

Our Business

This Annual Report covers the fourteenth year of operations for Sterisystems Ltd., its tenth year as a public company listed on the Toronto Stock Exchange.

Sterisystems Ltd. operates across Canada providing the following equipment and supplies to the health care industry:

- a unique television rental service to patients in 280 Canadian hospitals, under the trade name STERIVISION;
- medical electronic and surgical instruments, distributed under the trade name STERIMED;
- a premium line of vitamin and nutritional products, developed and marketed under the WEBBER brand name;
- proprietary veterinary pharmaceuticals and equine feed supplements developed and marketed under the STERIVET brand name.

Board of Directors

Brian M. Flood
Solicitor
Tory, Tory, DesLauriers
& Binnington

Michel M. Lessard*
Executive Vice-President
Credit Foncier

Sidney Liswood
President
Mount Sinai Institute

Michael J. Neal*
Vice-President
Helix Investments Limited

Michael J. Needham*
President
Sterisystems Ltd.

Maurice Parent
President
Familex Limited

Donald C. Webster
President
Helix Investments Limited

* Members of the Audit Committee

Officers

Donald C. Webster
Chairman of the Board

Michael J. Needham
President and
Chief Executive Officer

Robert M. Ableman
Executive Vice-President and
Chief Operating Officer

Alan Drizen
Vice-President and
General Manager, Webber-Sterivet

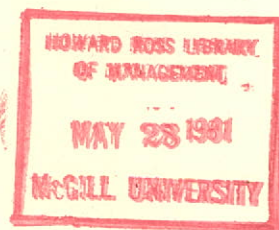
Douglas H. Last
Vice-President and
General Manager, Sterivision

Harold M. Pipher
Vice-President

Gordon A. Wilde
Secretary-Treasurer

Shareholders' Annual Meeting

The 1981 Annual Shareholders' Meeting will take place at 11:00 a.m. Toronto time, Friday, June 12th at the head office of the Company, 47 Baywood Road, Rexdale. All shareholders are encouraged to attend.



Report To The Shareholders

Fellow Shareholders:

1980 was a year of steady progress, with all divisions improving their operating results over 1979. Sterivision and SteriMed continued to improve their return on capital invested and although Webber-Sterivet, our pharmaceutical division, lost money over the year, results in the last Quarter encouraged us to expect a profitable year in 1981.

Sales for 1980 were \$20,637,203 versus \$17,450,127 in 1979, an 18% increase. Profit net of taxes but before a write off of Goodwill was \$451,133 or \$.30 per share in 1980 versus a loss of \$328,743 or (\$.22) per share in 1979.

Throughout 1980, Sterivet Laboratories Ltd., our veterinary drug division struggled to maintain profitable operations in the face of a depressed Canadian horseracing market. As a

result of this continuing market pressure, it was decided by the Directors to write off the remaining Goodwill associated with the purchase of Sterivet in 1975, which amounted to \$344,864. As a result, net after tax profits in 1980 were \$106,269 or \$.07 per share versus a loss of \$328,743 or (\$.22) per share in 1979.

Most of management's major objectives for 1980 were achieved in Sterivision. These comprised the continued conversion of our television service to colour; the extension of our hospital contract terms; the upgrading of our systems to meet the anticipated requirements of new services; an increase in the number of sets rented; and the financing of our capital programs from internal cash flow. By year end, we had placed 3,000 more colour sets in hospitals; extended the term of our contracts by 10% and there was no increase in our borrowing levels despite capital expenditures of \$2.0 million.

In SteriMed, our major objectives were to strengthen existing supplier contracts; add one more supplier, in whom your Company would have an equity investment and to generate at least a 25% increase in sales and profits. Again, we largely met our objectives and are pleased with the

progress being made by Novamatrix Medical Systems, Inc. and Stewart-Riess Laboratories, Inc., in whom we have investments. Although both are early stage companies, we expect both product lines to develop into major contributors to the division by 1982.

