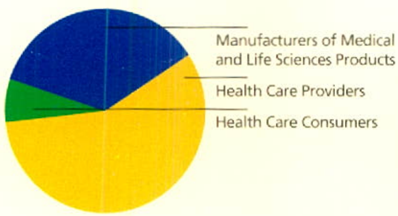
MDS Health Group Limited

Annual Report 1995

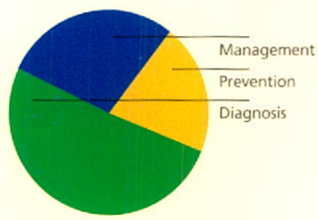
Growing Globally in Health and Life Sciences

Opportunity
Focus
Strength

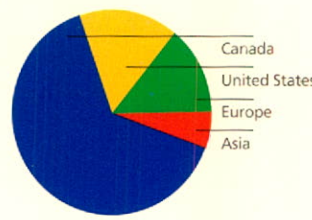
Revenue by Customer Group



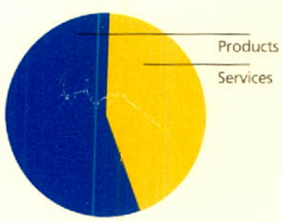
Revenue by Areas of Focus



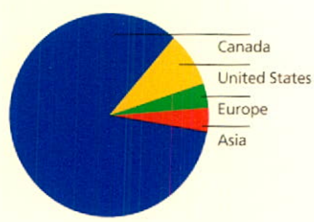
Revenue Geographically



Revenue by Business Types



Employees Located Geographically



Contents

Manufacturers of Medical and Life Sciences Products	Health Care Consumers
• clinical trials testing • drug discovery services • sales and distribution	• environmental and workplace testing • insurance paramedical services • personal health assessments • home care services
• sterilization systems • sterilization isotopes (cobalt 60) • radioisotopes for in vivo and in vitro diagnosis • ultra-trace organic analyzers • ultra-trace elemental analyzers	• home care products • living aids for the disabled and elderly
• MDS Laboratory Services • Panlabs International, Inc. • Nordion International Inc. • MDS SCIEX (PE/SCIEX)* • Ingram & Bell Inc. • MDS Clinical Trial Services • Matrx Medical Inc.	• MDS Communicare • MDS Executive Clinics • MDS Paramedical Services • MDS Doncaster Home Health Care Centre • MDS Environmental Services Limited

* MDS SCIEX markets its instruments under the PE/SCIEX brand name through its joint venture partner, The Perkin-Elmer Corporation.

MDS At A Glance

MDS is a health and life sciences company whose products and services are used in the prevention, diagnosis and management of illness and disease. These products and services are tools that enable:

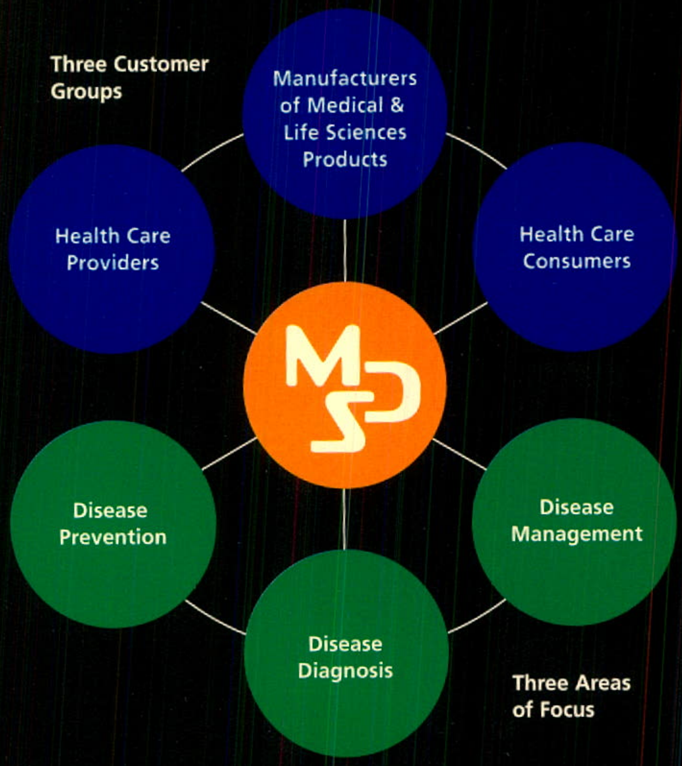
- health care providers and payers to develop solutions to the rising costs of health care
- manufacturers of medical and life sciences products to increase the safety, efficiency and effectiveness of their products and processes
- health care consumers to accept greater personal responsibility

The company's capabilities, its financial and organizational strengths and its commitment to building partnerships enable it to act quickly on emerging opportunities, alone or in collaboration with others. This positions MDS to play a significant part in developing effective solutions in the changing international health and life sciences markets.

The company has a clear focus and direction. The names of MDS, its subsidiaries, products and services are among the most highly regarded in their market segments.

	Customer Groups Health Care Providers
Services	• diagnostic services • inventory management • distribution services
Products	• laboratory automation systems • laboratory automation software
Brand and Trading Names	• MDS Laboratory Services • Ingram & Bell Inc. • AutoLab Systems • Matrx Medical Inc.

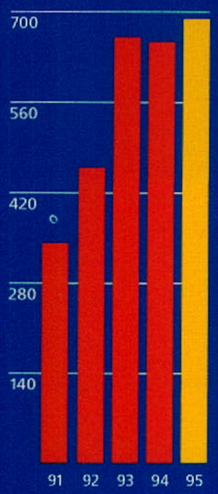
MDS is a company with the strengths and resources required to create and respond to opportunity in a period of rapid change. Its strategic plan is based on maintaining this capability. Equally important is a clear strategic emphasis on the provision of technology-based products and services in three areas of focus for three customer groups.



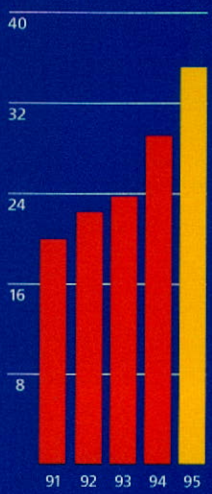
Financial Highlights

Years ended October 31 (in thousands of dollars)	1995	1994
Net Revenue	$689,231	$652,536
Net Income before unusual items	35,203	29,128
Net Income	35,203	33,458
Shareholders' Equity	356,093	325,547
Total Assets	729,884	724,415
Long-term debt as a percentage of capital employed	27%	34%
Current Ratio	1.25:1	1.5:1
Earnings per share before unusual items	$ 1.35	$ 1.11
Earnings per share	$ 1.35	$ 1.28
Number of employees	6,136	5,863
Shares outstanding – Class A	6,936	7,374
– Class B	19,274	18,863

Net Revenue
(in millions of dollars)



Net Income Before Unusual Items
(in millions of dollars)



We have built the company to meet ever-changing health care needs. Our focus and direction are clear — sustainable value for shareholders, measurable value for customers.

Wilf Lewitt
Chairman and CEO

Build the F

Fiscal 1995 was a year of accomplishment for MDS Health Group Limited. Financial targets were achieved and many challenges were successfully addressed. The directors and management of the company were able to refine the company's strategic direction and ensure a framework for growth, with the confidence that MDS has the essential ingredients to create enduring shareholder value.

These ingredients include a clear vision, well-targetted strategies, technological platforms for growth, financial and management strength and a firm commitment to building on core competencies.

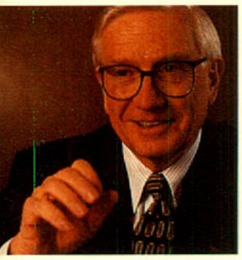
Opportunity, Focus and Strength

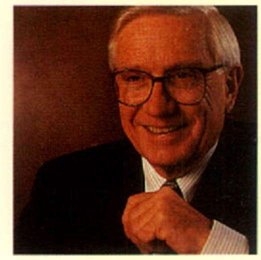
As a new century approaches, there are unprecedented opportunities, including the prospect of new and productive partnerships and acquisitions.

Biotechnology, genetics, imaging, and data processing are being brought together to enhance understanding of disease, to accelerate innovation in therapeutics, and to provide breakthroughs in disease management.

There is a movement away from institution-centred health care and towards a more integrated approach to management of disease. Consumers are accepting greater responsibility for their own health. And in less developed countries, demand is growing for the advanced health services already available in the industrialized world.

MDS foresees significant growth through partnerships with hospitals to provide laboratory management, technology, testing services and distribution and materials management services, and through increased activity in the imaging and sterilization markets. Emerging opportunities include the provision of contract research services and analytical equipment to help pharmaceutical companies reduce the time and cost of drug discovery and development; expansion of home and community care markets; and provision of strategic health-related information to professional,





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employer, insurer and consumer markets.

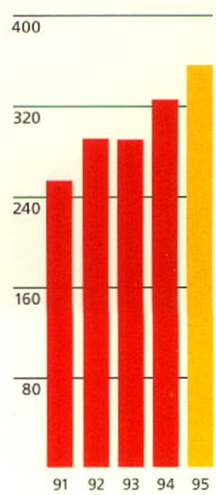
The focus is clear – to provide customers with cost-effective tools to assist in the prevention, diagnosis, and management of disease. Key strengths include the company's employee expertise and management depth, diversity of products and services, and commitment to competitiveness and leadership in areas of specialization.

Sustainable Value: Building for Tomorrow

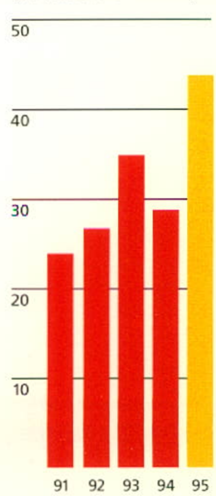
In building a company with sustainable shareholder value, MDS has maintained a balance between performance today and investment for the future.

Investments in research and development totalled $13 million in fiscal 1995, and investments in computer systems, automation, technology and other fixed assets totalled another $30 million.

