amounts paid over the fair value of the net assets (also referred to as goodwill in these financial statements) acquired is capitalized and amortized over forty years. For acquisitions prior to April 1, 1974, the excess has been capitalized and is not being amortized.

If it becomes apparent that the value of any goodwill component is permanently impaired it will be written down.

MDS HEALTH GROUP LIMITED

(h) 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.

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.

(i) Foreign currency translation –

The company translates foreign currency transactions and the accounts of its United States subsidiaries to Canadian dollars as follows:

- Current assets, current liabilities and long-term debt are translated at year-end rates;
- Fixed assets and deferred income taxes are translated at rates in effect on the dates of the transactions (historical rates);

- Revenues, costs and expenses are translated at average rates in effect during the year.

Certain expenses relating to fixed assets are translated at historical rates;

- Unrealized gains and losses on long-term debt are deferred and amortized over the life of the debt.

(j) 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. INVENTORIES

	1986	1985
Raw materials and laboratory supplies	\$5,795,000	\$5,987,000
Work in process	1,496,000	380,000
Finished goods	689,000	1,152,000
	<u>\$7,980,000</u>	<u>\$7,519,000</u>

3. FIXED ASSETS

	1986		1985	
	Cost	Accumulated depreciation and amortization	Net	Net
Land	\$ 982,000	\$	\$ 982,000	\$ 982,000
Buildings	4,536,000	452,000	4,084,000	2,934,000
Equipment and furniture	22,723,000	10,789,000	11,934,000	10,157,000
Computer systems	9,357,000	3,545,000	5,812,000	3,303,000
Leasehold improvements	5,328,000	2,975,000	2,353,000	2,102,000
	<u>\$42,926,000</u>	<u>\$17,761,000</u>	<u>\$25,165,000</u>	<u>\$19,478,000</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. OTHER ASSETS

	1986	1985
Investment in Ingram & Bell Limited	\$3,542,000	
Investment in and advances to other companies	1,545,000	\$ 663,000
Debt issue costs	526,000	677,000
Other	758,000	496,000
	<u>\$6,371,000</u>	<u>\$1,836,000</u>

5. ACQUISITIONS

In January 1986, the Company acquired a 49% interest in Ingram & Bell Limited, a medical supply company, for \$3,000,000 cash. This investment is accounted for by the equity method.

Effective September, 1986 the company merged its medical building development business with Health Development Services Inc. (H.D.S.) in exchange for a 12% interest in the shares of H.D.S. The revenue from this transaction was recorded at the fair market value of H.D.S. shares at the date of closing in the amount of \$800,000.

In addition, the company acquired a number of other businesses for a total consideration of \$1,050,000, consisting of the issue of 45,701 Class B Non-Voting shares for \$796,000 and cash of \$254,000.

6. LONG TERM DEBT

	Maturity	Current portion	Total	
			1986	1985
Canadian operations:				
1985 debentures	1992		\$30,000,000	\$30,000,000
Obligations under capital leases at an average rate of 12%	1987-1989	\$482,000	1,280,000	920,000
Other debt	1987-1998	154,000	894,000	777,000
		636,000	32,174,000	31,697,000
U.S. operations	1987-1991	163,000	621,000	1,871,000
		<u>\$799,000</u>	32,795,000	33,568,000
Less current portion			799,000	962,000
			<u>\$31,996,000</u>	<u>\$32,606,000</u>

The 1985 debentures bear interest at a floating rate of ¼% below the prime rate and may be converted to a fixed rate at anytime two years after the issue date. The company has provided a floating charge on all its assets in Canada and has pledged the shares of its United States subsidiary, MDS Health Group Inc. as collateral for these debentures. Under the terms of the trust indenture the company must meet certain interest and asset coverage ratios. As at October 31, 1986, the company has satisfied all covenants under the trust deed relating to the debentures.

