MDS HEALTH GROUP LIMITED

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1990 Annual Report

CORPORATE PROFILE

MDS Health Group is a diversified health care company operating primarily in Canada and the United States.

Its Physician Services Division provides community-based, physician-authorized diagnostic testing and related services to patients. This is done in most cases through 438 MDS laboratories and specimen collection centres. Services are also provided to patients at home, in nursing homes and in other health care facilities.

Through its strategic investments, MDS participates in the marketing of medical supplies and equipment for the hospital, physician and home care markets; the manufacture and distribution worldwide of wheelchairs; the development and international marketing of ultra-trace mass spectrometry equipment; the provision of computer equipment and software for physicians; and the development of medical office buildings.

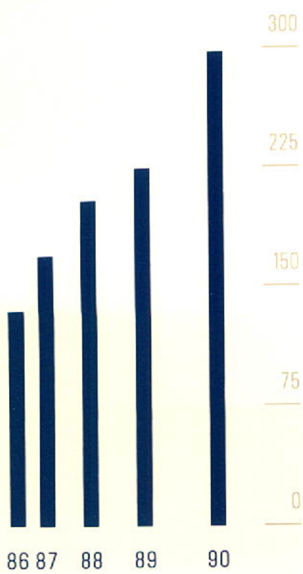
MDS, with other investors, supports, through its venture capital activities, the development of embryonic health care companies involved in significant cost-effective technclogy-based products or services.

The front cover of this report is a collage by Canadian artist Paul Garbett conveying an impression of the range of businesses in which MDS is engaged; the strength of the investments; and the pioneering represented by its funding of new technologies. These three business thrusts provide the themes for collages appearing on inside pages of this report. Another collage in the report suggests the variety of employee activities and the contribution the people of MDS make in the health care field.

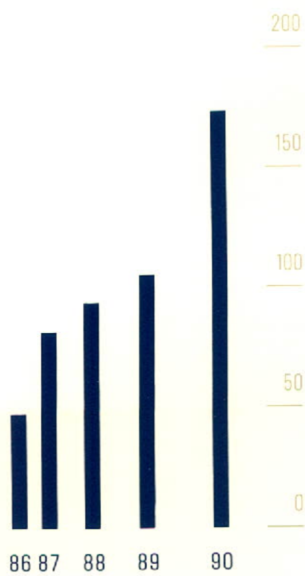
The mission of MDS is to be a premier provider of services and products that contribute to the health and well-being of people.

Years ended October 31 and stated in thousands of dollars	**1990**	**1989**
Net revenues	$ 294,669	$ 224,557
Net income	13,100	10,890
Shareholders' equity	172,116	103,238
Total assets	337,413	253,687
Long term debt as a percentage of capital employed	31%	43%
Current ratio	1.9:1	1.7:1

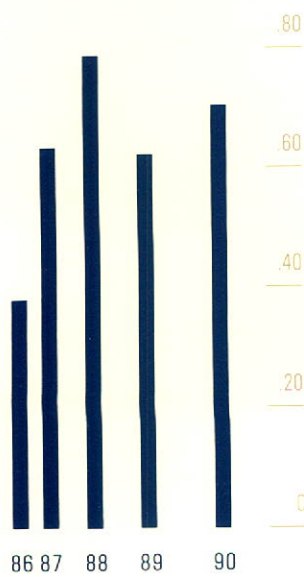
Net Revenue
(in millions of dollars)

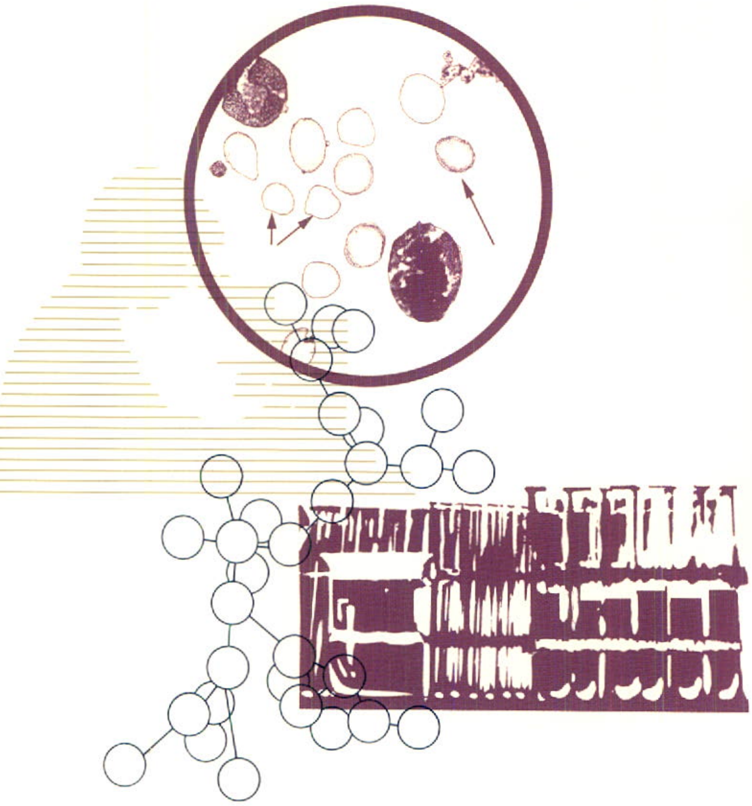


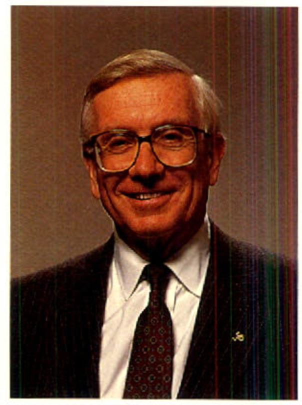
Shareholders' Equity
(in millions of dollars)



Earnings Per Share
(in dollars)







While MDS has in the past experienced generally consistent year-to-year growth in revenues and earnings, the results for fiscal 1990 stand out because the improvement came from virtually all parts of the company.

In spite of slowdowns in both the U.S. and Canadian economies during much of 1990, the core business, diagnostic laboratory testing and related health assessment services, and the other strategic businesses of MDS all expanded their activities. At the same time the company continued its future-oriented program of investing in embryonic companies with innovative technologies which could contribute to improvements in the future delivery of health care.

The increase of 31% in revenues and 20% in net income for the year ended October 31, 1990, was due in part to the consolidation of the results of a number of acquisitions completed during the year. Earnings per share rose by 13%, from 62 cents in fiscal 1989 to 70 cents in 1990.

Perhaps the greatest testimony to the company's progress and its status in the economy was its successful $57.5 million net equity financing in the summer of 1990. This issue of non-voting shares, done in a period of economic downturn, indicates a positive marketplace view of the people and of the operational strengths and prospects of MDS.

With this equity financing the company strengthened further its already good financial position. The working capital ratio of 1.9 at year end was up from 1.7 a year earlier. Long-term debt was reduced relative to capital employed and ample credit facilities are in place, so that MDS is positioned to act as growth and acquisition opportunities arise.

Laboratory operations in the United States made a marginal contribution in 1990. This development was most welcome, but results are still less than satisfactory. Significant reorganization in 1990 followed a study focussed on simplifying operations. In the U.S., consolidation of Cybermedix laboratory operations, which MDS acquired early in 1990, moved forward during the year and will be completed in 1991. This reorganization and consolidation, along with improved facilities, including the expansion of computer capabilities, contributed to improved results and should lead to continuing improvements in 1991.

MDS also acquired the Cybermedix laboratory operations in Saskatchewan and Quebec and Metro-McNair Laboratories, in which MDS holds a 50% equity position, purchased laboratories in Alberta and in Saskatchewan.

Pressure in all divisions to restrain costs and to operate with maximum efficiency remained intense. This was particularly the case in the laboratory operations. Government health insurance agencies and private insurers have kept laboratory fee increases at levels far below the rate of inflation which has applied to health care budgets generally, and well below the percentage increases in salary and other costs experienced by the private diagnostic laboratories.

MDS has responded by seeking to expand business volumes through internal growth and acquisitions and by emphasizing efficiency and cost restraint in all its operations.

During fiscal 1990 a broad-scale simplification project was undertaken in the Canadian laboratory operation as well as in other parts of MDS. The objective was to re-examine procedures, methods and operating patterns; to decentralize decision-making in order to serve clients more effectively; to eliminate duplication and counter-productive activities; to identify retraining needs and opportunities for redeployment of people; and to do so while continuing the MDS commitment to its value system.

That value system is founded on mutual trust and competence, and includes the concept of balance between work and home life and the concept of simplicity. Appropriately, the MDS definition of simplicity has always included common sense. This was the essence of the Simplification Program, which was carried out primarily by an employee consulting team and with extensive involvement of employees throughout the organization.

The Sciex Division, through its joint venture with Perkin-Elmer, was successful in 1990 in penetrating the international pharmaceutical research and manufacturing market with its API III Mass Spectrometry analyzers. At the 1990 fiscal year-end there was a backlog of orders, with some firms following up initial purchases with further orders.

Ingram & Bell, which markets medical and health care products across Canada, made two acquisitions in fiscal 1990. In 1991, the first full year of post-acquisition operations, sales of approximately $170 million are anticipated. This compares with sales of slightly under $80 million in fiscal 1989, prior to the acquisitions.

MDS completed the 1990 fiscal year with its organization well adapted to the competitive and operational needs of the new decade and with a continued commitment by its employees to carry forward with innovation, growth and constantly increasing efficiency.

The Directors are conscious of and deeply appreciate the exceptional efforts of the people of MDS Health Group and its affiliated companies in the past year and through the 21 years since the founding of MDS.

W. G. Lewitt
President
January 14, 1991

The core business of MDS Health Group is the provision of community-based diagnostic and health assessment services which support and assist physicians and other health care providers in serving patients. The continued growth of this strong core business is based on expansion into new areas and the development of complementary new services.

In addition to its core business activities, the company seeks growth through investment, direct and indirect, in the development and provision of health-related products

Core Businesses

MDS Laboratories

- outpatient clinical laboratory testing, cardiovascular diagnostics, specialized reference testing and management of hospital laboratories

MDS Diagnostic Imaging

- ultrasound and X-ray services

Medical Arts Laboratory (1989) Ltd.

- outpatient clinical laboratory testing

CMX Laboratories Inc.

- outpatient clinical laboratory testing

Cybermedix (Quebec) Ltd.