Shareholders' Equity
(in millions of dollars)



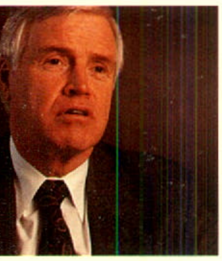
Investment in R&D, Automation and Fixed Assets
(in millions of dollars)

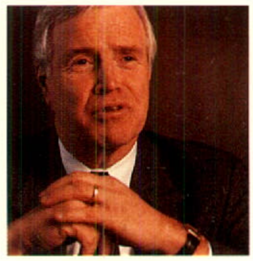


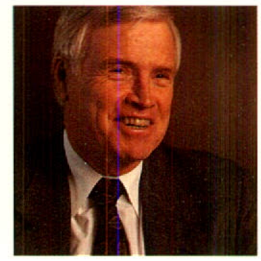
Building Underlying Value

Since MDS became a public company, shareholders' equity has increased on average by 22% per year, from $4.2 million in 1973 to $356.1 million in 1995.

Investing in people, R&D and automation will ensure continued long-term sustainable growth in shareholder value.

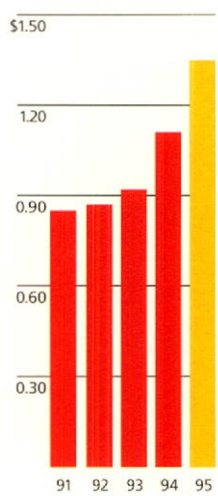




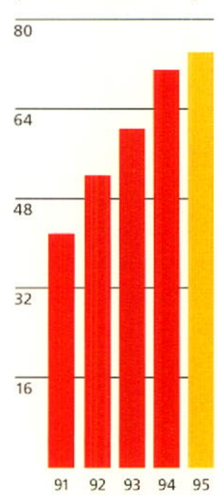


Perform Today

Earnings Per Share Before Unusual Items
(in dollars)



Cash Flow from Operations
(in millions of dollars)



Long-Term Record of Performance

Since becoming a public company in 1973, the company has achieved annual compounded growth rates of 21% in Revenues, 21% in Net Income and 18% in EPS.

MDS has a strong cash flow from existing operations and a strong balance sheet to support future growth.

In addition, the value of investments by MDS Health Group and MDS Health Ventures in emerging companies reached more than $100 million in 1995. This investment activity provides the company with a broad perspective on health and life sciences developments worldwide and will provide increasing growth opportunities for the company in the future.

Sustainable Value: Performance Today

The year's operations are reviewed in detail in the Management Discussion and Analysis section of this report. Particularly significant developments included the purchase of Island Medical Laboratories, a 25-location laboratory organization on Vancouver Island, and Panlabs International, Inc., a Seattle-based contract research organization serving the worldwide

We have the strength, the leadership, the management depth, and the talented, committed employees to continue building a strong, enduring company.

John Rogers
President and COO

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pharmaceutical and biotechnology industries. The company also increased its holdings in Nordion International from 85% to 99%. A new 83,000-square-foot head office and plant was built for the Sciex Division, which during the year introduced two new advanced mass spectrometry systems.

In the hospital field, MDS entered into a joint venture with The Toronto Hospital to establish an automated laboratory incorporating MDS proprietary AutoLab technology, and to collaborate on further laboratory medicine innovations.

A letter of intent was signed with a leading U.S. hospital network to develop advanced automated laboratories initially in two of its operating regions. Automation of laboratories in all of the network's regions is intended.

In fiscal 1995, earnings per share before unusual items were 22% higher than a year earlier, rising from $1.11 to $1.35. Net income before unusual items rose from $29 million to $35 million. Net revenues were up 6% to $689 million. Cash flow rose to $74 million from $71 million in 1994 and from $27 million only five years ago. Working capital amounted to $61 million at year-end. Over the five years ending in 1995, the company achieved a compounded rate of growth of 18.3% for revenues, and 23% for net income.

Appointment

At the January 10, 1996 meeting of the Board of Directors the appointment of John Rogers as President and Chief Executive Officer of the company was confirmed, effective the day of the company's next annual meeting, March 19, 1996. Wilf Lewitt will continue as full-time Chairman.

Appreciation

The directors wish to express their appreciation and good wishes to two retiring members of the Board, John Nixon and Ralph Horner, whose expertise and wise counsel have greatly strengthened the company since its inception. Two new directors, Wendy Dobson and Ruth Corbin, were welcomed to the Board. James Reynolds, the former President of Sciex, retired during the year after many years of outstanding service.

The directors congratulate and thank all employees in every segment of the company who, in a difficult and challenging year, produced results of which all can be proud.

W. G. Lewitt

Wilfred G. Lewitt
Chairman and
Chief Executive Officer
January 10, 1996

John A Rogers

John A. Rogers
President and
Chief Operating Officer
January 10, 1996

Rapid change means enormous opportunity. With our strength and experience, we will succeed by providing innovative solutions to developing needs.

Paul Mountain
Vice-President,
AutoLab Division

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◀ Current health funding pressures create new opportunities for the MDS Laboratory Services Division and its automation system, AutoLab.

▲ Mass spectrometers developed and manufactured by the Sciex Division save time and expense in drug development.

Prompt, accurate, relevant information is vital in diagnosing and treating disease and in the drug development process.

North Americans spend more than $1 trillion a year on health care services and products. This is an indication of the dimensions of the market in which MDS is an aggressive and increasingly effective participant.

Even such numbers fail to show what the near future holds. In fact, only 20% of the world's population enjoy adequate care and service. The other 80% are increasingly demanding, and in many countries will increasingly be able to pay for, services similar to those now common in the industrialized world.

The changing demographics of the developed world, and particularly the aging of North American society, also mean significant new demand, and therefore new opportunities.

A Growing Private Sector Role

Even the current pressure on health services funding creates new avenues of service and growth for private sector organizations. Restructuring, downsizing, the move from institutional care to community and home care; these contemporary trends enlarge the potential of the private sector to be part of the solution, to help restrain the growth of health care costs.

It is crucial for MDS to be selective, to identify the segments of the service spectrum in which it can most effectively and profitably operate. This is what the company has been doing, and this was at the centre of the strategic planning process of 1995.

▲ Increasing use of Nordion therapeutic and diagnostic radioisotopes provides growth opportunities worldwide.

Partnerships with hospitals in materials management and other services are part of the MDS overall growth strategy.

The ELAN 6000 mass spectrometer meets a growing need to identify trace contaminants in water, pharmaceutical reagents and other substances.

Fundamental Changes in Health Care Delivery: Community Care

A rapid move to consolidation of health delivery services and systems is under way. Hospitals have shown a new interest in joint ventures with, or in contracting out to, the private sector, and in shifting from institutional to ambulatory care. The MDS joint venture with The Toronto Hospital to build a "laboratory of the future" would not have been possible a few years ago.

As institutional care is de-emphasized, new opportunities are created for the technology-based products and services provided by MDS.

MDS units are active in the ambulatory and community care market, providing health information, patient management systems and equipment, including devices to assist the elderly and disabled to live independently. MDS in 1994 established a new division, MDS Communicare, to help consumers who choose, or are directed to, home and community-based care.

Rapid Innovation in Technology

Accelerated development and innovation in health and life sciences technologies and in information gathering, analysis and delivery are the keys to coping with reduced funding.

However, bringing innovations in products or services to market presents great difficulties because of regulatory obstacles, cost and resistance to change. In the pharmaceutical industry, for example, drug discovery and development take an unduly long time and have become inordinately expensive.

MDS has achieved significant sales to the pharmaceutical industry by providing tools which assist in reducing cost and speeding up research and development. Many major firms have installed MDS/Sciex instruments to improve the quality and speed of analytical procedures and to identify impurities and possible side effects. MDS Clinical Trial

Our links with the medical community, public organizations and the private sector help us respond to and create opportunities.

John Nixon, MD
Medical Director

▲ Hemosol, in which MDS has a 30% equity interest, has completed Phase I clinical trials for its blood substitute product, Hemolink. A multi-billion-dollar world market awaits a product that eliminates cross-matching and viral infection problems in transfusions.

Services, under contract, provides the pharmaceutical and biopharmaceutical industries with laboratory services which contribute to faster, lower-cost clinical trials and which improve reliability.

In fiscal 1995 MDS expanded its service to the pharmaceutical industry by acquiring Panlabs International, Inc., a Seattle-based contract research organization which provides drug discovery support services to more than 200 pharmaceutical and biopharmaceutical companies, including more than 50 of the world's largest firms.

Product, Workplace and Environmental Safety

Prevention remains the most effective and least costly health promotion approach, and is increasingly a priority.

MDS/Nordion sterilization systems help producers of many health-related goods, from blood products to bandages, to ensure that products are contamination-free.

MDS/Sciex analytical instruments are used in many industries to identify trace contaminants, carcinogenic substances and other impurities that can affect health. MDS Environmental Services technicians provide a broad service to help identify contaminants in air, soil and water.

