



Mitel
Corporation

1982
Annual Report



On the cover is a prototype of the Mitel SUPERSET 8, an advanced colour graphics version of the SUPERSET 7 executive workstation, to be introduced late in the Company's fiscal year 1983.

The Annual and Special Meeting of Shareholders of Mitel Corporation will be held at 4:30 p.m., Friday, June 25, 1982 at the Chateau Laurier Hotel in Ottawa, Ontario.

A copy of the Company's Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission is available to shareholders without charge upon request to the Corporate Secretary, Mitel Corporation, P.O. Box 13089, Kanata, Ontario, Canada K2K 1X3.

The Company

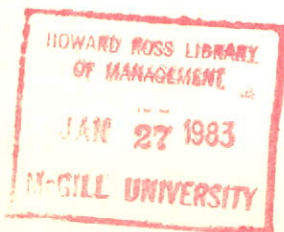
Mitel Corporation is in the business of developing, manufacturing and marketing products for the communications industry — an industry which is experiencing dramatic change and growth. The main business of the Company is in the high growth PABX (private automatic branch exchange) segment of the industry. Growth in this segment is the result of consumer demand for fully featured products, together with worldwide government deregulation activity. The competitive edge of Mitel switching systems is largely due to the close relationship between hardware, software and semiconductor design engineers together with the Company's capabilities in semiconductor manufacturing processes.

Mitel has the specialized industry experience, together with the modern tools of microelectronic design and manufacture, to ensure an exciting future — a future with well-timed, innovative, high performance solutions to the growing opportunities in the merging data processing and communications markets.

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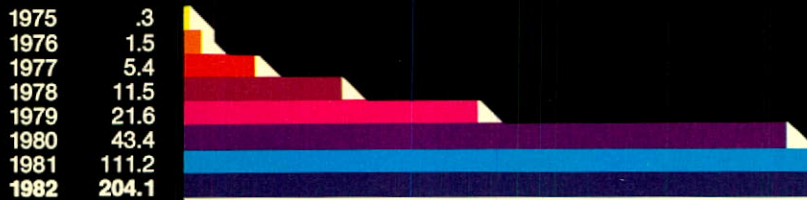
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Financial information herein is expressed in Canadian dollars, unless otherwise stated.

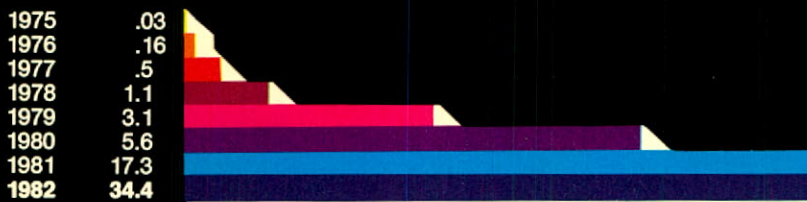


Corporate Highlights

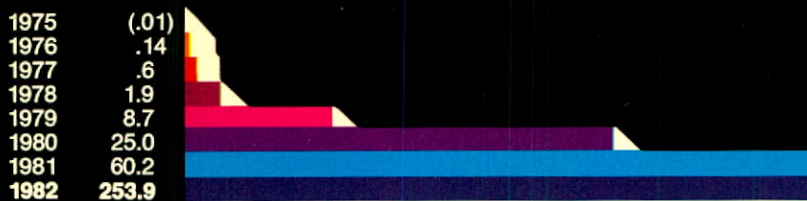
Total Sales (x \$1,000,000)



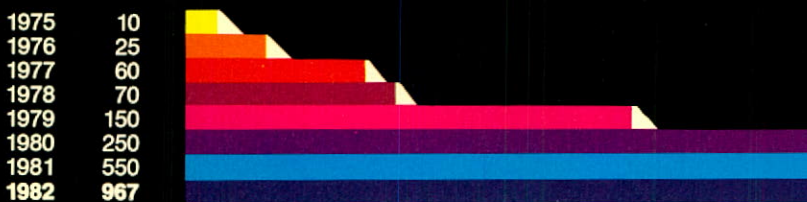
Net Income (x \$1,000,000)



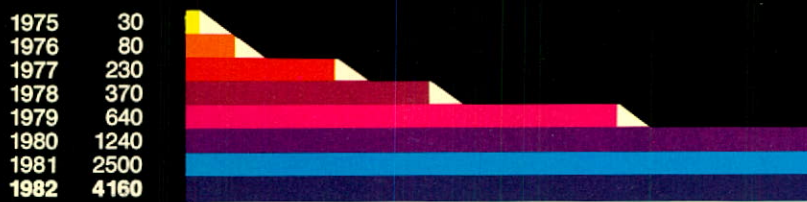
Net Worth (x \$1,000,000)



Total Plant Area (x 1,000 ft.²)



Total Employees





The Year at Mitel



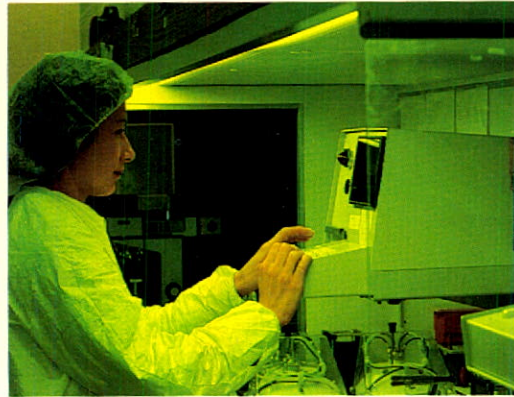
Fiscal year 1982 was a period of excellent progress for the Company. Sales increased 84 percent to \$204.1 million, while profits increased 99 percent to \$34.4 million. This is the eighth consecutive year the Company has achieved outstanding growth.

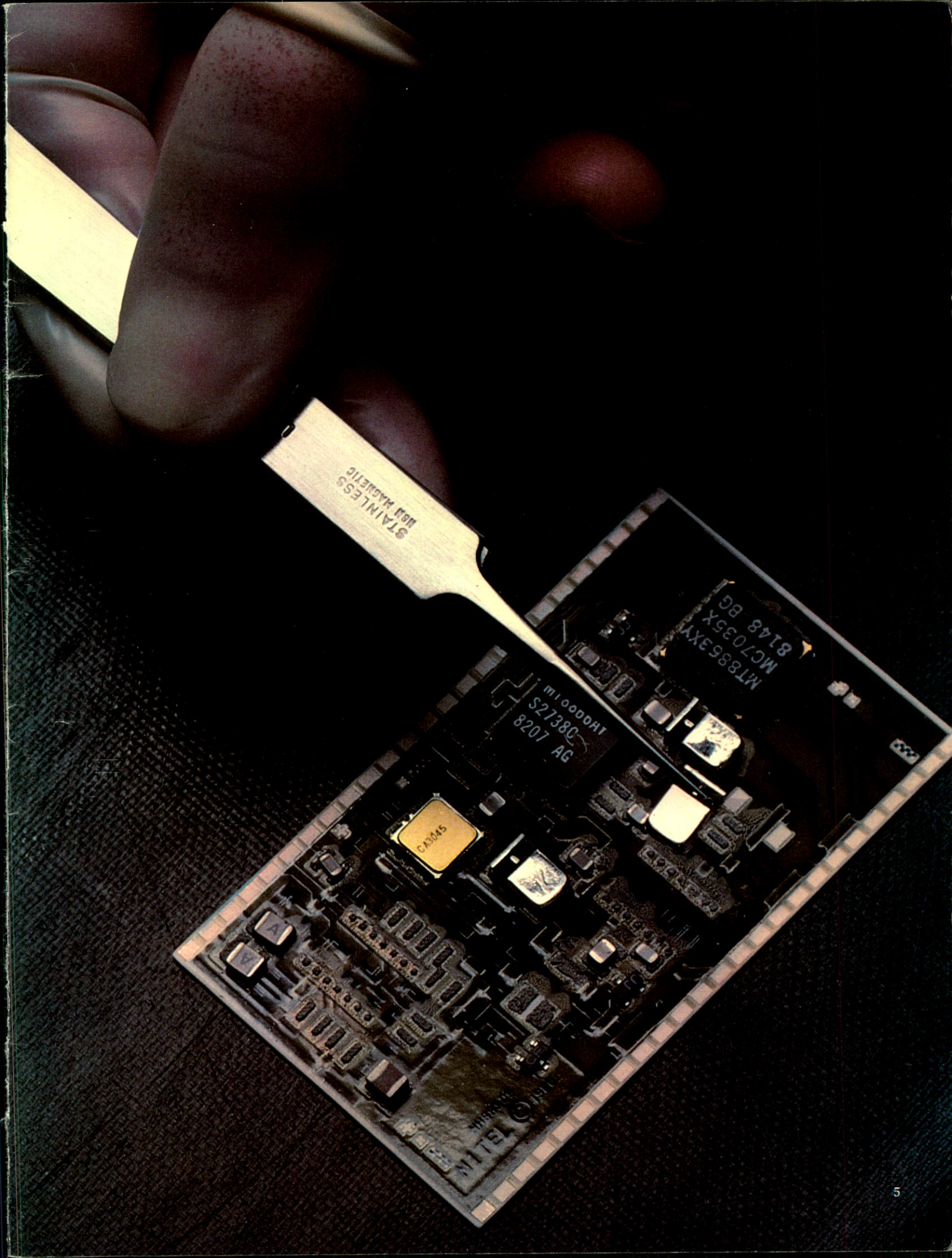
The Company's common shares became officially listed on the New York Stock Exchange, May 18th, 1981. In June 1981, 3.8 million shares of Mitel common stock were issued through a public offering for \$161.3 million. The Company had a net worth of \$253.9 million as of February 26, 1982.

Mitel products are now manufactured in 13 facilities on 3 continents and marketed in 56 countries through 45 sales offices. Mitel sells its telecommunications equipment to telephone companies, distributors or installation companies, who in turn rent or sell the equipment to end users. Mitel provides customers with training, service assistance and technical support from its international offices.

PABX switching systems continue to be the main part of the Company's business, with most of the growth coming from established product lines: the SX-200, SX-100 and SX-20 SUPERSWITCH systems. This year, these products received considerable enhancement through the addition of significant new features such as telephone cost management and customer data printout. Through such enhancements, these PABX systems maintain their position as the most advanced small switches in the world.

In this fiscal year, production commenced on both the SX-10 and the SUPER 10 — extremely compact PABXs designed to meet the needs of the small business and hotel/motel market segments.





STAINLESS
NON MAGNETIC

1100001
S2738C
8207 AG

CAM5

MT8863XY
MC7035X
8148 BG

Major marketing highlights during fiscal year 1982 included:

IN THE UNITED KINGDOM, Mitel has been particularly successful in introducing advanced switching equipment based upon the Mitel small PABX product line. British Telecom signed a minimum \$22 million contract during 1981 for the supply of Regent switching systems. The Regent is a product based upon the SX-200 PABX. During 1982, British Telecom also accepted the SX-2000 Integrated Communications System for the U.K. approval cycle.

IN JUNE 1981, AT&T amended its contract with Mitel for the supply of SX-100 and SX-200 PABX equipment to include the SX-20. Mitel systems are now offered by 14 Bell telephone operating companies in 35 states of the U.S.A. It is difficult to predict how this contract will be affected by the recently proposed anti-trust settlement between the U.S. government and AT&T (see Strategy for Growth: Telephone Industry section).

IN AUGUST 1981, the Government of Mexico selected Mitel to form a joint company to manufacture the Mitel line of PABX equipment. Shipment of products will begin in 1982 with all product identification and documentation provided in Spanish. Mexican production will begin in late 1982 to fill a projected four year, \$80 million order for switching equipment.

IN MAY 1981, Mitel signed a \$3 million contract for SX-20s, SX-10s and SUPER 10s with the New Zealand Post Office, and opened an office in Wellington, N.Z. Product shipments began in June, 1981.

IN JANUARY 1982, Societa Italiana Per L'Eserazio Telefonico (SIP), the Italian telecommunications authority, gave type approval to the SX-200 PABX for a period of ten years. Mitel systems are marketed through ETE of Milano, an established distributor and installer of switching equipment in Italy.

DURING THE FISCAL YEAR, a sales office was opened in Cairo as part of the general expansion of Mitel into the markets of the Middle East and Africa. The local presence and first hand knowledge of business conditions provided by this new office should stimulate sales in these regions.

During the year, the Semiconductor Division continued to advance the state-of-the-art ISO-CMOS technology and thick film technology — technologies at the heart of Mitel systems. Notable achievements included:

THE MT8960 FILTER/CODEC CHIP was designed and brought into production. This chip performs filtering, coding and decoding functions, a testing function, a gain adjustment function and several other control functions. Most competitors require several chips to provide all the functions performed by this device. One of these chips is required for every line served by the SX-2000, which may serve in excess of 10,000 lines.

THE 8870 DTMF RECEIVER was completed during 1981. The 8870 is a single chip receiver which efficiently filters out noise on a telephone line and accurately determines the frequencies of the tones received from a Touch-Tone dial. The largest market for this device is in switching systems. However, DTMF signalling has an immense potential as a low cost method to control remote appliances or machines which are accessible through the public telephone system.

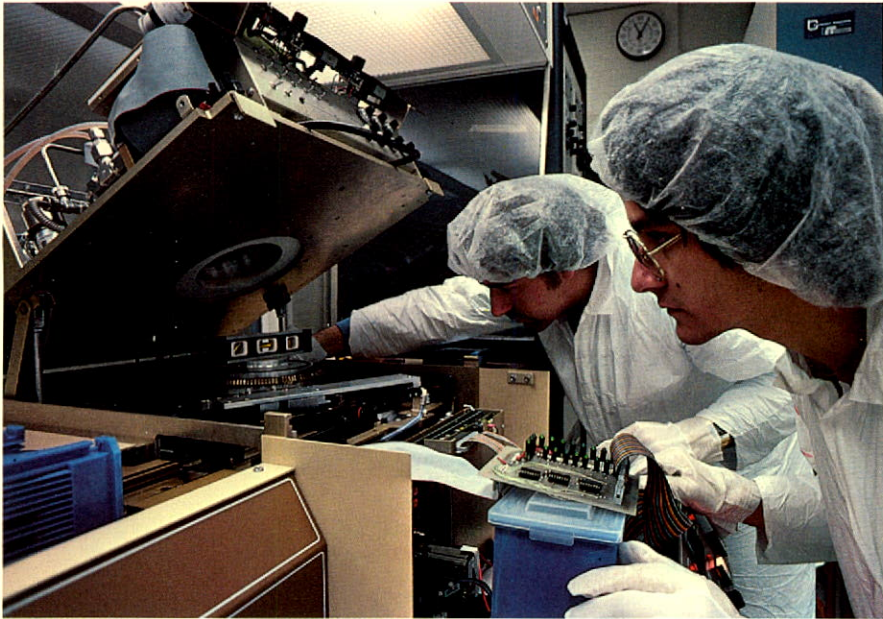
THE SX-2000 LINE AND TRUNK MODULES were completed during 1981. These devices were designed to provide systems with lines and trunks in modular form to be clipped into host cards. Should a circuit develop a fault, the entire module can be replaced as economically and easily as a fuse is replaced in a home fuse box.

