MAVTECH

Annual Report

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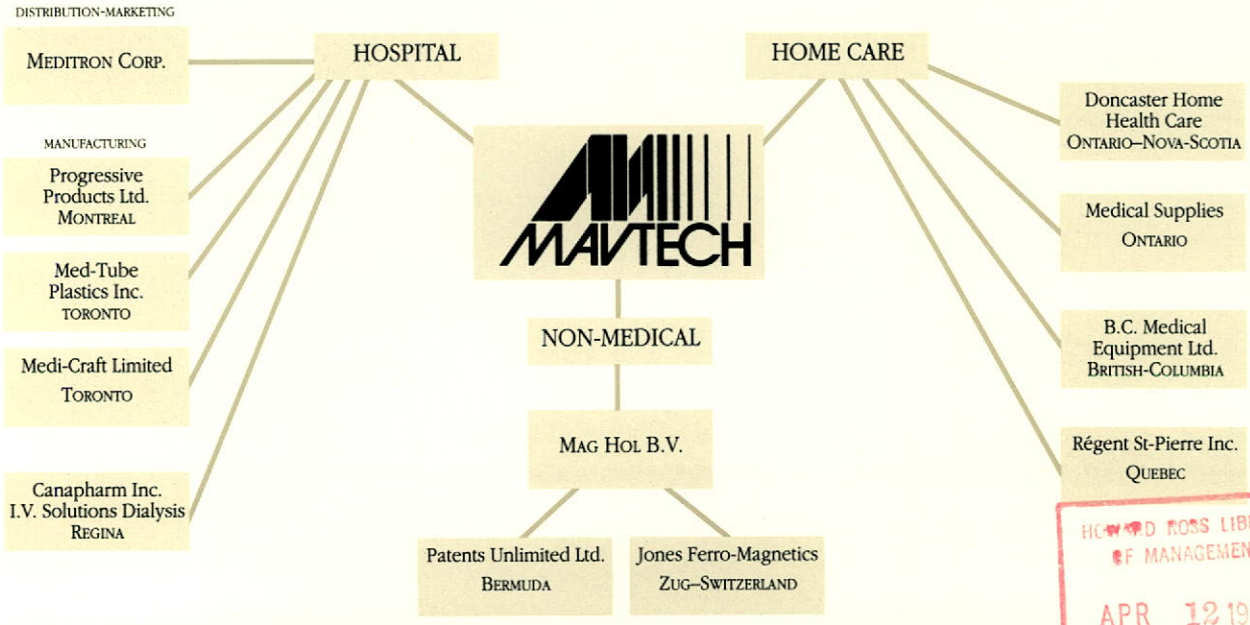
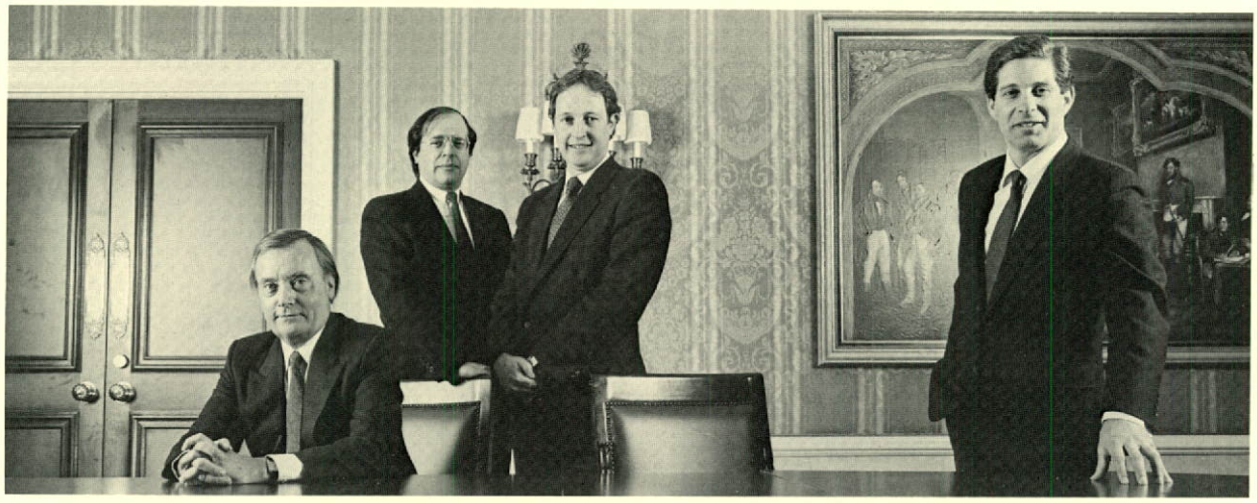
FINANCIAL HIGHLIGHTS