Other debt is unsecured and includes a \$400,000 non-interest bearing loan which will be forgivable provided certain conditions are fulfilled.

Debt related to U.S. operations is repayable in U.S. funds.

The company has an operating line of credit of \$35,000,000 with a Canadian chartered bank for which a specific charge on accounts receivable and inventories has been given. At October 31, 1986, \$22,879,000 has been advanced to the company, consisting of a demand loan (\$3,038,000) and bankers acceptances (\$19,841,000) in connection with this line of credit.

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

1987	\$799,000
1988	631,000
1989	435,000
1990	NIL
1991	431,000

MDS HEALTH GROUP LIMITED

7. SHARE CAPITAL

(a) Summary of issued share capital –

	Balance October 31, 1985	Issued during year	Conversions and Repurchases during year	Balance October 31, 1986
(i) Voting shares				
Class A Common shares				
Number	2,958,180	691	(98)	2,958,773
Amount	\$ 2,483,000	\$ 13,000		\$ 2,496,000
(ii) Non-Voting shares				
Class B Non-Voting shares				
Number	4,423,093	49,878	(9)	4,472,962
Amount	\$15,704,000	\$850,000		\$16,554,000
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				
Class C Series 3 shares				
Number	23,665		(1,575)	22,090
Amount	\$ 23,000		\$ (1,000)	\$ 22,000
Class C Series 4 shares				
Number	3,654		(210)	3,444
Amount	\$ 2,000			\$ 2,000
Class D Series 1 shares				
Number	10,000			10,000
Amount	\$ 136,000			\$ 136,000
Total amount of issued share capital	\$18,349,000	\$863,000	\$ (2,000)	\$19,210,000

(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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- (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.

The Class C Series 1 and 2 shares are convertible into Class A Common and Class B Non-Voting shares based on earnings of the SCIEX division from June 1, 1981 to May 31, 1986. At May 31, 1986, the SCIEX division had not achieved the base period income, and accordingly, all Class C Series 1 and Series 2 shares were redeemed by the company.

The Series 3 and Series 4 shares, which are reserved for certain SCIEX employees under a Key Employee Trust Plan, are convertible into Class A Common and Class B Non-Voting shares based on SCIEX after-tax income of \$5,600,000 in aggregate for the five year period November 1, 1982 to October 31, 1987. The maximum payments under the agreements would result in the issue of 19,881 Class A Common shares and 24,299 Class B Non-Voting shares and \$344,000 in cash or the equivalent value of Class A Common and Class B Non-Voting shares. 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, these shares are repurchasable on the same basis upon termination of an 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. At October 31, 1986 no Class D shares had been converted.

- (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 10,000 options were granted, 3,500 were exercised and 8,500 options were cancelled. As at October 31, 1986 options were outstanding to purchase 43,750 shares at \$12.15 per share and 10,000 at \$13.25 per share. These options are exercisable at various dates up to January 29, 1990.

- (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 and no Class C Series 4 shares were issued and 1,575 Class C Series 3 and 210 Class C Series 4 shares were repurchased at their issue price.

Based on earnings levels achieved, a portion of the Class C Series 3 shares become eligible for conversion into Class A Common shares on a two for one basis. A further conversion of 55% of all Class A shares issued into Class B shares would then be required under the terms of the Plan. Earnings levels were not achieved during 1986, therefore no shares were eligible for conversion.

- (e) Employee Stock Purchase Plan –

During the year, there were no shares issued, leaving a balance of 10,000 shares currently outstanding.

- (f) Stock Dividend and Share Purchase Plan –

The company implemented a Stock Dividend and Share Purchase Plan which was first available for shareholder participation for the October 1984 dividend. Under the Plan shareholders may elect to receive stock

MDS HEALTH GROUP LIMITED

dividends 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 prices.

Participation in the Plan for the year resulted in the issuance of 679 Class A Common shares and 531 Class B Non-Voting shares as stock dividends and the issuance of 12 Class A Common and 146 Class B Non-Voting shares for cash under the share purchase option.