Emerging Global Markets

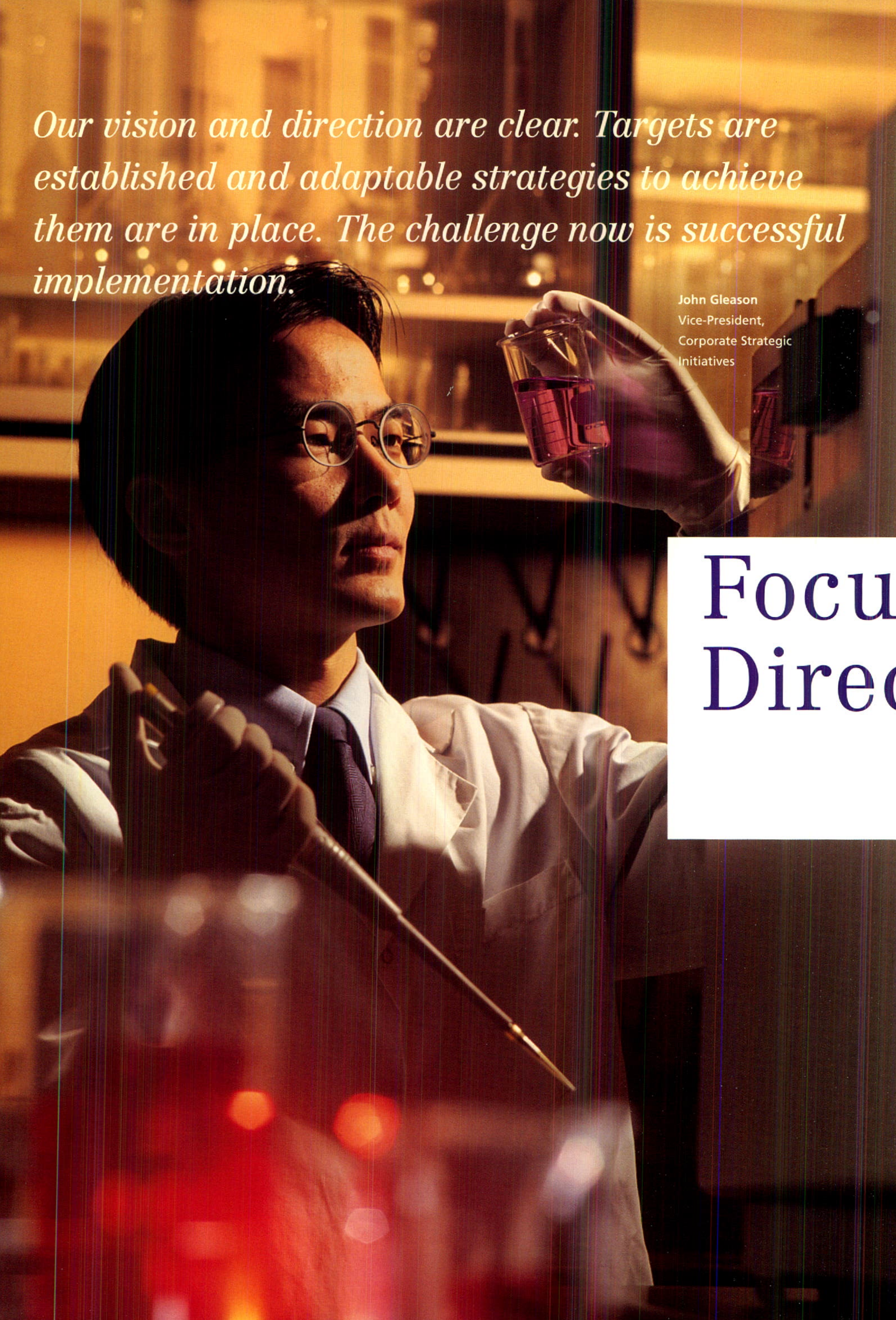
In the developing world, key trends include investment by local governments and by foreign aid donors in expanded primary care.

Further pressures, and broader opportunities, are arising with the emergence of middle classes in many developing countries, including China and India. These countries are increasingly open to private investment by non-nationals. Such changes create favourable business conditions for MDS, which already has a presence in 75 countries around the world through its marketing activities, directly or indirectly.

MDS will also benefit as its existing customers expand their operations geographically, creating opportunities to provide products and services in the new locations.

Our vision and direction are clear. Targets are established and adaptable strategies to achieve them are in place. The challenge now is successful implementation.

John Gleason
Vice-President,
Corporate Strategic
Initiatives



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◀
MDS expanded its services to the international pharmaceutical industry in 1995, acquiring Panlabs, which operates in Seattle and Taiwan.

▲
MDS companies apply a wide range of technologies, including Sciex mass spectrometers, to assist in the prevention and diagnosis of disease, and in providing drug development services.

Specimens from a pharmaceutical company's clinical trial are tested automatically in the MDS AutoLab installation in Toronto.

MDS serves, and derives its revenues from, three clearly definable groups of customers: health care providers (58%); manufacturers of medical and life sciences products (35%); and health care consumers (7%).

What the company delivers is also clearly defined: it offers its customers the tools – the technology-based products and services – required for the prevention, diagnosis or management of disease and illness.

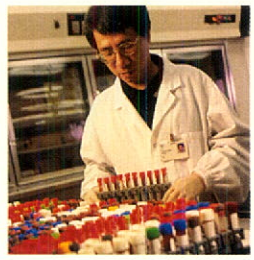
In a rapidly changing world, MDS has built a flexible organization capable of anticipating change, creating and reacting quickly to opportunities, sustained by diverse revenue streams and alert to new circumstances.

Approximately half of the company's revenues are from sales of products, the other half from services. Of total revenues, 63% is from Canadian sources, the remainder from sales in 75 other countries.

Measurable Value for Customers

Launched in 1969 as a diagnostic services company, MDS has become the largest health and life sciences company of its kind in Canada.

It is a leader in selectively providing technologies, information, systems and services that contribute to the health and well-being of people and that help restrain rising costs. It focuses on carefully chosen growth segments where it can utilize its existing strengths and expand in conformity with its strategic plan – a



▲ MDS environmental laboratories test soil, water and air to assure community and workplace health and safety.

AutoLab is an advanced computerized process management system, with robotics, for handling specimens and carrying out testing.

An important part of the company's business is the sterilization of products ranging from blood to bandages to containers for pharmaceuticals.

plan that is continually updated. It understands the need to provide measurable value to its customers and to be competitive in world markets.

Aiding in the prevention of illness, MDS Health Group's varied operations bring to bear, within the health system, technologies that can detect and help counter such dangers to health as food contamination and workplace hazards; that sterilize medical and other products; that offer new transfusion fluids as an alternative to red blood cells, offsetting the growing risk of contamination and the complexity involved in the use of red blood cells.

In China, the United States and other places, irradiation technology provided by MDS/Nordion is used to eliminate pathogenic microorganisms and retard food spoilage.

In the diagnostic field, MDS provides clinical testing services and products to physicians for the prompt, accurate diagnosis of patient conditions.

Drawing on its laboratory expertise, the company has developed AutoLab, an advanced, computerized process management system integrated with an automated robotics system for handling specimens and carrying out testing. AutoLab has successfully improved productivity at the main MDS reference laboratory by 300%.

The company has entered a joint venture with The Toronto Hospital, a prominent Canadian teaching hospital, and has signed a preliminary agreement with a large U.S. hospital organization to establish regional laboratories based on the MDS proprietary AutoLab system.

Tools Based on Technology

Manufacturers of health and life sciences products – pharmaceutical firms, for example – are consolidating and re-engineering to improve efficiency and cost-effectiveness and to bring products to market more quickly.

MDS/Sciex mass spectrometers are key tools in both the discovery and development stages of new drug creation, as are the technology-based services offered by recently-acquired Panlabs. Around the world, radioisotopes from MDS/Nordion provide a wide variety of radiopharmaceuticals for nuclear medicine imaging procedures and for the treatment of cancer.

In the new era of de-institutionalization, MDS is making tools available to individuals who choose or are

At the core of the company's strategy is the building of an enterprise with the strength to create opportunity for itself.

Neil Reid
General Manager
PE/SCIEX

▲ Through Ingram & Bell, MDS provides hospitals with quality products at competitive prices and assures adequate stock levels and just-in-time delivery.

required to take more responsibility for their own health and well-being in the community. For example, MDS Communicare can provide something as simple as a cane or as elaborate as an in-home, suspended, motorized, room-to-room transportation system for a severely disabled person.

Disease Prevention, Diagnosis and Management

The unifying element in all of these products and services is their focus on assisting in the prevention, diagnosis or management of disease and illness. Each of these categories accounts for a significant portion of the company's sales.

Selectivity and a determination to lead in its chosen fields have been characteristic of MDS since its earliest days.

It is the leading private sector provider of clinical laboratory services in Canada. It is also a leading provider of inventory management and distribution services to hospitals. With its distribution expertise, MDS provides its customers with quality products at competitive prices, assures adequate stock levels and just-in-time delivery and offers technical assistance and superior customer support.

It is a world leader in laboratory automation; in the provision of radioisotopes for diagnostic imaging and product sterilization; in specialized mass spectrometers for drug discovery and development; and in contract drug discovery services for pharmaceutical and biopharmaceutical companies.

Through MDS Health Ventures, the company leads in the mobilization of capital for emerging companies with innovative products and services related to health and life sciences.

Growing Internationally in Health and Life Sciences

In fiscal 1995 MDS Health Group generated $257 million or 37% of its revenues outside Canada, compared with $47 million or 16% five years earlier. The new strategic plan is predicated on continuing growth in international markets, both in absolute terms and as a percentage of total revenues.

At MDS, our strength comes from our sound financial position, the reputation and acceptance of our products and services and our competitiveness.

John Morrison
President
Nordion International Inc.

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With care and precision, Nordion technicians use remote manipulators to process medical isotopes which are used around the world.

Monitoring and other equipment for Intensive Care Units is supplied by the MDS Ingram & Bell subsidiary.

MEWS, the MDS Microbiology Electronic Workbench System, is used to organize data and simplify analysis.

MDS has concentrated, particularly during the past five years, on building its core strengths into an enduring corporate and operational structure. It is positioned to adapt to changes in the technological, economic and political environment, to act on new opportunities and to provide growing and sustainable shareholder value well into the next century.

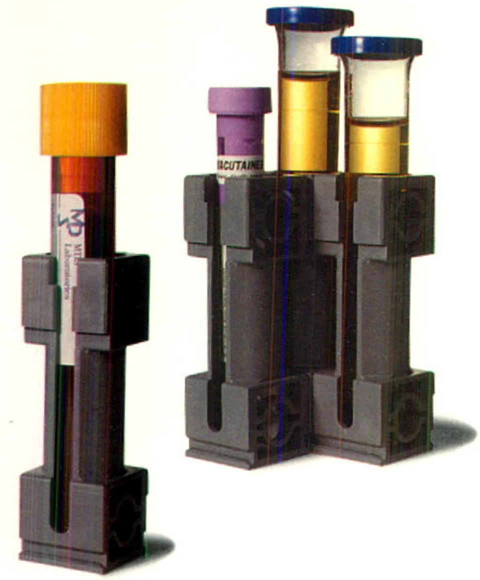
A Sound Financial Position

MDS has a long-term record of expanding shareholder value and increasing year-over-year after-tax earnings while at the same time investing for the future. Its debt is low. It had, in fiscal 1995, cash flow from operations of $74 million. This financial strength provides the cash and the borrowing power needed to seize opportunities as the health and life sciences sectors continue to expand and change.

The company's financial strength also enabled it in 1995 to invest more than $43 million in research and development, new facilities, computerization and automation.

Diversity of Revenue Streams

In a rapidly changing environment, it is important that a company's overall performance and sustainability not be unduly affected by adverse unexpected developments. MDS has diversified in strategically planned



▲ A key element of the company's mass spectrometry systems is the Sciex-developed 3-D software.

