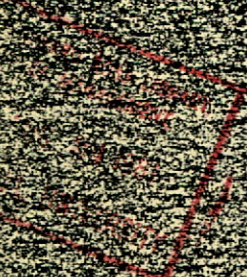
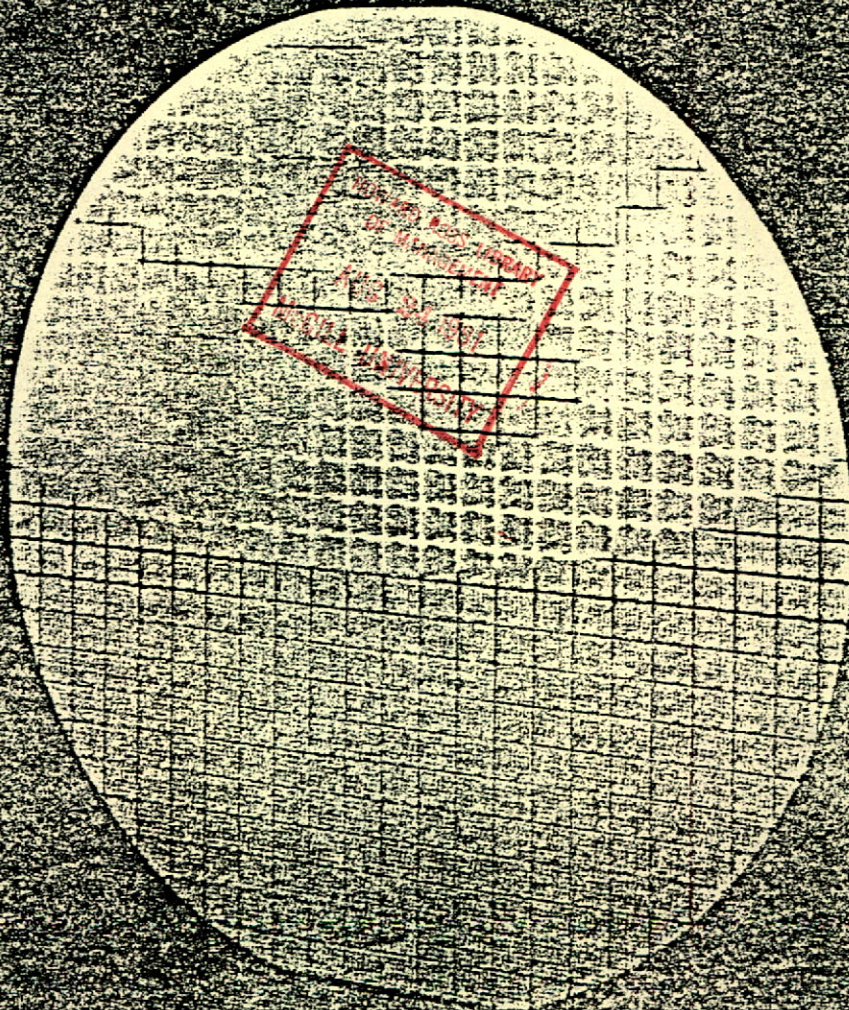




SUPPLIES OF OUR '79 ANNUAL REPORT HAVE BEEN EXHAUSTED! This is a photostat of the Financial Highlights and the Auditor's Report, for your information.



## Financial Summary

For the 5 years ended February 23, 1979  
(thousands of dollars)

<b>Operating Results:</b>	1979	1978	1977	1976	1975
Sales	21648	11528	5407	1526	315
Expenses	18552	10382	4906	1367	290
Net Income	3096	1146	501	159	25
Net Income as a % of Sales	14.3%	9.9%	9.3%	10.4%	7.9%

### Capital Structure:

Working Capital from Operations	3923	1496	662	190	26
Working Capital	7272	2201	1093	71	51
Current Ratio	209%	181%	154%	114%	139%
Retained Earnings	4887	1791	645	144	(15)
Total Equity	8696	1890	646	145	(14)
Long-Term Debt	2897	2247	1702	66	114
Debt to Equity Ratio	33.3%	118.9%	263.5%	45.5%	Nil