Year ended December 31,	1988	1987
REVENUE	$ 38,191,564	$ 28,148,295
FINANCIAL INFORMATION		
Operating (Loss) Income	(366,838)	1,641,947
Working Capital	6,678,185	7,581,016
Long-Term Debt	7,704,068	5,420,807
Shareholders' Equity	16,447,459	20,306,026
COMMON SHARES		
(Loss) Income per share		
Operating	($0.05)	$0.23
Extraordinary	($0.62)	$0.07
Weighted Average Number of Shares Outstanding	7,698,810	7,153,263



To our Shareholders

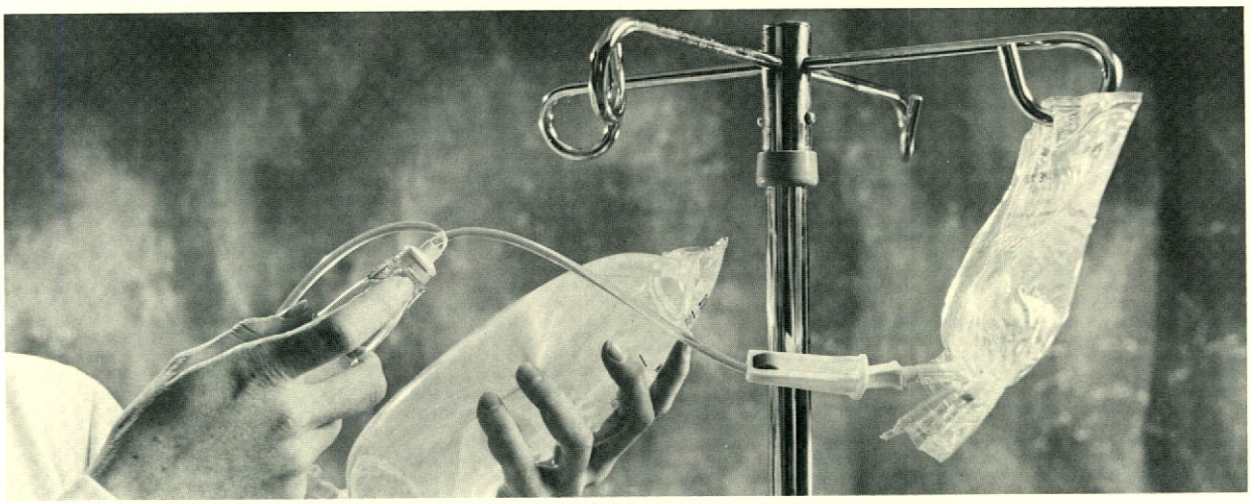


Nineteen eighty-eight has been a year of continued development at Mavtech. During the period the Company has initiated strategies directed at the establishment of acceptable and enduring profitability. While year end results do not reflect these efforts, it is expected that our focus in the areas of process modernization, increased management infrastructure, and the pursuit of opportunities in the U.S. market place will take hold and reflect definitive improvements as the year progresses.

At the Hospital Products Division, work towards these objectives has been real and measurable. With its first full year under its belt as a national rather than regional distributor, Meditron Corp.'s base is gaining recognition across the western provinces with operations now located in British Columbia, Alberta, and Saskatchewan. Meditron's presence in these markets is growing each quarter. Emphasis on the widening of management capabilities has seen several changes, in particular the addition of Mr. Stephen Herbert who, as Meditron's President, will work in conjunction with Mr. Kevin Henderson, the Company's founder and Chief Executive Officer.