Besides increasing speed and accuracy of testing, automated specimen-handling eliminates potential hazards to staff.

Custom-designed specimen transport carriers enable specimens to be individually directed throughout the automated testing process.

directions to limit exposure to problems related to any one segment of the business or any one customer group, product or service. Balanced growth has meant increases in revenues and earnings in 24 of the company's 26 years.

Even during the past five very difficult years, MDS has achieved compounded growth rates of approximately 20% for both revenues and earnings. These rates are consistent with historical performance.

Diversity is reflected both functionally by the various units of the company and geographically by the distribution of activities in 10 provinces of Canada and in 75 countries around the world.

The breadth of the company's participation in the health and life sciences fields enables it to identify changing circumstances at early stages and to anticipate and adapt to new trends and realities.

A Position of Leadership

MDS plays a leading role in a number of industry associations in advocating and promoting improvements in health care policy and in working with governments and government agencies on specific health care issues — in particular, issues of technology and public-private sector co-operation.

All of the company's manufacturing operations have received the ISO 9001 designation for quality. In September, 1995 the prestigious Quality Management Award was presented to the MDS Laboratory Services Division by the Clinical Laboratory Management Association, a highly respected international laboratory organization with more than 8,000 laboratory members. It was the first such award to a laboratory outside the United States, and also the first to a private sector organization.

Management Depth and Experience

The men and women who manage MDS have a commitment to teamwork and excellence and a shared vision of the company's potential — a vision they have participated in creating. Decentralized, experienced

A commitment to continuous improvement, an open management style and teamwork will help us achieve our objectives.

Susan Harris
Vice-President,
Organization Development

▲ Whether providing things as basic as wheelchairs to the elderly through its MDS Doncaster Home Health Care Centres or sophisticated analytical instruments and testing services to the pharmaceutical industry, MDS works to improve the health and well-being of people.

management groups are supported by strong corporate resources.

The strength in the corporate and divisional management teams comes from a combination of experienced managers who have been with the company for a long time and provide continuity; younger managers developed within the organization; and experienced executives recruited from outside who bring fresh ideas and approaches.

A key factor in acquisition decisions is the strength of the acquisition candidate's managers and their ability to become part of the MDS team. Training and education programs and coordinated exposure to business situations and issues are part of the process of developing fully the capabilities of managers. Succession planning at all levels is fundamental to the preparation of the new leadership that an expanding, innovative corporation must have.

Highly Motivated, Skilled, Committed Employees

Of the company's 6,136 employees, 24% have more than 10 years' service. Approximately 25% of the company's voting shares are owned by employees.

In the health and life sciences fields, caring, committed and competent people are essential. Their day-to-day decisions determine the company's acceptance by its customers and its effectiveness in meeting its own goals.

The people of MDS are well-educated, highly motivated, quality-conscious, and focused on finding and applying solutions. Their backgrounds vary – medicine, science, engineering, and a range of business disciplines – but they have in common an ability and an incentive to think beyond their own specialities and, both as employees and major shareholders, to look to the overall success of their unit of the company and of MDS as a whole.

The company's long-term strategy emphasizes the achievement of consistent year-over-year earnings growth and the enduring enhancement of shareholder value.

Management Discussion and Analysis

Overview

Consolidated MDS Health Group revenues for the year ended October 31, 1995 amounted to $689 million, an increase of 6% over the prior year. International sales accounted for approximately 37% of revenues, $20 million higher than in fiscal 1994.

The 1995 figures include the consolidation of Seattle-based Panlabs International, Inc. effective August 11, 1995, and of Buffalo-based Matrx Medical Inc. as of August 1, 1995.

In addition, the company has proportionately consolidated its 50% share of the Perkin-Elmer/Sciex joint venture operations and of MDS Hudson Valley Laboratories, Inc. operations in Poughkeepsie, New York. This accounting treatment, in management's opinion, appropriately reflects the nature of these strategic alliances, which were previously accounted for on an equity basis. Figures for 1994 have been restated for comparative purposes.

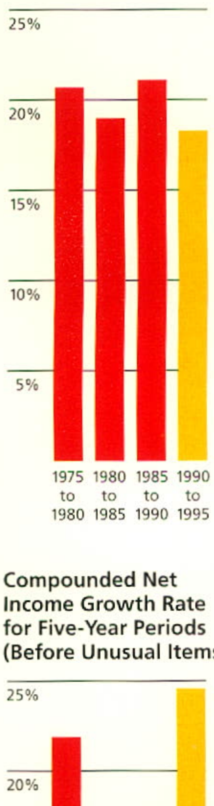
Operating income rose by approximately $8 million to 10% of net revenues. The increase in operating income reflects higher margins in some business areas and the continuing benefits of earlier restructuring and efficiency programs.

Earnings per share of $1.35 were 22% higher than earnings per share from operations of $1.11 in 1994. The prior year's net income also included an extraordinary tax recovery in the company's Nordion subsidiary, which brought net earnings per MDS share for that year to $1.28.

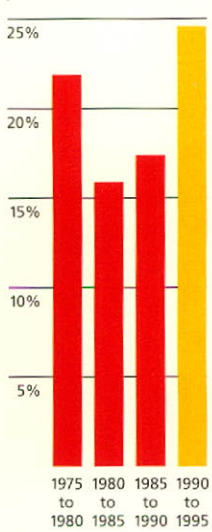
The share in earnings of significantly influenced companies represents the company's 38% interest in the equity earnings of MDS Health Ventures. The $2 million MDS share of Health Ventures earnings is significantly higher than in the prior year and is attributable to capital gains on the sale of shares of several Health Ventures investee companies.

Minority interest has declined from the prior year primarily due to

Compounded Net Revenue Growth Rate for Five-Year Periods



Compounded Net Income Growth Rate for Five-Year Periods (Before Unusual Items)



the acquisition by MDS of Amersham International plc's 14.9% minority interest in Nordion on March 31, 1995.

The company's effective income tax rate of just over 36% approximated the prior year's level.

For the year ended October 31, 1995 the company paid cash dividends of 15 cents per Class A Common Share and 17½ cents per Class B Non-Voting Share, an increase of 1½ cents in each case. This was consistent with historical dividend patterns.

The level of capital expenditures climbed during fiscal 1995 to $30 million, compared to $16 million in the prior year, as MDS continued to make investments essential to its future growth. Expenditures included the cost of building new Sciex manufacturing facilities and a new central reference laboratory in Vancouver, and completion of laboratory automation in the company's Toronto central laboratory.

Products and Services for Manufacturers of Medical and Life Sciences Products

Radioisotopes, Imaging Agents and Sterilization

Nordion International Inc., a world leader in the manufacture and sale of isotope products, again performed strongly. Nordion products are sold in 75 countries.

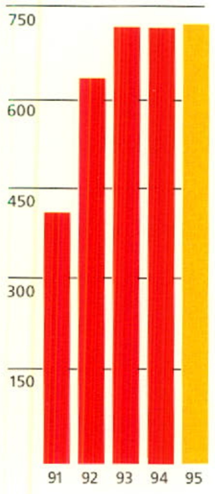
Fiscal 1995 revenues were approximately $191 million, compared to $194 million in the preceding year. Demand for molybdenum 99 increased in 1995. The impact of this increase was offset by a delay in cobalt 60 shipments resulting from shifting customer order patterns, and by lower revenues in Europe due to restructuring of Nordion's European in vivo operations early in the fiscal year. Under an agreement with DuPont Pharma Radiopharmaceuticals, a division of The DuPont Merck Pharmaceutical Company, Nordion Europe withdrew from sales and distribution activities and became a manufacturer of these products for DuPont.

Although consolidated revenues remained flat, operating income increased substantially due to the restructuring of European operations and reduced manufacturing and administrative costs in Canada. Further reorganization of the in vitro business should improve operating results by the end of fiscal 1996.

Early in the year, Nordion participated in the Prime Minister's Team Canada trade mission to China, leading to the signing of a letter of intent with the Beijing Institute of Nuclear Engineering to pursue new opportunities. As part of a strategy to build more diverse revenue streams, development of several new therapeutic and diagnostic radioisotope products continued during the year.

Agreements related to the irradiation of poultry and meat products were reached with several suppliers in the United States and the company is optimistic about future prospects in this field.

Total Assets
(in millions of dollars)



Significant progress was made during 1995 towards resolving Nordion's contract dispute with Atomic Energy of Canada Limited. Management anticipates that a satisfactory agreement will be signed in fiscal 1996, providing for a secure long-term supply of molybdenum 99 for the nuclear medicine market.

Analytical Equipment

The company's Sciex Division had a successful year. End-user revenues for Sciex analytical equipment, through the division's joint venture with The Perkin-Elmer Corporation, grew by more than 30% with the introduction of a new product line. The ELAN 6000, a state-of-the-art mass spectrometer for detecting and measuring trace contaminants in water and other substances, received outstanding market acceptance in its first year, with more than 100 units sold.

Both the API 100 and the API 300, new and smaller versions of the successful API III unit, have met all production expectations since being introduced in March, 1995. These two mass spectrometers are used mainly by the pharmaceutical and biopharmaceutical industries for drug discovery and clinical trials testing. Sciex revenues during the year, representing 50% of joint venture activities, were over $45 million. Operating income almost doubled.

In May, 1995 Sciex moved into its new 83,000-square-foot manufacturing and head office facility in a Toronto suburb. Sciex has received an ISO 9001 designation.

With continued emphasis on product engineering, Sciex has undergone restructuring and refocusing to prepare for future growth. Work has begun on the next generation of Sciex products and the new facilities will permit expansion of manufacturing. Sciex will seek new business alliances and acquisitions to enhance its existing product base and advance its technology.

Pharmaceutical Development Services

In August, 1995 MDS acquired Panlabs International, Inc., a leading contract research organization based in Seattle, Washington, which focuses on early stages of drug discovery and development.

With annual international revenues of $40 million, Panlabs adds to the established base of MDS products and services for the pharmaceutical industry, which include provision of trace chemical analysis products, isotope-based products and clinical trials services.

The Panlabs acquisition extends the diversification of MDS. It also provides significant growth potential and excellent operating margins.

Products and Services for Health Care Providers

Laboratory Services and Laboratory Automation

Fiscal 1995 was a year of particular challenge and accomplishment for the MDS Laboratory Services Division. Laboratory services revenues of $269 million were slightly higher in fiscal 1995 than in the prior year.