- outpatient clinical laboratory testing

Metro-McNair Clinical Laboratories Limited Partnership (50%)

- outpatient clinical laboratory and specialized reference testing

MDS Hudson Valley Laboratories Inc. (50%)

- specialized reference testing and management of hospital laboratories

MDS Industrial Hygiene Services

- trace contaminants analyses for industrial and environmental pollutants

MDS Executive Clinics

- executive health assessments

MDS Insurance Paramedical & Laboratory Services

- insurance industry health assessments

Evans Occupational Health Services Limited (50%)

- industrial medical clinic

AMBA

- community health assessment programs

Strategic Investments

SCIEX*

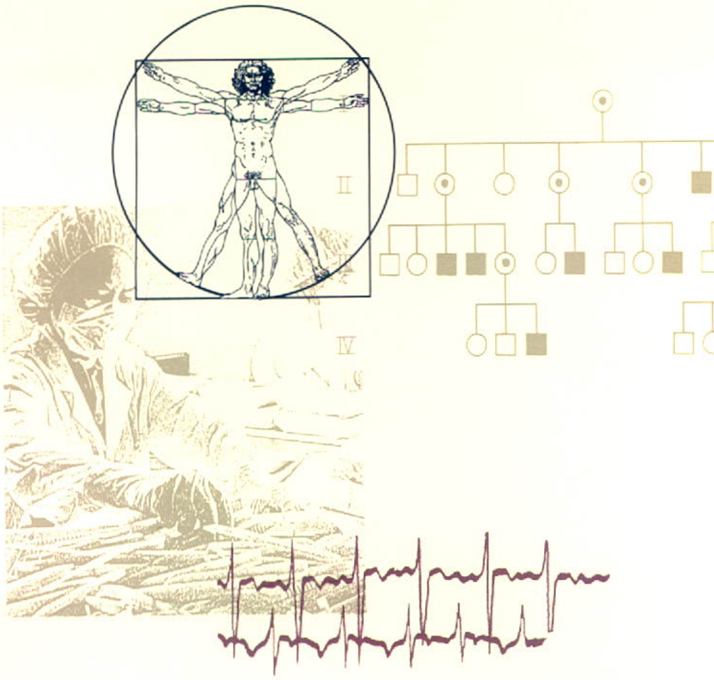
- mass spectrometry-based equipment for trace contaminants analyses in clinical, environmental, occupational health, forensic sciences and security fields

Ingram & Bell Inc. (49%)

- manufacture and distribution of medical equipment and supplies for hospitals, physicians and the home care market

Note: MDS ownership 100% except where otherwise indicated

*SCIEX is a registered trademark of MDS Health Group Limited and services which are compatible with the MDS corporate mission. Investments are made both in well-established firms and in embryonic companies engaged in the development and marketing of innovative, technology-based products and services.



Health Development Services

- medical office buildings

ABEL Computers Ltd. (20%)

- automated billing service for doctors and dentists

Fortress Scientific Limited

- wheelchairs and mobility devices for the physically handicapped

Technology Funding

Health & Research Services Inc. (50%)

- technology transfer and commercialization at Toronto Hospital of orthopaedic prostheses and enzyme chemistry diagnostics

Hemosol Inc. (30%)

- development of a universal hemoglobin-based red blood cell substitute

MDS Health Ventures Inc. (37%)

- venture capital for health-related technologies

Current investments by MDS Health Ventures include:

ADI Diagnostics Inc.
— tests for infectious diseases

CME Telemetrix Inc.
— non-invasive diagnostic devices

Ethical Pharmaceuticals U.K.
— development of novel drug delivery systems for pharmaceuticals

3C Rehabilitation Technologies Inc.
— treatment devices for patients suffering chronic pain

Columbia Centre for Integrated Health Services Ltd.
— reactivation and functional restoration for chronic work-related injuries

Andronic Devices Ltd.
— advanced robotics for health care applications

Automed Corporation
— laboratory automation technology

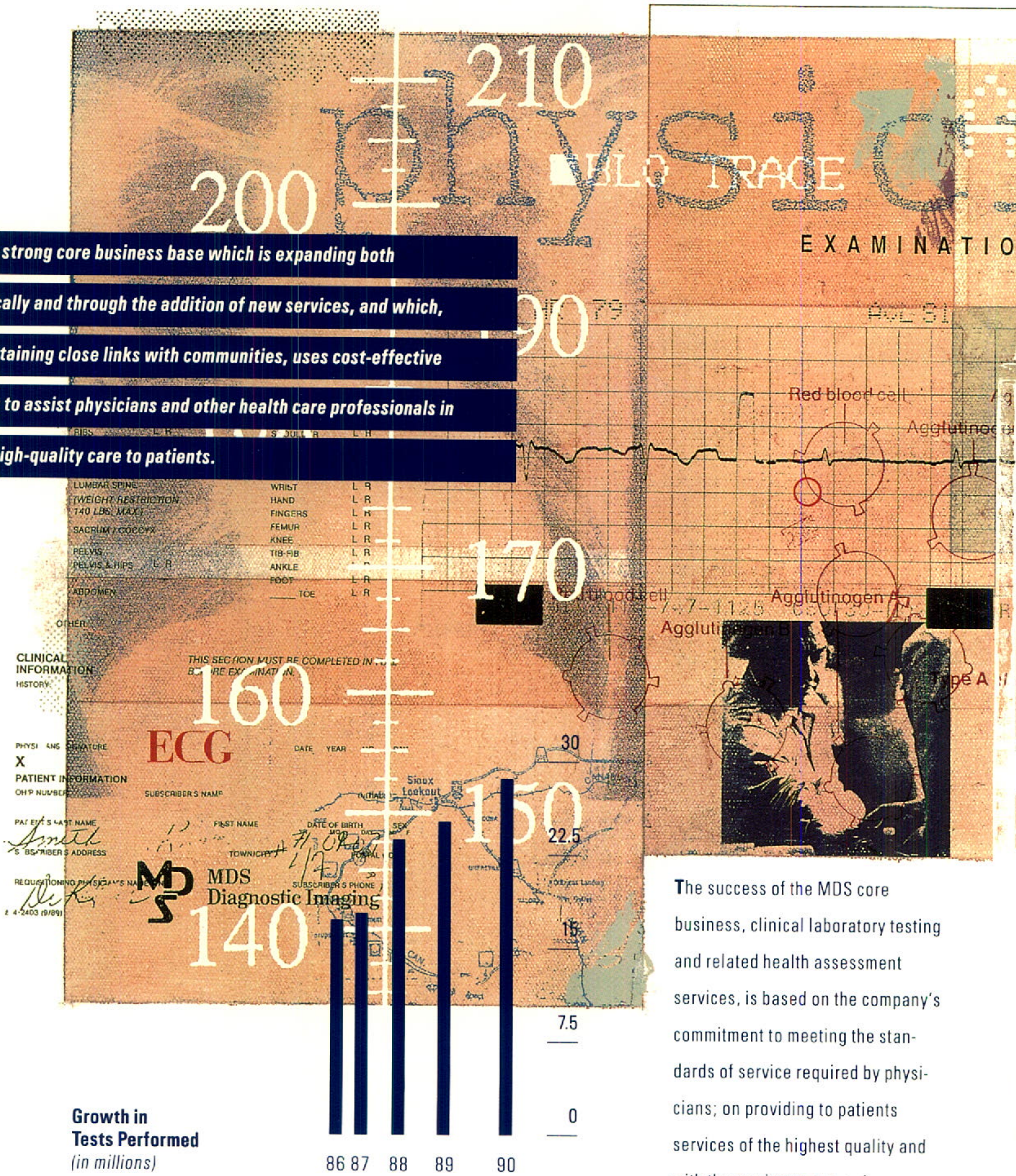
ISG Technologies Inc.
— three-dimensional medical imaging workstations

Referral Systems Group
— a 24-hour telephone health information and referral service staffed by registered nurses

Allelix Biopharmaceuticals Inc.
— development, through collaborative research, of new biopharmaceutical products

Hemosol Inc.
— development of a universal hemoglobin-based red blood cell substitute

MDS has a strong core business base which is expanding both geographically and through the addition of new services, and which, while maintaining close links with communities, uses cost-effective technology to assist physicians and other health care professionals in providing high-quality care to patients.

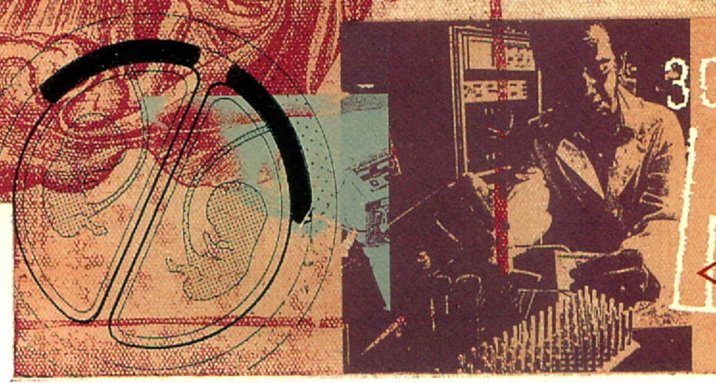


Growth in Tests Performed
(in millions)

Physician Services	Locations
Outpatient Clinical Laboratories	438
Outpatient Cardiovascular Diagnostics	347
Outpatient Diagnostic Imaging	22

The success of the MDS core business, clinical laboratory testing and related health assessment services, is based on the company's commitment to meeting the standards of service required by physicians; on providing to patients services of the highest quality and with the maximum convenience; and on the realization that in order to provide satisfactory and cost-effective service, it is essential to monitor advances in technology and to adopt those that are appropriate. MDS also offers technical and scientific assistance and guidance to those responsible for diagnostic testing and related decisions in order to restrain utilization and avoid the prescribing of inappropriate tests and services.

The laboratory and other elements of the core business, including mobile X-ray, ultrasound, ECG and other diagnostic services, are organized under the Physician Services Division, the largest division of the company. MDS is Canada's largest operator of clinical laboratories and one of the six largest in North America. The division has operations, directly or through joint ventures, in six provinces of Canada and three states of the U.S. During the year, more than 10,000 physicians referred patients to MDS diagnostic services in their own communities. Most services are provided at MDS laboratory and specimen collection centre facilities, but on approximately 700,000 occasions during the year MDS personnel provided service in patients' own homes or in nursing homes or other long-term care institutions.