### Asset Base:

Total Assets	18656	6972	4762	821	266
Return on Average Total Assets	24.2%	19.5%	17.9%	29.2%	13.9%

### Capital Stock:

Average Number of					
Outstanding Shares (000's)	8564	8196	8000	8000	8000
Earnings Per Share (Dollars)	.36	.14	.06	.02	Nil

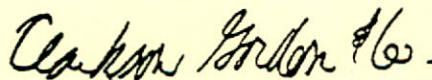
## Auditor's Report

To the Shareholders of  
Mitel Corporation

We have examined the consolidated balance sheet of Mitel Corporation as at February 23, 1979 and the consolidated statements of income and retained earnings and changes in financial position for the fifty-two weeks 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 financial statements present fairly the financial position of the company as at February 23, 1979 and the results of its operations and the changes in its financial position for the fifty-two weeks then ended in accordance with generally accepted accounting principles which, except for the change, with which we concur, in accounting for development costs explained in note 2 to the financial statements, have been applied on a basis consistent with that of the preceding year.

Ottawa, Canada.  
May 2, 1979



Clarkson, Gordon & Co.  
Chartered Accountants.

## Consolidated Balance Sheet

(Incorporated under the laws of Canada)

February 23, 1979

Mitel Corporation

### Assets

	<u>1979</u> <u>(000's)</u>	<u>1978</u> <u>(000's)</u>
Current:		
Accounts receivable (notes 6 and 8) _____	\$ 6,249	\$ 2,222
Grants receivable (note 4) _____	813	479
Inventories (notes 3 and 6) _____	6,815	2,174
Prepaid expenses _____	70	42
	<u>13,947</u>	<u>4,917</u>
Property, plant and equipment (notes 4, 5 and 6) _____	4,586	2,484
Accumulated depreciation _____	1,010	569
	<u>3,576</u>	<u>1,915</u>
Other Assets:		
Deferred development costs (note 2) _____	584	
Goodwill (notes 9 and 10) _____	307	
Patents _____	63	5
Other _____	179	135
	<u>1,133</u>	<u>140</u>
	<u>\$ 18,656</u>	<u>\$ 6,972</u>

On behalf of the Board:

Signed by M. C. J. Cowpland, Director

Signed by D. C. Webster, Director

### Liabilities and Shareholders' Equity

	<u>1979</u> <u>(000's)</u>	<u>1978</u> <u>(000's)</u>
Current:		
Bank indebtedness (note 6) _____	\$ 1,741	\$ 287
Accounts payable and accrued charges _____	3,892	1,989
Income and other taxes payable _____	745	248
Current portion of long-term debt _____	<u>297</u>	<u>192</u>
	<u>6,675</u>	<u>2,716</u>
Long-term debt (note 7) _____	<u>2,897</u>	<u>2,247</u>
Deferred income taxes _____	<u>388</u>	
Minority interest (note 9) _____		<u>119</u>
Shareholders' equity:		
Capital stock-(notes 8, 10, and 11)		
Issued: 9,200,489 shares _____	3,809	99
Retained earnings: _____	<u>4,887</u>	<u>1,791</u>
	<u>8,696</u>	<u>1,890</u>
	<u>\$ 18,656</u>	<u>\$ 6,972</u>

(See accompanying notes to the financial statements)

## Consolidated Statement of Income and Retained Earnings

Fifty-two weeks ended February 23, 1979  
Mitel Corporation

	<u>1979</u> <u>(000's)</u>	<u>1978</u> <u>(000's)</u>
Sales _____	<u>\$ 21,648</u>	<u>\$ 11,529</u>
Expenses:		
Operating, selling and administrative _____	15,928	8,516
Research and development (less government assistance-1979-\$1,003,000; 1978-\$427,000) _____	1,233	1,101
Interest (note 7) _____	435	265
Income taxes _____	1,031	441
Minority interest _____	(75)	60
	<u>18,552</u>	<u>10,383</u>
Net income for the year _____	<u>3,096</u>	<u>1,146</u>
Retained earnings, beginning of year _____	<u>1,791</u>	<u>645</u>
Retained earnings, end of year _____	<u>\$ 4,887</u>	<u>\$ 1,791</u>
Earnings per share (note 12) _____	<u>\$ .36</u>	<u>\$ .14</u>