8. RESEARCH AND DEVELOPMENT COSTS

During the year, the company incurred current research and development costs of \$5,899,000 (\$4,609,000 in 1985) which have been included in operating costs. Related revenues from the sale of certain rights to technology, \$2,100,000 (nil in 1985), and from government funding, \$885,000 (\$1,955,000 in 1985), have been taken into income. In addition the company claimed \$1,074,000 (\$973,000 in 1985) of investment tax credits which have been offset against operating costs.

9. MICHIGAN REORGANIZATION

During the year the company completed the reorganization of its Michigan business. The provisions made in 1985 adequately covered the costs of this reorganization with no resultant material financial effect on 1986 operations.

The legal action brought against the company in December 1985 has been resolved. The company agreed to pay \$500,000 U.S. with respect to certain disputed operating expenses and has provided for the present value of a further \$500,000 U.S. (\$310,000 U.S. present value) due in 1991 related to a debenture of \$3,000,000 U.S., the payment of which is contingent on future earnings of the Michigan subsidiary. It is management's opinion that no additional payments will be required under the terms of the debenture

and, accordingly, no liability has been recorded in these financial statements with respect thereto.

This settlement enabled the company to enter into an agreement with Metric Medical Laboratories of Southfield, Michigan, whereby Metric assumed the MDS ongoing laboratory operations and agreed to pay to MDS 15% of net revenues collected each year for seven years based on retention of the acquired business. The company expects to earn a minimum of \$300,000 U.S. in the first year of this agreement and will amortize the liability due in 1991 on a straight line basis over 5 years.

10. INCOME TAXES

(a) Loss carryforwards of certain of the company's United States subsidiaries for which no future tax benefit has been recorded in the accounts, amount to \$15,132,000 and expire as follows: 1990 - \$185,000; 1991 - \$296,000; 1992 - \$396,000; and the balance from 1993 to 2001. In addition, unused investment tax credits of \$358,000 which have not been recognized in the accounts are available to reduce future income taxes payable. None of these credits will expire before 1990.

(b) The company's effective income tax rate consists of the following components:

	1986	1985
Combined Canadian federal and provincial tax rate	53.2%	51.6%
Increase (decrease) tax rate as a result of:		
U.S. losses for which no taxes recoverable have been recorded	9.2%	9.3%
Tax free dividends	(6.6%)	(3.3%)
Lower rate on capital gains	(6.6%)	(2.0%)
Share in earnings of other company	(2.5%)	
Other	2.8%	(1.8%)
Effective income tax rate	49.5%	53.8%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. SEGMENTED INFORMATION

Management has 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:

(thousands of dollars)	CANADA		UNITED STATES		TOTAL	
	1986	1985	1986	1985	1986	1985
Net segment revenues	\$97,424	\$79,056	\$36,932	\$34,886	\$134,356	\$113,942
Income taxes	\$ 5,750	\$ 7,294			\$ 5,750	\$ 7,294
Income (loss) before extraordinary item	\$ 7,876	\$ 8,715	\$ (1,997)	\$ (2,454)	\$ 5,879	\$ 6,261
Other information						
Depreciation and amortization	\$ 3,198	\$ 2,300	\$ 1,979	\$ 1,541	\$ 5,177	\$ 3,841
Dividend and interest income	\$ 3,337	\$ 1,835	\$ 197	\$ 1,242	\$ 3,534	\$ 3,077
Interest expense	\$ 5,604	\$ 3,294	\$ 238	\$ 178	\$ 5,842	\$ 3,472
Identifiable assets	\$98,736	\$80,000	\$19,560	\$20,519	\$118,296	\$100,519

(1) Interest expense and investment income are directly attributable to debt or investments existing in the geographic segment.

(2) Inter-segment revenues on sales from Canada to the United States are insignificant.