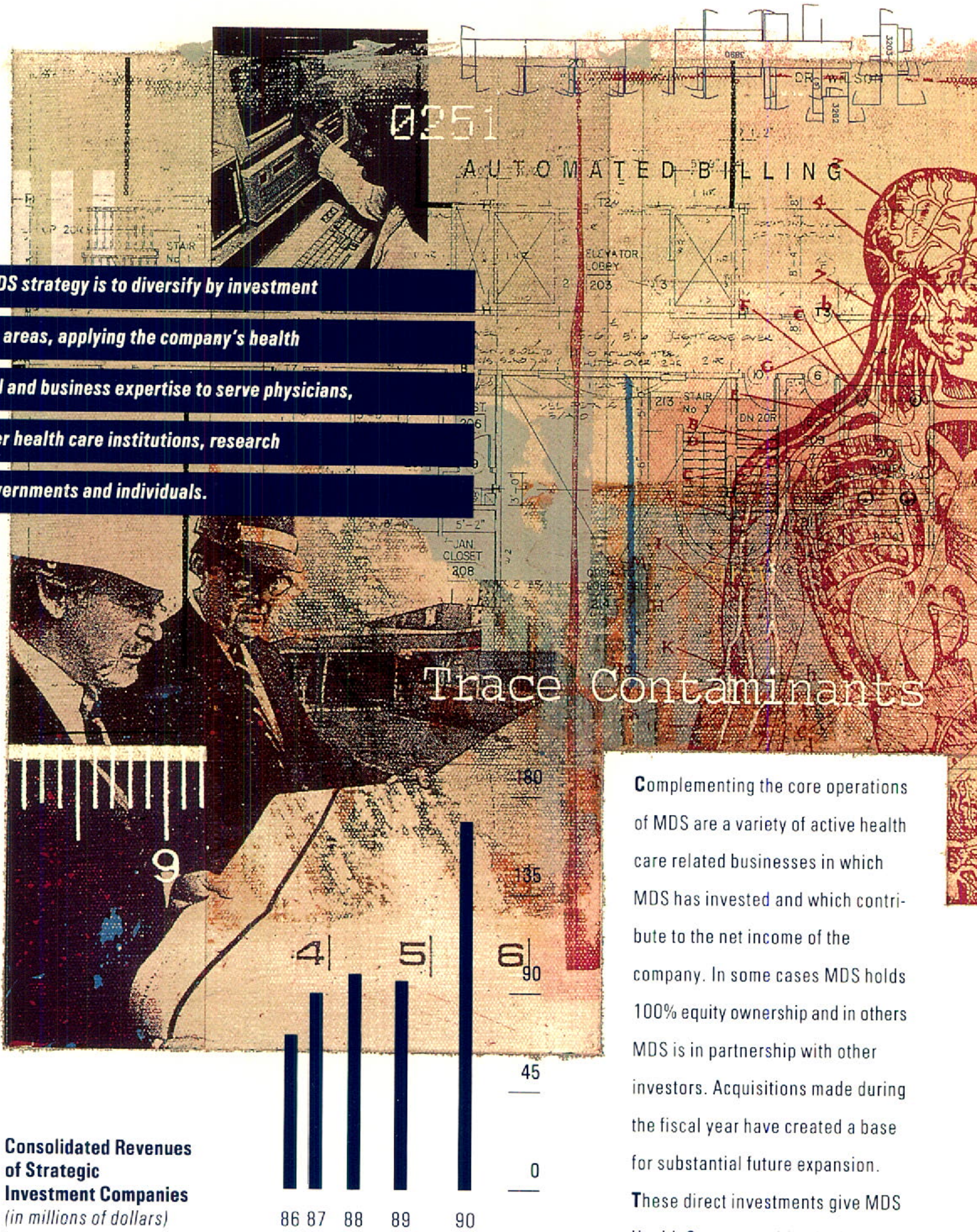


Fees for services are paid primarily by government agencies or private insurers on behalf of patients. Over the past five years the average fee increase has been far below the levels of the increases in salaries and other costs, which have risen at or faster than the rate of inflation. The company has met this serious challenge in two ways: by extending and expanding services and by implementing effective technologies which help reduce costs while maintaining and enhancing the quality of the company's services and procedures. During 1990 the Division, along with other MDS Divisions, has carried out a Simplification Program designed to identify and eliminate any outdated or unnecessarily complex and costly activities and methods.

The MDS commitment to meeting its full responsibilities in its industry involves some services — in particular those provided in the home and those delivered in remote locations — which do not entirely cover the costs involved. However, the satisfying of these needs reinforces the recognition of the company as an integral and committed participant in the health care system.

In addition to its basic services, the Division also assists a number of hospitals in the organization and management of laboratory services. Corporate and industrial clients engage the company for a variety of health assessment and health education programs. In the United States, community and workplace health screening programs and environmental testing programs are offered.

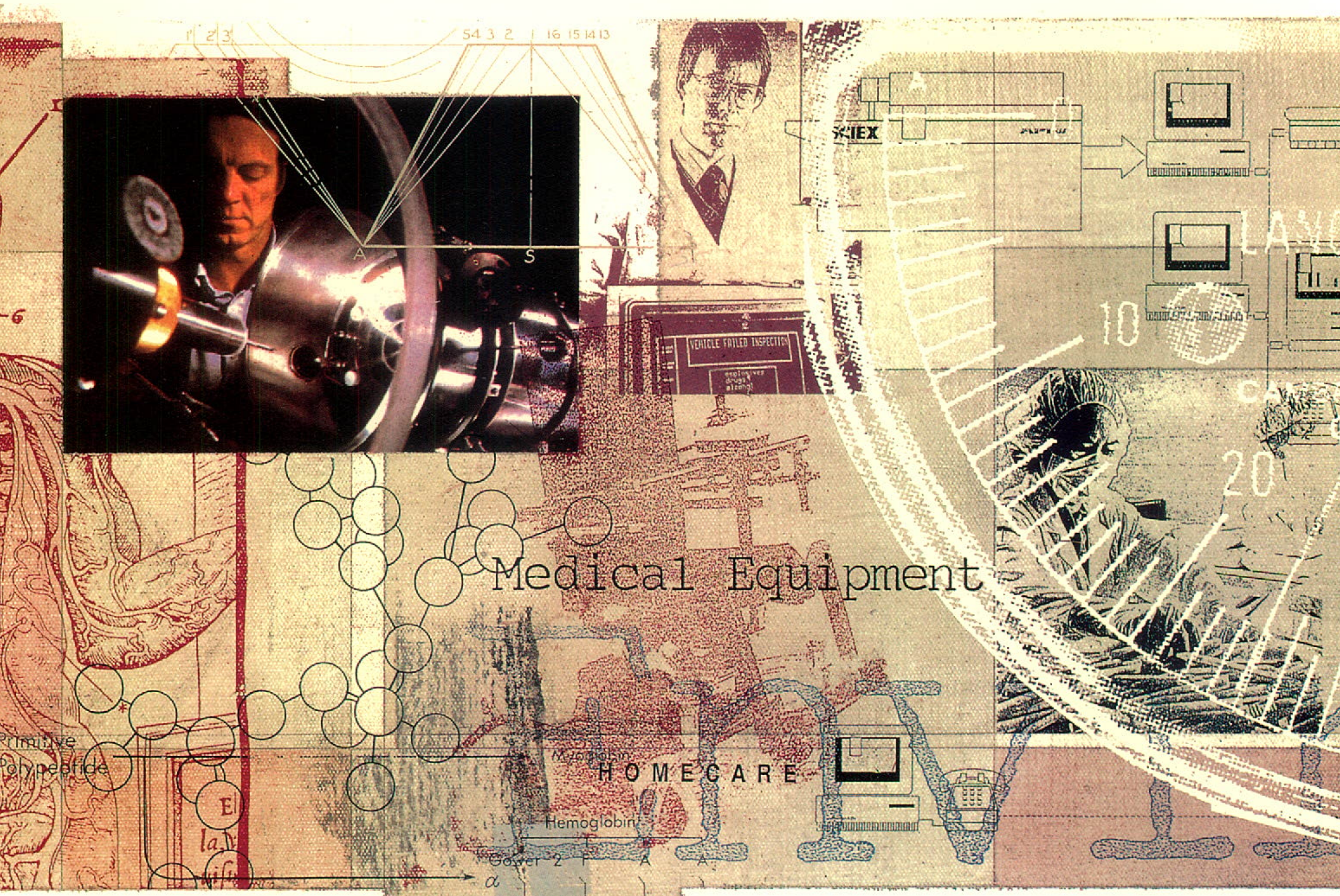
A fundamental MDS strategy is to diversify by investment in complementary areas, applying the company's health care technological and business expertise to serve physicians, hospitals and other health care institutions, research organizations, governments and individuals.



Consolidated Revenues of Strategic Investment Companies
(in millions of dollars)

Strategic Investment Companies	Employees
SCIEX	136
Ingram & Bell	753
HDS, ABEL, Fortress	134

Complementing the core operations of MDS are a variety of active health care related businesses in which MDS has invested and which contribute to the net income of the company. In some cases MDS holds 100% equity ownership and in others MDS is in partnership with other investors. Acquisitions made during the fiscal year have created a base for substantial future expansion. **T**hese direct investments give MDS Health Group a position in the manufacture and distribution of products for physicians, hospitals and home care markets; in the development of new technologies and equipment which are proving valuable in pharmaceutical research and development and which aid in the detection of trace contaminants that can be harmful to health; in the construction of



Medical Equipment

medical office buildings; in the provision of computer equipment and software used by physicians and other health care professionals in their practices; and in the manufacture and distribution internationally of wheelchairs and other mobility devices for the physically disabled.

The five operating organizations in which MDS is a direct investor employ more than 1,000 people and in the fiscal year had total revenues of more than $150 million. The results of only the wholly-owned subsidiaries are consolidated with the reported results of MDS.

Ingram & Bell is a leading Canadian distributor of medical supplies — more than 80,000 different products ranging from thermometers to highly sophisticated analytical and diagnostic equipment. The company employs over 700 people and operates through 14 distribution centres across the country, serving hospitals, physicians and home care markets. MDS holds a 49% equity position and has an option to acquire the balance.

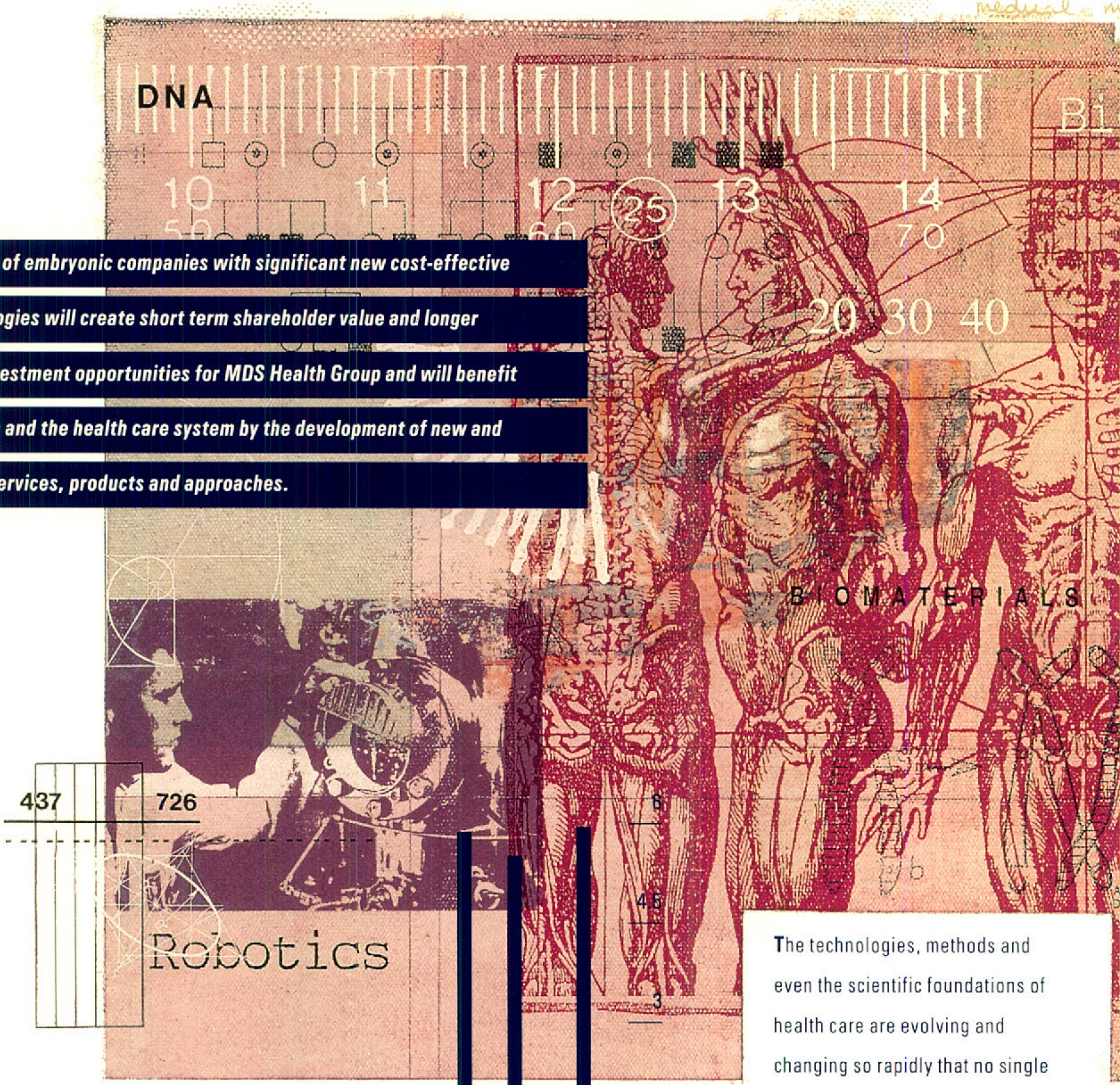
For the wholly-owned Sciex Division of MDS, fiscal 1990 brought important breakthroughs. The division established itself as a supplier of its advanced mass spectrometry equipment to a number of the world's leading pharmaceutical firms, some of which have followed up their initial purchase of the SCIEX API III analyzer with repeat orders. Other Sciex equipment is used around the world by governments and industry in such applications as environmental monitoring, biotechnical and industrial research and contraband detection. Development of the API III was assisted by a $35.8 million research program financed equally by MDS and the Ontario Technology Fund, an Ontario Government initiative. The program was established in 1987.