(See accompanying notes to the financial statements)

## Consolidated Statement of Changes in Financial Position

Fifty-two weeks ended February 23, 1979

Mitel Corporation

	<u>1979</u> <u>(000's)</u>	<u>1978</u> <u>(000's)</u>
Source of working capital:		
Operations -		
Net Income _____	\$ 3,096	\$ 1,146
Depreciation and amortization _____	554	290
Loss (gain) on disposal of fixed assets _____	(40)	
Minority interest _____	(75)	60
Deferred income taxes _____	388	
	<u>3,923</u>	<u>1,496</u>
Increase in long-term debt _____	1,355	284
Minority interest investment in subsidiary company _____		7
Proceeds from the sale of fixed assets _____	939	
Issue of shares _____	3,710	98
	<u>9,927</u>	<u>1,885</u>
Application of working capital:		
Additions to fixed assets (net of capital grants of \$400,000-1979; \$142,000-1978) _____	3,085	578
Reduction in long-term debt including current portion _____	705	143
Acquisition of minority interest in Mitel Semi-Conductor Inc. _____	44	
Goodwill (notes 9 and 10) _____	307	
Deferred development expenses _____	606	
Patents _____	65	
Miscellaneous _____	44	57
	<u>4,856</u>	<u>778</u>
Increase in working capital _____	<u>5,071</u>	<u>1,107</u>
Working capital, beginning of year _____	<u>2,201</u>	<u>1,094</u>
Working capital, end of year _____	<u>\$ 7,272</u>	<u>\$ 2,201</u>

(See accompanying notes to the financial statements)

# Notes to the Consolidated Financial Statements

February 23, 1979

Mitel Corporation

## 1. Summary of Accounting Policies

These financial statements have been prepared by Management in accordance with accounting principles generally accepted in Canada and take into consideration events occurring between February 23, 1979 and May 2, 1979, the date of their approval by Management and the Board of Directors. 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 now wholly owned. The results of operations of subsidiaries acquired or incorporated during the year are included from the date of effective acquisition or incorporation. The year-end for all companies in the group is the last Friday in February.

### b) Foreign currency translation

For purposes of consolidation with the accounts of the Canadian parent company the foreign currency accounts of foreign subsidiaries are translated to Canadian dollars on the following basis:

- Foreign currency cash and amounts receivable and payable including long-term debt (which will be collected or paid in the foreign currency) are translated at rates of exchange prevailing at February 23, 1979.
- Other assets and liabilities are translated at the rates in effect on their dates of acquisition.
- Revenues and expenses other than depreciation and amortization are translated at average rates of exchange for the year to approximately reflect the rates prevailing at the times the revenues were earned or expenses incurred. Depreciation and amortization are translated at the rates in effect when the related assets were acquired.



Gains and losses arising from changes in exchange rates used to translate foreign currency cash and current amounts receivable and payable (other than the current portion of long-term liabilities) are reflected in the statement of income at the time they occur. Gains and losses arising from changes in exchange rates applicable to long-term debt are deferred and amortized over the remaining term of the debt.

**c) Revenue**

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

**d) Government assistance**

In connection with its research and development program and expansion of its production and research facilities, the company makes periodic applications for financial assistance under available government incentive programs. Grant amounts resulting from these applications are recorded in the accounts, after approval by the relevant government authority, on the following basis:

**Capital grants -**

Grants related to capital expenditures are reflected as a reduction of the cost of such assets.

**Operating grants -**

Grants related to current period expenditures on research and development are recorded in the income account as a reduction of expenses at the time the eligible expenses are incurred.

**e) Inventories and cost of sales**

Inventories are carried at the lower of cost and market. The cost of inventories on hand includes material, labour and manufacturing overhead costs where applicable. Inventory cost is determined on an average cost basis.

Market value of inventories is defined as net realizable value (selling price less costs to complete and sell) for finished goods and work-in-process, and as current replacement cost for raw materials.

Cost of sales for financial statement presentation, including warranty costs, is included in operating, selling and administrative expenses.

**f) Fixed assets, patents, depreciation and amortization**

i) Buildings, machinery and equipment are initially recorded at cost net of related specific government grants. Gain or loss on disposal of individual assets is recognized in income in the year of disposal.