At the manufacturing level, modernization and productivity programs have been instituted. Production at the Progressive Division increased some 56% during the year. This increase has been achieved through investment in machinery and facilities as well as the addition of new processes and management to implement same. Indicators continue to point to the need for increased production capacity over the coming years and for this reason the manufacturing division is exploring plans for the establishment of additional manufacturing facilities to complement its facilities in Quebec and Ontario.

In Toronto, Med-Tube Plastics and the recently acquired Medi-Craft Limited, have completed plans to merge their operations under one roof. Together they will provide in-line production of tubing products. The additional capacity acquired through Medi-Craft will provide ample product for in-house requirements, contract manufacturing



needs and surpluses with which to pursue export opportunities in the areas of catheters, intravenous administration sets, connecting and feeding products.

Canapharm Inc., a manufacturer of intravenous solution, dialysis and other sterile products, has completed the development and introduction of its own line of universal intravenous administration sets and accessories. The company is presently in the process of filing for additional Drug Identification Numbers the issuance of which, will permit the manufacture and entry into the drug market for products such as Lidocaine, an anti-arrhythmic agent and Dextrans, a plasma volume expander. Mavtech has made a preferred shares investment in Canapharm and holds an option to acquire 50.1% of its common shares.

At the Home Health Care Division the year may be described as one of growth by acquisition. Home health care sales have risen substantially with the addition of B.C. Medical Equipment Ltd. and Doncaster Home Health Care. With these acquisitions, Mavtech has become the largest provider of its kind in this country, with operations located in Nova Scotia, Quebec, Ontario and British Columbia. Operating from its headquarters in Markham, Ontario, the Home Health Care Division is presently carrying out a "practical merger" of the Medical Supplies and Doncaster units. Once completed, the Division's focus will turn to that of expansion in the Provinces of Quebec and Alberta.

Mavtech's consolidated revenues for the year 1989 are expected to approach the $50,000,000 mark. It is evident that the Company, while addressing the challenges and opportunities it faces, must also ensure that margins and net returns on such volumes provide satisfactory rewards for its efforts. To this end all attention, will now turn to operations and those efficiencies necessary in order to provide same.

John D. Miller
President and Chief Executive Officer
March 31, 1989.

Consolidated Balance Sheet

As at December 31, 1988

	1988	1987
ASSETS		
Current		
Cash and short-term investments	$ 752,311	$ 4,645,464
Accounts receivable	7,551,830	5,867,867
Inventories (Note 4)	14,120,089	8,148,770
Income taxes recoverable	184,614	55,975
Prepaid expenses	283,309	245,531
	22,892,153	18,963,607
Fixed assets (Note 5)	3,168,073	4,034,414
Other assets (Note 6)	15,026,825	15,429,876
	$ 41,087,051	$ 38,427,897
LIABILITIES		
Current		
Bank loans and advances (Note 7)	$ 9,372,747	$ 5,246,011
Accounts payable and accrued liabilities	5,590,434	3,617,551
Income taxes payable	—	135,724
Current portion of long-term debt	1,250,787	2,383,305
	16,213,968	11,382,591
Long-term debt (Note 8)	7,704,068	5,420,807
Deferred income taxes	721,556	384,321
Minority interest	—	934,152
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	22,090,859	20,789,109
Deficit (Note 10)	(5,643,400)	(483,083)
	16,447,459	20,306,026
	$ 41,087,051	$ 38,427,897

On behalf of the Board
B. Leebosh, Director
J.D. Miller, Director

AUDITORS' REPORT

The Shareholders,
Mavtech Holdings Inc.

We have examined the consolidated balance sheet of Mavtech Holdings Inc. as at December 31, 1988 and the consolidated statements of loss, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have obtained all the information and explanations we have required.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the Company, these consolidated financial statements present fairly the financial position of Mavtech Holdings Inc. as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, except for the change in the method of accounting for patent income as referred to in Note 2, on a basis consistent with that of the preceding year.