Health Development Services develops medical office buildings in Canada and the United States. MDS in fiscal 1990 increased its ownership share of the former HDS partnership from 50% to 100%.

Through ABEL Computers Ltd., in which it holds a 20% equity interest, MDS is involved in providing automated billing services to more than 3,000 users, primarily physicians and dentists. The growing computer network has the potential to provide a broader range of services in the future.

In September 1990, MDS acquired 100% ownership of Fortress Scientific, which manufactures and distributes wheelchairs and other mobility devices for the physically disabled. Fortress operates in both Canada and the United States. This acquisition is consistent with the objective of MDS to expand its presence in the growing home health care and independent living markets.

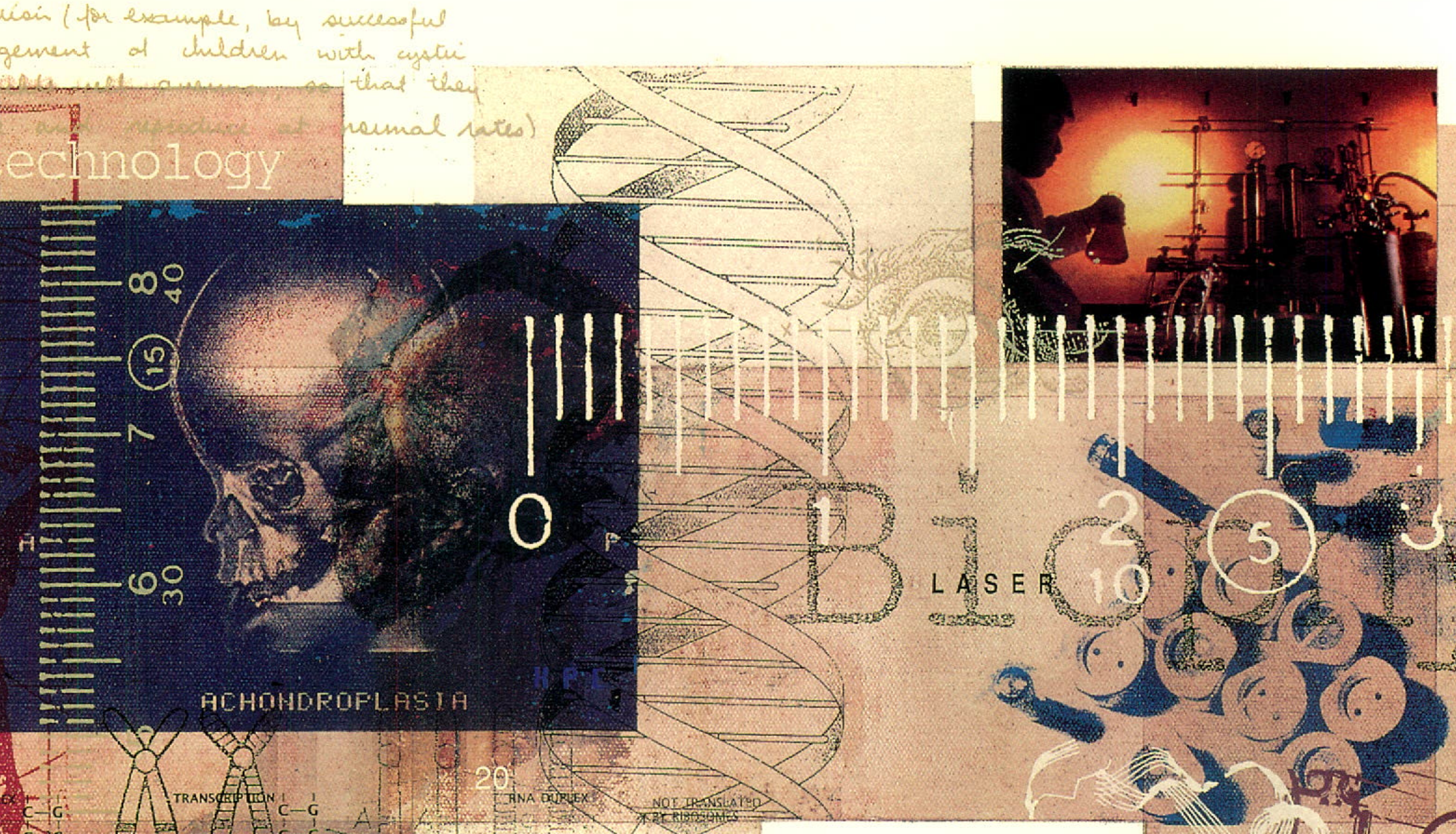
Support of embryonic companies with significant new cost-effective technologies will create short term shareholder value and longer term investment opportunities for MDS Health Group and will benefit patients and the health care system by the development of new and better services, products and approaches.



Growth in Technology Funding
(in millions of dollars by calendar year)

Investee Company Sales Revenues	Companies
Less than $1,000,000	2
$1,000,000 — $5,000,000	5
$5,000,000 or greater	4

The technologies, methods and even the scientific foundations of health care are evolving and changing so rapidly that no single company can hope to participate in more than a few initiatives at a time. MDS has opted for the broadest possible approach by investing, usually with financial partners, in a variety of early stage companies working on innovative products or services in the health care field. MDS believes that as a Canadian-based company, it can contribute materially to the development of a Canadian health care industry, capable of serving both domestic and international markets, and of providing additional employment in the Canadian economy.



In selecting investments, MDS is particularly conscious of the need for new approaches in health care which offer positive benefits to the clients of the health care system and which can also assist in improving the efficiency of the system and in restraining the overall growth in health care costs.

Through Health & Research Services Inc., a joint venture with the Toronto Hospital, the company is involved in the development of advanced new products in the fields of orthopaedic prostheses and enzyme chemistry diagnostics.

Hemosol Inc. has unique patented purification processes and product technology for the development of a commercially viable oxygen-carrying blood substitute. There are numerous applications for this new acellular oxygen carrier, including specialized applications such as angioplasty and organ perfusate. This new transfusion fluid, if successful, will make an enormous contribution to health care and will reduce contamination hazards and matching problems associated with blood transfusions. In addition to the MDS Health Ventures investment in Hemosol, MDS Health Group directly holds a 30% equity position.

Most of the MDS innovative technology investments are made through MDS Health Ventures Inc., a venture capital company established by MDS and a group of leading financial firms and investment funds. The partners plan to expand the initial capital of $23.5 million during fiscal 1991. Areas of particular interest for future investment include technology-assisted self-care aids for independent living for the handicapped and elderly, environmental health systems and products, health information programs and rehabilitation services management.

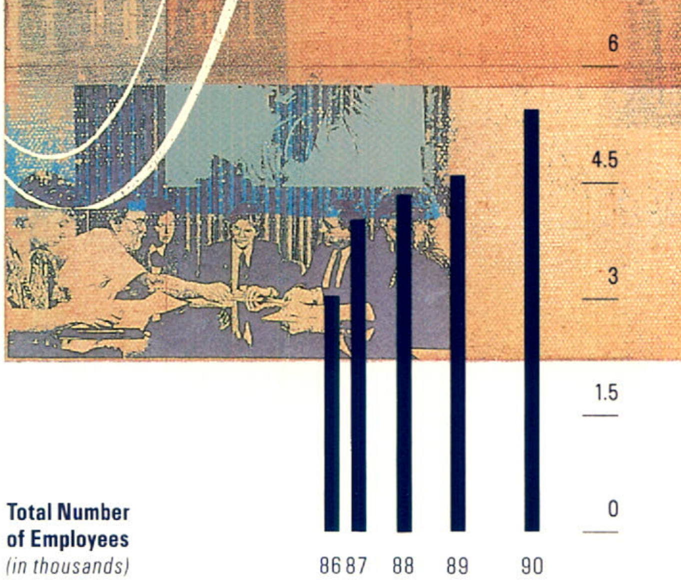
During fiscal 1990 MDS Health Ventures made six investments:

- Columbia Center for Integrated Health Services Ltd.
- Andronic Devices Ltd.
- Automed Corporation
- Referral Systems Group
- Allelix Biopharmaceuticals Inc.
- Hemosol Inc.

Investments made previously by MDS Health Ventures include:

- ADI Diagnostics Inc.
- CME Telemetrix Inc.
- Ethical Pharmaceuticals U.K.
- 3C Rehabilitation Technologies Inc.
- ISG Technologies Inc.

The company recognizes individual efforts and distinctive talents, encourages continued education, stresses teamwork, mutual trust and openness, fosters a sense of partnership with health care professionals and offers all employees the opportunity to participate in the ownership of the company and in the planning and policy development processes.