In fiscal year 1982 the Mitel team grew to 4,160 dedicated people. The commitment to maintaining a dynamic team spirit and an enjoyable work environment is a tradition within Mitel. Employee identification with Company goals is extremely high, partly because of profit sharing, stock option and stock purchase plans, but mostly because open communication is encouraged and opportunities for personal growth are provided. These traditions continue to evoke a dedication to quality, a confidence in teamwork and a "can do" attitude that keeps the Mitel team efficient, fast moving and ready to produce the best equipment for the world communications market.

Terence H. Matthews
Chairman of the Board

Dr. Michael C.J. Cowpland
President and
Chief Executive Officer





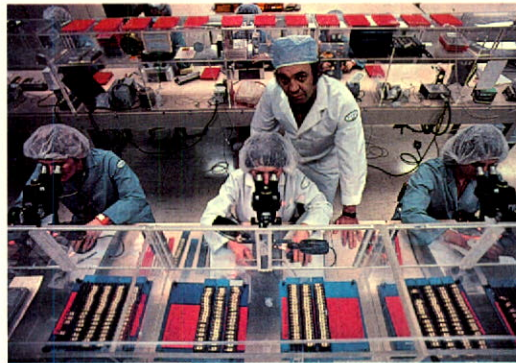
Strategy for Growth



The communications market today has three major areas of rapid growth. Each area is being aggressively addressed by Mitel with new products. These areas of opportunity are the Telephone Industry, the Office of the Future and the Home of the Future.

The Telephone Industry

The telephone equipment industry is one of the world's largest markets with estimated worldwide sales in 1981 of approximately \$44 billion.



Governments throughout the world are reviewing the restrictions and regulations which they have imposed on their telephone company monopolies. The global trend is for governments to deregulate portions of the telephone equipment business and Mitel views this as beneficial to the consumers and to the economy. Deregulation is welcomed by both independent dealers and progressive telephone companies who see the opportunity to market customer driven products rather than products that are bound by years of regulatory restriction.

A prime example of this trend is the proposed anti-trust settlement made on January 8, 1982 between the U.S. Department of Justice and AT&T. If it is approved, this proposed settlement will mean that AT&T will divest itself of its operating telephone companies but will continue to own its Long Lines division, Western Electric and Bell Laboratories. Long distance rates will continue to be regulated by the FCC and state commissions but AT&T will be permitted to sell terminal equipment and data processing services on the open market which is bound to become even more competitive than at present.

Mitel anticipates new market opportunities as a result of this trend but cannot predict the exact effect of these changes on its business. However, unlike traditional telecommunications suppliers who were conditioned to design and manufacture equipment in a regulated market, the Mitel product line and management strategy are driven by the more direct force of consumer demand. The company has found that both independent equipment dealers and telephone companies who are deregulated achieve considerable consumer success with the Mitel PABX product line.

Within the telephone industry the key to rapid geographic market penetration is flexibility of product design. The design flexibility of Mitel products permits simple adaptation to meet various national specifications and is also the key to continued growth via feature enhancements to meet evolving market needs.

Pages 9, 11 and 13 are proposed promotional descriptions for the growing family of Mitel SUPERSWITCH products.

The SX-10/SUPER 10

"Technology That Speaks
For Itself"

The SX-10 is the world's first single card communications system with the "user friendly" benefit of voice synthesis. The SX-10 handles up to 31 extensions and 8 telephone lines. The SUPER 10 has exceptionally high traffic handling capacity, and is the only communications system with all the switching electronics in an attractive operator's console. It handles up to 16 extensions and 8 telephone lines. These products can satisfy the communications needs of 80 percent of the world's businesses.

The SX-20

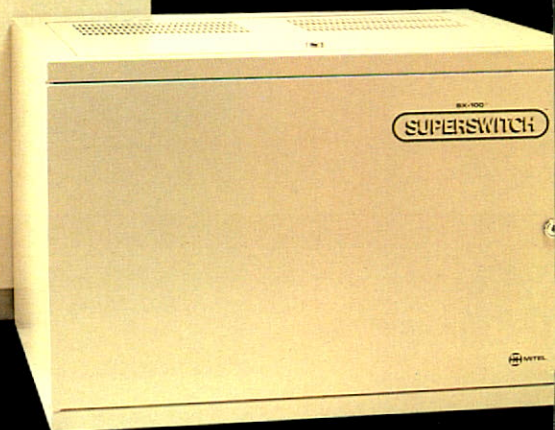
"Proven Cost Effective
Communications"

After only two years, the SX-20 SUPERSWITCH has proven itself a cost effective solution to the communication needs of small business. The SX-20 provides simple yet flexible communications for merchants, professionals, hoteliers, and manufacturers, offering big system features in a very compact package. The extraordinary compactness, low power consumption and ruggedness of the SX-20 has allowed it to introduce electronic PABX features to mobile and remote site applications, and rapidly expanding international markets. The recent introduction of an attractive and efficient attendant console and new business features package will further expand the success of the SX-20 into premium business markets during 1982.

The SX-200/100

"Feature Rich"

The SX-200 is the original SUPERSWITCH and the SX-100 is its half-sized successor. This switching architecture eclipsed all competing systems when it was introduced in 1978. The SX-200 combines small size, light weight, and rugged circuitry with intelligent performance that was unprecedented in telephony. Constant product development by Mitel engineers has kept the SX-200/100 ahead of its imitators in the "below 200 lines" class of switches. Unique applications include its use as the preferred switch on offshore drilling platforms in the North Sea oil field and as a component technology in new Mitel SKY SWITCH products . . . it seems to fit in everywhere.



The Office Of The Future



In developed countries an estimated 50 percent of the labor force works in offices. In the U.S.A., 42 million office workers are employed at an annual salary expense of \$892 billion, with an additional office equipment expense of \$85.6 billion. By 1990, these expense items are expected to rise to \$3.1 trillion for labor and \$672 billion for equipment. The opportunity in office equipment represents a growth exceeding 700 percent in one decade. The Mitel SX-2000, a digital telephone and data switching system with a complete range of professional workstations, telephone sets and data connection modules, aims at this immense growth opportunity.



The Mitel office automation strategy provides businesses with cost-effective choices, tailored and priced to individual needs. The SX-2000 will be sold in late 1982 as a cost-effective voice/data switch. Its unique design permits an orderly migration to office automation as the needs of an individual business arise.



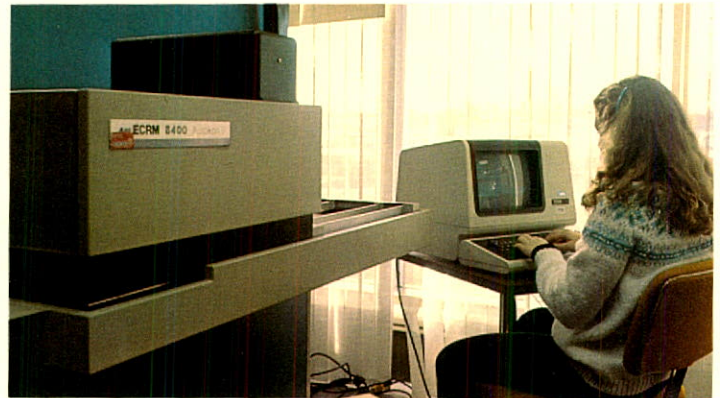
The SX-2000 Integrated Communications System is designed to unify data and voice communications in the office. Modern office equipment is manufactured with a communications capability that has not yet been exploited due to lack of protocol and connection standards. Unification of the electronic elements in the office and new methods of processing information are major thrusts in the automated office concept — a concept embodied in the SX-2000.

To provide a smooth evolution into office automation, the SX-2000 terminal product line interfaces with appropriate data processing systems and terminals. Two Mitel terminals are the SUPERSET 4 and SUPERSET 7.

The SUPERSET 4 provides a low-cost access to many advanced telephony features such as text messaging, resident in the SX-2000. The SUPERSET 7 is an advanced workstation, designed using the latest available microelectronic technology to provide telephone features as well as office automation features such as electronic mail, data base access and interactive graphic packages. All of these services are presented to the user through a single, easily operated office product.

These two terminal devices combined with the adaptable architecture of the SX-2000 form an ideal communications host for office automation.

The potential of the SX-2000 to solve office automation problems has drawn interest and enthusiasm from a wide range of users. Mitel has had discussions with large data processing and office equipment manufacturers with the object of providing a full range of services to the purchaser of an SX-2000.



The SX-2000 SUPERSWITCH

"Total Communications"

This is the first all digital switch from Mitel and it expresses the current state of seven years of technological evolution in the company. The circuitry, the architecture, the hardware, the software, the maintenance features, the predesigned testing capabilities and the computer-assisted manufacturing processes are all innovative as separate accomplishments. Merged together, they represent a milestone in telecommunications achievement. This switch can handle from 150 to over 10,000 lines, and can transmit or receive voice and data separately or simultaneously. The SX-2000 attains its goal of being able to tie together virtually all forms of communications and word or data processing in one harmonious system; thus it is the heart of the Integrated Communications System.

SX-2000 Features Comparison (Systems of about 1,500 lines, 10% trunks)

	Mitel SX-2000	Northern Telecom SL-1	Rolm CBX	Datapoint ISX	Intecom IBX
Cabinet floor space required	14ft ²	51ft ²	54ft ²	35ft ²	65ft ²
Power required (1500 lines)	2.5 kW	5 kW	8 kW	12 kW	20 kW
Data ability over office wiring	256 kbit/sec.	9.6 kbit/sec	19.2 kbit/sec	56 kbit/sec	56 kbit/sec

Common Control and Matrix
 Peripheral Equipment

Comparison based on the most accurate, up-to-date information available. However, Mitel cannot guarantee the accuracy or the completeness of the information presented.

SUPERSET 4

"It's Helpful – That's What Friends Are For"

Most modern telephone systems have dozens of useful features that only one person in 100 learns how to use. The Superset 4 is the first truly friendly telephone in that it tells you how to use it. It provides an array of clearly defined buttons to activate telephone system features, and also displays one line of text. This set has great potential for increasing productivity in the workplace and stimulating more effective use of the telephone at home – after all, we respond best to our friends.



SUPERSET 7

"The Workstation That Does It All"

The Superset 7 can be an executive or professional workstation, a powerful graphics terminal, a console or a remote diagnostic tool and switch programmer, depending on the situation. Possessing a full computer keyboard plus a telephone keypad and a video screen, it is the most advanced instrument in office automation today.

SKYSWITCH

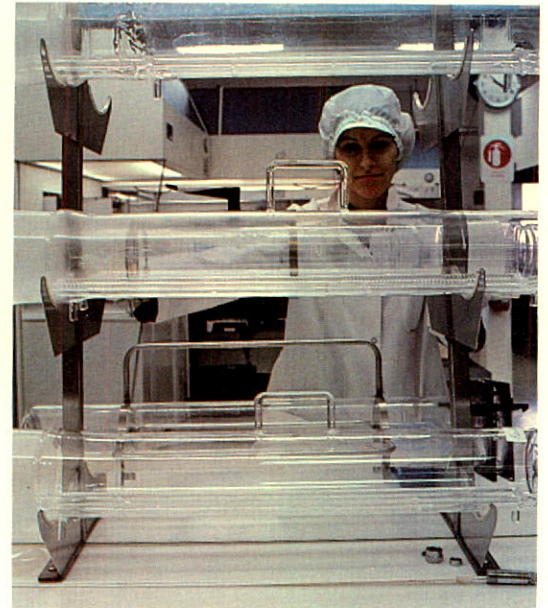
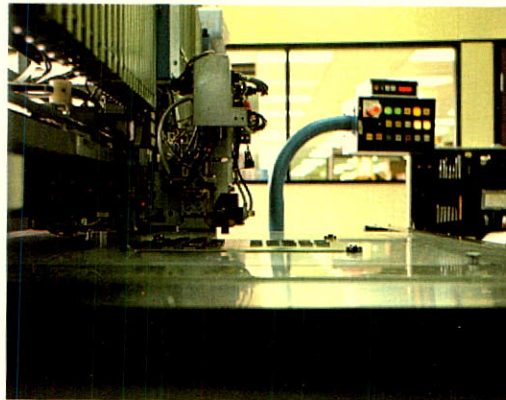
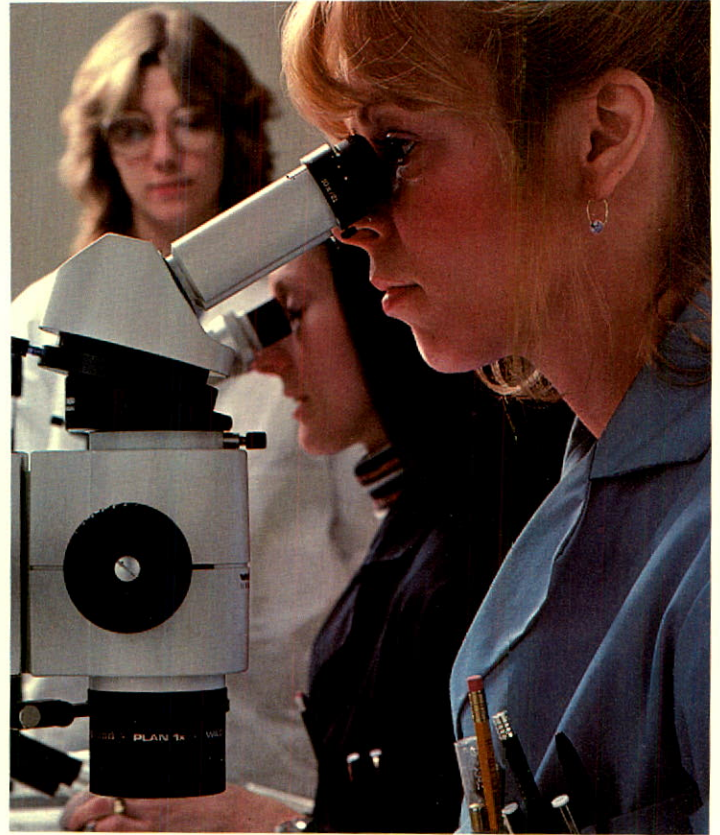
"Combining Satellites And Switches"

The SKYSWITCH couples satellite station technology with analog and digital switching technology. Analog SKYSWITCH terminals will be available in both the 4/6 and 12/14 GHz bands in 1982, with similar terminals in digital technology to follow in 1983.