Montreal, Quebec,
March 20, 1989.

Touche Ross
Chartered Accountants

Consolidated Statement of Loss

For the year ended December 31, 1988

	1988	1987
REVENUE		
Sales	$ 37,667,306	$ 26,940,960
Patents	276,001	874,223
Interest	248,257	333,112
	38,191,564	28,148,295
EXPENSE		
Cost of sales	25,856,858	18,789,037
Selling and administrative	10,714,200	5,820,555
Amortization of goodwill	266,568	308,750
Interest		
Long-term debt	365,697	287,989
Other	1,025,057	339,530
Loss (gain) on foreign exchange	134,123	(158,604)
	38,362,503	25,387,257
(Loss) income before income taxes, minority interest and extraordinary items	(170,939)	2,761,038
Income taxes (Note 11)	(195,899)	(1,102,218)
(Loss) income before minority interest and extraordinary items	(366,838)	1,658,820
Minority interest	—	(16,873)
(Loss) income before extraordinary items	(366,838)	1,641,947
Extraordinary items (Note 12)	(4,793,479)	536,241
(Loss) income for the year	($ 5,160,317)	$ 2,178,188
Per share (Note 13)		
(Loss) income before extraordinary items	($0.05)	$0.23
(Loss) income for the year	($0.67)	$0.30

Consolidated Statement of Deficit

for the year ended December 31, 1988

	1988	1987
Deficit, beginning of year	($ 483,083)	($ 2,570,271)
(Loss) income for the year	(5,160,317)	2,178,188
Expense of private placement, net of income taxes of $84,000	—	(91,000)
Deficit, end of year (Note 10)	($ 5,643,400)	($ 483,083)

Consolidated Statement of Changes in Financial Position

For the year ended December 31, 1988

	1988	1987
OPERATING ACTIVITIES		
(Loss) income before extraordinary items	($ 366,838)	$ 1,641,947
Non-cash items		
Depreciation and amortization	790,955	1,033,374
Write-off of other assets	—	5,615
Loss (gain) on disposal of fixed assets	13,815	(7,427)
Minority interest	—	16,873
Deferred income taxes	337,235	372,117
Extraordinary items	—	(1,346,480)
	775,167	1,716,019
Net change in elements of operating working capital other than cash and short-term investments, bank loans and advances and current portion of long-term debt	(2,261,541)	(513,126)
	(1,486,374)	1,202,893
FINANCING ACTIVITIES		
Issue of common shares	1,301,750	6,958,464
Expense of private placement	—	(91,000)
Increase in long-term debt	5,023,332	317,176
Repayment of long-term debt	(2,630,595)	(2,733,746)
(Increase) decrease in long-term deposits	(23,871)	1,500,000
Proceeds on disposal of fixed assets	78,483	124,960
Issue of common shares in a subsidiary to a minority shareholder	—	2,800,000
	3,749,099	8,875,854
INVESTING ACTIVITIES		
Acquisition of subsidiaries and assets (Note 3)	(6,472,761)	(3,233,898)
Net cash deficiency of acquired subsidiaries	(423,516)	(363,130)
Sale of business, net of working capital other than cash of $791,929	(192,082)	—
Additions to fixed assets	(980,340)	(559,708)
Additions to other assets	(2,213,915)	(2,062,243)
	(10,282,614)	(6,218,979)
(Decrease) increase in net cash position	(8,019,889)	3,859,768
Net cash deficiency, beginning of year	(600,547)	(4,460,315)
Net cash deficiency, end of year	($ 8,620,436)	($ 600,547)
Net cash deficiency consists of:		
Cash and short-term investments	$ 752,311	$ 4,645,464
Bank loans and advances	(9,372,747)	(5,246,011)
	($ 8,620,436)	($ 600,547)