Depreciation and amortization are provided on the basis and at rates approximating those set out below.

<u>Assets</u>	<u>Depreciation or Amortization Basis</u>	<u>Rate</u>
Buildings	Declining balance	5%
Production equipment	Declining balance	20-30%
Research and development equipment	Declining balance	20-30%
Office equipment	Declining balance	20-30%
Transportation equipment	Declining balance	20-30%
Leasehold improvements	Straight-line	over life of lease.

ii) The cost of product patents with continuing value is being amortized against income on a straight-line basis over 10 years.

**g) Research and development costs**

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 estimated future sales. Research and other development costs (except for capital assets) are charged against income in the year of expenditure.

**h) Income taxes**

Included in income taxes for financial statement presentation are current and deferred income taxes. Deferred income taxes arise mainly from claims for income tax purposes by the companies of capital cost allowance in excess of the depreciation and amortization recorded in the books of account and differences in the timing of reporting foreign exchange gains and losses for income tax purposes.

Investment tax credits are accounted for on the flow through method.

Two subsidiaries receive exemptions from income tax provided that they comply with certain conditions. One subsidiary is exempt from taxes until 1988 and the other until 1991.

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 would not be subject to tax; the remainder has been reinvested on a long-term basis and accordingly no provision has been made for such taxes.

**i) Minority interest**

Minority interest in income represents the minority shareholders proportionate share of the loss of Mitel Semi-Conductor Inc. and its subsidiaries to May 31, 1978 the effective date of the purchase of the minority interest by the company.

**j) Long-term lease arrangements**

Long-term leases that 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. Change in Accounting Principle**

A recent pronouncement by the Canadian Institute of Chartered Accountants on the accounting for development costs has occasioned the Company to change its accounting policy, in 1979, from expensing all development costs as incurred. Development costs relating to certain products that in management's view have a clearly defined future market will be deferred and amortized on a per unit basis against future sales. In the current year, management has deferred approximately six hundred thousand dollars of development costs relating to a specific product line. Management intends to amortize these costs on a per unit basis over a definite number of units which are forecast to be sold in the next three years.

The effect of this change is to increase 1979 net income by \$584,000 (\$ .07 per share) over what would have been reported if the change had not been made.

**3. Inventories**

Details of year-end inventory balances are as follows:

	<u>1979</u> (000's)	<u>1978</u> (000's)
Raw materials _____	\$ 3,640	\$ 1,295
Work-in-process _____	2,247	628
Finished goods _____	928	251
	<u>\$ 6,815</u>	<u>\$ 2,174</u>

#### 4. Government Grants

##### a) Department of Regional Economic Expansion (D.R.E.E.)

Under the Regional Development Incentives Act, a subsidiary, Mitel Semi-Conductor Inc. is entitled to a grant having an authorized amount of \$383,000 for the purchase of fixed assets. The balance of the grant receivable of \$77,000 has been accrued as management is satisfied that the company has complied with all of the conditions of the grant and will continue to do so.

##### b) Defence Industry Productivity Program (D.I.P)

Mitel Semi-Conductor Inc. has entered into an agreement with the Government of Canada under the Defence Industry Productivity Program whereby the Government will finance the acquisition of specific pieces of equipment aggregating up to a maximum of \$1,754,000. One half of such advances is forgivable and the balance is repayable without interest over five years beginning 1 year after the acquisition date. To date assets costing \$1,084,000 have been acquired and recorded in the accounts net of the 50% forgivable portion. Actual title to these assets does not pass to the company until the final payment is made.

#### 5. Fixed Assets

a) Details of year-end balances are as follows:

	<u>1979</u> <u>(000's)</u>	<u>1978</u> <u>(000's)</u>
Land _____	\$ 538	\$ 25
Buildings _____	958	1,189
Production equipment _____	1,052	595
Research and development equipment _____	1,209	349
Other _____	829	326
	<u>\$ 4,586</u>	<u>\$ 2,484</u>

b) Included in the statement of income is a provision of \$554,000 (\$290,000 in 1978) for depreciation and amortization.

## 6. Bank Indebtedness

The company has assigned certain of its accounts receivable, inventory and fixed assets to the bank as collateral for bank indebtedness.