12. LEASES, COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital leases –

Fixed assets include vehicles and computer equipment acquired under capital leases amounting to \$2,309,000 (\$3,491,000 in 1985) at cost and accumulated depreciation of \$940,000 (\$1,076,000 in 1985).

Future lease payments required under capital leases are as follows:

1987	\$ 827,000
1988	675,000
1989	392,000
Total future minimum lease payments	1,894,000
Less imputed interest	479,000
Present value of minimum lease payments	<u>\$1,415,000</u>

(b) Operating leases –

Under premise and equipment leases, the company is obligated to make minimum payments of approximately \$3,382,000 in 1987, \$2,700,000 in 1988, \$2,200,000 in 1989, \$1,605,000 in 1990, \$1,084,000 in 1991 and \$3,823,000 thereafter. Fixed rental expense under premise and equipment leases for 1986 was \$4,384,000 (\$3,914,000 in 1985).

13. COMPARATIVE FIGURES

Certain figures for the previous year have been reclassified to conform with the current year's financial statement presentation.

 BOARD OF DIRECTORS

¹ DR. WILLIAM ANDERSON
Vice-President of Medical Affairs,
Toronto General Hospital
Toronto Western Hospital

WILFRED G. LEWITT
President and Chief Executive Officer,
MDS Health Group Limited

RONALD H. YAMADA
Senior Vice-President,
MDS Health Group Limited

¹ DR. LOUIS R. HARNICK
Radiologist,
Toronto Western Hospital

³ R. MICHAEL WARREN
President and Chief Executive Officer,
Canadian Investors Corporation
Debentures Limited

^{2,3} C. ROBERT YOUNGER
Executive Vice-President and
Chief Operating Officer,
Dominion Securities Inc.

^{2,3} RALPH HORNER
Investment Consultant

² ROGER D. WILSON
Partner,
Fasken & Calvin

¹ Medical Advisory Committee

² Audit Committee

³ Compensation Committee

 OFFICERS AND CORPORATE MANAGEMENT

WILFRED G. LEWITT
President and Chief Executive Officer

JAMES A. REYNOLDS
President, SCIEX

BETTY R. MOFFATT
Corporate Secretary

J. EDWARD BOYCE
Senior Vice-President,
Human Resources

JOHN A. ROGERS
President,
MDS Laboratories

DR. WILLIAM ANDERSON
Chairman,
Medical Advisory Committee
MDS Health Group Limited

DOUGLAS M. PHILLIPS
Senior Vice-President,
Finance and Administration

EDWARD K. RYGIEL
Senior Vice-President,
Corporate Development

DR. JOHN C. NIXON
Medical Director,
MDS Laboratories

RONALD H. YAMADA
Senior Vice-President,
Systems and Corporate Affairs

 INVESTORS' QUICK REFERENCE GUIDE

MAILING ADDRESS

30 Meridian Road,
 Etobicoke, Ontario M9W 4Z9
 Telephone: (416) 675-7661
 TWX: 610 492 6137
 FAX: 675-7661 Ext. 329

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

TRADING DATA

(by fiscal quarter) High Low

1st

Quarter	Class A	16½	14½
	Class B	15⅞	13⅞

2nd

Quarter	Class A	18¾	14½
	Class B	18½	13⅞

3rd

Quarter	Class A	18¾	14½
	Class B	17¾	15⅞

4th

Quarter	Class A	17	15¼
	Class B	16¼	15

DIVIDEND INFORMATION

Paid twice yearly in the Spring and Fall—The October, 1986 dividend was 6¢ on the Class A Common shares and 8½¢ on the Class B Non-Voting shares.

ANNUAL MEETING

Shareholders are invited to attend the company's Annual and Special Meeting at 4 p.m., March 3, 1987 in the Confederation Room of the Royal York Hotel, Toronto, Ontario.



MDS HEALTH GROUP LIMITED
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