A world leader in laboratory management and innovation, the division in 1995 was awarded the prestigious Clinical Laboratory Management Association Quality Management Award. The CLMA is a United States-based international organization.

During fiscal 1995, the first fully automated reference laboratory of its kind in North America was completed in the division's Toronto reference facility. A similar facility for the company's British Columbia operations is scheduled for completion early in fiscal 1996.

The laboratory services business across Canada, particularly in Alberta and Saskatchewan, continued its transition from a traditional fee-for-service environment, becoming, in the two provinces, part of a globally funded, integrated health system.

In Alberta, where the Government significantly reduced health care funding and moved to a regional system of health care delivery, laboratories are being consolidated.

MDS, as the lead private sector provider of laboratory services in the Calgary region, has formed a partnership with other private sector providers. Together, they have significantly reduced operating costs.

This merged private laboratory partnership, in which MDS holds a majority position, is negotiating a long-term relationship with the Calgary Region Health Authority. The issues are complex and it is taking some time to reach a satisfactory financial and operational agreement.

In the Edmonton region, where MDS had a lesser market position, the company's Stirrat Laboratories operations were merged with those of two larger private sector firms. MDS holds a 15% equity position in the merged operation.

In the short term, consolidation has had a negative impact on laboratory earnings. At this stage it is difficult to assess how these changes will affect earnings in the long term.

MDS and The Toronto Hospital, Canada's largest teaching hospital, signed an agreement on October 31, 1995 which established a partnership to implement a state-of-the-art laboratory using MDS AutoLab technology, and to pursue selected research, development and commercial opportunities. The Toronto Hospital has approximately 1,200 beds and an operating budget in excess of $500 million.

MDS is negotiating with a number of other potential partners to form alliances to expand MDS laboratory services to additional North American markets, utilizing AutoLab technology where appropriate.

Distribution Services

Revenues from Ingram & Bell Inc. distribution operations during fiscal 1995 amounted to $119 million and approximated the prior year's levels. Ingram & Bell maintained its share in the Canadian market and its strong relationships with customers and vendors.

Although revenues remained flat, operating margins improved, reflecting the impact of restructuring begun in prior years. During the year, Ingram & Bell consolidated its western distribution operations and opened a new facility in Edmonton to provide improved materials management services in Western Canada. A new information system will enhance customer service and operating efficiency.

With these changes, Ingram & Bell is better able to provide value-added materials management services and products to its customers.

Matrx Medical Inc. is a leader in the distribution of emergency care and other pre-hospital market products and services in the United States. It also manufactures and distributes products and provides services to dental and veterinary market niches. Matrx, in which MDS owns an 80% interest, has annual revenues of approximately $40 million. It was consolidated effective August 1, 1995. Matrx had been classified as an investment for resale after the sale of the company's U.S. laboratory business in 1990. As a result of Matrx's growth, its return to profitability and its leading position in its market segment, management decided to retain it.

This reflects a strategic intent to expand in the emergency care and pre-hospital distribution businesses and to seek synergistic opportunities for the MDS Canadian subsidiary, Ingram & Bell.

Products and Services for Health Care Consumers

Late in fiscal 1994, a new home care division, MDS Communicare, was created. It combines the previous home care business of Ingram & Bell, including its Doncaster operations, with other related MDS units to focus on building a diversified national entity providing products and services for non-institutional health care.

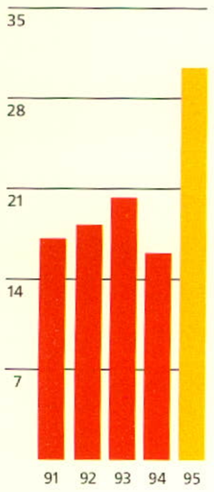
This new unit had revenues of approximately $47 million in fiscal 1995 from the sale of home care products; executive clinic and insurance paramedical services; and environmental testing services. Initially the focus will be on Ontario, building relationships with funding agencies and other providers of home health care and expanding the Communicare base businesses.

Management believes that, through Communicare, MDS can utilize its national service delivery network to provide cost-effective health care and other lifestyle services outside the institutional setting. Communicare will pursue strategic alliances with private and public sector partners.

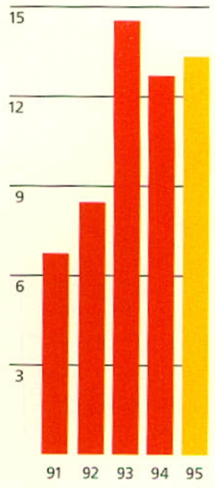
Investing in Tomorrow

The company's long-term strategy emphasizes the achievement of consistent year-over-year earnings growth and the enduring enhancement of shareholder value. During fiscal 1995, MDS continued to make investments in capital equipment, facilities, research, acquisitions and new technologies. These investments are intended to provide

Investment Per Year in Automation and Fixed Assets
(in millions of dollars)



Investment Per Year in Research and Development
(in millions of dollars)



a foundation for future growth, while increasing current operating income and cash flows.

Research and Development

In addition to $30 million in capital expenditures, $13.3 million was spent on research and development during fiscal 1995. In the prior year, consolidated R&D costs were approximately $12.7 million. All such costs were expensed. MDS management is committed to research and development to ensure that new products and services are introduced on a timely basis and that existing products and services incorporate leading-edge technology.

MDS Health Ventures, through its various funds, is contributing leadership and capital to technological developments in health care.

Acquisitions

On November 1, 1994, the company acquired, through Metro-McNair Clinical Laboratories Limited Partnership, 100% of the shares of Island Medical Laboratories Ltd. With annual revenues of approximately $18 million, Island serves patients at its 25 locations in Victoria and elsewhere on Vancouver Island.

Effective March 31, 1995 the company acquired the 14.9% interest in Nordion International Inc. previously owned by Amersham International plc., increasing its interest to 99% and improving the company's consolidated earnings.

In August, 100% of the outstanding shares of Panlabs International, Inc. were acquired. This acquisition expanded the range of MDS services to the pharmaceutical industry.

Management anticipates that acquisition and joint venture activity will increase during fiscal 1996 in line with the company's strategic objective of exceeding $1 billion in consolidated revenues by the end of the fiscal year 2000, expanding its international presence and further diversifying its operations.

Technology Investments

During fiscal 1995 MDS increased its ownership of MDS Health Ventures Inc. and MDS Health Ventures Capital Corp. from 30.5% to 38%. As a result, MDS retains a greater share of MDS Health Ventures income.

MDS Health Ventures contributed to consolidated MDS earnings in the year through gains realized on the sale of shares of several investee companies.

It is anticipated that MDS Health Ventures' successes will continue to be reflected in MDS earnings as increases in the value of its investments are realized.

As at October 31, 1995 MDS Health Ventures had invested more than $108 million in 38 companies, 17 of which operate internationally. MDS Health Group's 38% equity interest in MDS Health Ventures Inc. and MDS Health Ventures Capital Corp., acquired at a cost of $16 million, had an estimated market valuation in excess of $41 million.

The total value of funds and investments under MDS Health Ventures Inc. and MDS Health Ventures Capital Corp. management exceeded $245 million.

Liquidity and Capital Resources

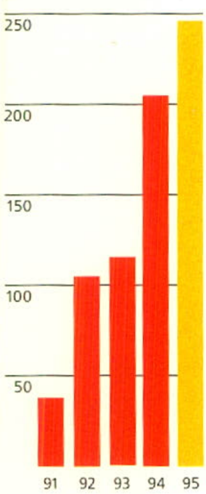
For the year ended October 31, 1995 cash flow from operations amounted to $74 million (1994 — $71 million) and working capital was in excess of $60 million. The company's working capital ratio declined to 1.25:1, compared to 1.5:1 in the prior fiscal year.

During the year approximately $40 million of long-term debt was repaid and approximately $17 million was added through the Island acquisition and consolidation of Matrx Medical. Acquisitions, along with the repurchase of the company's shares pursuant to a Normal Course Issuer Bid, utilized $50 million.

At the end of fiscal 1995, the company and its subsidiaries had available lines of credit totalling $135 million, of which only a portion is utilized at any given time. At the year end, the company and its subsidiaries had borrowed $76 million related to these credit facilities.

As at October 31, 1995, long-term debt represented 27% of capital employed, down from 34% at the previous year end. Interest coverage for all debt obligations was in excess of four times total debt service cost.

Capital Managed by MDS Health Ventures
(in millions of dollars)



Outlook

After several years of consolidation and of focusing on challenges created by rising health care costs and funding restraints, MDS is embarking on a period of growth. Management's objective is to achieve, within five years, consolidated revenues greater than $1 billion and a compounded annual growth rate in earnings per share in excess of 15%.

These targets will be pursued through expansion of existing businesses, through acquisitions and through strategic partnerships. The aim is to build an enduring, Canadian-based, international health and life sciences company, which emphasizes innovative, health-related technologies, systems and products.

Shareholder Value

The company's five-year strategic plan includes specific initiatives to enhance shareholder value. Performance criteria have been established to ensure that return on capital employed exceeds the company's cost of capital over the long term.

These financial measures, along with other performance criteria, will be considered in making business decisions, in allocating capital resources and in determining management compensation. A consistent measurement process, which guides corporate and divisional operations towards shareholder value enhancement, will be a key ingredient in the company's future success.

Consolidated Financial Statements

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. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgment. 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 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, internal control 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 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 the obtaining of 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 years ended October 31, 1995 and 1994 and have reported thereon in their December 15, 1995 report.

Auditors' Report

To the Shareholders of
MDS Health Group Limited

We have audited the consolidated statements of financial position of **MDS Health Group Limited** as at October 31, 1995 and 1994 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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, 1995 and 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Ernst & Young

Ernst & Young
Chartered Accountants
Toronto, Canada
December 15, 1995.