At Webber-Sterivet, we achieved our objectives under difficult circumstances. In September, the Sterivet division was located with Webber Pharmaceuticals in a single facility in Rexdale. We had planned to operate through 1980 with a small combined profit, however, the extra expenses and sales dislocation resulting from the relocation caused a loss in operations for the year. Improving sales trends and cost of goods efficiencies in the First Quarter 1981 encourage us to expect a profitable year.

In September, Sterivest Holdings Inc., a company owning 60% of the shares of your Company, made an offer through the Toronto Stock Exchange for any Sterisystems' shares not owned by itself, at \$4.25 per share.

This offer ended on October 17th, with, it is reported, Sterivest owning a total of 83% of the Company's shares. Sterivest indicated at the time of the offer that it had no plans to make significant changes in the operations of Sterisystems. As of this date, we have not been advised of any change in that attitude.

Organizational Change

In July 1980, I ceased to devote full time to the affairs of Sterisystems and began to split my time evenly between Helix Investments Limited and your Company.

The Board of Directors requested that I should continue as President and Chief Executive Officer, providing Sterisystems with at least 50% of my time. As a result of this change and in response to our continuing growth, the Board of Directors of Sterisystems elected Robert M. Ableman, Executive Vice-President and Chief Operating Officer of the Company, effective January 15, 1981. Bob has served as Vice-President and General Manager, SteriMed for the last three years and has been an employee of Sterisystems since 1971.

Outlook

At Sterisystems, we never forget that we are a supplier of important and in some cases life-sustaining, health care services. We are committed to customer satisfaction which we know depends in large part on the character, attitudes and skills of our service employees and their managers. We are spending an increasing amount of attention on education and training of our people—helping them develop their personal strengths and thereby, ensuring a consistent quality of service. Certainly in 1980, it was the commitment and enthusiasm of our employees and the response they triggered in our customers that began the new decade on a positive note. We fully expect this progress to continue in 1981.



Michael J. Needham
President
April 20, 1981

Divisional Review

Sterivision

Sterivision provided television entertainment to over one million patients in 1980. Sterivision serves 280 Canadian hospitals with a unique and patented 'Sterivision' system, which continues to set the standard for patient and hospital satisfaction.

In 1980, Sterivision's revenues were \$9 million, an 18% improvement over 1979. The division's progress was encouraging with improvements stemming largely from the ongoing colour set replacement program; our new patient education programming and the performance of our Sterivision sales and supervisory staff. We plan to replace all our black & white television sets with colour sets, capable of handling patient education programs and other services by 1983. In 1980, over

50% of our revenues came from such colour television sets. We enjoyed another successful year in extending our contracts, and at the end of 1980, the average contract exceeded four years. The response of patients and hospital administrators to our programs has been outstanding and we anticipate this progress to continue in 1981.



D. H. Last
General Manager

Sterivet

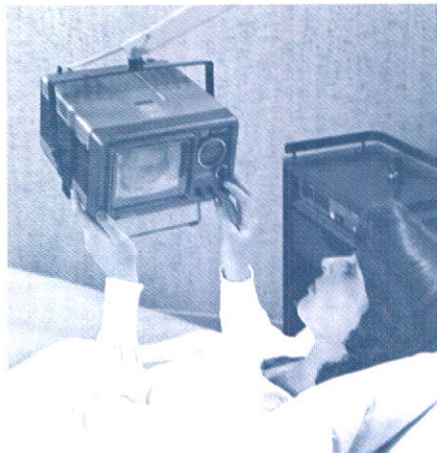
Sterivet develops and markets veterinary injectable drugs and feed supplements in Canada and the U.S. In 1980, sales were \$2.25 million which is approximately the same as 1979 sales.

1980 was a difficult year in that the market continued to be adversely affected by the depressed horseracing economy. New initiatives, in the form of purse subsidies by Federal, Provincial and State governments in Canada and the U.S. should increase revenues for equine pharmaceutical companies, in the latter half of 1981. Additionally, Sterivet's new anti-inflammatory drug, Equipalazone, is now available for sale in the U.S. and has been well-received by the veterinary profession.