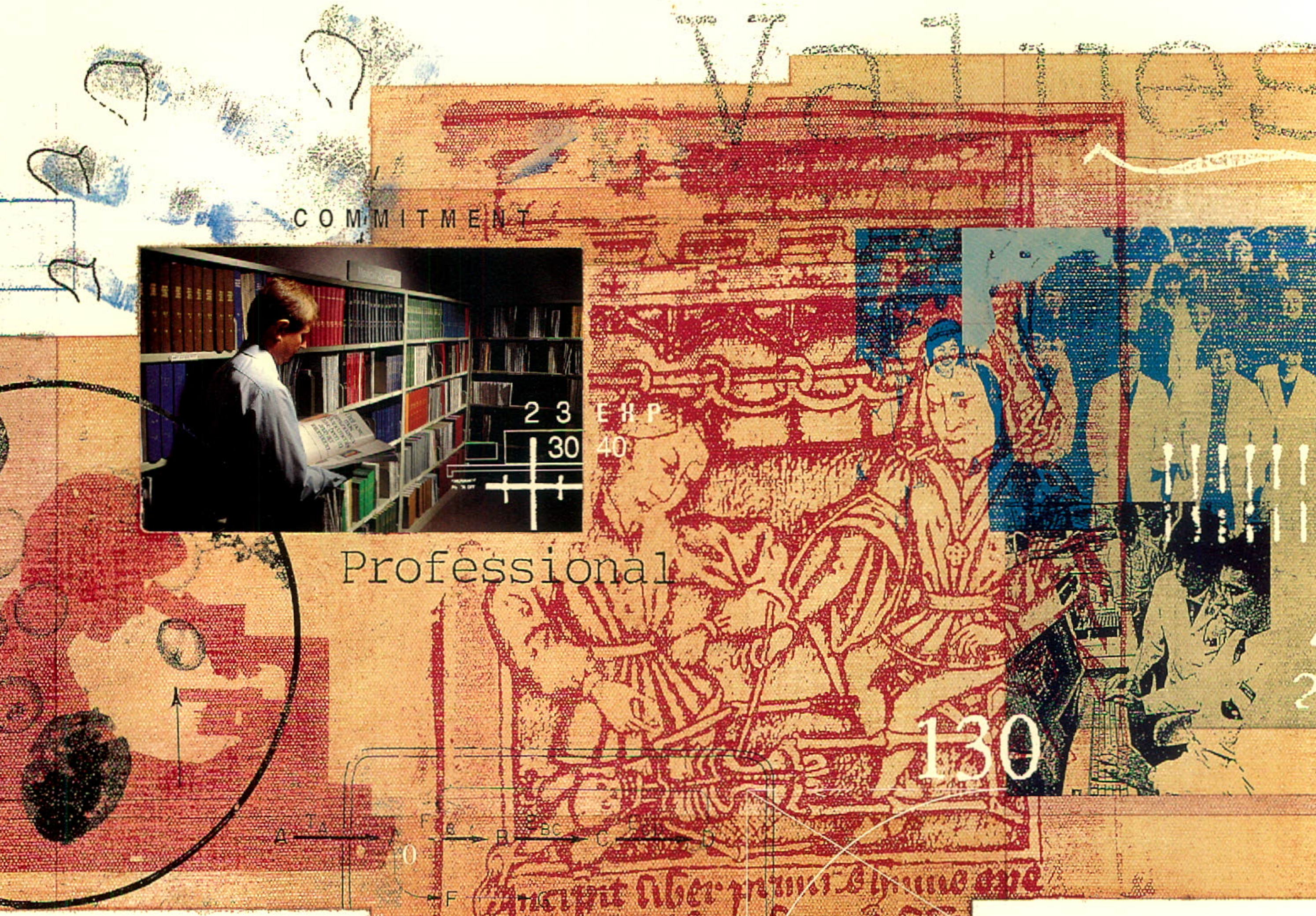
Total Number of Employees
(in thousands)

The employees of MDS own 27% of the voting shares in the company, making the employee group, through the Deferred Profit Sharing Plan, the largest shareholder in the company. That is symbolic of the involvement of the people of MDS in all aspects of the company and a fundamental reason for its success and growth.

Because the health care field is under close scrutiny from physicians, patients, government and private insurers, the public and the media, the attitudes and sense of commitment of the people who work in it are especially important. MDS selects competent, caring people and tries to create the conditions in which they can work with excellence, accomplishing, in sporting terms, their "personal best."

Employees and Consultants

Physicians	125
Nurses	402
Scientists and Technologists	1,682
Administrative Staff	3,245



When the time came in 1990 for a reassessment of operations — a Simplification Program — responsibility was put in the hands of an employee team. Expert help from outside was made available, but the leadership came from the people of MDS, assuring that the values and traditions of the organization would not be forgotten in the search for better ways of doing business. While it cannot be said that decisions on changes in jobs and responsibilities were always welcomed, it can be said that they were always reached through widespread employee consultation.

Consultation is institutionalized in MDS. Employee Assemblies bring employees, selected by vote of their colleagues, together every two years for discussion of issues raised by employees themselves. An elected Employee Council functions between Assembly meetings. It discusses employee concerns and raises them with management in regular meetings.

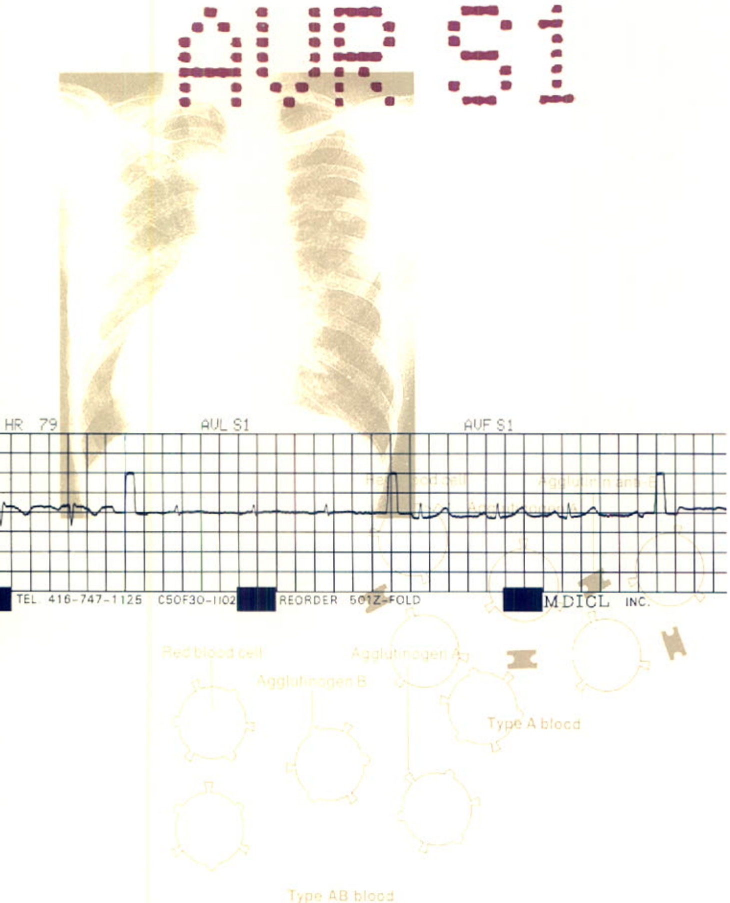
Visitors comment on the high morale and enthusiasm of MDS people, a reflection of the company's determined effort to recognize individual efforts and distinctive individual talents and approaches, to pay competitive salaries, provide excellent benefits and encourage continuing education.

Teamwork is stressed and mutual trust and openness are important elements of the value system which guides decision-making and day-to-day operations in the company.

The MDS role in the health care field involves a close working relationship between medical professionals and business administrators. The commitment to a productive "professional partnership" is part of the basic corporate philosophy which has resulted in a high level of service to patients, physicians and other clients by teams of people who have different skills but who work harmoniously and effectively together.

Rapid technological advances in the health care field, combined with the requirement of all participants in the field to operate as cost-effectively as possible, present the employees with constant new challenges. Training programs are offered to enable employees to upgrade skills and to adapt to these new job challenges.

Beyond organizational structures and technical skills is the need to serve people with sensitivity, dedication and respect. That, above all, is the great strength of the people of MDS.



Results of Operations

Revenues and net income for the fiscal year ended October 31, 1990 increased 31% and 20% respectively over fiscal 1989. While all operating divisions performed above the previous year's levels, revenues and net income also increased significantly due to the consolidation of the results of a number of laboratory acquisitions in Canada and the United States completed during the year. These acquisitions resulted in additional revenues in fiscal 1990 of approximately $51 million.

Operating income amounted to $47.3 million, or 16% of net revenues, compared to $32.5 million, or 14.5% in the previous fiscal year. The increased percentage return is mainly due to a turn-around in consolidated U.S. operations which recorded operating income of $1.2 million for the year as compared to a $2.3 million loss in 1989. This improvement is attributed primarily to an increase in operating efficiency in the new central reference laboratory facility in Williamsville, New York; greater emphasis on cost control; and the consolidation of CMX Laboratories, acquired earlier in the year. The integration of MDS and the CMX U.S. operations will continue through the first half of fiscal 1991.

Depreciation and amortization charges were higher in fiscal 1990 as a result of the higher fixed asset base from the acquisitions, and of the amortization of additional goodwill. The company continued its policy of investment in up-to-date laboratory equipment and upgrading of its facilities with total capital expenditures amounting to $15.2 million (1989 – $18.9 million).

Interest costs of $19.8 million were significantly higher than the $7.8 million in the previous year, primarily due to the increased financing requirements for the acquisitions. These costs were partially offset by higher interest income earned on the proceeds of the Special Warrants issue which occurred on July 31, 1990 and on certain U.S. term deposits.

The company's share in earnings of significantly influenced companies declined by $.7 million in 1990. The decline was attributed to delays associated with the acquisition by Ingram & Bell Inc., a 49% investee of the company, of Mavtech, a public Quebec-based company. A majority interest in Mavtech was acquired in December, 1989 and in May, 1990 the remaining minority shares of Mavtech were purchased. Mavtech was then privatized and programs to integrate the Mavtech operations were implemented. This delay in acquiring the minority interest and in the subsequent integration of Mavtech operations had a negative impact on Ingram & Bell earnings. The completion of operations rationalization by the end of fiscal 1991 is expected to restore Ingram & Bell earnings to historical levels.

Income taxes of $8 million represent an effective rate of 38% compared to 42% in 1989. Income taxes in Canada were provided for at an effective rate of approximately 44.3%. Income taxes in the United States were not significant due to the utilization of available tax loss carry-forwards.

Net income of 70 cents per share, compared to 62 cents in 1989, is reflective of the company's growth and of the improvements achieved in its basic operations. Management's current outlook for 1991 is for a continuation of historical profit patterns. With reasonable fee increases in the company's clinical laboratory business; continued investment in state-of-the-art technology; and operating cost controls, the company expects to maintain satisfactory returns. The company will also continue to explore appropriate acquisition opportunities to complement its existing business base.

For the year ended October 31, 1990, the company paid cash dividends of 10 cents per Class A Common Share and 12.5 cents per Class B Non-voting Share, which is consistent with the company's historical dividend payment patterns.

Acquisitions

In January, 1990, the company completed its acquisition of the shares of Cybermedix Inc. subsidiaries in Quebec, Saskatchewan and New York State, primarily in exchange for cash advances made during fiscal 1989. In December, 1989, the company, through Metro-McNair Clinical Laboratories of Vancouver, acquired the operations of Calgary Medical Laboratories in Alberta. Metro-McNair also acquired a number of small laboratories in Regina, Saskatchewan to complement those purchased late in the previous year. The total consideration paid for these acquisitions, as well as for several smaller laboratories and other companies, amounted to $90.4 million. The excess purchase consideration over the net assets acquired, at assigned values, which totalled $64.9 million, has been accounted for as goodwill. The integration of the new laboratory operations in the United States and Western Canada was a major management focus during 1990.