Consolidated Statements of Financial Position

As at October 31 (thousands of dollars) See accompanying notes	1995	1994 (note 16)
Assets		
Current		
Cash and short-term investments	$ 74,743	$106,757
Accounts receivable (note 7)	122,506	113,217
Inventories (notes 2 & 7)	98,477	96,560
Income taxes recoverable	2,748	9,405
Prepaid expenses	5,456	6,310
Deferred income taxes	4,872	5,068
	308,802	337,317
Fixed assets (notes 3 & 7)	192,886	162,896
Deferred income taxes	8,948	12,685
Long-term amounts receivable	7,167	8,496
Long-term investments (note 4)	71,829	64,316
Goodwill net of accumulated amortization of $25,348 (1994 – $21,410)	140,252	138,705
Total assets	**$729,884**	**$724,415**
Liabilities and Shareholders' Equity		
Current liabilities		
Bank indebtedness (note 7)	$ 76,275	$ 61,109
Accounts payable and accrued liabilities	131,020	136,027
Current portion of long-term debt (note 7)	40,494	34,618
	247,789	231,754
Other long-term obligations (note 8)	12,561	11,891
Long-term debt (note 7)	98,626	127,024
Minority interest	14,815	28,199
	373,791	398,868
Shareholders' equity		
Share capital (note 9)	184,039	177,831
Retained earnings	168,937	144,087
Cumulative translation adjustment	3,117	3,629
	356,093	325,547
Total liabilities and shareholders' equity	**$729,884**	**$724,415**

On behalf of the Board:

Wilfred G. Lewitt

Ralph Horner

Consolidated Statements of Income

Years ended October 31 (thousands of dollars) See accompanying notes	1995	1994 (note 16)
Net revenues	**$689,231**	**$652,536**
Operating income before the following	69,761	61,994
Interest expense – long-term	(12,785)	(12,202)
– other	(8,689)	(5,397)
Dividend and interest income	9,127	5,739
Share in earnings of significantly influenced companies	2,174	248
Minority interest	(4,269)	(5,847)
Income before unusual items and income taxes	55,319	44,535
Unusual items (note 10)	–	(7,200)
Income taxes (note 12) – current	(13,653)	(2,526)
– deferred	(6,463)	(1,351)
Net income	**$ 35,203**	**$ 33,458**
Earnings per share (note 9[e])	**$ 1.35**	**$ 1.28**

Consolidated Statements of Retained Earnings

Years ended October 31 (thousands of dollars) See accompanying notes	1995	1994
Retained earnings, beginning of year	**$144,087**	**$114,633**
Net income	35,203	33,458
Shares repurchased (note 9[a])	(5,962)	–
Dividends – cash	(3,533)	(2,987)
– stock	(858)	(1,017)
Retained earnings, end of year	**$168,937**	**$144,087**

Consolidated Statements of Cash Flows

Years ended October 31 (thousands of dollars) See accompanying notes	1995	1994 (note 16)
Operating Activities		
Net income	$ 35,203	$ 33,458
Add (deduct) items not affecting cash:		
Depreciation and amortization	26,583	24,560
Amortization of goodwill	4,975	4,787
Minority interest	4,269	5,847
Deferred income taxes	3,872	2,242
Share in earnings of significantly influenced companies and partnerships (net of distributions)	(770)	29
Cash flow from operations	74,132	70,923
Changes in non-cash working capital balances relating to operations	(2,382)	(12,817)
	71,750	**58,106**
Investing Activities		
Acquisitions (notes 4 & 6)		
Investment in significantly influenced companies	(5,840)	–
Net tangible assets (net of $11,553 cash)	(32,044)	(2,586)
Goodwill	(6,522)	(662)
Minority interest	(16,286)	(3,847)
Less – long-term debt	16,809	528
– shares issued	5,840	1,655
– conversion of long-term investment	4,668	–
	(33,375)	(4,912)
Purchase of fixed assets	(30,405)	(16,020)
Long-term amounts receivable	1,329	(8,269)
Long-term investments	(4,997)	1,559
	(67,448)	**(27,642)**
Financing Activities		
Decrease in long-term debt	(40,080)	(35,094)
Decrease (increase) in other long-term obligations	267	(1,687)
Payment of cash dividends	(3,533)	(2,987)
Issuance of shares	2,148	402
Repurchase of shares	(8,600)	(62)
Minority interest distributions	(2,076)	(1,188)
Cash effects of translation of foreign subsidiaries	392	447
	(51,482)	**(40,169)**
Decrease in cash during the year	**(47,180)**	**(9,705)**
Cash position, beginning of year	45,648	55,353
Cash position, end of year	**$ (1,532)**	**$ 45,648**

Cash position comprises cash and short-term investments less bank indebtedness

October 31, 1995
(All tabular amounts in thousands of dollars, except where noted)

1. Accounting Policies

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles and include the accounts of the Company and its subsidiaries. The Company's major subsidiaries are Nordion International Inc., Metro-McNair Clinical Laboratories Limited Partnership, Ingram & Bell Inc., Panlabs International Inc. and Matrx Medical Inc.

Significant accounting policies are as follows:

Long-term investments

The accounts of all subsidiary companies are consolidated from the dates of acquisition.

Investments in joint ventures are accounted for using the proportionate consolidation method. Under this method the Company's proportionate share of joint venture revenues, expenses, assets and liabilities is included in the accounts.

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

Other long-term corporate investments, consisting primarily of medical buildings and venture capital investments, are carried at cost. If there is an other than temporary decline in value, these investments are written down to provide for the loss.

Inventories

Nordion inventories of gamma and radioisotope products are valued at the lower of average cost and net realizable value.

Resale products, including laboratory supplies, are valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

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	3% – 4%
Equipment	10% – 20%
Computer systems	20% – 33%
Leaseholds	Lesser of 10% or the term of the lease plus all renewal periods
Facility modifications	Costs of modifications to production facilities owned by others to permit isotope production are deferred and amortized over the contractual production period.

Research and development costs

Research costs and development costs which do not meet the criteria for capitalization are expensed as incurred.

Research and development funding from third parties is applied to reduce the cost of the related expenditures and is recorded as earned under the terms of the individual agreements.

Goodwill

Goodwill arises on acquisitions and comprises the excess of amounts paid over the fair value of net tangible assets acquired. Goodwill is recorded at cost and amortized over periods varying from 20 to 40 years.

The carrying value of goodwill is assessed annually to determine if a permanent impairment exists. This assessment is based on the forecasted operating income, before goodwill amortization, of the business to which the goodwill relates.

Pension costs

Nordion and Ingram & Bell maintain contributory defined benefit pension plans for their employees. The actuarial present value of accrued pension benefit obligations as at October 31, 1995 was $54.7 million (1994 – $48.5 million). The market-related value of the pension fund assets as at October 31, 1995 was $59.5 million (1994 – $52.7 million).

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 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.

Foreign currency translation

Foreign operations are considered self-sustaining and are translated using the current rate method. Assets and liabilities are translated using the exchange rate in effect at the year end and revenues and expenses are translated at the average rate for the year. Exchange gains or losses on translation of the Company's net equity investment in these subsidiaries are deferred as a separate component of shareholders' equity. The appropriate amounts of exchange gains or losses accumulated in the separate component of shareholders' equity are reflected in income when there is a reduction in the Company's net equity investment in these subsidiaries.

2. Inventories

Inventories consist primarily of Nordion gamma and radioisotope products and of equipment and other resale products held by Ingram & Bell, Matrx and the Company's Sciex Division.

	Total	
	1995	1994
Raw materials	$20,512	$19,934
Work in process	36,353	45,419
Finished goods	41,612	31,207
	$98,477	$96,560

3. Fixed Assets

	1995			1994		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land	$ 23,515	$ –	$ 23,515	$ 12,079	$ –	$ 12,079
Buildings	61,118	11,825	49,293	45,072	8,059	37,013
Equipment	144,941	81,016	63,925	122,937	64,363	58,574
Computer systems	47,445	32,639	14,806	42,012	26,941	15,071
Leaseholds	28,519	17,313	11,206	24,521	15,936	8,585
Facility modifications	39,659	9,518	30,141	39,505	7,931	31,574
	$345,197	$152,311	$192,886	$286,126	$123,230	$162,896

4. Long-Term Investments

	1995	1994
Investments in significantly influenced companies		
MDS Health Ventures (a)	$21,064	$13,033
Medical laboratories	10,328	10,075
Other	–	1,212
	31,392	24,320
Other long-term corporate investments		
Interests in medical buildings (b)	13,194	13,502
Hemosol Inc.	11,364	11,364
Automed Corporation	9,291	5,878
Other (c)	6,588	9,252
	40,437	39,996
	$71,829	$64,316

(a) On August 28, 1995, the Company increased its interest in MDS Health Ventures Inc. and MDS Health Ventures Capital Corporation (collectively – "MDS Health Ventures") to 38% for $5.8 million, which consideration was paid by the issuance of MDS Class B Non-Voting Shares. The $21.1 million carrying value of the Company's interest in MDS Health Ventures comprises an investment cost of $15.9 million plus $5.2 million representing the Company's share of cumulative earnings of MDS Health Ventures on an equity accounted basis.

(b) The Board of Directors has approved a revolving $20 million guarantee facility to be used by the Company for the purpose of securing financing for medical buildings in which the Company holds an interest. As at October 31, 1995, $15 million (October 31, 1994 – $15 million) of such guarantees were outstanding.

(c) Effective August 1, 1995, the Company consolidated Matrx Medical Inc., an investee in which the Company holds an 80% interest and which was previously carried at cost and classified as an asset held for sale. The 1994 carrying value of $4.7 million has been allocated to net tangible assets on consolidation.

5. Joint Ventures

The Company conducts certain of its businesses through incorporated and unincorporated joint ventures. Following are condensed combined balance sheets and statements of income for 100% of joint venture operations in which the Company has a 50% interest:

	1995	1994
Current assets	$21,482	$14,589
Other assets	7,586	6,940
	29,068	21,529
Current liabilities	10,517	10,343
Long-term debt	3,497	4,774
Equity	15,054	6,412
	29,068	21,529
Net revenues	73,950	59,273
Operating income	$10,910	$ 2,883

6. Acquisitions

1995

On November 1, 1994 the Company acquired a medical laboratory for $10.7 million, represented by net tangible assets of $4.2 million and purchased goodwill of $6.5 million. The purchase price was paid $9.1 million in cash and $1.6 million by a promissory note payable, due May 1, 1996.

Effective March 31, 1995 the Company acquired the 14.9% interest in Nordion previously owned by Amersham International plc. for $17.6 million. The purchase price, which represented the net book value of the acquired shares, was paid in cash.