The Home of the Future

The anticipated sale of millions of home computers and videotext systems, plus the increasing use of home security and energy management devices, will create a demand for increased communications capability. The ease of operation and cost effectiveness afforded by Mitel mini-PABX products — the SX-5 and SX-2 — make them natural choices to become major consumer products in the same category as video recorders and home computers. The home market for mini-PABX systems is extremely large and represents a virtually untapped marketplace.



The SX-5

“Ideal For Very Small
Businesses, Or Larger
Homes”

So you need two telephone lines because:

- you operate a business from your home
- your teenagers leave you no choice
- your home computer/security system requires a second line

but your feet are sore and your nerves are frazzled from running to answer the other phone . . . maybe it's time you let your telephone system catch up with your ambitions by installing an SX-5.

The SX-5 will let you pick up calls on either line from any phone and provide specific telephone features for your business, your teenagers and your high tech equipment. It will also let you keep your freedom of choice for the shape and colour of the telephones you want in your home. Since you want the best, why settle for less than an SX-5?



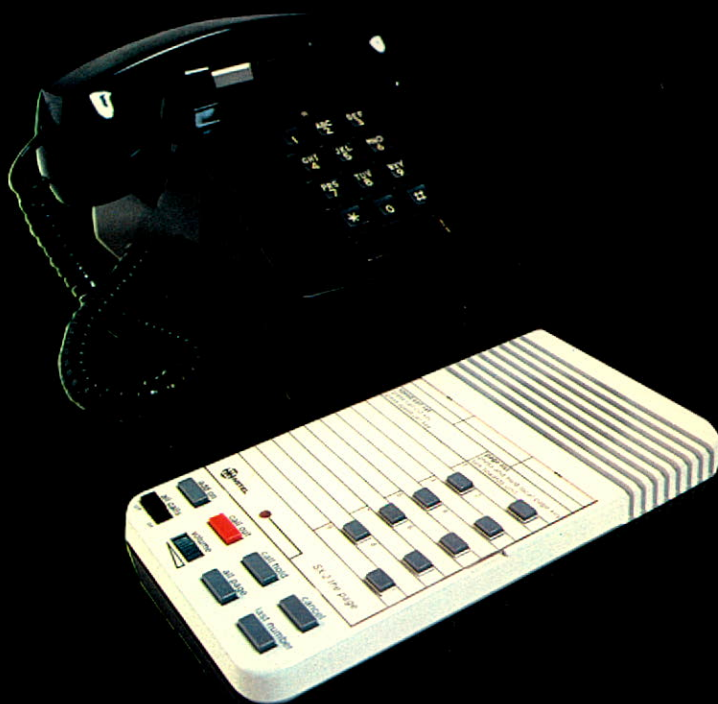
The SX-2

“Better Living With Mitel
In Your Home”

Jettison some of life's chronic irritations . . . like yelling to catch the kids' attention or trying to remember the number after you've got a busy signal, or keeping young son from eavesdropping on his big sister's telephone conversations with her boyfriend.

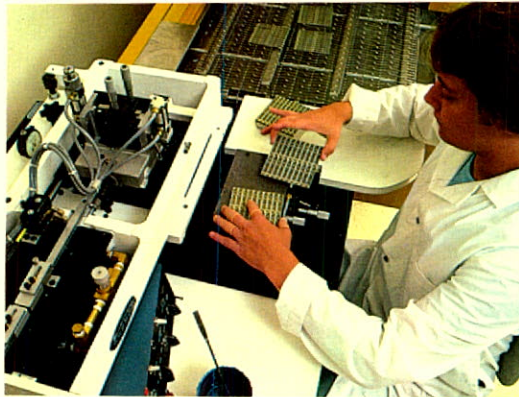
The SX-2 can give you a paging system for calling specific rooms or all the rooms in the house, and getting instant answers. The SX-2 will always remember the last number you dialed and will redial it for you at the push of a button. Big sister will have privacy on outside calls and her little brother will have to find another amusement.

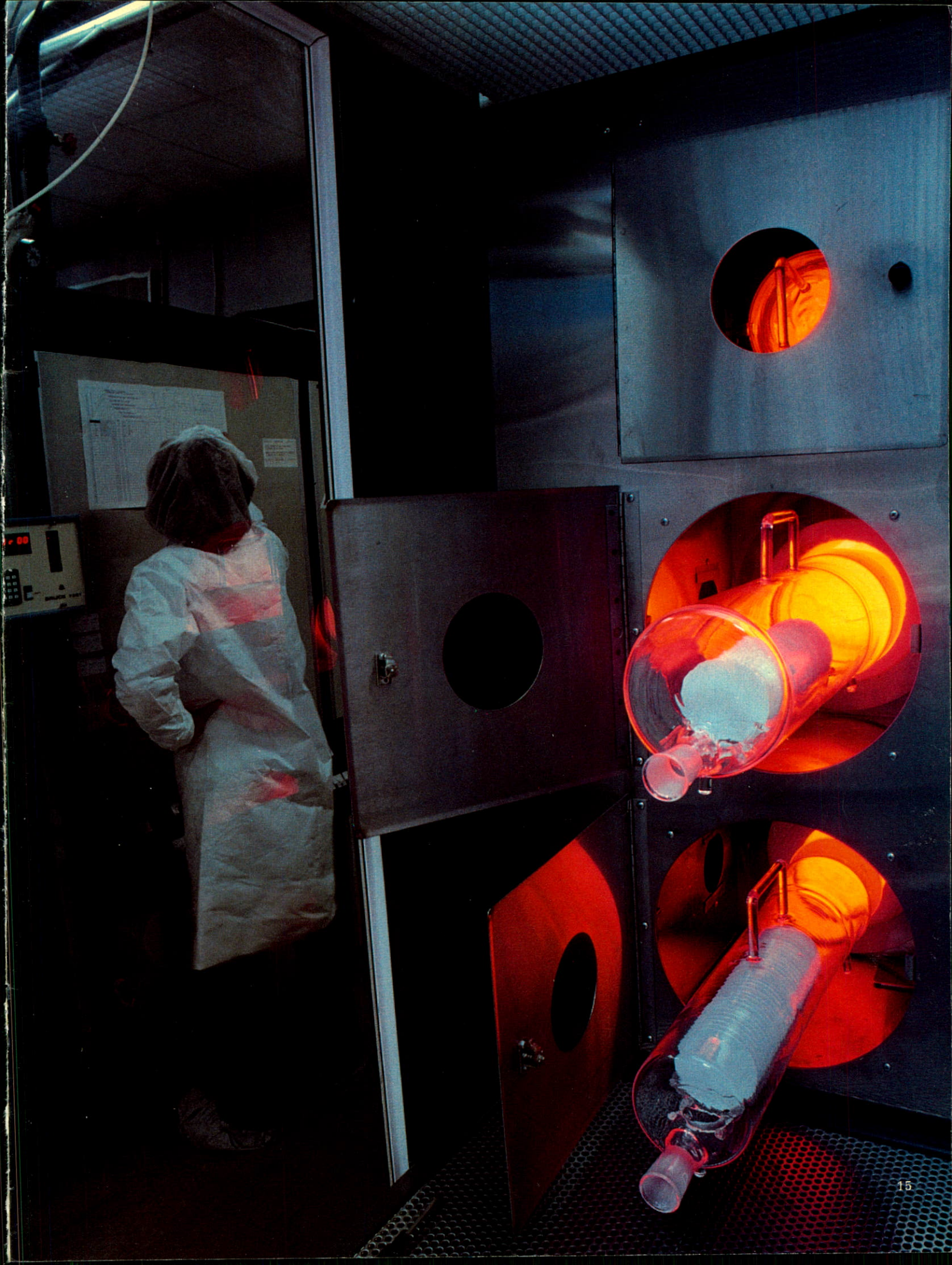
You can carry the SX-2 home and install it yourself in minutes, without trouble. The elegantly designed page units will blend with your decor and enhance your enjoyment of life.



Summary

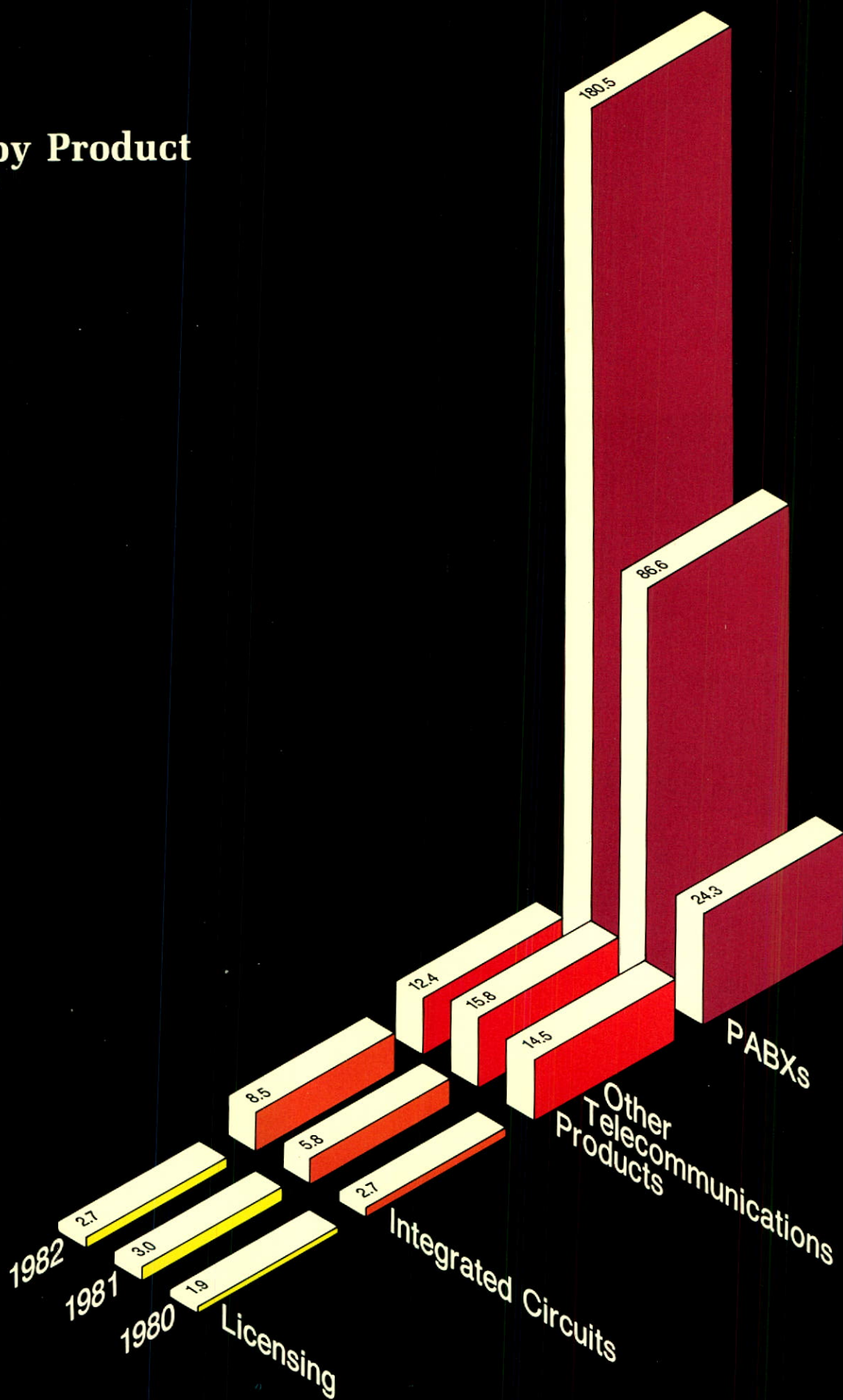
The coming year will be very exciting for Mitel with the marketing of three new PABX switches — the SX-2, the SX-5 and the SX-2000 — plus the introduction of two special telephone sets — the SUPERSET 4 and the SUPERSET 7. All five products break new ground in their respective areas. Each one will improve the ease and efficiency of communications, and each is expected to have large strategic marketplaces over the coming decade.