The company also acquired all of the outstanding shares of the Fortress group of companies, subsidiaries of Mediquip Health Care Inc., for a total cash consideration of $7 million. The Fortress group, with revenues of approximately $25 million, manufactures manual and power wheelchairs and other mobility devices in North America and distributes these products world-wide. This acquisition will complement the existing medical equipment and supplies distribution activities carried on by Ingram & Bell. No revenues or expenses from this acquisition have been recorded in 1990.

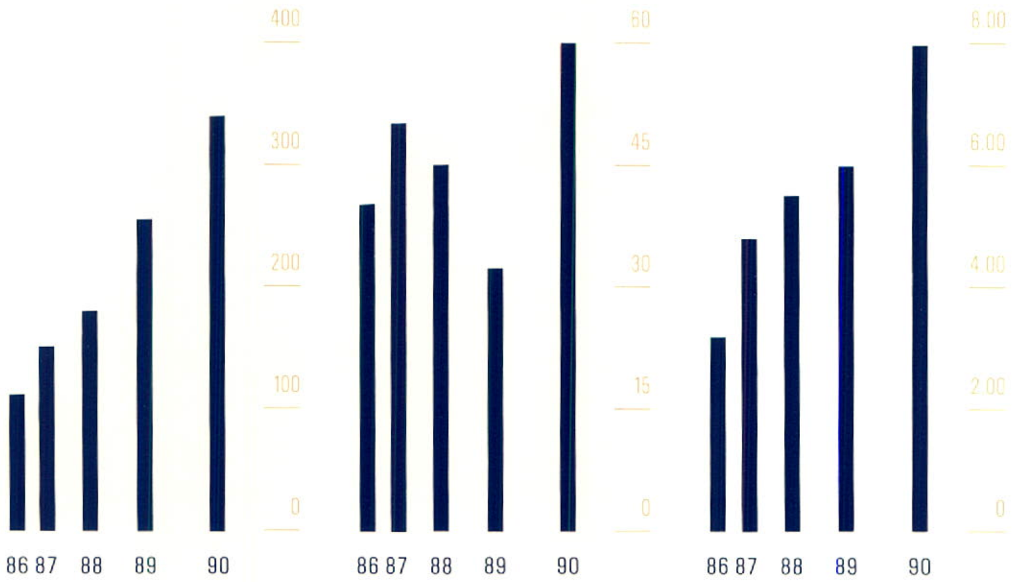
Liquidity and Capital Resources

The company's financial strength continued to improve during 1990. Working capital increased to $59.9 million at October 31, 1990 from $32.2 million at October 31, 1989, resulting in a working capital ratio of 1.9 compared to 1.7 at the previous year-end. As well, the ratio of long term debt to capital employed decreased from 0.43 in 1989 to 0.31 at the end of the current fiscal year. These improvements were due to additional cash provided by operating activities and to net proceeds of $57.5 million from a Special Warrants issue at the end of the company's third quarter. The proceeds of this issue were used to repay long term debentures in the amount of $30 million, with the remainder being applied against short term bank indebtedness. The company enters 1991 with cash and term deposits of $22 million, a liquid marketable securities portfolio of $21.4 million, a $55 million operating bank line of credit, of which only $20 million is being used on a consistent basis, and $85 million of long term bank debt. This financial strength will enable the company to take advantage of appropriate growth opportunities and provide a solid base for the funding of existing operations.

Total Assets
(in millions of dollars)

Working Capital
(in millions of dollars)

Book Value Per Share
(in dollars)



The company entered its 1991 fiscal year in a very strong financial position. As at October 31, 1990, total assets amounted to $337 million, of which $172 million were represented by shareholders' equity. $57.5 million of shareholders' equity was provided through the net proceeds of a Special Warrants issue implemented during the year. Working capital of $60 million included a net cash position of $22 million and generated a working capital ratio of 1.9. Long term debt financing consisted of $85 million, or 25.1% of total assets.

The 31% revenue growth in 1990 has been achieved through acquisition and through continued growth in the core business of diagnostic testing services. Over the last five years, between 1986 and 1990, the compounded average annual growth rate of revenues has been 20%, net income 16% and book value per share 23%. The company has achieved an average return on equity of 11.6%.

The company's continued strategy of diversification and investment in complementary businesses will help to ensure a consistent pattern of earnings in the future and strengthen the position of MDS as a contributor to the local and national economies in which it operates. Such diversification during 1990 included the acquisition by Ingram & Bell Inc., a 49% investee of the company, of two of its arms-length competitors. Ingram & Bell, with annual revenues of over $150 million, is now the largest Canadian-owned marketer of medical/surgical and laboratory/scientific equipment and supplies and of home care products to health care institutions, physicians and individuals.

The Fortress group of companies, which were acquired by MDS at the end of fiscal 1990, have provided the company with a $25 million worldwide revenue base in the manufacture and distribution of wheelchairs and other mobility devices.

Consolidated Financial Statements – October 31, 1990

(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 encompasses an understanding and evaluation by the auditors of the company's accounting and internal control systems 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.

Ernst & Young, 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, 1990, and have reported thereon in their December 17, 1990 report as set out below.

TO THE SHAREHOLDERS OF MDS HEALTH GROUP LIMITED:

We have audited the consolidated statement of financial position of MDS Health Group Limited as at October 31, 1990 and the consolidated statements of income, retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at October 31, 1990 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.

Mississauga, Canada
December 17, 1990

Ernst & Young
Chartered Accountants

CONSOLIDATED STATEMENT OF INCOME

for the year ended October 31, 1990 *(thousands of dollars)*	1990	1989
Net revenues	$ 294,669	$ 224,557
Operating income before the following	47,251	32,478
Depreciation and amortization	(14,266)	(10,219)
Interest expense - long term	(15,447)	(5,010)
- other	(4,375)	(2,814)
Dividend and interest income	7,073	3,012
Share in earnings of significantly influenced companies	2,827	3,575
Minority interest	(1,994)	(2,263)
Income before income taxes	21,069	18,759
Income taxes - current	7,734	9,377
- deferred	235	(1,508)
	7,969	7,869
Net income	$ 13,100	$ 10,890
Earnings per share	$ 0.70	$ 0.62

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the year ended October 31, 1990 *(thousands of dollars)*	1990	1989
Retained earnings, beginning of year	$ 57,968	$ 48,809
Net income	13,100	10,890
Dividends - cash	(2,192)	(1,702)
- stock	(33)	(29)
Retained earnings, end of year	$ 68,843	$ 57,968

(See accompanying notes)

as at October 31, 1990 *(thousands of dollars)*	1990	1989
Current Assets		
Cash and term deposits	$ 22,398	$
Marketable securities	21,357	21,689
Accounts receivable	55,112	46,342
Inventories (Note 2)	15,091	9,969
Income taxes recoverable	5,026	
Prepaid expenses	3,106	1,392
Deferred income taxes	$ 843	1,628
	122,933	81,020
Current Liabilities		
Bank indebtedness (Note 6)	20,266	27,669
Accounts payable & accrued liabilities	31,510	18,522
Current portion of long term debt	11,243	2,144
Income taxes payable		453
	63,019	48,788
Working Capital	59,914	32,232
Fixed assets (Note 3)	63,013	48,546
Other assets (Note 4)	54,380	89,727
Goodwill (Note 5)	97,087	34,394
Capital Employed	$ 274,394	$ 204,899
Represented by:		
Long term debt (Note 6)	$ 84,646	$ 87,474
Deferred income taxes	873	1,213
Minority interest	16,759	12,974
Shareholders' Equity		
Share capital (Note 7)	103,273	45,270
Retained earnings	68,843	57,968
	172,116	103,238
	$ 274,394	$ 204,899
Total Assets	$ 337,413	$ 253,687

(See accompanying notes)

On behalf of the Board:

Wilfred G. Lewitt
Director

Ronald H. Yamada
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended October 31, 1990 *(thousands of dollars)*	1990	1989
Operating Activities		
Net income	$ 13,100	$ 10,890
Add (deduct) items not affecting cash		
Depreciation and amortization	12,055	9,395
Amortization of goodwill	2,211	824
Minority interest	1,994	2,263
Deferred income taxes	235	(1,508)
Share in earnings of significantly influenced companies	(2,827)	(3,575)
Changes in non-cash working capital balances relating to operations	(923)	(14,212)
Cash provided by operating activities	25,845	4,077
Investing Activities		
Acquisitions		
Investment in other companies	(2,845)	(3,169)
Net tangible assets	(19,342)	
Goodwill	(64,904)	(5,989)
Less: Long term debt assumed	37,852	6,150
Cash advances	50,801	
Minority interest	3,024	
	4,586	(3,008)
Advances on long term corporate investment, net of long term debt incurred of $45 million		(3,267)
Purchase of fixed assets	(15,201)	(18,889)
Proceeds on disposal of fixed assets	357	1,633
Increase in other assets	(11,068)	(384)
Distributions from significantly influenced companies	1,986	1,813
Cash used in investing activities	(19,340)	(22,102)
Financing Activities		
Decrease in long term debt	(31,581)	(767)
Payment of cash dividends	(2,192)	(1,702)
Issue of shares	59,574	1,042
Share issue costs	(1,604)	
Minority interest distributions	(1,233)	(1,962)
Cash provided by (used in) financing activities	22,964	(3,389)
Increase (decrease) in cash during the year	29,469	(21,414)
Cash position, beginning of year	(5,980)	15,434
Cash position, end of year	$ 23,489	$ (5,980)

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

(See accompanying notes)

(All tabular amounts in thousands of dollars except where noted)

For the year ended October 31, 1990

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.

Investments in significantly influenced companies and joint ventures are accounted for by the equity method.

Other long term corporate investments are carried at cost. When there is an other than temporary decline in value, the investment is written down to provide for this loss.

(b) Short term investments -

Marketable securities are recorded at the lower of cost and market value. As at October 31, 1990 market value approximates carrying value.

Interest and dividend income is recorded on an accrual basis and capital gains are recorded as realized.

(c) Inventories -

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

(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.

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%
Leasehold improvements	Lesser of 10% or the term of the lease plus all renewal periods

(e) 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 applied to reduce the cost of the related expenditures and is recorded as earned under the terms of the individual agreements. These agreements provide that grants may become refundable if certain unlikely conditions arise.

(f) Amortization of goodwill -

Goodwill arises on acquisitions and is comprised of the excess of amounts paid over the fair value of net tangible assets acquired.

Goodwill acquired is recorded at cost and amortized over forty years. If it becomes apparent that the value of any goodwill component is permanently impaired it will be written down.

(g) Income taxes -

The company follows the deferral method of income tax allocation. Deferred income taxes result from differences in the timing of when amounts charged in the accounts (principally depreciation and receivable allowances) may be claimed for tax purposes.

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.