On August 11, 1995 the Company acquired 100% of the outstanding shares of Panlabs, a contract research organization engaged in early stage drug discovery and related pharmaceutical research, located in Seattle, Washington. Consideration for this acquisition included $26.6 million cash which was paid on closing and was allocated to net tangible assets acquired. In addition, an amount up to a maximum of $9.3 million may be paid based on future earnings of Panlabs, as defined, for the period July 1, 1995 to June 30, 1997, and subject to early settlement options in favour of the Company. The amount and timing of this contingent consideration are not readily determinable at this time and have not, therefore, been reflected in the accounts. Such amounts as may become payable will be recorded as goodwill when determinable. Panlabs' annual revenues are approximately $40 million.

1994

During the year, the Company purchased several environmental testing businesses, increased its ownership in an existing environmental subsidiary and acquired an interest in a small medical laboratory for a total cash consideration of $4.9 million.

7. Long-Term Debt

	Maturity	1995	1994
Term bank loans	1995 – 2001	$118,802	$140,055
Other debt	1995 – 2006	20,318	21,587
Total long-term debt		139,120	161,642
Less current portion		40,494	34,618
		$ 98,626	$127,024

Term bank loans, $97.7 million of which may be repaid at any time without notice or penalty, predominantly bear a floating rate of interest to a maximum of bank prime plus 1/4%. Shares of several of the Company's subsidiaries and debentures on the assets of these subsidiaries in the amount of $165 million have been pledged as collateral for these loans.

Other debt, amounting to $16.4 million, bears interest at annual rates tied to the bank prime rate. The remainder of other debt includes certain capital lease obligations and other non-interest bearing debt.

Principal repayments of long-term debt are required as follows:

1996	$ 40,494
1997	45,152
1998	37,159
1999	8,601
2000	3,380
Thereafter	4,334
	$139,120

The Company, excluding its subsidiaries, has an operating line of credit of $70 million with a Canadian chartered bank for which a specific charge on accounts receivable, inventories and equipment has been given. Operating lines of credit of subsidiary companies total $65.3 million and are collateralized by specific charges on accounts receivable and inventories and by debentures totalling $90 million. As at October 31, 1995 the Company and its subsidiaries had borrowed $76 million (1994 – $61 million) related to these credit facilities.

8. Other Long-Term Obligations

Other long-term obligations, the majority of which are non-interest bearing, include estimated provisions relating to various Nordion contractual commitments and warranty costs ($11.8 million; 1994 – $9.7 million) and restructuring and divestiture activity provisions ($0.8 million; 1994 – $2.2 million). *(note 10)*

9. Share Capital

[a] Summary of issued share capital

	Class A		Class B		Total
(number of shares in thousands)	Number	Amount	Number	Amount	Amount
Balance October 31, 1993	7,384	$25,108	18,638	$149,711	$174,819
Issued during 1994	9	113	225	2,961	3,074
Conversions and repurchases	(19)	(62)	–	–	(62)
Balance October 31, 1994	7,374	25,159	18,863	152,672	177,831
Issued during 1995	8	134	570	8,899	9,033
Conversions and repurchases	(446)	(1,504)	(159)	(1,321)	(2,825)
Balance October 31, 1995	6,936	$23,789	19,274	$160,250	$184,039

During the year, the Company declared and paid $959,000 cash dividends on Class A Common Shares (1994 – $898,000) and $2,574,000 cash dividends on Class B Non-Voting Shares (1994 – $2,089,000).

During the year the Company repurchased 383,800 Class A and 159,000 Class B shares for $8,600,000 under the terms of a Normal Course Issuer Bid. The excess over the stated capital of the acquired shares was charged to retained earnings.

[b] Authorized share capital

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

Class A Common Shares are convertible 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 1¼ ¢ 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 take-over bid provisions were added to the Class B Non-Voting Shares. In the event a take-over 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. This will be accomplished 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 will receive distributions equally with Shares of other such classes on a share-for-share basis.

[c] 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 traded on The Toronto Stock Exchange immediately prior to the dividend payment date. Plan participants may also make optional cash payments of up to $3,000 semi-annually to purchase additional new Class A Common Shares or Class B Non-Voting Shares at the Average Market Price.

Participation in the Plan for the year ended October 31, 1995 resulted in the issuance of 6,758 Class A Common Shares (1994 – 7,410) and 45,926 Class B Non-Voting Shares (1994 – 69,850) as stock dividends and the issuance of 1,422 Class A Common Shares (1994 – 1,101) and 1,123 Class B Non-Voting Shares (1994 – 1,045) for cash under the share purchase option.

[d] MDS Stock Option Plan

At the 1995 year-end 1,432,498 Class B Non-Voting Shares and 672,558 Class A Common Shares of the Company have been reserved, under the MDS Stock Option Plan.

Class A Common Share and Class B Non-Voting Share option activity for the year consisted of:

	1995	1994
Granted	**332,800**	323,400
Exercised	**47,275**	34,095
Cancelled	**18,500**	32,350

As at October 31, 1995, there are a total of 1,239,100 outstanding options to acquire Class B Non-Voting Shares at prices ranging from $8.625 to $18.50. The options are exercisable at various dates up to September 13, 2005. Also as at October 31, 1995 there are a total of 580,000 outstanding options to acquire Class A Common Shares at prices ranging from $10.13 to $14.50. These options are exercisable up to January 11, 2005.

[e] Earnings per share

Basic earnings per share have been calculated using the weighted monthly average number of Class A Common Shares and Class B Non-Voting Shares outstanding during the year. Class A Common Shares and Class B Non-Voting Shares participate equally in dividends after the declaration of a 1¼ ¢ per share non-cumulative dividend on the Class B Non-Voting Shares in each fiscal half-year of the Company (the "Additional Dividends"). No deduction for the Additional Dividends has been made in the calculation of basic earnings per share.

Net income and earnings per share were as follows:

	Net Income	
	1995	1994
Operations	$35,203	$29,128
Revenue Canada settlement, net of minority interest	–	4,330
	$35,203	**$33,458**

	Earnings Per Share	
	1995	1994
Operations	$1.35	$1.11
Revenue Canada settlement, net of minority interest	–	0.17
	$1.35	**$1.28**

10. Unusual Items

Restructuring

During the year the Company completed implementation of restructuring programs within its Canadian laboratory operations and its medical distribution business. All restructuring costs incurred in the implementation of these programs were charged against the provision of $26.1 million that was recorded as an unusual item in 1993. There was no impact on net income in the year.

Divestiture activities in 1994

During 1994, the Company disposed of a non-strategic medical equipment subsidiary pursuant to a divestiture program commenced in 1992. In addition, Nordion reorganized its European operations and, on October 31, 1994, sold certain contracts and intangible assets of its European radiopharmaceutical business to DuPont Pharma s.a. Under the terms of this arrangement, DuPont assumed sales and marketing responsibilities in Europe for Nordion's radiopharmaceutical products, while Nordion continued to carry on manufacturing operations.

The Company recorded, as an unusual item, a provision of $7.2 million related to these divestiture activities. A tax recovery of $7.2 million was also realized, offsetting the provision and resulting in no impact on net income.

11. Research and Development Costs

	1995	1994
Research and development costs	$13,343	$12,689
Revenues from government and other funding (including investment tax credits)	5,639	5,841
Net research and development costs	$ 7,704	$ 6,848

12. Income Taxes

[a] Provision

The Company's effective income tax rate has the following components:

	1995	1994
Combined Canadian federal and provincial tax rate	44.0%	44.0%
Increase (decrease) in tax rate as a result of:		
Tax-free dividends	(0.2)	(0.2)
Share in earnings of significantly influenced companies	(1.7)	(0.4)
Manufacturing and processing deduction	(4.5)	(5.0)
Subsidiary losses not recognized	–	2.9
Tax benefit of loss utilization	–	(2.2)
Permanent differences	(1.2)	(1.3)
Other	–	(2.3)
Effective income tax rate	36.4%	35.5%

[b] Loss carryforwards

As at October 31, 1995 loss carryforwards of certain of the Company's subsidiaries, for which no tax benefit has been recognized and which may be carried forward indefinitely, amounted to approximately $10 million (1994 – $7.0 million).

13. Segmented Information

Management has determined that MDS, as a health and life sciences company, operates within one dominant business segment, the provision of technology-based products, systems, information and analytical services for health care and associated markets.

Export sales of Canadian operations during fiscal 1995 amounted to approximately $171 million (1994 – $169 million).

14. Commitments and Contingencies

[a] Operating expenses

As at October 31, 1995, the Company is obligated under premises and equipment leases to make minimum payments of approximately $24,035,000 in 1996, $18,507,000 in 1997, $12,926,000 in 1998, $9,245,000 in 1999, $5,253,000 in 2000 and $18,404,000 thereafter. The total of these minimum lease payments over this period is $88,370,000. Rental expense under premises and equipment leases for the year ended October 31, 1995 was $27,330,000 (for the year ended October 31, 1994 – $32,403,000).

[b] Guarantees and contingencies

(i) The Company has guaranteed the bank indebtedness of a joint venture and other non-consolidated investees to a maximum of $3.9 million (1994 – $4.2 million).

(ii) Nordion has certain commitments to purchase gamma source raw materials over various periods extending to the year 2004. The estimated total purchase commitments over the next eight years amount to approximately $73.0 million.

15. Litigation

Arbitration proceedings involving Nordion, a subsidiary of the Company, and Atomic Energy Canada Limited ("AECL") and court proceedings involving the Company and Nordion on the one hand and AECL, Canada Development Investment Corporation ("CDIC") and The Attorney General of Canada ("Federal Government") on the other hand, have been by agreement held in abeyance pending the outcome of discussions among the parties. The Company, Nordion, AECL and the Federal Government have made substantial progress in developing a resolution acceptable to all parties. The parties are now awaiting certain tax rulings, regulatory and other third party approvals before the terms of the resolution can be formalized and implemented.

The arbitration proceedings relate primarily to disagreements between Nordion and AECL as to AECL's obligation to continue to supply isotopes to Nordion pursuant to a 23-year isotope supply contract which, on its terms, expires in the year 2011; and to complete construction and commissioning of a new isotope reactor. Nordion is seeking in the arbitration, among other things, a declaration that AECL remains obligated to continue to supply isotopes to Nordion for the remainder of the term of the supply contract and that AECL is obligated to proceed forthwith with the completion and commissioning of the new reactor. While AECL has purported to terminate the supply contract, AECL has committed to supply isotopes to Nordion pending a determination of the arbitration proceedings.