Sales by Product

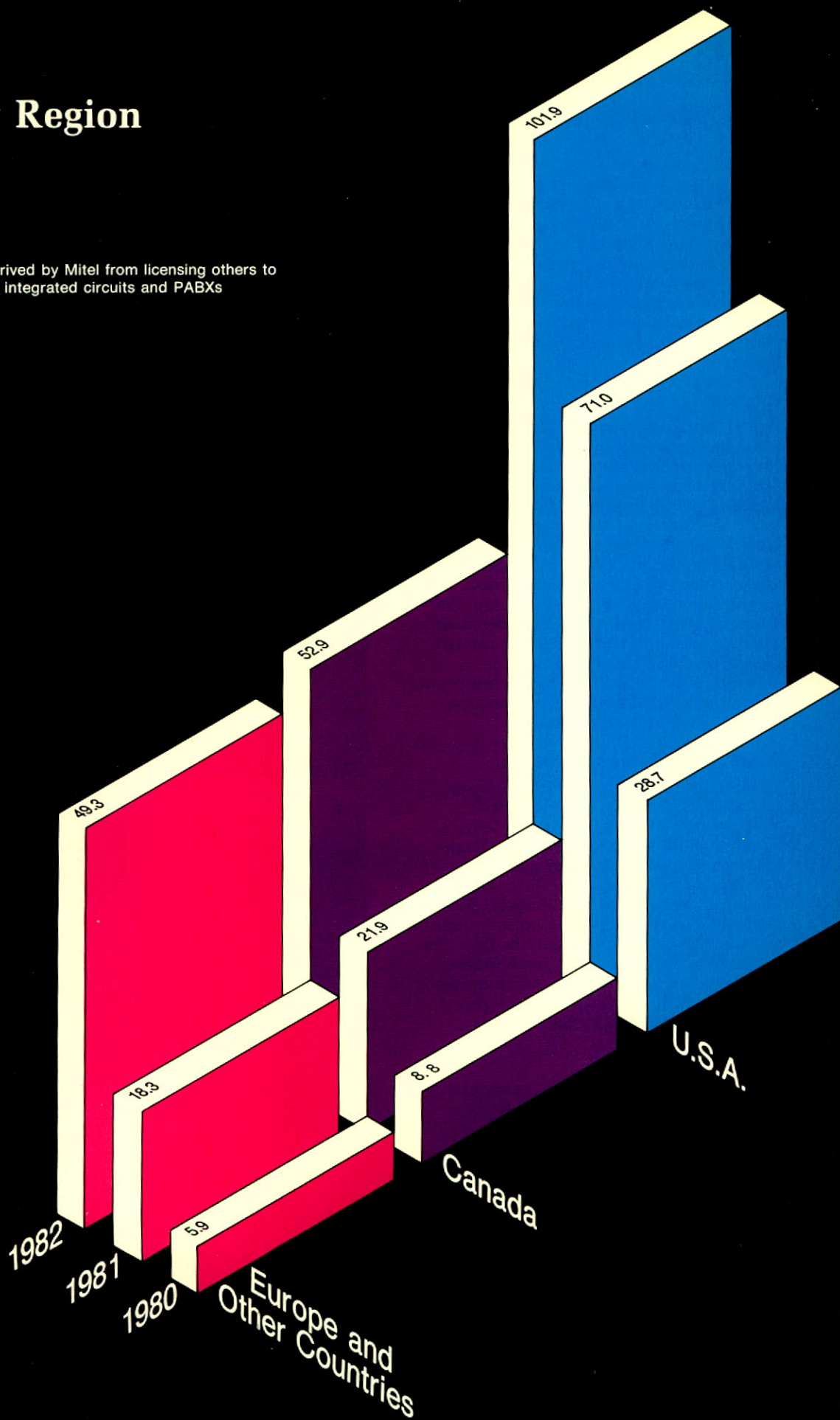
(x \$1,000,000)



Sales by Region

(x \$1,000,000)

Includes revenues derived by Mitel from licensing others to manufacture and sell integrated circuits and PABXs



Expansion of Corporate Facilities

The business of the Company comes mainly from three geographic regions: Canada, the U.S.A. and Europe. In each of these regions Mitel has major manufacturing facilities, engineering support and a strong marketing presence. In other areas of the world the business of the Company is expanding and the necessary marketing offices with technical support staff are growing to accommodate the business.

Canada

During the fiscal year, corporate facilities grew to approximately 859,000 square feet*. New sales offices were opened in Winnipeg, Manitoba and Montreal, Quebec. Construction of new manufacturing facilities began in Renfrew, Ontario and Bouctouche, New Brunswick. Existing production facilities in Kanata, Ontario and Bromont, Quebec were considerably expanded. To increase the depth of manufacturing, the Company will open facilities in Bouctouche, N.B. for production of multilayer printed circuit boards. This will permit the integration of thick film hybrids and printed circuit boards, offering higher packaging densities for electronic circuits.

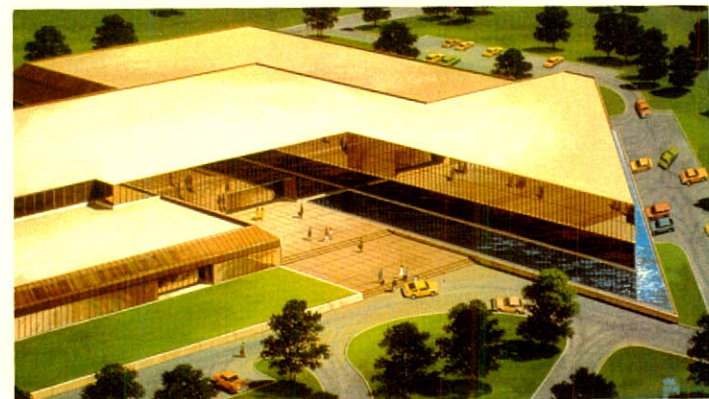
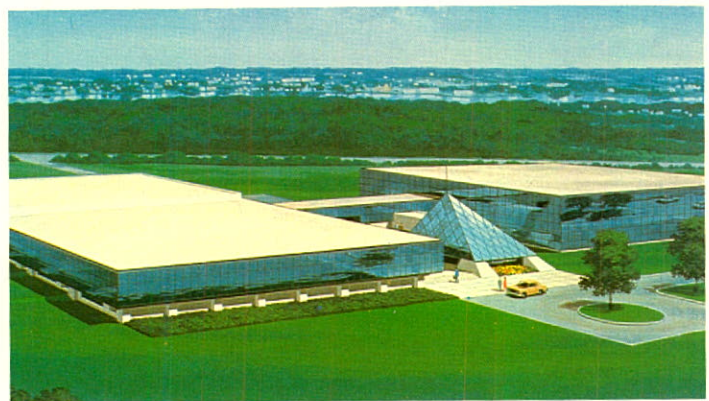
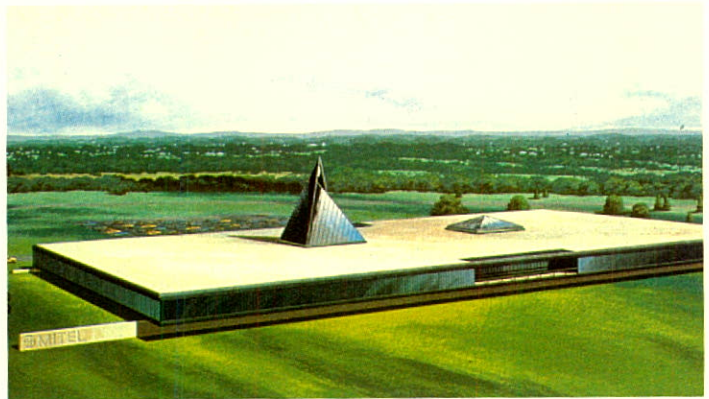
The United States of America

During the year new sales offices were established in Tarrytown, New York; Birmingham, Michigan; Atlanta, Georgia; Woburn, Massachusetts; and San Mateo, California, while additional space was acquired for Bloomingdale, Illinois; Dallas, Texas; and Overland Park, Kansas. The renovated Deerfield Beach, Florida premises became a repair and warranty facility. The production facilities in Bayamon, Puerto Rico and South Burlington, Vermont were also expanded. The U.S. facilities grew to 411,000 square feet* during the year.

Europe

In 1981, production facilities were greatly expanded in Shannon, Ireland and construction of a new facility began in Caldicot, South Wales. A facility was opened in Frankfurt, West Germany as the beginning of the Company's growth into full German production. In Epinal, France, the Company opened a subsidiary company, Mitel S.A. Facilities in Europe are expanding to a total of approximately 380,000 square feet* over the next year.

* All square footage figures include existing production facilities as well as those presently under construction.





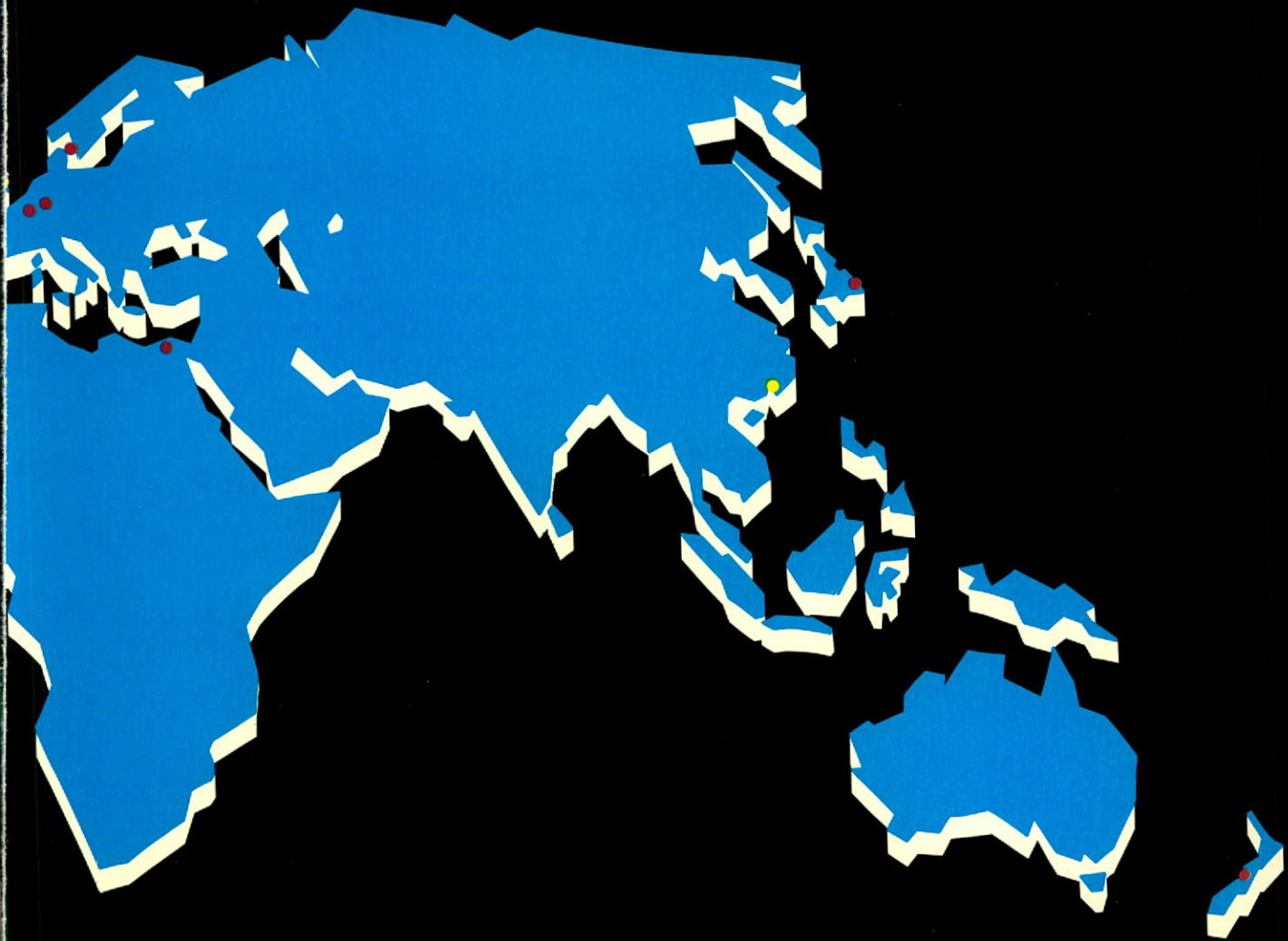
Mitel Worldwide Locations



Manufacturing Locations (including Sales and Service):*

CANADA - Kanata and Renfrew, Ont.; Bromont, Que.; Bouctouche, N.B. UNITED STATES - Boca Raton and Deerfield Beach, FL; Ogdensburg, N.Y.; South Burlington, VT. CARIBBEAN - Bayamon, Puerto Rico. MEXICO - Guadalajara, Mexico. EUROPE - Caldicot and Portskewett, Gwent, South Wales; Slough, Berkshire, England; Shannon, Ireland; Frankfurt, West Germany; Epinal, France. FAR EAST - Tsuen Wan, Hong Kong.

* including facilities in operation and under construction



Sales and Service Locations:

CANADA - Burnaby, B.C.; Edmonton, Alta.; Winnipeg, Man.; Mississauga, Ont.; Montreal, Que.; Halifax, N.S. UNITED STATES - Bellevue, Wash.; Costa Mesa, San Diego and San Mateo, Ca.; Lakewood, Co.; Overland Park, Ks.; Dallas and Houston, Tx.; Birmingham, Al.; Atlanta and Augusta, Ga.; Bloomingdale, Ill.; Birmingham, Mi.; Arlington, Va.; Washington, D.C.; Tarrytown, N.Y.; Havertown, Penn.; Woburn, Mass. MEXICO - Mexico City, Mexico. EUROPE - Maidenhead, Berkshire, England; Copenhagen, Denmark. AFRICA - Cairo, Egypt. FAR EAST - Kowloon, Hong Kong; Tokyo, Japan. SOUTH PACIFIC - Wellington, New Zealand.

Financial Statements

Auditors' Report

To the Shareholders of
Mitel Corporation:

We have examined the consolidated balance sheets of Mitel Corporation as at February 26, 1982 and February 27, 1981 and the consolidated statements of income and retained earnings and changes in financial position for the five years ended February 26, 1982. 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 February 26, 1982 and February 27, 1981 and the results of its operations and the changes in its financial position for the five years ended February 26, 1982 in accordance with accounting principles generally accepted in Canada, applied, except as explained in Note 1(g) for the change in 1979 in accounting for development costs, with which change we concur, on a consistent basis.

Clackson Gordon

Ottawa, Canada,
April 16, 1982.