(h) Foreign currency translation -

All foreign operations are considered to be integrated operations and are translated using the temporal method. The temporal method is also used to translate transactions and balances of the company that are denominated in foreign currencies. Under this method, monetary assets and liabilities, and non-monetary items carried at market values, are translated at the exchange rate in effect at the balance sheet date: other non-monetary items and revenues and expenses are translated at rates in effect at the date of the transaction, except depreciation which is translated at the historical exchange rates applicable to the related fixed assets. Unrealized gains and losses on long term debt are deferred and amortized over the life of the debt.

(i) 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 $0.025 dividend paid on each Class B Non-Voting Share.

2. Inventories

	1990	1989
Raw materials and laboratory supplies	$ 12,987	$ 8,769
Work in process	2,104	1,200
	$ 15,091	$ 9,969

3. Fixed Assets

	1990			1989
	Cost	Accumulated depreciation and amortization	Net	Net
Land	$ 3,647	$	$ 3,647	$ 1,591
Buildings	17,556	2,537	15,019	11,459
Equipment and furniture	51,396	26,881	24,515	20,151
Computer systems	24,648	15,092	9,556	7,149
Leasehold improvements	19,481	9,205	10,276	8,196
	$ 116,728	$ 53,715	$ 63,013	$ 48,546

4. Other Assets

	1990	1989
Investments in and advances to significantly influenced companies	$ 32,322	$ 24,049
Investments in and advances to other companies	22,058	17,411
Advances on long term corporate investment (note 5)		48,267
	$ 54,380	$ 89,727

Investments in other companies include retractable preferred shares with a carrying value of $6,966,000 (1989 – $6,966,000) and a quoted market value of $6,150,000 (1989 $6,981,000). Advances to other companies include a $1.8 million non-interest bearing loan due in 1996 to a company whose major shareholder is a director of the company.

The advances on long term corporate investment as at October 31, 1989 represent amounts paid to Cogeco Inc. of Montreal to assist in its acquisition of the shares of Cybermedix Inc. On January 8, 1990 the company acquired the shares of certain Cybermedix Inc. subsidiaries in New York, Quebec and Saskatchewan in exchange for these advances. (Note 5).

5. Acquisitions

During the period from December 22, 1989 to January 8, 1990, the company acquired certain subsidiaries of Cybermedix Inc. comprising laboratory operations located in Quebec, Saskatchewan and New York.

Also during this period Metro-McNair Clinical Laboratories Limited Partnership, in which the company has a 50% ownership interest, acquired, through a series of transactions, all of the operations of Calgary Medical Laboratories as well as certain other laboratory operations in Alberta and Saskatchewan. Total consideration for the above-noted acquisitions amounted to $88.7 million, including cash of $84.8 million, of which $48.3 million had been advanced during the year ended October 31, 1989 (Note 4), and the assumption of debt of $3.9 million. The excess of the purchase consideration over the net assets acquired, at assigned values, has been accounted for as goodwill which totalled $64.9 million.

On September 20, 1990, the company acquired all of the outstanding shares of the Fortress group of companies, subsidiaries of Mediquip Health Care Inc. The total cash purchase price of $7 million was allocated to net tangible assets acquired.

The acquisitions have been accounted for by the purchase method, with the operating results related to the share interest acquired included in these consolidated financial statements from the respective dates of acquisition.

The company also paid $1.7 million cash for interests in some small laboratories and other companies.

Ingram & Bell Inc., a 49% investee of the company through a series of transactions during the period November 10, 1989 to May 25, 1990, acquired all of the issued shares of Mavtech Holdings Inc. and VenTech Healthcare International Inc., two medical distribution companies, for total cash consideration of $20 million. The company guaranteed up to $15 million of bank indebtedness of Ingram & Bell Inc. incurred in connection with these acquisitions (note 11(b)(iii)).

6. Long Term Debt

	Maturity	1990	1989
Canadian operations:			
1985 debentures	1992	$	$ 30,000
Term bank loans	1991-1996	87,495	51,150
Other debt	1990-2006	6,679	8,468
		94,174	89,618
United States operations		1,715	
		95,889	89,618
Less current portion		11,243	2,144
		$ 84,646	$ 87,474

The 1985 debentures were redeemed by the company on October 29, 1990 from a portion of the proceeds of a Special Warrant Issue.

Term bank loans of $79 million (October 31, 1989 — $45 million) bear interest at a floating bankers' acceptance rate. At October 31, 1989 promissory notes from Cogeco Inc. of Montreal had been pledged as collateral. On January 8, 1990 the notes were exchanged for shares of the various Cybermedix Inc. subsidiaries acquired by the company. These shares, as well as those of Bow Valley Diagnostic Services Inc., a subsidiary of Metro-McNair Clinical Laboratories Limited Partnership which now operates the Calgary Medical Laboratories (Note 5), have been pledged as collateral for the term loans. Guarantees of MDS Health Group Inc., the company's wholly-owned United States subsidiary, and of Bow Valley Diagnostic Services Inc. have also been provided as collateral for these loans. The company has the option to repay these loans in whole or in part at any time without notice or penalty. The remaining $8.5 million term bank loans (October 31, 1989 — $6.2 million) bear a floating rate of interest at bank prime plus 1/2% to 1% on $7.6 million (October 31, 1989 — $6.2 million) and 11.25% on $.9 million. A debenture in the amount of $10 million over the assets of Metro-McNair Clinical Laboratories Limited Partnership has been pledged as collateral against the $7.6 million term bank loan and certain other debt. The remaining $.9 million term bank loan is collateralized by a $2 million demand debenture and a specific charge on accounts receivable of Bow Valley Diagnostic Services Inc.

Other debt bears interest at annual rates tied to the bank prime rate.

The company has an operating line of credit of $55 million with a Canadian chartered bank for which a specific charge on accounts receivable and inventories has been given.

Principal repayments of long term debt are required as follows:

1991	$ 11,243
1992	10,196
1993	11,824
1994	57,119
1995	1,063
Thereafter	4,444

7. Share Capital

(a) Summary of issued share capital

(number of shares in thousands)	Balance October 31, 1989	Issued during 1990	Conversions and repurchases during 1990	Balance October 31, 1990
(i) Voting Shares				
Class A Common Shares				
Number	3,989	3,992	(20)	7,961
Amount	$ 27,176	$ 26	$ (65)	$ 27,137
(ii) Non-Voting Shares				
Class B Non-Voting Shares				
Number	4,610	8,982	0	13.592
Amount	$ 18,090	$ 58,046	$ 0	$ 76,136
Class C Series 3 Shares				
Number	3	0	(3)	0
Amount	$ 3	$ 0	$ (3)	$ 0
Class C Series 4 Shares				
Number	2	0	(2)	0
Amount	$ 1	$ 0	$ (1)	$ 0
Total amount of issued share capital	$ 45,270	$ 58,072	$ (69)	$ 103,273

During the year, the company declared and paid $776,000 cash dividends on Class A Common Shares (1989 — $678,000) and $1,416,000 cash dividends on Class B Non-Voting Shares (1989 — $1,024,000).

(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) On March 15, 1990, the Class A Common and Class B Non-Voting Shares were split on a 2 for 1 basis. Share and earnings per share figures have been restated to reflect the share split.

(ii) 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 $0.0125 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. On March 6, 1990 takeover bid provisions were added to the Class B Non-Voting Shares which provide that in the event a takeover bid (as defined under applicable legislation) is made in respect of the Class A Common Shares and holders of more than 50% of the Class A Common Shares accept the offer, the holders of the Class B Non-Voting Shares will be allowed to participate equally with the holders of the Class A Common Shares by providing the holders of the Class B Non-Voting Shares in such circumstances with the right to convert their shares into Class A Common Shares on a one for one basis. Any Class B Non-Voting Shares so converted are required to be tendered pursuant to the bid, subject to the usual rights of withdrawal. In the event of liquidation, dissolution or winding-up of the company, the Class A Common Shares rank equally with the Class B Non-Voting Shares and Class D Shares and will receive distributions equally with shares of other such classes on a share-for-share basis.

(iii) Class C Shares are non-voting and bear no dividends. The ultimate value of the Class C Shares is dependent upon the after-tax income of the Sciex Division.

All Class C Series 1 and 2 Shares were redeemed by the company in 1986. These shares were convertible into Class A Common and Class B Non-Voting Shares based on attaining specific earnings in the Sciex Division from 1981 — 1986. The base period income was not achieved and therefore the shares were redeemed at their paid-in value. There have been no further Class C Series 1 and 2 Shares issued.

The Class C Series 3 and Series 4 Shares, which are reserved for certain Sciex employees under a Key Employee Trust Plan, were 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 seven year period November 1, 1982 to October 31, 1989. Any unconverted Series 3 and Series 4 Class C Shares were repurchased by the company at their paid in value. There have been no further Class C Series 3 or Series 4 Shares issued.

(iv) 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, 1990 there are no Class D Shares issued and outstanding.

(c) **MDS Stock Option Plan -**

At October 31, 1990, under the MDS Stock Option Plan, 870,000 Class B Non-Voting Shares and 380,000 Class A Common Shares of the company have been reserved.

Class B Non-Voting Share option activity:

	1990	1989
Granted	28,000	20,000
Exercised	51,270	75,650
Cancelled	22,000	32,000

Class B Non-Voting Share options outstanding:	1990	1989
Amount	7,500	7,500
Per Share	$ 6.875	$ 6.875
Amount	391,980	452,750
Per Share	$ 8.625	$ 8.625
Amount	104,600	107,100
Per Share	$ 10.00	$ 10.00
Amount	6,000	6,000
Per Share	$ 10.00	$ 10.50
Amount	–	6,000
Per Share	–	$ 10.8125
Amount	4,000	8,000
Per Share	$ 11.125	$ 11.125
Amount	10,000	10,000
Per Share	$ 11.3125	$ 11.3125
Amount	16,000	–
Per Share	$ 13.00	–
Amount	4,000	–
Per Share	$ 12.00	–
Amount	8,000	–
Per Share	$ 13.875	–

These options are exercisable at various dates up to July 9, 2000.

Also as at October 31, 1990, outstanding options to acquire Class A Common Shares are as follows: 130,000 options at $12.9375 and 150,000 options at $10.125. (October 31, 1989, 150,000 options at $10.125.) These options are exercisable up to January 15, 2000.

(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 1990 fiscal year, 124 Class C Series 4 Shares were converted into 910 Class B Non-Voting Shares. Under the terms of the Plan, each Class C Series 4 Share is convertible into either $100 cash or an equivalent dollar value of MDS shares, at the option of MDS. Class C Series 4 Shares are eligible to be converted only after all Class C Series 3 Shares eligible are converted. This was the final conversion under the terms of the Plan and, accordingly, all Series 3 and Series 4 Class C Shares outstanding were repurchased by the company at their paid in value. As of October 31, 1990, there are no Class C Series 3 or Series 4 Shares outstanding and the Plan has been terminated.

(e) Employee Stock Purchase Plan -

There are no Class D Shares issued and outstanding at this time.

The total number of shares available to be issued pursuant to the above referenced Employee Plans maintained by the company is limited to 10% of the outstanding issued shares.