Notes to Consolidated Financial Statements

December 31, 1988

1. Significant accounting policies

a) Principles of consolidation

The consolidated financial statements include the accounts of Mavtech Holdings Inc. and its subsidiary companies which are all 100% owned.

b) Foreign exchange

Accounts other than Canadian dollar accounts included in the consolidated balance sheet have been translated into Canadian dollars at the year-end rates of exchange, except for fixed assets and accumulated depreciation which have been translated at historical rates. Accounts included in the consolidated statement of income, except depreciation, are translated at average rates of exchange prevailing during the year.

c) Inventories

Raw materials are valued at the lower of cost and net replacement value. Work-in-process and finished goods are valued at the lower of purchased or manufactured cost, including material, labour and overhead, and net realizable value. Rental equipment inventories are valued at cost less depreciation provided for on a straight-line basis over the estimated useful lives of the assets.

d) Fixed assets

Fixed assets are valued at cost net of grants and investment tax credits, and depreciation is provided for primarily on a straight-line basis over the estimated useful lives of the assets.

e) Deferred development costs

It is the Company's policy to defer costs related to new product development prior to commercial production. Upon commercial production, all related deferred development costs are amortized over the lesser of the life of the product and five years. Amortization of deferred development costs in 1988 amounted to $23,768 (1987– $2,003).

f) Deferred charges

Deferred charges which relate primarily to the development of future markets are amortized on a straight-line basis during the third and fourth year subsequent to the initial capitalization. Amortization of deferred charges in 1988 amounted to $7,500 (1987 – $23,246).

g) Goodwill

Goodwill is amortized over a period of 40 years on a straight-line basis. The amortization therefrom for 1988 amounted to $266,568 (1987– $308,750).

2. Change in accounting for patent income

Revenue for 1988 reflects the adoption of the accrual method for the accounting of income under the licensing agreement for the sale of Jones Separators. Previously, revenue was recognized when received.

As a result of this change, loss before extraordinary items and loss for the year have been decreased by $120,000 or $0.02 per share.

3. Acquisitions

On June 29, 1988, a subsidiary acquired inventories, fixed assets and the use of the name Équipements Médicaux Gouin for a cash consideration of $30,000.

On August 4, 1988, the Company acquired 100% of the capital stock of B.C. Medical Equipment Ltd. for a consideration of 100,000 common shares of the Company.

On August 12, 1988, the Company acquired inventories and fixed assets of the Doncaster Home Health Care Division of Austin Health Care Corporation for a cash consideration of $4,516,605. In addition, the Company acquired goodwill and the use of the name for a consideration of 325,000 common shares of the Company.

The above acquisitions have been accounted for by the purchase method as follows:

Assets acquired:	
Working capital (excluding net cash deficiency)	$ 4,514,928
Fixed assets	735,283
Goodwill	1,858,066
Long-term debt	(212,000)
Net cash deficiency	(423,516)
	$ 6,472,761
Paid for as follows:	
Cash	$ 4,546,605
Common shares	1,296,250
	5,842,855
Acquisition costs capitalized	629,906
	$ 6,472,761

4. Inventories

	1988	1987
Raw materials and work-in-process	$ 3,322,504	$ 3,313,785
Finished goods	9,352,169	4,033,123
Rental equipment	1,445,416	801,862
	$14,120,089	$ 8,148,770

5. Fixed assets

	Depreciation rate	1988	1987
Land		$ 62,000	$ 125,266
Buildings	5%	841,419	1,618,695
Machinery, equipment and fixtures	20%	3,859,420	4,650,676
Leasehold improvements	20%	719,572	305,141
Rolling stock	30%	300,900	300,207
Assets under capital leases	20%	156,188	269,954
		5,939,499	7,269,939
Less accumulated depreciation		2,771,426	3,235,525
		$3,168,073	$4,034,414

6. Other assets

	1988	1987
Long-term deposits	$ 61,119	$ 37,248
Amount receivable in September 1992	291,600	—
Deferred development costs	1,144,331	393,533
Deferred charges	1,068,683	429,674
Patents	—	700,000
Goodwill	11,426,947	13,172,756
Other (Note 17)	240,000	—
Investment	1,350,755	1,240,671
	15,583,435	15,973,882
Less accumulated amortization	556,610	544,006
	$15,026,825	$15,429,876

7. Bank loans and advances

Banking requirements of the Company for its operations are secured by a mortgage bond in favour of a Canadian chartered bank and a general security agreement.