A major priority for the Sterivet division in 1981 will be the continued development of several unique proprietary, veterinary products for sale in Canada, the U.S. and overseas.



A. Drizen
General Manager




SteriMed

SteriMed markets a range of medical electronic equipment to Canadian hospitals. In 1980, sales exceeded \$6 million, a 30% increase over 1979. The major companies represented by the division were unchanged from the previous year.

Cambridge Instrument Company Inc.—manufacturers of electrocardiographs and stress test systems;
Novamatrix Medical Systems Inc.—trend setters in the field of non-invasive blood gas monitoring;
Physio-Control Inc.—manufacturers of the Lifepak series of defibrillator monitors;
Tektronix Inc.—the leader in portable patient monitors;
Valleylab Inc.—now the largest company in the world in the field of electro-surgery.

SteriMed has reinforced its distribution ties through long term contract negotiation with its manufacturers, and is investigating additional opportunities in the distribution of state of the art products in the Canadian health care community.



R. M. Ableman
General Manager

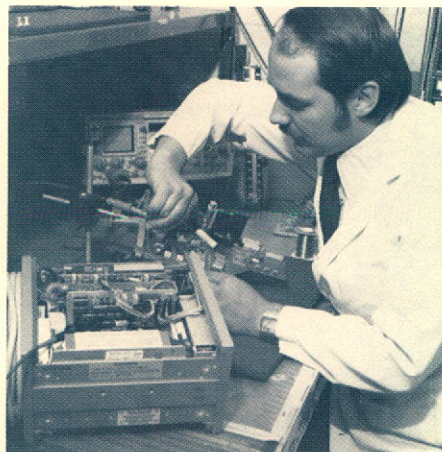
Webber

Webber develops and markets human pharmaceuticals in Canada. Distribution of these products is through pharmacies, health food stores and other specialized retail outlets.

In 1980, sales were \$3 million, but the division suffered a loss due to the continued adverse effects of the unsuccessful 1979 launch of products under the Rexall name. However, significant progress towards profitability was made during 1980 through a management reorganization and re-orientation of marketing policies. Basically, Webber re-emphasized its existing profitable lines and is now prepared to introduce a small number of high margin proprietary drugs in 1981/82. In addition, due to the improved consumer acceptance of Webber's cosmetic and other topical products, greater emphasis will be placed on these lines during 1981. Management expects these programs to result in the division returning to profitability in 1981.



A. Drizen
General Manager



Financial Review

Earnings

Sales were \$20,637,203 in 1980 compared with \$17,450,127 in 1979, an 18.3% improvement. Cost of sales and expenses were \$19,980,070 compared with \$18,238,870, an increase of only 9.5%. This improvement in gross profits was principally achieved through better sales margins and control of operating expenses offset somewhat by increased depreciation from the purchase of new colour sets and an increase in financial expenses brought about by the weakness in the Canadian dollar and escalating interest rates.

Consolidated earnings before income taxes and extraordinary items were \$657,133 (3.2% of sales) compared with losses before income taxes of \$788,743 (4.5% of sales) in 1979. This positive variance of \$1,445,876 reflects a significant improvement in SteriMed's profits, satisfactory profit increases at Sterivision and a reduction of the loss at our Webber-Sterivet

division. Net earnings after all taxes, but before the write off of Goodwill were \$451,133 or \$.30 per share. Net earnings after taxes and after writing off Goodwill arising from the purchase of a subsidiary company in 1975 were \$106,269 or \$.07 a share compared with a loss of \$328,743 in 1979 or (\$.22) a share.

Cash Flow and Balance Sheet Position

The operating cash flow of your Company was \$2,119,308 in 1980 compared with \$1,008,319 in 1979, but net cash flow declined slightly as \$2.2 million of capital expenditures and investment programs were substantially financed internally this year.

Accounts receivables increased by \$740,307 compared with \$238,045 in 1979, reflecting the strong sales growth recorded by our SteriMed division. Inventories declined by \$80,643 reflecting tighter management controls and the discontinuing of certain Rexall lines. Accounts payables increased \$479,148 over 1979 and total net bank borrowings over the year decreased from \$5.4 million to \$5.0 million.