(f) Stock Dividend and Share Purchase Plan -

Under the company's Stock Dividend and Share Purchase Plan, shareholders may elect to receive stock dividends in lieu of cash dividends. Stock dividends are issued at not less than 95% of the five-day average market price (the "Average Market Price") of the shares immediately prior to the dividend payment date. 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 the Average Market Price.

Participation in the Plan for the year ended October 31, 1990 resulted in the issuance of 1,736 Class A Common Shares and 941 Class B Non-Voting Shares as stock dividends and the issuance of 457 Class A Common and 155 Class B Non-Voting Shares for cash under the share purchase option.

8. Research and Development Costs

	1990	1989
Research and development costs	$ 6,668	$ 8,578
Revenues from government and other funding (including investment tax credits)	4,642	5,741
Net research and development costs	$ 2,026	$ 2,837

A portion of the company's research and development program is carried on pursuant to an Ontario Technology Fund award approved in December 1987. The company entered into an agreement with the Government of Ontario whereby the government shares the costs of the company's SciTech Project over a five year period from fiscal 1988 to fiscal 1993 to a maximum of $17.9 million or approximately 50% of related research and development expenditures made by the company. A cumulative amount of $9.4 million (1989 — $6.2 million) has been contributed by the Ontario Government towards this project and has been included in the offsetting revenues referred to above.

At October 31, 1990, no provision for repayment of grants is required.

9. Income Taxes

(a) As at October 31, 1990, after giving effect to acquisitions disclosed in note 5, loss carry-forwards of certain of the company's United States and Canadian subsidiaries for which no future tax benefit has been recorded in the accounts, amount to $22,904,000 (October 31, 1989 — $15,219,000) and expire as follows: 1991 — $248,000; 1992 — $332,000; 1993 — $466,000; 1994 — $1,432,000; and the balance from 1995 to 2005. In addition, unused investment tax credits of $1,827,000 which have not been recognized in the accounts are available to reduce future income taxes payable.

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

	1990	1989
Combined Canadian federal and provincial tax rate	44.3 %	43.9 %
Increase (decrease) in tax rate as a result of:		
U.S. losses for which no taxes are recoverable		8.5 %
Tax benefit of U.S. loss carry-forwards	(0.8)%	
Tax free dividends	(5.9)%	(6.2)%
Share in earnings of significantly influenced companies	(2.0)%	(4.2)%
Other	2.2 %	(0.1)%
Effective income tax rate	37.8 %	41.9 %

10. 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.

	Canada		United States		Total	
	1990	1989	1990	1989	1990	1989
Net segment revenues (1)	$ 247,321	$ 189,825	$ 47,348	$ 34,732	$ 294,669	$ 224,557
Operating income (loss) before the following	$ 46,064	$ 34,746	$ 1,187	$ (2,268)	$ 47,251	$ 32,478
Depreciation and amortization					(14,266)	(10,219)
Interest expense					(19,822)	(7,824)
Dividend and interest income					7,073	3,012
Share in earnings of significantly influenced companies					2,827	3,575
Minority interest					(1,994)	(2,263)
Income taxes					(7,969)	(7,869)
Net income					$ 13,100	$ 10,890
Identifiable assets	$ 270,031	$ 227,231	$ 67,382	$ 26,456	$ 337,413	$ 253,687

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

11. Commitments and Contingencies -

(a) Operating leases

As at October 31, 1990, after giving effect to acquisitions disclosed in note 5, the company is obligated under premise and equipment leases to make minimum payments of approximately $15,449,000 in 1991, $13,510,000 in 1992, $10,320,000 in 1993, $7,639,000 in 1994, $5,109,000 in 1995 and $5,966,000 thereafter. Rental expense under premise and equipment leases for the year ended October 31, 1990 was $17,050,000 (for the year ended October 31, 1989 — $11,406,000).

(b) Guarantees and contingencies

(i) The Board of Directors has approved a revolving $20 million guarantee facility to be used by the company for the purpose of securing interim financing for various medical building development projects. These guarantees are cancellable upon completion of the project when permanent financing is arranged. As of October 31, 1990 $14 million (October 31, 1989 — $8 million) of such guarantees were outstanding.

(ii) In 1988, the company acquired an interest in a significantly influenced company, the purchase price of which may be increased by a maximum of $2 million, dependent on future earnings.

(iii) The company has guaranteed the bank indebtedness of Ingram & Bell Inc., a 49% investee of the company, to the extent of $15 million. Pursuant to the terms of the guarantee, the company may, under certain circumstances, be required to make cash advances to Ingram & Bell Inc. As of October 31, 1990, $7.7 million of advances have been made and have as collateral interest bearing promissory notes of Ingram & Bell Inc. These notes were repaid by Ingram & Bell on December 17, 1990 through a subscription by the company for 100,000 Class E Non-Voting Shares of Ingram & Bell Inc. for total cash consideration of $10 million. The special shares yield a minimum cumulative dividend rate of 10% to a maximum rate of the Bank of Nova Scotia's prime lending rate less 2% and are retractable at their face amount at the company's option. After the share subscription and note repayment the company's remaining guarantee obligation is limited to $5 million.

12. Comparative Figures

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

SIX YEAR FINANCIAL SUMMARY

Years ended October 31 and stated in thousands of dollars	1990	1989	1988	1987	1986	1985
Operating Results						
Net revenues	$294,669	$224,557	$205,923	$168,791	$134,356	$113,942
Income before extraordinary items	13,100	10,890	13,371	10,141	5,879	6,261
Net income	13,100	10,890	13,371	10,441	5,879	1,318
Financial Position						
Working Capital	59,914	32,232	45,120	49,881	39,747	44,278
Fixed assets (net)	63,013	48,546	40,685	33,784	23,885	19,478
Other assets (including goodwill)	151,467	124,121	58,407	43,416	17,008	11,875
Total assets	337,413	253,687	176,759	150,219	117,016	100,519
Long term debt	84,646	87,474	36,712	32,613	31,198	32,606
Shareholders' equity	172,116	103,238	93,007	80,838	47,518	41,901
Changes in Financial Position*						
Cash from operations	25,845	4,077	15,464	24,681	4,584	2,388
Long term debt issued		51,150	254	133		30,000
Share capital issued	59,607	1,042	288	24,665	46	27
Fixed assets purchased	15,201	18,889	14,471	12,823	9,254	7,463
Acquisitions	(4586)	3,008	8,586	16,110	3,254	482
Dividends on Class A Common and Class B Non-Voting Shares (cash)	2,192	1,702	1,480	1,286	1,092	964
Dividends on Preferred Shares (cash)	nil	(nil)	10	10	10	16
Repayment of long term debt	31,581	767			2,053	9,184
Statistics						
Per Share Data*						
Earnings per Class A Common and Class B Non-Voting Before extraordinary items	$0.70	$0.62	$0.78	$0.63	$0.38	$0.41
Net income	0.70	0.62	0.78	0.64	0.38	0.08
Dividends						
Class A Common	.10	.0875	.075	.0675	.06	.055
Class B Non-Voting	.125	.1125	.1	.0925	.085	.08
Book Value of Class A Common and Class B Non-Voting	7.99	6.0	5.47	4.78	3.20	2.84
Price Range						
Class A Common	14 3/4 – 11 3/4	14 7/8 – 11 1/4	14 – 10 1/2	13 1/4 – 8 3/8	9 3/8 – 7 1/4	10 3/4 – 7 3/4
Class B Non-Voting	14 1/4 – 11 1/2	14 3/8 – 10 3/16	13 – 9 9/16	12 3/8 – 8 5/16	9 1/4 – 6 9/16	9 5/8 – 7
Number outstanding						
Class A Common	7,961	7,978	7,960	7,924	5,918	5,916
Class B Non-Voting	13,592	9,220	9,050	8,992	8,946	8,846
Ratios						
Current	1.9	1.7	2.4	3.2	2.0	2.8
Long term debt/capital employed	.31	.43	.25	.26	.39	.43
Other						
Employees	5,344	4,553	4,358	3,967	3,013	2,990

* The six 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. Share data for 1985 to 1989 have been restated to reflect the 2 for 1 share split of Class A Common and Class B Non-Voting Shares which became effective March 15, 1990.

CORPORATE DIRECTORY

Board of Directors

Dr. John R. Evans 1, 2
Chairman
Allelix Biopharmaceuticals Inc.

Ralph Horner 2, 3
Grieve, Horner, Brown & Asculai

Wilfred G. Lewitt 3
President and
Chief Executive Officer
MDS Health Group Limited

Dr. John C. Nixon 1
Medical Director
MDS Health Group Limited

Dr. Donald B. Rix 1
President and Laboratory Director
Metro-McNair Clinical
Laboratories Ltd.

R. Michael Warren 2, 3
Chairman
The Warren Group Inc.

Roger D. Wilson
Partner
Fasken Martineau Davis

Ronald H. Yamada
Senior Vice-President
MDS Health Group Limited

1 – Medical Advisory Committee

2 – Audit Committee

3 – Compensation Committee

Officers and Corporate Management

Wilfred G. Lewitt
President and
Chief Executive Officer

J. Edward Boyce
Senior Vice-President
Organization Dynamics

Betty R. Moffatt
Vice-President and
Corporate Secretary

Dr. John C. Nixon
Medical Director
MDS Health Group Limited

Douglas M. Phillips
Senior Vice-President, Finance
and Chief Financial Officer

James A. Reynolds
Senior Vice-President
President
SCIEX

John A. Rogers
Senior Vice-President
President
MDS Physician Services Division

Edward K. Rygiel
Senior Vice-President
Corporate Development
President
MDS Health Ventures Inc.

Ronald H. Yamada
Senior Vice-President
New Technologies and
Corporate Affairs

Investors' Quick Reference Check

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Toronto, Ontario

Auditors
Ernst & Young

Legal Counsel
Fasken Campbell Godfrey

Bankers
Canadian Imperial Bank of Commerce

Dividend Information
Paid twice yearly in the Spring and Fall — the October, 1990 dividend was 5 cents on the Class A Common Shares and 6 1/4 cents on the Class B Non-Voting Shares.

Stock Dividend and Share Purchase Plan
Under the company's Stock Dividend Plan, shareholders may elect to receive stock dividends in lieu of cash dividends. Participants in the Plan may also make optional cash payments up to $3,000 semi-annually to purchase additional shares. Shareholders wishing to obtain more information about this Plan should contact the company's transfer agent, Royal Trust on their AnswerLine at 981-8997 or toll-free 1-800-387-0825.

Annual Meeting
Shareholders are invited to attend the company's Annual and Special Meeting at 4:00 p.m. March 26, 1991 in Salon C of the Harbour Castle Westin, Toronto, Ontario.

Stock Listing
Toronto Stock Exchange
Symbols: MHG. A MHG. B

Trading Data

(by fiscal quarter)		High	Low
1st Quarter	Class A	14¾	14⅜
	Class B	13¾	12¾
2nd Quarter	Class A	14¼	11¾
	Class B	13¾	11½
3rd Quarter	Class A	14¼	11¾
	Class B	14¼	11⅝
4th Quarter	Class A	14	12¾
	Class B	14¼	12¾

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MDS
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