The bank loans of certain other subsidiaries are secured by a registered general assignment of book debts and inventory.

8. Long-term debt

	1988	1987
Term loan, at bank prime rate plus 1%, repayable in five annual principal instalments of $960,000 commencing August 1989 and secured by a general security agreement and a pledge of all the issued and outstanding shares of Meditron Corp. and Progressive Products Ltd.	$4,800,000	$ —
Promissory note, without interest, due January 15, 1990 and secured by an irrevocable letter of credit for which the Company has signed a mortgage bond in favour of a Canadian chartered bank	2,250,000	4,500,000
Mortgages paid in full at time of sale of business	—	1,453,994
Loan, 11.75%, due January 23, 2003 repayable in varied monthly instalments from January 1989 to January 2003, secured by a commercial pledge and a first rank mortgage	920,000	950,000
Notes, 9.5%, repayable in three annual instalments of $100,000 commencing January 3, 1989 and $200,000 on January 3, 1992	500,000	500,000

8. Long-term debt (continued)

	1988	1987
Obligations under lease contracts, at rates averaging 12.5%, repayable in monthly instalments totalling $4,282 including principal and interest to March 1993	$ 138,518	$ 164,343
Term loan, at bank prime rate plus 0.75%, repayable in monthly instalments of $4,167 to August 1991	133,332	—
Balance of purchase price, without interest, due January 6, 1990	68,023	158,023
Term loan, at bank prime rate plus 1.25%, repayable in monthly instalments of $1,389 to September 1991	47,222	—
Loans, without interest, $19,775 repayable in 2001 and $19,775 repayable in 2003	39,550	39,550
Term loan, at bank prime rate plus 1%, repayable in monthly instalments of $1,333 to March 1991	36,000	—
Equipment loans, at rates averaging 13%, repayable in monthly instalments of $968 including principal and interest to November 1990	15,210	24,202
Note payable, at bank prime rate plus 1%, due August 1989	7,000	14,000
	8,954,855	7,804,112
Less current portion	1,250,787	2,383,305
	$ 7,704,068	$ 5,420,807

Principal repayments of the long-term debt over the next five years are as follows:

1989	$ 1,250,787
1990	3,561,757
1991	1,208,600
1992	1,228,964
1993	1,025,772

9. Share capital

Authorized
Unlimited number of common shares without par value
Unlimited number of series A preferred shares

	Common shares	Stated value
Issued and outstanding		
Balance, January 1, 1988	7,512,393	$20,789,109
Issued in connection with acquisitions	425,000	1,296,250
Options exercised	2,000	5,500
Balance, December 31, 1988	7,939,393	$22,090,859

As at December 31, 1988, the Company has allocated 197,332 common shares under its stock option plan to cover options granted to employees and members of the Board of Directors of the Company and its subsidiaries. Of these options, 9,332 have been exercised, 118,000 may be exercised in varying quantities up to November 24, 1990 at a price of $2.75 per share, 50,000 may be exercised at $2.75 per share up to November 1, 1993 and 20,000 may be exercised at $2.50 per share up to November 17, 1993.

Subsequent to year end, 255,375 options were granted at $2.20 per share bringing the total number of options granted to 443,375.

10. Deficit

The retained earnings of a subsidiary include a statutory legal reserve in the amount of $152,610 (1987 – $173,295) which is not available for distribution to shareholders.