Total assets at December 26, 1980 were \$13.0 million compared with \$12.9 million a year earlier, with the largest changes arising in receivables, up \$740,307, and fixed assets down \$191,120, as a result of depreciation (\$1.9 million) being in excess of capital expenditures (\$1.7 million) and in investments in supplier companies (of \$512,000). Total liabilities of \$8.9 million were up very slightly from 1979 and shareholders' equity increased to \$4,137,534 from \$4,028,265.



G. A. Wilde
Secretary-Treasurer

Consolidated Statement of Operations and Deficit (For the year ended December 26, 1980)

	1980	1979
SALES	<u>\$20,637,203</u>	<u>\$17,450,127</u>
EXPENSES		
Cost of sales and operating expenses	17,162,779	15,936,635
Depreciation	1,870,700	1,506,504
Amortization of goodwill, licences and trademarks	131,301	85,658
Interest—		
Long-term debt	506,004	433,078
Other	187,521	136,554
Research and development	<u>121,765</u>	<u>140,441</u>
	<u>19,980,070</u>	<u>18,238,870</u>
EARNINGS (LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	<u>657,133</u>	<u>(788,743)</u>
PROVISION FOR (RECOVERY OF) INCOME TAXES		
Current	566,000	(190,000)
Deferred	<u>(290,000)</u>	<u>(195,000)</u>
	<u>276,000</u>	<u>(385,000)</u>
EARNINGS (LOSS) BEFORE EXTRAORDINARY ITEMS	<u>381,133</u>	<u>(403,743)</u>
EXTRAORDINARY ITEMS		
Goodwill written-off (note 5)	344,864	-
Reduction of income taxes on application of loss carry-forward	<u>(70,000)</u>	<u>(75,000)</u>
	<u>274,864</u>	<u>(75,000)</u>
NET EARNINGS (LOSS) FOR THE YEAR	<u>106,269</u>	<u>(328,743)</u>
DEFICIT—BEGINNING OF YEAR	<u>1,327,690</u>	<u>998,947</u>
DEFICIT—END OF YEAR	<u>\$ 1,221,421</u>	<u>\$ 1,327,690</u>
EARNINGS (LOSS) PER SHARE BEFORE EXTRAORDINARY ITEMS (note 12)	<u>\$.26</u>	<u>\$ (.27)</u>
NET EARNINGS (LOSS) PER SHARE (note 12)	<u>\$.07</u>	<u>\$ (.22)</u>

Consolidated Balance Sheet

(As at December 26, 1980)

Assets	1980	1979
CURRENT ASSETS		
Cash	\$ 49,312	\$ 3,778
Accounts receivable (note 6)	2,635,721	1,895,414
Inventory (note 2)	3,038,668	3,119,311
Income taxes recoverable	-	429,656
Prepaid expenses	<u>134,641</u>	<u>57,579</u>
	<u>5,858,342</u>	<u>5,505,738</u>
ADVANCES TO OFFICERS, less current portion (note 8)	67,200	80,936
INSTALMENT RECEIVABLES, less current portion	20,193	63,673
INVESTMENTS—at cost (note 3)	633,562	121,225
FIXED ASSETS (note 4)	6,051,605	6,242,725
GOODWILL, PATENT LICENCES AND TRADEMARKS (note 5)	<u>418,777</u>	<u>894,942</u>
	<u>7,191,337</u>	<u>7,403,501</u>
	<u>\$13,049,679</u>	<u>\$12,909,239</u>