Chartered Accountants

Consolidated Balance Sheets

	February 26, 1982 (000's)	February 27, 1981 (000's)
Assets		
Current assets:		
Accounts receivable (Notes 2 and 8)	\$ 64,284	\$ 38,486
Grants receivable (Note 4)	7,392	1,106
Inventories (Notes 3 and 8)	99,757	50,861
Prepaid expenses	843	432
Total current assets	<u>172,276</u>	<u>90,885</u>
Fixed assets (Notes 4, 5, 8, 9 and 10)	174,247	49,390
Accumulated depreciation	(15,520)	(5,276)
	<u>158,727</u>	<u>44,114</u>
Deferred development costs (Note 6)	18,476	6,232
Other assets (Note 7)	1,958	1,650
Total assets	<u>\$ 351,437</u>	<u>\$ 142,881</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (Note 8)	\$ 16,806	\$ 35,826
Accounts payable and accrued liabilities	42,959	24,145
Income and other taxes payable (Note 14)	455	2,469
Current portion of long-term debt (Note 9)	1,786	1,760
Total current liabilities	<u>62,006</u>	<u>64,200</u>
Long-term debt (Note 9)	31,961	16,842
Deferred income taxes (Note 14)	3,599	1,620
Total liabilities	<u>97,566</u>	<u>82,662</u>
Shareholders' equity:		
Capital stock (Notes 11 and 12) –		
Issued: 1982, 37,274,800 shares;		
1981, 33,286,473 shares	198,151	33,962
Retained earnings	55,720	26,257
Total shareholders' equity	<u>253,871</u>	<u>60,219</u>
Commitments (Note 17)		
Total liabilities and shareholders' equity	<u>\$ 351,437</u>	<u>\$ 142,881</u>

On behalf of the Board:
(signed) M.C.J. Cowpland, Director
(signed) D.I.C. Cameron, Director

Consolidated Statements of Income and Retained Earnings

	Years Ended				
	February 26, 1982 (000's)	February 27, 1981 (000's)	February 29, 1980 (000's)	February 23, 1979 (000's)	February 24, 1978 (000's)
Income					
Sales _____	\$ 204,129	\$ 111,212	\$ 43,411	\$ 21,648	\$ 11,528
Expenses:					
Cost of sales (excluding depreciation) _____	92,977	53,443	21,381	10,195	5,351
Selling and administrative _____	59,169	25,619	11,256	5,340	2,934
Research and development _____	9,119	5,001	2,726	2,117	1,468
Less related government assistance _____	(2,549)	(766)	(1,055)	(1,003)	(427)
Depreciation _____	10,377	3,176	1,389	512	290
Interest –					
Long-term debt (Note 9) _____	2,262	1,385	353	181	173
Other debt _____	2,178	2,901	254	254	92
Income _____	(9,472)	(696)	–	–	–
Income taxes (Note 14) _____	5,703	–	1,545	1,031	441
Minority interest _____	–	–	–	(75)	60
	169,764	93,950	37,849	18,552	10,382
Net income for the year _____	\$ 34,365	\$ 17,262	\$ 5,562	\$ 3,096	\$ 1,146
Earnings per share (Note 13) _____	\$.95	\$.53	\$.19	\$.12	\$.05
Retained Earnings					
Retained earnings, beginning of year _____	\$ 26,257	\$ 9,635	\$ 4,887	\$ 1,791	\$ 645
Net income for the year _____	34,365	17,262	5,562	3,096	1,146
	60,622	26,897	10,449	4,887	1,791
Stock issue expenses (net of tax recovery of \$4,011,000 in 1982; \$600,000 in 1981) _____	4,902	640	814	–	–
Retained earnings, end of year _____	\$ 55,720	\$ 26,257	\$ 9,635	\$ 4,887	\$ 1,791

(See accompanying notes to the consolidated financial statements)

Consolidated Statements of Changes in Financial Position

	Years Ended				
	February 26, 1982 (000's)	February 27, 1981 (000's)	February 29, 1980 (000's)	February 23, 1979 (000's)	February 24, 1978 (000's)
Working capital provided from:					
Operations –					
Net income for the year	\$ 34,365	\$ 17,262	\$ 5,562	\$ 3,096	\$ 1,146
Items not requiring an outlay of working capital:					
Depreciation and amortization	12,243	3,764	1,593	554	290
Write-off of investment	1,043	–	–	–	–
Loss (gain) on disposal of fixed assets	(103)	34	(38)	(40)	–
Minority interest	–	–	–	(75)	60
Deferred income taxes	1,979	1,191	41	388	–
Total from operations	<u>49,527</u>	<u>22,251</u>	<u>7,158</u>	<u>3,923</u>	<u>1,496</u>
Increase in long-term debt	16,527	14,087	2,972	1,355	284
Minority interest investment in subsidiary	–	–	–	–	7
Proceeds from sale of fixed assets	783	38	90	939	–
Issue of shares (Note 12)	164,189	18,603	11,550	3,710	98
Stock issue expenses	(4,902)	(640)	(814)	–	–
Total working capital provided	<u>226,124</u>	<u>54,339</u>	<u>20,956</u>	<u>9,927</u>	<u>1,885</u>
Working capital applied to:					
Additions to fixed assets	133,222	37,941	9,048	3,491	724
Less capital grants	(7,552)	(1,354)	(488)	(406)	(146)
Reduction of long-term debt	1,408	1,596	1,518	705	143
Investment	–	1,043	–	–	–
Acquisition of minority interest in subsidiary	–	–	–	44	–
Goodwill	440	–	–	307	–
Deferred development costs	13,999	4,081	2,290	606	–
Deferred bond issue expense	493	–	–	–	–
Patents	185	116	130	65	–
Miscellaneous	344	16	(55)	44	56
Total working capital applied	<u>142,539</u>	<u>43,439</u>	<u>12,443</u>	<u>4,856</u>	<u>777</u>
Increase in working capital	<u>83,585</u>	<u>10,900</u>	<u>8,513</u>	<u>5,071</u>	<u>1,108</u>
Working capital, beginning of year	<u>26,685</u>	<u>15,785</u>	<u>7,272</u>	<u>2,201</u>	<u>1,093</u>
Working capital, end of year	<u>\$ 110,270</u>	<u>\$ 26,685</u>	<u>\$ 15,785</u>	<u>\$ 7,272</u>	<u>\$ 2,201</u>
Working capital changes:					
Increase (decrease) in current assets –					
Accounts receivable	\$ 25,798	\$ 25,358	\$ 6,879	\$ 4,027	\$ 894
Grants receivable	6,286	(228)	521	334	79
Inventories	48,896	27,556	16,490	4,641	784
Prepaid expenses	411	188	174	28	22
	<u>81,391</u>	<u>52,874</u>	<u>24,064</u>	<u>9,030</u>	<u>1,779</u>
Increase (decrease) in current liabilities –					
Bank indebtedness	(19,020)	25,038	9,047	1,454	(180)
Accounts payable and accrued liabilities	18,814	14,753	5,500	1,903	618
Income and other taxes payable	(2,014)	1,090	634	497	159
Current portion of long-term debt	26	1,093	370	105	74
	<u>(2,194)</u>	<u>41,974</u>	<u>15,551</u>	<u>3,959</u>	<u>671</u>
Increase in working capital	<u>\$ 83,585</u>	<u>\$ 10,900</u>	<u>\$ 8,513</u>	<u>\$ 5,071</u>	<u>\$ 1,108</u>

(See accompanying notes to the consolidated financial statements)

Notes to the Consolidated Financial Statements

1. Summary of Accounting Policies

These financial statements have been prepared by Management in accordance with accounting principles generally accepted in Canada. The more significant accounting policies are outlined below.

a) Basis of consolidation

The accompanying consolidated financial statements include the accounts of all subsidiary companies, all of which are wholly owned. The year-end for all companies in the group is the last Friday in February, which results in a 52-week year in 1978, 1979, 1981 and 1982 and a 53-week year in 1980.

b) Foreign currency translation

Foreign currencies have been translated into Canadian dollars as noted below:

- Current monetary assets and liabilities and long-term debt – at the exchange rates prevailing on the balance sheet dates.
- All other assets and liabilities and depreciation and amortization expense – at historical exchange rates.
- Revenue and expenses (other than depreciation and amortization) – at the average exchange rates for the fiscal years.

Unrealized gains or losses arising from the translation of long-term debt are deferred and amortized over the remaining life of the debt. Other exchange gains and losses are included in income.

c) Revenue

Revenue from sales of products is recognized at the time goods are shipped to customers. Allowances for estimated warranty costs are provided at the time of sale. For sales of technology, revenue is recognized as milestones set out in the technical agreements and contracts are reached and approved.

d) Government assistance

Approved government grants are recorded as follows:

- Capital grants – as a reduction of the cost of the related capital assets.
- Operating grants – as a reduction of related current period expenses when incurred.

e) Inventories

Inventories are valued at the lower of cost, determined on an average cost basis, and:

- Net realizable value for work-in-process and finished goods.
- Current replacement cost for raw materials.

The cost of inventories on hand includes material, labour and manufacturing overhead where applicable.

f) Fixed assets

Buildings, machinery and equipment are recorded at cost, net of related specific government grants. Depreciation and amortization are provided on the bases and at rates, generally, as set out below:

Asset	Basis	Rate
Buildings	Straight-line	4 %
Equipment	Declining balance	20-30 %
Leasehold improvements	Straight-line	Over life of lease

g) Research and development costs

Development costs (which include direct labour, materials and applicable overhead costs) relating to specific products that in Management's view have a clearly defined future market are deferred and amortized on a per unit basis against the first three years' estimated sales. Prior to 1979, such costs, which are not material to these financial statements, were expensed as incurred. See Note 16 for the effect on net income. Research and other development costs (except for capital assets) are charged against income in the year of expenditure.

h) Other assets

Goodwill and product patents are being amortized against income on a straight-line basis over 20 and 10 years respectively. Deferred bond issue expenses are amortized against income on a straight-line basis to maturity of the bond.

i) Income taxes

Included in income taxes for financial statement presentation are current and deferred income taxes. Deferred income taxes represent amounts not payable until future years because certain expenses, principally depreciation and amortization, have been expensed for tax purposes on an accelerated basis. Incentive tax credits and allowances are reflected as reductions in income tax expense in the year utilized. Dividend payments from subsidiary companies in certain countries are subject to taxes at various rates. Of the balance of unremitted earnings of subsidiaries, included in consolidated retained earnings, a portion is not subject to tax; the remainder has been reinvested indefinitely and so no provision has been made for taxes.

j) Interest costs

Interest costs related to the construction of the Company's production facilities are capitalized. All other interest costs are charged to income as incurred.

k) Long-term lease arrangements

Long-term leases which are effectively purchases are capitalized in the accounts with the present value of the remaining lease payments shown as long-term

lease obligations. Lease agreements where substantially all the benefits and risks of ownership do not accrue to the Company are expensed as lease payments are made.

2. Accounts Receivable

	1982 (000's)	1981 (000's)
Customers _____	\$ 61,871	\$ 37,965
Other receivables _____	2,735	800
	64,606	38,765
Less allowance for doubtful accounts _____	322	279
	\$ 64,284	\$ 38,486

3. Inventories

	1982 (000's)	1981 (000's)	1980 (000's)	1979 (000's)	1978 (000's)	1977 (000's)
Raw materials _____	\$ 42,382	\$ 21,729	\$ 13,305	\$ 3,640	\$ 1,295	\$ 821
Work-in-process _____	37,301	23,726	8,182	2,247	628	352
Finished goods _____	20,074	5,406	1,818	928	251	217
	\$ 99,757	\$ 50,861	\$ 23,305	\$ 6,815	\$ 2,174	\$ 1,390

4. Government Grants

The Company is eligible to receive government assistance under various programs extending to 1988. Funding under major programs is illustrated as follows:

Project	Fiscal Period	Maximum Funding (000's)		Current Year Funding (000's)	
		Operating	Capital	Operating	Capital
Microelectronics development _____	1980-1984	\$ 6,680	\$ 14,250	\$ 1,494	\$ 4,638
Switching products development _____	1982-1984	9,970	-	1,006	-
Canadian manufacturing facilities _____	1983-1988	5,000	15,000	-	-
Welsh manufacturing facilities _____	1982-1986	11,700	10,300	2,381	1,797
		\$ 33,350	\$ 39,550	\$ 4,881	\$ 6,435

Funding under the programs is based upon the level of expenditures for certain capital and operating costs. The programs are proceeding in accordance with their respective terms and no liability for repayment of such assistance under various contingency clauses is foreseen.

5. Fixed Assets

	1982 (000's)			1981 (000's)		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land _____	\$ 6,338	\$ -	\$ 6,338	\$ 1,252	\$ -	\$ 1,252
Buildings _____	34,452	1,613	32,839	17,856	480	17,376
Equipment and leasehold improvements _____	91,622	13,907	77,715	25,113	4,796	20,317
Construction-in-progress _____	41,835	-	41,835	5,169	-	5,169
	\$ 174,247	\$ 15,520	\$ 158,727	\$ 49,390	\$ 5,276	\$ 44,114

Interest expense on construction-in-progress has been capitalized in the amount of \$3,635,000 (1981 - \$670,000; 1979 - \$124,000; 1978 - nil; 1977 - nil).

6. Deferred Development Costs

	1982 (000's)			1981 (000's)		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Deferred development costs _____	<u>\$ 20,977</u>	<u>\$ 2,501</u>	<u>\$ 18,476</u>	<u>\$ 6,978</u>	<u>\$ 746</u>	<u>\$ 6,232</u>

7. Other Assets

	1982 (000's)			1981 (000's)		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Investment _____	\$ -	\$ -	\$ -	\$ 1,043	\$ -	\$ 1,043
Goodwill _____	749	62	687	309	39	270
Patents _____	504	92	412	319	49	270
Deferred foreign exchange _____	411	18	393	67	-	67
Deferred bond issue expense _____	493	27	466	-	-	-
	<u>\$ 2,157</u>	<u>\$ 199</u>	<u>\$ 1,958</u>	<u>\$ 1,738</u>	<u>\$ 88</u>	<u>\$ 1,650</u>

8. Bank Indebtedness

The Company has assigned certain of its accounts receivable, inventory and fixed assets to the banks as collateral for bank indebtedness and has issued to the banks a fixed and floating charge debenture on its remaining property and assets.

The Company has primary credit facilities with two Canadian banks aggregating \$48,320,000 which is dedicated for general operating purposes in Canada and the United States. The operating lines of credit are subject to separate margin restrictions in each country related to accounts receivable and inventory.