In the court proceedings, MDS and Nordion are seeking various relief against AECL, CDIC and the Federal Government, including rescission of the original purchase contract, a declaration that AECL is obligated to complete construction and commissioning of the new reactor and/or damages.

16. Comparative Figures

The Company has adopted the proportionate consolidation method of accounting for joint ventures. This change has been applied on a retroactive basis and, as a result, certain figures for the previous year have been restated to conform with the current year's financial statement presentation.

Six-Year Financial Summary

Years ended October 31* (thousands of dollars)	1995	1994	1993	1992	1991	1990
Operating Results						
Net revenues	$689,231	$652,536	$662,761	$458,989	$341,553	$297,196
Net income before unusual items	35,203	29,128	23,728	22,353	19,951	13,100
Net income	35,203	33,458	1,352	34,615	19,951	13,100
Financial Position						
Working capital	61,013	105,563	121,109	125,142	123,380	55,678
Fixed assets (net)	192,886	162,896	166,631	166,345	62,412	60,817
Other assets, net (including goodwill)	219,248	211,517	209,150	206,309	170,654	157,959
Total assets	729,884	724,415	724,939	640,299	417,324	332,639
Long-term debt	98,626	127,024	162,413	178,501	83,596	84,746
Shareholders' equity	356,093	325,547	290,056	291,193	254,049	172,116
Changes in Financial Position						
Cash from operations	74,132	70,923	60,543	52,209	41,751	26,761
Net share capital issued	(612)	340	442	798	69,636	59,574
Fixed assets purchased	30,405	16,020	20,294	18,194	17,127	14,950
Net acquisitions	33,375	4,912	7,632	99,681	14,869	(11,335)
Cash dividends on Class A Common and Class B Non-Voting Shares	3,533	2,987	2,564	2,640	2,211	2,192
Net repayment of long-term debt	40,080	35,094	15,922	17,499	969	32,257

Statistics

	1995	1994	1993	1992	1991	1990
Per Share Data						
Earnings per share before unusual items	1.35	1.11	0.92	0.87	0.85	0.72
Earnings per share	1.35	1.28	0.05	1.34	0.85	0.72
Dividends						
Class A Common	0.15	0.135	0.12	0.12	0.11	0.10
Class B Non-Voting	0.175	0.16	0.145	0.145	0.135	0.125
Book value per share	13.60	12.41	11.15	11.28	9.89	7.99
Price range						
Class A Common	20–13 1/8	15–12 5/8	18–11 1/2	22–14 1/2	22 3/4–13	14 3/4–11 3/4
Class B Non-Voting	20–13 1/4	15–12	16 3/4–10 5/8	21–14	22 1/2–13	14 1/2–11 1/2
Number outstanding						
Class A Common	6,936	7,374	7,384	7,415	7,932	7,961
Class B Non-Voting	19,274	18,863	18,638	18,407	17,744	13,592
Ratios						
Current	1.25	1.50	1.60	2.00	3.00	1.90
Long-term debt/capital employed	0.27	0.34	0.40	0.44	0.36	0.37
Other						
Employees	6,136	5,863	5,930	5,223	5,582	5,344

* The figures for 1990 through 1994 have been restated to reflect the proportionate consolidation method of accounting for investments in joint ventures.

Overview

The ultimate responsibility to oversee the conduct of the business and to guide the management of MDS resides with the Board of Directors, directly and through its committees.

Board Mandate

The Board's terms of reference include contributing to and approving the company's strategic plans; overseeing and reviewing performance and adherence to major corporate programs; monitoring compliance with board policies, including risk management, communications, and performance of the Chief Executive Officer. The Board holds nine scheduled meetings per year and additional ad hoc meetings if required.

The Directors

The Board consists of 11 members, including four officers, and seven outside directors, the majority of whom are unrelated.* As existing directors retire, the company intends to increase the number of unrelated directors on the Board. The Chairman of the Human Resources and Compensation Committee, who is unrelated, is also the lead director, responsible for preserving the independent functioning of the Board relative to management. The Board regularly tours the company's core business facilities.

The Committees

Generally, committees have a majority of outside directors, with a significant number being unrelated. The composition of the committees is reviewed periodically to ensure appropriate turnover, interest and diversity of expertise.

Corporate Governance Committee

The Corporate Governance Committee is composed of four outside directors, two of whom, including the Chairman, are unrelated. It recommends and monitors effective governance systems for the company; advises the Board on the application of corporate governance principles, including benchmarking the company's governance system and the governance guidelines adopted by applicable regulatory authorities; acts as a forum for the concerns of any director related to governance issues; approves individual directors' engagement of outside advisors; and assesses the effectiveness of the Board (including composition and size) and committees and the contribution of individual directors. It meets at least four times a year.

Nominating Committee

The Nominating Committee is composed of five outside directors, the majority of whom, including the Chairman, are unrelated. It reviews and recommends procedures and criteria for identifying potential nominees for directorship; reviews and recommends criteria related to tenure; and assesses potential candidates and recommends candidates to the Board. It meets at least four times a year.

Human Resources and Compensation Committee

The Human Resources and Compensation Committee is composed of four outside directors, two of whom, including the Chairman, are unrelated. It reviews management compensation; monitors succession planning; reviews the overall quality of the company's human resources; and reviews and approves executive and director compensation. It meets at least four times a year.

Audit Committee

The Audit Committee is composed of three outside directors, one of whom, the Chairman, is unrelated. Its principal duties are to review the company's financial statements, the accounting items affecting the statements and the format and content of the statements before submission to the Board; to review the adequacy of the company's internal controls and auditing procedures; to approve the current year audit program and assess the results thereof with management and the auditors; to ensure that adequate processes are adopted to evaluate financial and corporate risk; to approve changes in accounting principles and practices; and to recommend the appointment and remuneration of the auditors. It meets at least twice a year.

Environmental Committee

The Environmental Committee is composed of three members, one of whom, the Chairman, is an outside director. The Committee has established a policy to ensure compliance with all applicable environmental laws and regulations. The policy includes regular environmental assessments of company activities, establishment of remedial and contingency plans to deal with any incidents, and regular reporting to the Board on the environmental status of the company. It meets at least four times a year.

Medical Advisory Committee

The Medical Advisory Committee has three members, two of whom are outside directors. The Chairman is the Medical Director of MDS. The mandate of the committee is to ensure that all medically-related functions and operations of MDS Laboratory Services and its affiliated laboratories are consistent with the codes of ethics established for professional health care services within the disciplines and jurisdictions in which operations take place.

Board and Committee members are listed on the last page of the Annual Report.

*An unrelated director is a director whose sole connection with the company is as a member of the Board and its committees, and who is not an employee or agent of or paid consultant to the company.

Investors' Quick Reference Check

Mailing Address
100 International Blvd.
Etobicoke, Ontario M9W 6J6
Telephone: (416) 675-7661
Fax: (416) 213-4220

Transfer Agent and Registrar
The R-M Trust Company,
Toronto, Ontario

Auditors
Ernst & Young

Legal Counsel
Fasken Campbell Godfrey

Bankers
Canadian Imperial Bank of Commerce

Dividend Information
Paid semi-annually in April and October. The October, 1995 dividend was 7½ cents per Class A Common Share and 8¾ cents per Class B Non-Voting Share.

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, R-M Trust, on its AnswerLine at (416) 813-4600 or toll-free at 1 (800) 387-0825.

Annual Meeting
Shareholders are invited to attend the company's Annual Meeting at 4:00 p.m., March 19, 1996 at the Metro Toronto Convention Centre, Constitution Hall Rooms 105 and 106, Toronto, Ontario.

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

Investor Information
Contact Legal Affairs Dept.
Telephone: (416) 675-6777 Ext. 2361
Annual/Interim Reports
Ext. 6500

Trading Data
(by fiscal quarter)

	High	Low
1st Quarter		
Class A	$ 14.625	$ 13.125
Class B	14.625	13.25
2nd Quarter		
Class A	16.75	13.50
Class B	16.375	13.25
3rd Quarter		
Class A	18.875	16.75
Class B	18.75	16.375
4th Quarter		
Class A	20.00	18.375
Class B	20.00	18.50

A Audit Committee
C Corporate Governance Committee
E Environmental Committee
H Human Resources and Compensation Committee
M Medical Advisory Committee
N Nominating Committee

Board of Directors

Ruth M. Corbin, N
President
Decision Resources Inc.

Wendy K. Dobson, N
Professor and Director
The Centre for International Business,
Faculty of Management,
University of Toronto

Dr. John R. Evans, C,H,M,N
Chairman
Torstar Corporation

Ralph Horner, A,C,H,N
Partner
Grieve, Horner, Brown & Asculai

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

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

Dr. Donald B. Rix, M
Chairman
Metro-McNair Clinical Laboratories Ltd.

John A. Rogers, E
President and
Chief Operating Officer
MDS Health Group Limited

R. Michael Warren, A,C,H,N
Chairman
The Warren Group Inc.

Roger D. Wilson, A,C,E,H,N
Partner
Fasken Campbell Godfrey

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

Officers and Corporate Management

Wilfred G. Lewitt
Chairman and
Chief Executive Officer

John A. Rogers
President and
Chief Operating Officer

Peter E. Brent
Vice-President
Legal Affairs
and Corporate Secretary

Anthony Businskas
Vice-President
Corporate Finance

John D. Gleason
Vice-President
Corporate Strategic Initiatives

Susan J. Harris
Vice-President
Organization Development

Dr. John C. Nixon
Medical Director

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

Edward K. Rygiel
Senior Vice-President
Corporate Development
and President
MDS Health Ventures Capital Corp.

Ronald H. Yamada
Senior Vice-President
Information Strategies
and Corporate Affairs

Divisional Management

Christopher Ball
President
Panlabs International, Inc.

William C. Garriock
President
SCIEX

Jack C. MacDonald
President
MDS Communicare

John A. Morrison
President
Nordion International Inc.

Sean O Sullivan
President
Ingram & Bell Inc.

Alan D. Torrie
President
MDS Laboratory Services

IMAGINE
A New Spirit of Giving

MDS is proud to support IMAGINE, the national awareness program that encourages Canadians to contribute more volunteer time and more financial support to the programs and causes they care about.

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Design
Gottschalk+Ash International

Science Serving Health

MDS Health Group Limited
100 International Blvd.
Etobicoke, Ontario
Canada M9W 6J6

Printed in Canada