Signed on behalf of the Board



Donald C. Webster, Director



Michael J. Needham, Director

Sterisystems

Liabilities	1980	1979
CURRENT LIABILITIES		
Bank indebtedness (note 6)	\$ 1,233,759	\$ 1,422,790
Accounts payable and accrued liabilities	2,566,050	2,086,902
Income taxes payable	157,106	-
Current portion of long-term debt (note 7)	518,668	735,668
Due to affiliated company (note 10)	178,000	-
	<u>4,653,583</u>	<u>4,245,360</u>
LONG-TERM DEBT (note 7)	3,254,328	3,270,996
DEFERRED INCOME TAXES	941,833	1,231,833
DEFERRED REVENUE	<u>62,401</u>	<u>132,785</u>
	<u>8,912,145</u>	<u>8,880,974</u>
Shareholders' Equity		
CAPITAL STOCK (note 8)		
Authorized—		
3,000,000 common shares without par value		
Issued and fully paid—		
1,480,903 common shares (1979—1,479,703)	5,358,955	5,355,955
DEFICIT	<u>1,221,421</u>	<u>1,327,690</u>
	<u>4,137,534</u>	<u>4,028,265</u>
	<u>\$13,049,679</u>	<u>\$12,909,239</u>

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Sterisystems Ltd. as at December 26, 1980 and the consolidated statements of operations and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the

financial position of the company as at December 26, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand
Chartered Accountants
February 26, 1981

Consolidated Statement of Changes in Financial Position

(For the year ended December 26, 1980)

	1980	1979
SOURCE OF WORKING CAPITAL		
Provided from operations—		
Earnings (loss) before extraordinary items	\$ 381,133	\$ (403,743)
Items not affecting working capital—		
Depreciation	1,870,700	1,506,504
Amortization of goodwill, licences and trademarks	131,301	85,658
Reduction of deferred income taxes	(290,000)	(195,000)
Loss on disposal of fixed assets	<u>26,174</u>	<u>14,900</u>
	2,119,308	1,008,319
Decrease in instalment receivables	43,480	46,132
Increase in long-term debt	502,000	1,648,000
Issues of common shares	3,000	—
Proceeds on sale of fixed assets	17,962	118,027
Reduction of income taxes on application of loss carry-forward	70,000	75,000
Decrease in advances to officers	<u>13,736</u>	<u>7,532</u>
	<u>2,769,486</u>	<u>2,903,010</u>
WORKING CAPITAL APPLIED TO		
Purchase of fixed assets	1,723,716	1,921,233
Current maturities of long-term debt	518,668	735,668
Purchase of investments	512,337	121,225
Decrease in deferred revenue	<u>70,384</u>	<u>3,777</u>
	<u>2,825,105</u>	<u>2,781,903</u>
INCREASE (DECREASE) IN WORKING CAPITAL	(55,619)	121,107
WORKING CAPITAL—BEGINNING OF YEAR	<u>1,260,378</u>	<u>1,139,271</u>
WORKING CAPITAL—END OF YEAR	<u>\$ 1,204,759</u>	<u>\$ 1,260,378</u>

Notes to Consolidated Financial Statements (For the year ended December 26, 1980)

1. Accounting Policies

(a) Principles of consolidation
The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries.

(b) Inventory

Inventory is valued at the lower of cost, determined on the first-in, first-out basis, and net realizable value.

(c) Depreciation policy

Depreciation is provided on a straight-line basis as follows:

Cost of hospital installations—	
Original	10 years
Subsequent	3 years
Television sets—	
Black and white	10 years
Colour	5 years
Other equipment	5 to 10 years
Leasehold improvements	term of lease

No depreciation is provided on television sets and materials for use in future hospital installations until such time as these items are in use.

(d) Goodwill

Goodwill is stated at cost, less amortization provided on a straight-line basis over fifteen years, except where there is a permanent impairment of goodwill in which case the goodwill is written-off in the year the impairment is recognized.

(e) Patent licences and trademarks

Patent licences and trademarks are stated at cost less amortization, provided on a straight-line basis over ten years.

(f) Deferred revenue

The company recognizes revenue on long-term lease contracts over the term of the lease.

(g) Translation of foreign currencies

Monetary assets and liabilities in U.S. currency have been translated into Canadian dollars at the year-end exchange rate of \$1.19 Canadian equals \$1.00 U.S. Revenues and expenses in U.S. currency have been translated at

the average exchange rate for the year of \$1.172 Canadian equals \$1.00 U.S. All exchange gains or losses arising on translation are included in the statement of operations.