9. Long-term Debt

	1982 (000's)	1981 (000's)
Industrial revenue bonds, 9.4%, (approximate - see below), due in 2000, with monthly payments _____	\$ 10,499	\$ 10,814
Industrial revenue bond, 11.375%, redeemable in equal amounts in 1989, 1990, and 1991 _____	9,160	-
European Coal and Steel Community loan, 9.65%, due in 1986 to 1989 with annual payments _____	6,583	-
Mortgages (secured by certain fixed assets), 9.6% to 13%, due in 1988 to 2004 with monthly payments _____	2,734	1,972
Capital leases, at interest rates varying from 6% to 17% (Note 10) _____	1,823	1,965
Note payable (secured by certain fixed assets), 13.16%, due in 1985 with monthly payments _____	1,642	1,952
Loans under government programs		
Defense Industry Productivity, interest free, due in 1984-1985 with annual payments _____	385	578
Ontario Business Incentive Loan, interest free until 1984, subsequently 11.75% until due in 1989, with monthly payments, secured by fixed assets purchased under the program _____	750	750
Industrial Mortgage Term Loan, 11.75%, due in 1985, with monthly payments _____	171	214
Other _____	-	357
	<u>33,747</u>	<u>18,602</u>
Less current portion _____	<u>1,786</u>	<u>1,760</u>
	<u>\$ 31,961</u>	<u>\$ 16,842</u>

A portion of the above debt is payable in currencies other than Canadian dollars:

	1982 (000's)	1981 (000's)
Payable in U.S. dollars –		
Industrial revenue bonds –		
• 8.375% fixed, monthly payments _____	U.S.\$ 3,971	\$ 4,000
• 8% to 12% floating, quarterly payments _____	4,625	5,000
Capital leases _____	974	1,007
Other _____	159	197
Industrial revenue bond – 11.375% _____	7,500	–
	<u>U.S.\$ 17,229</u>	<u>\$ 10,204</u>
Payable in pounds sterling –		
European Coal and Steel Community loan – 9.65% _____	£ 2,939	–

Principal repayments, excluding capital leases (Note 10), during the next five years are: 1983 – \$1,580,000; 1984 – \$1,473,000; 1985 – \$1,463,000; 1986 – \$2,921,000; 1987 – \$2,517,000.

Included in interest expense in the consolidated statements of income is interest on long-term debt as follows:

	1982 (000's)	1981 (000's)	1980 (000's)	1979 (000's)	1978 (000's)
Capital leases _____	\$ 252	\$ 189	\$ 68	\$ 27	\$ 29
Other _____	2,010	1,196	285	154	144
	<u>\$ 2,262</u>	<u>\$ 1,385</u>	<u>\$ 353</u>	<u>\$ 181</u>	<u>\$ 173</u>

10. Capital Leases

Fixed assets under capital lease include:

	1982 (000's)			1981 (000's)		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Building _____	\$ 1,572	\$ 163	\$ 1,409	\$ 1,554	\$ 100	\$ 1,454
Equipment _____	954	402	552	964	241	723
	<u>\$ 2,526</u>	<u>\$ 565</u>	<u>\$ 1,961</u>	<u>\$ 2,518</u>	<u>\$ 341</u>	<u>\$ 2,177</u>

Future minimum lease payments and the balance of the obligation under capital leases (in thousands of dollars) are:

1983 _____	\$ 424
1984 _____	412
1985 _____	374
1986 _____	204
1987 _____	139
Thereafter _____	1,741
	3,294
Less interest _____	(1,471)
Principal _____	<u>\$ 1,823</u>

11. Stock Option and Stock Purchase Plans

a) Stock purchase plan – 1980

In 1982, the Company issued a further 11,257 shares for an aggregate consideration of \$73,733 to employees under the plan.

b) Stock option and stock purchase plans – 1981

The Company continued the plans introduced in 1981. Changes during 1982 are outlined below.

c) Stock option and stock purchase plans – 1982

During the year, the Board of Directors approved the introduction of two additional stock option and stock purchase plans, and authorized a total of 350,000 shares for distribution under each plan.

	Shares Available for Grant	Number	Outstanding Options		
			Aggregate Consideration (000's)	Price per Share	Exercise Period
Stock Option and Stock Purchase Plans – 1981					
i. Key Employee Option Plan					
Balance, February 27, 1981 _____	62,500	437,500			
Authorized during year _____	250,000			\$7.73	Feb. 21, 1983
Granted during year _____	(38,400)	38,400		to	to
Balance, February 26, 1982 _____	<u>274,100</u>	<u>475,900</u>	\$ 5,557	\$40.12	Jan. 4, 1987
ii. Basic Employee Option Plan					
Balance, February 27, 1981 _____	91,231	208,769			
Terminations during year _____	41,505	(41,505)		\$7.12	Dec. 1, 1981
Issued during year _____		(34,398)		to	to
Balance, February 26, 1982 _____	<u>132,736</u>	<u>132,866</u>	\$ 1,292	\$10.05	Nov. 20, 1982
iii. Supplemental Employee Option Plan					
Balance, February 27, 1981 _____	50,000				
Authorized during year _____	45,000			\$14.78	Mar. 2, 1982
Granted during year _____	(83,770)	83,770		to	to
Balance, February 26, 1982 _____	<u>11,230</u>	<u>83,770</u>	\$ 1,488	\$18.05	June 1, 1983
iv. Employee Stock Option/Stock Purchase Plan					
Balance, February 27, 1981 _____	200,000				
Authorized during year _____	36,422				
Granted during year _____	(234,310)	234,310			Mar. 2, 1982
Issued during year _____		(142,672)			to
Balance, February 26, 1982 _____	<u>2,112</u>	<u>91,638</u>	\$ 1,625	\$17.73	Sept. 1, 1982
Stock Option and Stock Purchase Plans – 1982					
i. Stock Option Plan – 1982					
Authorized, February 26, 1982 _____	350,000				Apr. 1, 1982 to Mar. 31, 1983
ii. Stock Option/Stock Purchase Plan – 1982					
Authorized, February 26, 1982 _____	350,000				Mar. 15, 1982 to Feb. 28, 1983
Total, February 26, 1982 _____	<u>1,120,178</u>	<u>784,174</u>	<u>\$ 9,962</u>		

12. Capital Stock

The Company's capital stock consists of an unlimited number of Common Shares.

Effective October 27, 1980, the shareholders of the Company approved the split of its Common Shares on a three-for-one basis. In these financial statements, numbers of shares and per share amounts reflect this split.

An analysis of the capital stock account for the five years ended February 26, 1982, expressed in terms of shares issued at that date, is as follows:

	Shares	Dollars
Balance, February 28, 1977	24,000,000	\$ 400
Employee stock purchase plan - 1977	589,200	98,200
Balance, February 24, 1978	24,589,200	98,600
Investments in subsidiary companies	545,472	538,657
Issued for cash	2,466,861	3,171,574
Fractional shares not taken up	(66)	-
Balance, February 23, 1979	27,601,467	3,808,831
Public offering	3,300,000	11,550,000
Fractional shares taken up	6	-
Balance, February 29, 1980	30,901,473	15,358,831
Public offering	2,250,000	17,718,750
Employee stock purchase plan - 1980	135,000	884,700
Balance, February 27, 1981	33,286,473	33,962,281
Public offering	3,800,000	161,267,460
Employee stock purchase plan - 1980	11,257	73,733
Basic employee option plan - 1981	34,398	317,914
Employee stock option/stock purchase plan - 1981	142,672	2,529,575
Balance, February 26, 1982	<u>37,274,800</u>	<u>\$ 198,150,963</u>

The Company may not declare or pay cash dividends until it has made certain investments in equipment in Canada, according to the terms of an agreement made with the Canadian Government for microelectronics development referred to in Note 4.

13. Earnings per Share

The earnings per share figures are calculated using the weighted monthly average number of shares outstanding during the respective fiscal years, after giving retroactive effect to the three-for-one stock split in October, 1980. The weighted monthly average number of shares outstanding for each year was as follows: 1982 - 36,197,000; 1981 - 32,624,000; 1980 - 29,802,000; 1979 - 25,692,000; 1978 - 24,589,000.

14. Income Taxes

Details of income tax expense are as follows:

	1982 (000's)	1981 (000's)	1980 (000's)	1979 (000's)	1978 (000's)
Current -					
Canadian	\$ 4,462	\$ 1,214	\$ 784	\$ 544	\$ 274
Foreign	(738)	1,483	720	99	167
Deferred -					
Canadian	536	461	8	9	-
Foreign	1,443	729	33	379	-
Total income tax expense	<u>\$ 5,703</u>	<u>\$ 3,887</u>	<u>\$ 1,545</u>	<u>\$ 1,031</u>	<u>\$ 441</u>

Deferred taxes on income result primarily from timing differences in the recognition of depreciation and amortization for tax and financial reporting purposes.

The income tax expense reported differs from the amount computed by applying the Canadian rates to income before taxes. The reasons for these differences and their tax effects are as follows:

	1982 (000's)	1981 (000's)	1980 (000's)	1979 (000's)	1978 (000's)
Expected tax rate	51%	51%	50%	49%	48%
Expected tax expense	\$ 20,435	\$ 10,786	\$ 3,554	\$ 1,517	\$ 762
Foreign tax exemptions	(8,766)	(3,379)	(1,519)	(737)	(481)
Foreign rate differentials	(378)	(205)	63	204	99
Research and investment incentives	(7,182)	(3,800)	(449)	(48)	-
Losses carried forward (utilized)	1,202	295	(61)	13	54
Unrealized currency translation loss	197	730	-	-	-
Other	195	(540)	(43)	82	7
	<u>\$ 5,703</u>	<u>\$ 3,887</u>	<u>\$ 1,545</u>	<u>\$ 1,031</u>	<u>\$ 441</u>

Two subsidiaries receive exemptions from income taxes provided that they comply with certain conditions. One subsidiary is exempt from taxes until 1991; the other is exempt until 1988 after which it is subject to a reduced rate until 1998 on income from certain products.

Income before taxes attributable to all foreign operations is as follows:

1982 - \$16,573,000; 1981 - \$10,532,000; 1980 - \$5,828,000; 1979 - \$3,537,000; 1978 - \$1,324,000.

As at February 26, 1982, the balance of unremitted earnings of subsidiaries which would be subject to Canadian tax on repatriation is \$25,809,000 (1981 - \$12,489,000). As explained in Note 1(i), no provision has been made for Canadian taxes on such earnings.

15. Supplementary Expense Information to Consolidated Statements of Income

	1982 (000's)	1981 (000's)	1980 (000's)	1979 (000's)	1978 (000's)
Operating lease payments	\$ 4,077	\$ 2,325	\$ 1,168	\$ 306	\$ 111
Maintenance and repairs	2,558	1,203	329	99	54
Advertising	10,261	1,177	677	160	121
Taxes, other than income taxes	2,241	2,693	1,443	718	544
Amortization of:					
Deferred development costs	1,755	548	176	22	-
Other assets	111	40	28	20	-
Foreign exchange (gain) loss	887	321	(27)	(243)	(176)

16. United States Accounting Principles

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada which, in the case of the Company, conform in all material respects with those in the United States, except as follows:

a) Development costs relating to specific products that in Management's view have a clearly defined future market are deferred and amortized on a per unit basis against the first three years' estimated sales. In the United States, such costs would be charged to income in the period in which they were incurred.

b) Unrealized gains or losses on translation of long-term dollar liabilities repayable in foreign currencies are deferred and amortized over the remaining term of the liabilities. In the United States, such gains or losses would be included in income in the period in which they arise according to the principles as described in the Financial Accounting Standards Board Statement No. 8.

c) Proceeds from shares issued under employee stock purchase and stock option plans are accounted for as contributions to capital stock at the time the stock is purchased or the option exercised. In the United States, the fair market value of the shares issued is accounted for as contributions to capital stock and the difference between such value and the stock option/purchase price at the time the option is granted, is treated as a form of employee compensation which is charged against income over the duration of the plan.

The following table reconciles net income as reported to the shareholders on the consolidated statements of income and retained earnings to the net income that would have been reported had the financial statements been prepared in accordance with United States accounting principles.

	1982 (000's)	1981 (000's)	1980 (000's)	1979 (000's)	1978 (000's)
Net income as reported to shareholders _____	\$ 34,365	\$ 17,262	\$ 5,562	\$ 3,096	\$ 1,146
Effect of expensing deferred development costs as incurred _____	(6,407)	(2,928)	(1,904)	(356)	-
Effect of deferring certain translation gains and losses _____	(326)	(14)	62	(63)	(46)
Effect of compensation element in stock purchase/stock option plans _____	(917)	-	-	-	-
Net income in accordance with United States accounting principles _____	\$ 26,715	\$ 14,320	\$ 3,720	\$ 2,677	\$ 1,100
Earnings per share in accordance with United States accounting principles (Note 13) _____	\$ 0.74	\$ 0.44	\$ 0.12	\$ 0.10	\$ 0.04
Shareholders' equity in accordance with United States accounting principles _____	\$ 241,889	\$ 54,970	\$ 22,687	\$ 8,231	\$ 1,844

17. Commitments

a) Buildings and equipment

The Company is committed to spend approximately \$15,000,000 for building and equipment additions in 1983.

b) Operating leases

The future minimum lease payments for operating leases for which the Company is committed are as follows: 1983 - \$4,940,000; 1984 - \$4,257,000; 1985 - \$3,417,000; 1986 - \$3,078,000; 1987 - \$2,821,000; thereafter - \$2,527,000.

18. Information on Geographic Segments

The Company operates exclusively as a vertically integrated manufacturer of telecommunications products which is its only line of business.

Of the total sales by Canada to unaffiliated customers in 1982, \$12,489,000 (1981 - \$3,524,000 and 1980 - \$2,790,000) were export sales.

During the year ended February 26, 1982, the Company made sales of \$31,210,000 and \$18,402,000 to two major customers.

The following tables set forth information concerning the geographic segments for the years ended February 1982, 1981, and 1980.