11. Income taxes

The Company and a subsidiary have losses carried forward for income tax purposes amounting to $8,135,000 and unused investment tax credits of $608,000 which are not recorded in the accounts. These losses and investment tax credits, which are available to reduce taxable income and income taxes respectively in future years, expire as follows:

	Income tax losses	Investment tax credits
1992	$ 2,220,000	$ 582,000
1993	2,792,000	12,000
1994	1,522,000	14,000
1995	1,601,000	—
	$ 8,135,000	$ 608,000

Income taxes do not bear a direct relationship with (loss) income before income taxes due primarily to the amortization of goodwill arising on consolidation which is not deductible for income tax purposes and the impact of the result of foreign operations. In addition, the potential future benefit of losses incurred in certain subsidiaries is not recognized in the accounts of the Company.

12. Extraordinary items

	1988	1987
Production halt and other non-recurring expenses of subsidiaries net of income tax recovery of $191,749 and minority interest of $534,790	$ —	($1,041,545)
Increase in book value of subsidiary on a consolidated basis resulting from the issue of shares by the subsidiary	—	1,347,931
Income tax reduction resulting from application of prior years' losses	—	229,855
Loss on sale of business net of minority interest of $934,152	(4,793,479)	—
	($4,793,479)	$ 536,241

13. (Loss) income per share

The (loss) income per share calculations before extraordinary items and net (loss) income for the year are based on the weighted average number of shares outstanding during the year. The weighted average number of shares for the year amounted to 7,698,810 (1987 – 7,153,263)

14. Commitments

Commitments under operating leases amount to $4,948,000 as at December 31, 1988. The minimum annual commitments are as follows:

1989	$ 1,445,000
1990	1,357,000
1991	1,140,000
1992	704,000
1993	302,000

15. Contingent liability

In connection with the sale of a business which took place during 1988, the Company has guaranteed the debt of an unrelated corporation in the amount of $450,000 until August 1990.

16. Segmented information

The Company is principally involved through its subsidiaries in the development, manufacture, distribution and retail sale of medical products. Patent income is derived principally under the licensing agreement for the sale of Jones Separators.

17. Subsequent events

In March 1989, the Company acquired the shares of Medicraft Limited, a manufacturer of disposable medical tubing products for a consideration of 67,000 common shares of the Company and $175,000 cash.

In March 1989, the Company entered into an agreement with Teknamed Corporation, whereby the latter's Boundary Healthcare Products Corp. will be merged with a Delaware based U.S. wholly owned subsidiary of the Company. Boundary develops, manufactures and sterilizes non-woven drapes and apparel throughout the United States. Consideration for the transaction is 4,600,000 common shares of the Company. In addition, the vendor will provide Boundary with loans of $3,800,000 U.S. for working capital purposes to be guaranteed by the Company. This agreement is subject to the fulfillment of certain conditions including shareholder approval of both parties, arrangement of financing and all regulatory approvals required.

Costs incurred in 1988 relating to acquisitions subsequent to year-end in the amount of $240,000 are included in other assets (Note 6).

Corporate Information

Directors

John D. Miller	President and Chief Executive Officer
Bernard Leebosh, C.A.	Partner, Lippman Leebosh April & Partners
Kevin Henderson	Chairman and Chief Executive Officer, Meditron Corp.
A. H. Michell	Vice-Chairman and Director, The Royal Bank of Canada
Paul Harris	Partner, Phillips & Vineberg, Attorneys
Hubert Marleau	President, Benevest Capital Corporation
Ned Goodman	Chairman and Chief Executive Officer Dynamic Capital Corporation

Officers

John D. Miller	President and Chief Executive Officer
Stephen Herbert	Vice-President
Michel Papillon, C.A.	Vice-President
Jacques Latreille	Treasurer
Bernard Leebosh, C.A.	Secretary

Corporate Information

Head Office	1, Westmount Square, 10th Floor, Montreal, Quebec, H3Z 2P9 Tel.: (514) 932-2797 Fax: (514) 932-1099
Stock Transfer Agent and Registrar	The Montreal Trust Company
Auditors	Touche Ross
Bankers	National Bank of Canada The Royal Bank of Canada Bank of Montreal
General Counsel	Phillips & Vineberg

Mavtech Holdings Inc. is listed on the Toronto and Montreal Exchanges. Stock symbol — "MGI".

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