2. Inventory

	1980	1979
Raw materials	\$ 642,621	\$ 835,957
Finished goods	2,198,165	2,132,443
Packaging materials	197,882	150,911
	<u>\$3,038,668</u>	<u>\$3,119,311</u>

3. Investments

This represents investments in shares of companies which have entered into long-term contracts to supply medical equipment to Sterisystems Ltd.

4. Fixed assets

	1980	1980
	Cost	Accumulated depreciation
Television sets and materials for use in future hospital installations	\$ 173,412	\$ -
Television sets, rental equipment and hospital installations in service	13,282,403	7,921,349
Other equipment	781,372	459,495
Leasehold improvements	364,810	169,548
	<u>\$14,601,997</u>	<u>\$8,550,392</u>

	1980	1979
	Net	Net
Television sets and materials for use in future hospital installations	\$ 173,412	\$ 145,037
Television sets, rental equipment and hospital installations in service	5,361,054	5,675,425
Other equipment	321,877	409,647
Leasehold improvements	195,262	12,616
	<u>\$ 6,051,605</u>	<u>\$6,242,725</u>

5. Goodwill

The directors have determined that there has been an impairment in the goodwill of a subsidiary and the company has written off the unamortized

balance of the goodwill arising on the acquisition of that subsidiary company.

6. Bank Indebtedness

The bank indebtedness is secured by a first charge on the company's accounts receivable.

7. Long-Term Debt

	1980	1979
Registered secured demand debenture with Barclays Canada Limited at the rate of 1 3/4% above the lender's cost of funds, evidenced by a demand note, with annual repayments of \$504,000 (note (a))	\$3,288,000	\$3,290,000
10% promissory note payable in equal quarterly instalments of \$40,417 and secured by a registered collateral debenture (note (b))	484,996	646,664
8% promissory note, payable \$70,000 annually with annual increase of 1% in the interest rate	-	70,000
	<u>3,772,996</u>	<u>4,006,664</u>
Less: Current portion	518,668	735,668
	<u>\$3,254,328</u>	<u>\$3,270,996</u>

(a) The registered secured demand debenture is for \$5,500,000 and is secured by a fixed and floating charge over the whole of the company's undertakings and includes a specific pledge of the shares of subsidiary companies.

This debenture is secondary to the bank security (note 6) and the registered collateral debenture as set out in (b).

In addition to certain other conditions, the company may not declare or pay dividends on its common shares without the prior consent of the registered secured demand debenture holder.

(b) The 10% promissory note is secured by a registered collateral debenture and has a fixed and specific charge on certain rental television sets and related equipment.

Notes to Consolidated Financial Statements (Continued)

Corporate Information

8. Capital Stock

At December 26, 1980, options on 47,000 common shares were outstanding exercisable at \$2.50 per share for periods up to 1984. During the year options on 1,200 shares were exercised for cash of \$3,000.

The advances to officers are related to amounts advanced under the executive stock purchase plan.

9. Long-Term Leases

The company rents buildings and leases equipment under long-term leases which expire at various dates to 1990, the annual rental for which is approximately \$224,000.

10. Related Party Transaction

During the year the company purchased from an affiliated company, at a cost of \$178,000, shares in a supplier with whom there is a long-term contract.

11. Segmented Information

Segmented information is not disclosed as the directors of the company have determined that the company's operations consist solely of providing equipment and other supplies to the health care industry.

12. Earnings (Loss) Per Share

Earnings (loss) per share are calculated using the weighted monthly average number of shares outstanding during the year of 1,480,163 (1979—1,479,703). If the outstanding share options had been exercised at the beginning of the year, the fully diluted earnings per share before extraordinary items would be \$0.25 and there would be no change in net earnings per share.

13. Future Commitments

The company has entered into forward exchange contracts expiring during 1981 to purchase approximately \$4,500,000 in foreign currency to cover anticipated purchases of equipment in the normal course of business.

14. Comparative Figures

Certain of the 1979 figures have been reclassified to conform to the 1980 financial statement presentation.

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