	Canada (000's)	U.S. (000's)	Other (000's)	Eliminations (000's)	Total (000's)
Fiscal 1982					
Sales _____	\$ 65,358	\$ 100,350	\$ 38,421	\$ -	\$ 204,129
Transfers between areas _____	37,416	12,469	1,726	(51,611)	-
Total sales _____	<u>\$ 102,774</u>	<u>\$ 112,819</u>	<u>\$ 40,147</u>	<u>\$ (51,611)</u>	<u>\$ 204,129</u>
Segment operating profit _____	<u>\$ 26,560</u>	<u>\$ 21,875</u>	<u>\$ 8,219</u>	<u>\$ (708)</u>	<u>\$ 55,946</u>
Deduct:					
Research and development expense _____					12,294
Less related government assistance _____					(2,549)
General corporate expense _____					11,165
Interest _____					(5,032)
Income taxes _____					5,703
Net income _____					<u>\$ 34,365</u>
Identifiable assets _____	<u>\$ 166,780</u>	<u>\$ 108,411</u>	<u>\$ 44,986</u>	<u>\$ -</u>	<u>\$ 320,177</u>
Add:					
Corporate assets _____					12,784
Deferred development costs _____					18,476
Total assets _____					<u>\$ 351,437</u>
Fiscal 1981					
Sales _____	\$ 27,766	\$ 70,325	\$ 13,121	\$ -	\$ 111,212
Transfers between areas _____	36,627	3,111	1,812	(41,550)	-
Total sales _____	<u>\$ 64,393</u>	<u>\$ 73,436</u>	<u>\$ 14,933</u>	<u>\$ (41,550)</u>	<u>\$ 111,212</u>
Segment operating profit _____	<u>\$ 16,616</u>	<u>\$ 15,319</u>	<u>\$ 3,337</u>	<u>\$ (1,010)</u>	<u>\$ 34,262</u>
Deduct:					
Research and development expense _____					5,859
Less related government assistance _____					(766)
General corporate expense _____					4,430
Interest _____					3,590
Income taxes _____					3,887
Net income _____					<u>\$ 17,262</u>
Identifiable assets _____	<u>\$ 63,713</u>	<u>\$ 57,746</u>	<u>\$ 10,408</u>	<u>\$ -</u>	<u>\$ 131,867</u>
Add:					
Corporate assets _____					4,782
Deferred development costs _____					6,232
Total assets _____					<u>\$ 142,881</u>
Fiscal 1980					
Sales _____	\$ 11,571	\$ 28,612	\$ 3,228	\$ -	\$ 43,411
Transfers between areas _____	13,023	1,087	1,977	(16,087)	-
Total sales _____	<u>\$ 24,594</u>	<u>\$ 29,699</u>	<u>\$ 5,205</u>	<u>\$ (16,087)</u>	<u>\$ 43,411</u>
Segment operating profit _____	<u>\$ 4,041</u>	<u>\$ 6,854</u>	<u>\$ 2,032</u>	<u>\$ (975)</u>	<u>\$ 11,952</u>
Deduct:					
Research and development expense _____					3,024
Less related government assistance _____					(1,055)
General corporate expense _____					2,269
Interest _____					607
Income taxes _____					1,545
Net income _____					<u>\$ 5,562</u>
Identifiable assets _____	<u>\$ 23,661</u>	<u>\$ 19,302</u>	<u>\$ 2,463</u>	<u>\$ -</u>	<u>\$ 45,426</u>
Add:					
Corporate assets _____					3,876
Deferred development costs _____					2,698
Total assets _____					<u>\$ 52,000</u>

Sales by Product and Geographic Area

(Unaudited)

The following table summarizes Mitel's sales of its products (and revenues derived by Mitel from licensing others to manufacture and sell integrated circuits and PABXs) into the geographic area indicated during the last five fiscal years:

	Fiscal year ended February									
	1982		1981		1980		1979		1978	
	(000's)	%	(000's)	%	(000's)	%	(000's)	%	(000's)	%
United States:										
PABX _____	\$ 87,928		\$ 57,835		\$ 17,655		\$ 3,799		-	
Other telecommunications products _____	9,140		10,716		10,067		8,668		\$ 6,405	
Integrated circuits _____	3,640		1,841		975		684		217	
Licensing _____	1,189		600		-		-		-	
	<u>101,897</u>	<u>50%</u>	<u>70,992</u>	<u>64%</u>	<u>28,697</u>	<u>66%</u>	<u>13,151</u>	<u>61%</u>	<u>6,622</u>	<u>58%</u>
Canada:										
PABX _____	50,294		17,465		4,907		625		-	
Other telecommunications products _____	2,159		4,238		3,684		3,953		2,913	
Integrated circuits _____	416		180		190		-		109	
Licensing _____	-		-		-		-		-	
	<u>52,869</u>	<u>26%</u>	<u>21,883</u>	<u>20%</u>	<u>8,781</u>	<u>20%</u>	<u>4,578</u>	<u>21%</u>	<u>3,022</u>	<u>26%</u>
Europe & other countries:										
PABX _____	42,272		11,334		1,725		403		-	
Other telecommunications products _____	1,093		848		768		936		305	
Integrated circuits _____	4,503		3,762		1,524		1,188		939	
Licensing _____	1,495		2,393		1,916		1,392		640	
	<u>49,363</u>	<u>24%</u>	<u>18,337</u>	<u>16%</u>	<u>5,933</u>	<u>14%</u>	<u>3,919</u>	<u>18%</u>	<u>1,884</u>	<u>16%</u>
Total _____	<u>\$204,129</u>	<u>100%</u>	<u>\$111,212</u>	<u>100%</u>	<u>\$43,411</u>	<u>100%</u>	<u>\$21,648</u>	<u>100%</u>	<u>\$11,528</u>	<u>100%</u>
Total:										
PABX _____	\$180,494		\$ 86,634		\$24,287		\$ 4,827		-	
Other telecommunications products _____	12,392		15,802		14,519		13,557		\$ 9,623	
Total telecommunications products _____	192,886	95%	102,436	92%	38,806	90%	18,384	85%	9,623	84%
Integrated circuits _____	8,559	4%	5,783	5%	2,689	6%	1,872	9%	1,265	11%
Licensing _____	2,684	1%	2,993	3%	1,916	4%	1,392	6%	640	5%
Total _____	<u>\$204,129</u>	<u>100%</u>	<u>\$111,212</u>	<u>100%</u>	<u>\$43,411</u>	<u>100%</u>	<u>\$21,648</u>	<u>100%</u>	<u>\$11,528</u>	<u>100%</u>

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Sales during fiscal year 1982 were \$204,129,000 and net income was \$34,365,000, an increase of 84 percent and 99 percent respectively over the prior fiscal year. Sales in fiscal year 1981 were \$111,212,000 compared to \$43,411,000 in fiscal year 1980, and net income was \$17,262,000 and \$5,562,000 in fiscal years 1981 and 1980 respectively. Sales into Europe and Canada increased by 169 percent and 142 percent respectively during fiscal year 1982. Sales into the United States as a percentage of total sales declined by 14 percent in fiscal year 1982, which can be attributed to the recession in the United States (Sales by Product and Geographic Area - page 35). It is anticipated that the growth of sales into Europe and other countries will continue to be significant in fiscal year 1983; Canada will show a moderate growth; and the recession will continue to dampen the sales growth in the United States.

The introduction in fiscal year 1982 of two smaller line-size products to the PABX family, the SX-10 and SUPER 10, in combination with continuing market penetration of the SX-200 and SX-100, have caused a doubling in PABX product sales since fiscal year 1981. Sales of SX-200s in fiscal year 1982 have almost tripled, as a result of a major contract with British Telecom for the Regent (the British Telecom version of the SX-200 SUPERSWITCH) and increased demand in third world countries, particularly South America and the Middle East. Licensing revenue from the sale of semiconductor technology represents one percent of total sales in comparison to three percent in the previous fiscal year (Sales by Product and Geographic Area - page 35).

Net income as a percentage of sales has increased from 13 percent in fiscal year 1980 and 16 percent in fiscal year 1981, to 17 percent for the year ended February 26, 1982. In fiscal year 1982, development costs amounting to \$13,999,000 relating to products with a clearly defined future market were deferred. Almost 70 percent of this capitalized development was on the SX-2000 SUPERSWITCH, for which initial sales are expected in fiscal year 1983. The Company earned \$9,472,000 in interest income in fiscal year 1982 as a result of investing the net proceeds of the June 9, 1981 stock issue in short-term commercial paper. In fiscal year 1981, there was \$696,000 in interest income.

Over the course of fiscal year 1982, net income as a percentage of sales has increased, with the highest quarterly ratio, 23 percent, experienced in the fourth quarter. The increase in the last quarter (Quarterly Financial Data - page 38) can be primarily attributed to the following: volume efficiencies obtained in quarters with large increases in sales, particularly the fourth quarter of each fiscal year; recording of \$1,000,000 in Canadian government assistance under the Enterprise Development Program; recording of \$2,341,000 under the Selective Financial Assistance Program, an incentive grant from the government of Wales to promote regional development; and the revenue from licensing agreements (\$1,042,000 and \$1,642,000 in the third and fourth quarters respectively of the fiscal year ended February, 1982) which is recognized as contract milestones are met and for which only nominal costs are incurred. The rate of taxes applicable in determining net income from quarter to quarter also varies depending upon the percentage of income derived from tax-exempt foreign operations and various incentive/investment tax credits for which the Company is eligible.

Sales in the third and fourth quarters of the fiscal year ended February 1982 were less than the Company had earlier expected, with almost no increase in quarterly sales experienced between the second and third quarters. The effects of the worldwide recession were seen principally in the U.S. marketplace; sales within the United States represented one-half of total sales in fiscal year 1982, in comparison to 64 percent in fiscal year 1981, 66 percent in fiscal year 1980, 61 percent in fiscal year 1979 and 58 percent in fiscal year 1978. The technical difficulties experienced with the SX-20 during the summer of 1980 continued to adversely affect sales of this product for the first half of fiscal year 1982. Customer cautiousness resulted in approximately \$21,400,000 in sales of the SX-20, which was substantially the same level as fiscal year 1981. Indications from the last half of fiscal year 1982 show that sales of the SX-20 in fiscal year 1983 will continue to rise.

The Company does not believe that inflation has had any significant impact on either costs or revenues during the last five years.

Liquidity and Capital Resources

The Company's working capital increased \$83,585,000 during fiscal year 1982, primarily as a result of the issuance of 3,800,000 common shares in June 1981, and the issuance of additional shares related to Mitel's stock option/stock purchase plans. The net proceeds to the Company from such sales were \$155,276,000. For the year ended February 1982, the Company's accounts receivable rose \$25,798,000 and inventories rose \$48,896,000 with an offsetting increase in accounts payable of \$18,814,000. Average inventory as a percentage of cost of goods sold was 69 percent and 81 percent during the fiscal years ended February 1981, and 1982, respectively. Finished goods, as a percentage of total inventory, doubled during fiscal 1982 whereas raw materials remained constant and work in process showed a slight decline from fiscal year 1981 (Note 3 to the Consolidated Financial Statements - page 27). The increase in finished goods reflects the effects of the recession and the desire of the Corporation to maintain a four-week finished goods inventory level.

The Company is currently operating under commitment letters with Canadian chartered banks which make available to Mitel credit facilities totalling \$48,320,000 of which U.S.\$15,000,000 is available to the Company's U.S. affiliate. Borrowings under these facilities can be in the form of demand loans, Eurodollar loans, banker's acceptances or commercial letters of credit, and are secured directly or indirectly by fixed and floating charge debentures and pledges with respect to substantially all of the assets of the Company. Proceeds of the June 1981 stock issue were used in part to pay down interim financing made available to Mitel to finance expansion projects. The Company is in the process of evaluating proposals for new lines of credit from major Canadian and U.S. banks to finance its operating needs. These proposals will make available up to \$140,000,000 for the fiscal year 1983, stepping up to \$200,000,000 in the following year to satisfy the future borrowing requirements of Mitel Corporation. These proposals offer global lines of credit from the bank directly to Mitel Corporation and its subsidiary companies.

Capital expenditures during fiscal year ended February 1982 totalled \$133,222,000, of which \$7,552,000 was financed through various capital grant

programs. The major programs of funding were from the Special Electronics Program of the Canadian Department of Industry, Trade and Commerce and the U.K. Regional Development Grant covering the Welsh manufacturing facility. In addition, \$9,160,000 was financed by Industrial Revenue Bonds (low interest financing through local government entities); \$6,583,000 in European Coal and Steel Community loans (low interest financing through the European Economic Community); and the remainder by the proceeds of the issue of common shares in June 1981 and working capital.

The Company's expenditures on capital items more than tripled from the previous year because of the expansion program initiated in fiscal year 1981 for the purpose of ensuring adequate manufacturing facilities to meet future product demand. Approximately \$100,000,000 was spent on the expansion program with projects underway in Kanata and Renfrew, Ontario; Bromont, Quebec; Bouctouche, New Brunswick; South Burlington, Vermont; Caldicot, Wales; Bayamon, Puerto Rico; and Hong Kong. Of the estimated \$54,000,000 remaining expansion and capital equipment expenditures for fiscal year 1983, approximately \$13,000,000 may be eligible for British Government assistance and additional term loans from the European Coal and Steel Community, and approximately \$5,000,000 may be eligible for funding from the federal government of Canada under the microelectronics development program. The remaining portion of anticipated expenditures under the expansion program will be financed from internally generated funds, available government assistance, industrial revenue bonds, mortgage financing and bank credit facilities.

The Company estimates that this expansion program will provide the facilities and capital equipment necessary to accommodate anticipated sales growth during fiscal years 1983 and 1984. Any further expansion beyond this time frame is not currently being undertaken due to the current worldwide recession.

Selected Financial Data

The following table is derived from the Consolidated Financial Statements included elsewhere herein and which have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). These principles also conform, in all material respects, with accounting principles generally accepted in the United States ("U.S. GAAP"), except with respect to the deferral of unrealized foreign exchange gains and losses, certain product development costs as well as employee compensation through stock purchase and stock option plans, as more fully described in Note 16 to the Consolidated Financial Statements. The effect on Mitel's net income and earnings per share of the difference in accounting principles is reconciled below.

	Fiscal year ended February (at the end of fiscal year for balance sheet data)				
	1982	1981	1980	1979	1978
	(Thousands of dollars except per share amounts)				
Income Statement Data:					
Sales	\$ 204,129	\$ 111,212	\$ 43,411	\$ 21,648	\$ 11,528
Gross research and development expenses (including depreciation)	26,293	9,392	5,138	2,820	1,528
Net income	34,365	17,262	5,562	3,096	1,146
Earnings per share	0.95	0.53	0.19	0.12	0.05
Balance Sheet Data:					
Working capital	110,270	26,685	15,785	7,272	2,201
Total assets ¹	351,437	142,881	52,000	18,656	6,972
Short-term debt	18,592	37,586	11,455	2,038	479
Long-term debt	31,961	16,842	4,351	2,897	2,247
Shareholders' equity ²	253,871	60,219	24,994	8,696	1,890
Reconciliation to U.S. GAAP:					
Net income – Canadian GAAP	\$ 34,365	\$ 17,262	\$ 5,562	\$ 3,096	\$ 1,146
Increased (decreased) by:					
Foreign exchange	(326)	(14)	62	(63)	(46)
Deferred development costs	(6,407)	(2,928)	(1,904)	(356)	–
Stock purchase/stock option plans	(917)	–	–	–	–
Net income – U.S. GAAP	26,715	14,320	3,720	2,677	1,100
Earnings per share – U.S. GAAP	0.74	0.44	0.12	0.10	0.04

¹ Total assets determined under U.S. GAAP would be reduced by \$18,863,000 in 1982; \$6,293,000 in 1981; \$2,745,000 in 1980; and \$692,000 in 1979 from the amounts reported under Canadian GAAP.