## 7. Long-Term Debt

	<u>1979</u> <u>(000's)</u>	<u>1978</u> <u>(000's)</u>
Bank demand notes (note 6) _____	\$ 538	\$ 72
Notes payable to shareholders:		
10% due October 31, 1982, annual payments of \$109,000 commencing October 1978, postponed under agreement until December 15, 1982. _____	435	435
10% due December 31, 1981, annual payments of \$44,000 beginning December 31, 1979. _____	132	91
Promissory notes — 9 1/2% repaid in February 1979. _____		44
Mortgage payable:		
9.6% due in 1987, payable in equal monthly principal installments of \$8,000 commencing April 15, 1978 and secured by the fixed assets of Mitel Semi-Conductor Inc. _____	771	845
7.25% due in 1996, payable in equal monthly blended installments of \$173 U.S. and secured by certain fixed assets of Mitel of Delaware Inc. _____	25	
Conditional sales contracts:		
11.5% payable (U.S. \$241,000) in equal monthly installments to February 1981. _____	288	
12% payable (U.S. \$70,000) in equal monthly installments to December 1982. _____		78
Lease obligation:		
6% payable (U.S. \$387,000) in equal monthly installments of principal and interest to February 1997. _____	463	445

	<u>1979</u> <u>(000's)</u>	<u>1978</u> <u>(000's)</u>
Loan payable under D.I.P. program:		
Interest free loan due five years after commencement of repayment; first stage repayable in annual installments of \$28,000 beginning May 1, 1979; second stage repayable in annual installments of \$80,000 beginning April 1980. _____	542	142
Other notes payable _____		287
	<u>3,194</u>	<u>2,439</u>
Less current portion _____	<u>297</u>	<u>192</u>
	<u>\$ 2,897</u>	<u>\$ 2,247</u>

Included in interest expense in the statement of income is \$181,000 in interest on long-term debt for 1979 (\$173,000 in 1978).

Principal repayments in next five years are as follows:

1980	\$ 299,000
1981	301,000
1982	482,000
1983	332,000
1984	333,000

**8. Employees Stock Purchase Plan**

The company has guaranteed bank loans to the extent of \$19,000 in favour of employees who have taken out loans in order to participate in an employee stock purchase plan. The Company has advanced the trustee of the plan \$19,000 to purchase stock under the plan for employees. The employee stock purchase plan expired prior to February 23, 1979.

### 9. Acquisition—Mitel Semi-Conductor Inc.

Effective May 31, 1978, Mitel Corporation acquired the minority interest in Mitel Semi-Conductor Inc. through an exchange of shares. The transaction was recorded as a purchase as follows:

Minority interest — February 24, 1978 _____	\$ 119,000
Minority share of loss to May 31, 1978 _____	(75,000)
Minority interest purchased _____	44,000
Excess of purchase price over book value (Goodwill) _____	155,000
Value attributed to common shares issued _____	<u>\$ 199,000</u>

The excess of purchase price over book value of assets acquired is being amortized on a straight-line basis over 20 years.

### 10. Acquisition — American Computer Assembly Inc.

Effective October 31, 1978, Mitel Corporation acquired 100% of the issued common shares of American Computer Assembly Inc. through an exchange of shares. The transaction was recorded as a purchase as follows:

Net assets — book value _____	\$ 109,000
Adjustment to fair market value for fixed assets _____	78,000
Excess of purchase price over fair market value of net tangible assets acquired. (Goodwill) _____	152,000
Value attributed to common shares issued _____	<u>\$ 339,000</u>

The excess of purchase price over fair market value of the net tangible assets acquired is being amortized on a straight line basis over 20 years.

The company is in the process of changing the name of the subsidiary to Mitel Holdings Inc.