² Shareholders' equity determined under U.S. GAAP would be reduced by \$11,982,000 in 1982; \$5,249,000 in 1981; \$2,307,000 in 1980; and \$465,000 in 1979 from the amounts under Canadian GAAP.

Summarized unaudited quarterly financial data for fiscal 1982 and 1981 is as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
	(Thousands of dollars except per share amounts)				
Fiscal 1982					
Sales	\$40,211	\$50,042	\$50,738	\$63,138	\$204,129
Gross profit	\$21,772	\$25,954	\$26,352	\$37,074	\$111,152
Net income	\$4,240	\$7,876	\$8,031	\$14,218	\$34,365
Net income per share	\$0.13	\$0.21	\$0.22	\$0.39	\$0.95
Fiscal 1981					
Sales	\$20,336	\$20,948	\$26,909	\$43,019	\$111,212
Gross profit	\$8,631	\$9,767	\$13,210	\$26,161	\$57,769
Net income	\$2,013	\$2,555	\$3,537	\$9,157	\$17,262
Net income per share	\$0.06*	\$0.08*	\$0.11	\$0.28	\$0.53

* Restated to reflect three-for-one share split in October, 1980.

Common Share Information

Principal Markets

The Toronto Stock Exchange and the New York Stock Exchange are the principal markets on which the Company's shares are traded. The shares are also listed on the Montreal and London Stock Exchanges.

The Company's shares were first listed on the Toronto Stock Exchange on August 13, 1979 and on the New York Stock Exchange on May 18, 1981.

The high and low sales prices for the last two years are shown below. The fiscal 1981 share prices have been restated to reflect the three-for-one stock split in October, 1980. The stock symbol for the Company's shares is MLT.

Toronto Stock Exchange (Canadian dollars)

	Fiscal 1982		Fiscal 1981	
	High	Low	High	Low
1st Quarter	\$ 48.875	\$ 19.375	\$ 8.00	\$ 5.00
2nd Quarter	45.00	32.875	12.00	7.50
3rd Quarter	38.25	24.00	25.875	11.375
4th Quarter	32.50	23.125	24.625	17.75

New York Stock Exchange (U.S. dollars)

	Fiscal 1982	
	High	Low
May 18-29	\$ 41.00	\$ 32.75
2nd Quarter	37.75	27.25
3rd Quarter	31.75	20.375
4th Quarter	27.75	19.50

Shareholders

As at April 12, 1982 there were 9,287 shareholders of record.

Dividend Policy

The Company has not declared or paid any dividends on its Common Shares and the Board of Directors anticipates that all available funds will be applied in the foreseeable future to finance growth.

Further, under the terms of an agreement between the Enterprise Development Board of the federal government of Canada and the Company, which provides for economic assistance in the development of the Company's microelectronics capability, the Company is prohibited from paying cash dividends until it has made certain investments in equipment. It is expected that the Company's commitment will not be satisfied for at least six years.

Auditors

Clarkson Gordon
Ottawa, Ontario

Legal Counsel

Gowling & Henderson
Ottawa, Ontario
Milbank, Tweed, Hadley & McCloy
New York, N.Y.

Bankers

Bank of Montreal
Royal Bank of Canada
Canadian Imperial Bank of
Commerce

Transfer Agents and Registrars

Montreal Trust Company
Morgan Guaranty Trust Company
of New York
Bank of Montreal Trust Company

Stock Exchange Listings

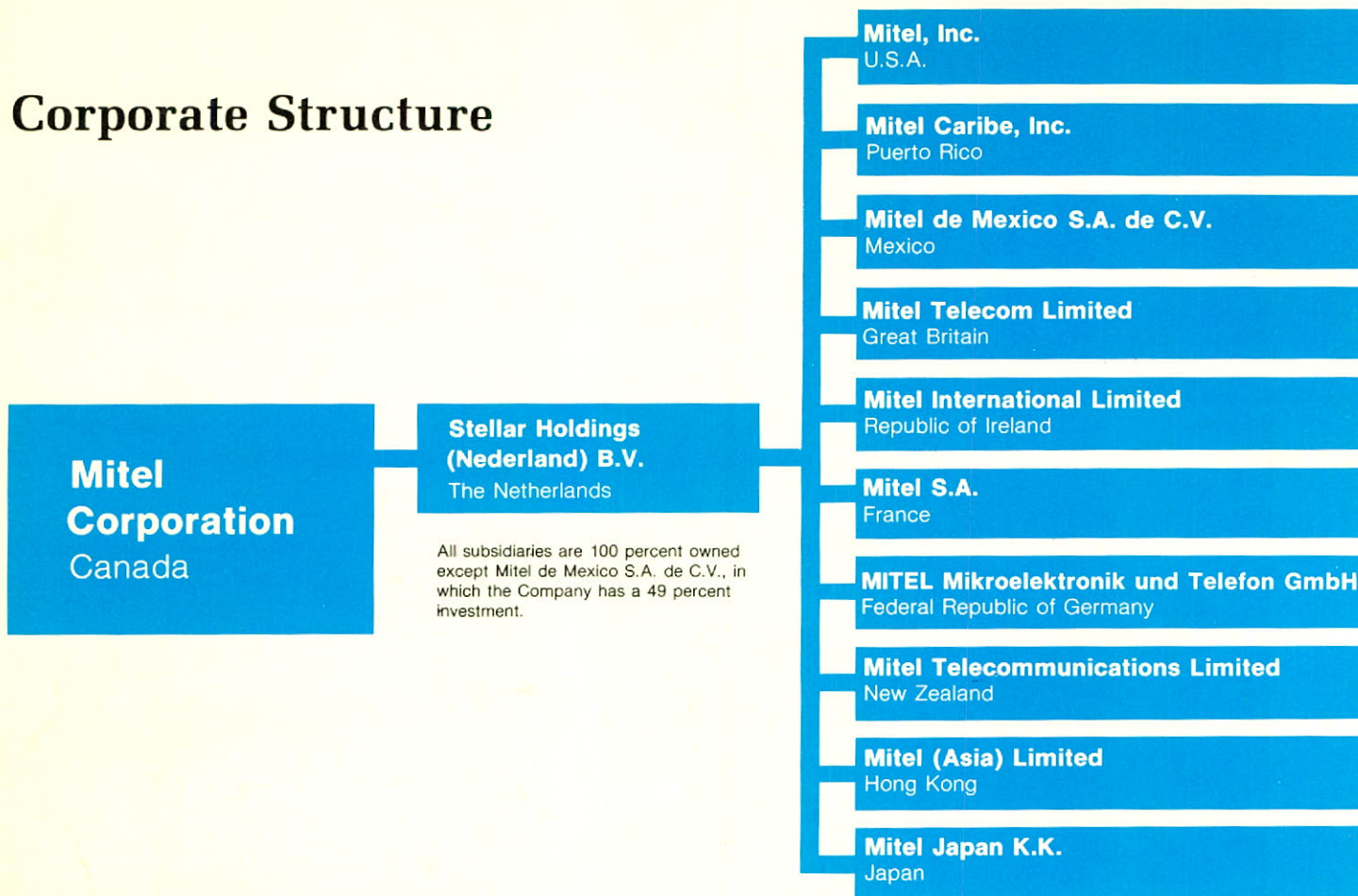
Toronto Stock Exchange
Montreal Stock Exchange
London Stock Exchange
New York Stock Exchange

SUPERSWITCH, SKYSWITCH, SX-2000, SX-200, SX-100, SX-20, SX-10, SUPER 10, SX-5, SX-2, SUPERSET 8, SUPERSET 7, SUPERSET 4 and Integrated Communications System are trademarks of Mitel Corporation.

Regent is a trademark of British Telecom.

Touch-Tone is a registered trademark of AT&T.

Corporate Structure



All subsidiaries are 100 percent owned except Mitel de Mexico S.A. de C.V., in which the Company has a 49 percent investment.

Corporate Directory

Board of Directors

- * **Terence H. Matthews**
Chairman of the Board
- * **Dr. Michael C.J. Cowpland**
President and Chief Executive Officer
- * **Donald C. Webster**
President
Helix Investments Limited
(venture capital company)
Toronto, Ontario
- * **Robert J. Redmond**
Partner
Gowling & Henderson
(barristers and solicitors)
Ottawa, Ontario
- * **Kent H.E. Plumley**
Partner
Gowling & Henderson
(barristers and solicitors)
Ottawa, Ontario
- * **Douglas I.C. Cameron**
Vice President and Treasurer
James Maclaren Industries Inc.
(forest products company)
Buckingham, Quebec

Officers

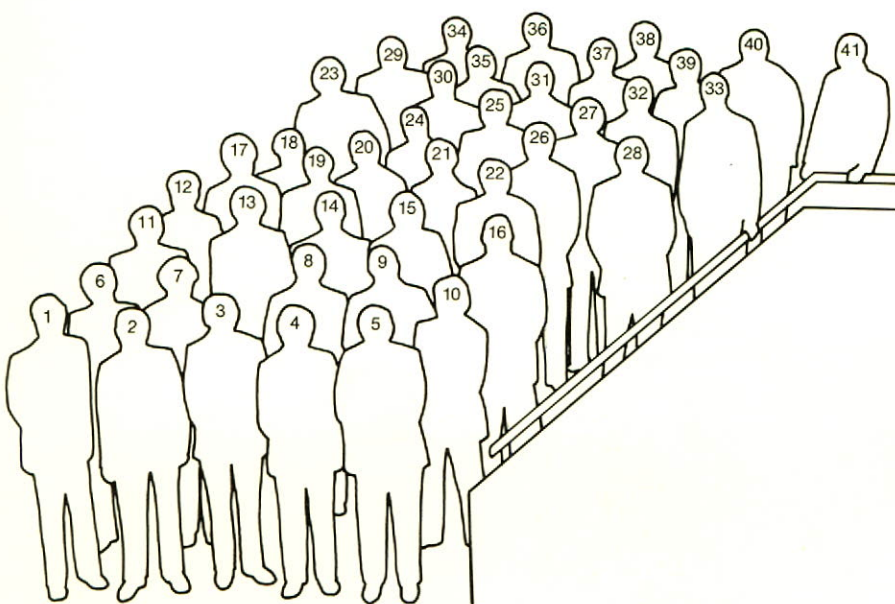
- ** **Terence H. Matthews**
Chairman of the Board
- ** **Dr. Michael Cowpland**
President and
Chief Executive Officer
- ** **Donald R. Gibbs**
Executive Vice President,
Finance
- ** **John T. McLennan**
Executive Vice President,
Operations
- ** **Ralph A. Bennett**
Executive Vice President and
General Manager,
Semiconductor Division
- ** **Donald Smith**
Executive Vice President
Business Development
- Graham A. Neathway**
Vice President, Engineering,
Small Systems Division
- Paul Wilker**
Vice President, Product Management,
Small Systems Division
- J. Raymond Whitbread**
Vice President,
R & D and Technology
- Christopher J. Elmer**
Vice President and
General Manager,
Europe
- John A. Farmer**
Corporate Secretary
- Christopher J. Bailey**
Vice President and
General Manager, Europe,
Semiconductor Division

- Dr. D. Michael Caughey**
Vice President, CAD/CAM
- Dr. Alan Aitken**
Vice President, R & D and Licences
- Leslie J. Barton**
Vice President,
Satellite Communications Systems
- William B. Kiss**
Vice President,
Canadian Switching Operations
- Gerard Stanton**
Vice President,
Human Resources
- Duncan A. Campbell**
Vice President and
Corporate Comptroller
- J. James Mackie**
Vice President, Marketing Services
- William Craigie**
Vice President and
General Manager,
Canada
- Peter Dakin**
Vice President, Bromont Operations,
Semiconductor Division
- Glen R.H. Gray**
Vice President,
International Business Development
- John Freeman**
Vice President, Marketing,
Semiconductor Division
- Conrad Lewis**
Vice President, Digital Switching
- Mod Hammad**
Vice President and
General Manager,
France

Officers of Subsidiary Companies

- Theodore G. Nanz**
Vice President and
General Manager, Mitel, Inc.
- R. Michael Brewer**
Vice President, Finance,
Mitel, Inc.
- John Keane**
President, Mitel Caribe, Inc.
- Bernard T. Watts**
Vice President, Operations,
Mitel Telecom Limited
- Paul Webb**
Vice President, Finance,
Mitel Telecom Limited
- John Everard**
Vice President, Engineering,
Mitel Telecom Limited
- Malcolm MacLeod**
Company Manager,
Mitel Telecommunications Ltd.
- Donald McLeod**
Director, Mitel Japan K.K.
- Joseph Tsui**
Managing Director,
Mitel (Asia) Limited

Members of the Mitel management team who were present at a corporate review meeting, October 8, 1981 at the National Arts Centre, Ottawa, Ontario.



- | | |
|-----------------------|---------------------|
| 1. Mike Caughey | 23. Doug Smeaton |
| 2. John Farmer | 24. Ray Whitbread |
| 3. Alastair MacArthur | 25. Bill Craigie |
| 4. John McLennan | 26. Mike Brewer |
| 5. Gerry Stanton | 27. Bob Durance |
| 6. John Everard | 28. Kent Plumley |
| 7. Ralph Bennett | 29. Ray Thomas |
| 8. Chris Elmer | 30. Les Barton |
| 9. Bernie Watts | 31. John Cribb |
| 10. Gerry Stickland | 32. Terry Matthews |
| 11. Duncan Campbell | 33. Mike Cowpland |
| 12. Alan Aitken | 34. Bernie Maxwell |
| 13. Chris Bailey | 35. Glen Gray |
| 14. Ted Nanz | 36. Jim Mackie |
| 15. Paul Wilker | 37. Bill Wilkie |
| 16. Donald Webster | 38. Don Gibbs |
| 17. Peter Dakin | 39. Don Smith |
| 18. Marcel Villeneuve | 40. John Keane |
| 19. Chuck Thweatt | 41. Graham Neathway |
| 20. Tom D'Amico | |
| 21. Bill Kiss | |

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