## 11. Capital Stock

During the year, the shares of Mitel Corporation were split ten for one and subsequently, on February 20, 1979, consolidated by a reverse split of one for five. A summary of share transactions of Mitel Corporation during the year is as follows (expressed in terms of shares in existence at February 23, 1979):

	<u>SHARES</u>	<u>(000's)</u>
Balance, February 24, 1978 _____	4,098,200	\$ 99
After stock split and consolidation _____	8,196,378	99
Shares exchanged for the minority interest in Mitel Semi-Conductor Inc. _____	113,962	199
Shares issued to acquire American Computer Assembly Inc. _____	67,862	339
Shares issued for cash _____	822,287	3172
Balance outstanding February 23, 1979 _____	<u>9,200,489</u>	<u>\$ 3809</u>

Shareholders holding fractional shares after the reverse one for five split were issued scrip certificates for consolidation into whole shares. Scrip certificates expire on May 31, 1979.

**12. 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 ten for one stock split and reverse split of one for five.

**13. Contingent Liability**

A customer of a subsidiary company has initiated legal action in regard to an alleged failure to deliver. Management denies any responsibility or liability, and no liability has been recorded in the accounts for this contingency. The company has initiated a countersuit for non-payment and other damages. The initial suit is for \$178,000 in damages and the Company's countersuit is for \$100,000.

**14. Comparative Figures**

Certain of 1978 figures have been restated so as to conform with the presentation followed in 1979.

**15. Commitments**

a) The company and its subsidiaries are committed to spend approximately \$1,304,000 for fixed asset additions in 1979 in addition to those items in Note 16(b).

b) The company and its subsidiaries are committed to making payments under various lease obligations (excluding capital leases) for the next five years as follows:

1980	—	\$ 807,000
1981	—	840,000
1982	—	706,000
1983	—	692,000
1984	—	684,000

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**16. Subsequent Events**

**a) Long-term lease**

The company has committed to lease a building of approximately 80,000 square feet for twenty-five years from date of occupancy. The building is currently under construction and the anticipated annual net, net basic rental will be approximately five hundred thousand dollars. The rental is based on the final construction and development costs and will be adjusted upon completion of the building.

**b) O.D.C.**

The company has a commitment from the Ontario Development Corporation ("O.D.C.") whereby O.D.C. will loan \$750,000 under the Ontario Business Incentive Loan Program and \$250,000 under the Industrial Mortgage Term Loan Program at 11 3/4% per annum for the purpose of financing the acquisition of new production machinery. Purchase orders have been placed for this machinery.

**c) Public offering**

The company has announced a public offering of shares.



## Board of Directors

- \*Douglas I. C. Cameron  
Treasurer  
Thurso Pulp & Paper Company  
Thurso, Quebec
- \*Dr. Michael C. J. Cowpland  
President  
Mitel Corporation  
Kanata (Ottawa), Ontario
- Edward J. S. Hermon  
President and Chief Executive  
Officer  
MacLaren Power & Paper Company  
Buckingham, P.Q.
- Terence H. Matthews  
Executive Vice President  
Mitel Corporation  
Kanata (Ottawa), Ontario
- Kent H. E. Plumley  
Partner  
Gowling & Henderson  
Ottawa, Ontario
- \*Robert J. Redmond  
Partner  
Gowling & Henderson  
Ottawa, Ontario
- \*Donald C. Webster  
President  
Helix Investments Limited  
Toronto, Ont.

## Officers

- \*\*Dr. Michael C. J. Cowpland  
President
- \*\*Terence H. Matthews  
Executive Vice President
- \*\*Donald R. Gibbs  
Vice President, Finance
- \*\*John T. McLennan  
Vice President, Operations
- Christopher J. Elmer  
Vice President, Marketing

- Graham A. Neathway  
Vice President, Engineering
- John R. Whitbread  
Vice President,  
Research and Development

## Officers of Subsidiary Companies

- \*\*Ralph A. Bennett  
Vice President & General Manager  
Mitel Semi-Conductor Inc.
- Alan Aitken  
Vice President Operations  
Mitel Semi-Conductor Inc.
- Peter C. Madsen  
Vice President  
Mitel Inc.
- Paul S. Wilker  
Vice President Operations  
Mitel Telecom Ltd.

## Auditors:

- Clarkson, Gordon & Co.  
Ottawa, Ontario

## Legal Counsel:

- Gowling & Henderson  
Ottawa, Ontario

## Bankers:

- Royal Bank of Canada

## Transfer Agents:

- Montreal Trust Company

\*Members - Audit Committee

\*\*Members - Executive Committee

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