

Q1

MDS Interim Report
January 31, 2007
(unaudited, US GAAP restated)



A Stronger MDS



Science advancing health

March 7, 2007

RESTATED MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis of the results of operations for MDS Inc. (MDS or the Company) for the quarter ended January 31, 2007 and its financial position as at January 31, 2007 has been restated. This restated management's discussion and analysis (Restated MD&A) should be read in conjunction with the restated consolidated financial statements and notes that follow. For the Company's 2007 year ended October 31, 2007, MDS has chosen to adopt United States generally accepted accounting principles (US GAAP) for financial reporting. As a result of this change, the Company is required to restate to US GAAP its previously filed financial statements for the four quarters of 2007. Previously, our filings prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP) disclosed a reconciliation of earnings to US GAAP due to our status as a foreign private issuer in the US. Going forward, with US GAAP as our primary basis of accounting, we will reconcile our US GAAP earnings to Canadian GAAP. This reconciliation will be done as required by applicable Canadian regulations on an annual and quarterly basis for a minimum of the next two fiscal years. The interim financial statements for fiscal 2007 as initially reconciled to US GAAP, have also been restated to correct a US GAAP error identified during the preparation of our 2007 annual financial statements related to the accounting for stock compensation expense. This error related to the utilization of an incorrect methodology under US GAAP in the calculation of stock compensation expense with respect to an equity-based incentive compensation plan. As a result of this error, we previously reported lower net income under US GAAP in each of the interim periods of 2007. Our accounting for stock-based compensation was correct under Canadian GAAP and except for the US GAAP reconciliation note, there is no restatement to our previously filed Canadian GAAP financial statements. This Restated MD&A has been revised to reflect the restatement. The information contained in this Restated MD&A is as at March 7, 2007 (as revised) unless otherwise indicated. Accordingly, this Restated MD&A has not been updated to reflect new facts, events or circumstances since March 7, 2007.

For additional information and details, readers are referred to the 2007 annual financial statements and management's discussion and analysis for 2007 and the Company's 2007 Annual Information Form (AIF), all of which are published separately and are available at www.mdsinc.com and at www.sedar.com. In addition, the Company's 40-F filing is available at www.sec.gov.

Our Restated MD&A is intended to enable readers to gain an understanding of MDS's current results and financial position as at and for the period ended January 31, 2007. To do so, we provide information and analysis comparing the results of operations and financial position for the current interim period to those of the same period in the preceding fiscal year. We also provide analysis and commentary that we believe is required to assess the Company's future prospects. Accordingly, certain sections of this report contain forward-looking statements that are based on current plans and expectations. These forward-looking statements are affected by risks and uncertainties that are discussed in this document, as well as in the AIF, and that could have a material impact on future prospects. Readers are cautioned that actual events and results will vary.

Caution regarding forward-looking statements

From time to time, we make written or oral forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of the Securities Act (Ontario) and the United States Private Securities Litigation Reform Act of 1995. This document contains such statements, and we may make such statements in other filings with Canadian regulators or the United States Securities and Exchange Commission (SEC), in reports to shareholders or in other communications, including public presentations. These forward-looking statements include, among others, statements with respect to our objectives for 2008, our medium-term goals, and strategies to achieve those objectives and goals, as well as statements with respect to our beliefs, plans, objectives, expectations, anticipations, estimates and intentions. The words "may", "could", "should", "would", "suspect", "outlook", "believe", "plan", "anticipate", "estimate", "expect", "intend", "forecast", "objective", "optimistic", and words and expressions of similar import are intended to identify forward-looking statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, which give rise to the possibility that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers not to place undue reliance on these statements as a number of important factors could cause our actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to: management of operational risks; the strength of the Canadian and United States' economies and the economies of other countries in which we conduct business; our ability to secure a reliable supply of raw materials, particularly cobalt and critical medical isotopes; the impact of the movement of the US dollar relative to other currencies, particularly the Canadian dollar and the euro; changes in interest rate policies of the Bank of Canada and the Board of Governors of the Federal Reserve System in the United States; the effects of competition in the markets in which we operate; the timing and technological advancement of new products introduced by us or by our competitors; the impact of changes in laws, trade policies and regulations, and enforcement thereof; judicial judgments and legal proceedings; our ability to successfully realign our organization, resources and processes; our ability to complete strategic acquisitions and joint ventures and to integrate our acquisitions and joint ventures successfully; new accounting policies and guidelines that impact the methods we use to report our financial condition; uncertainties associated with critical accounting assumptions and estimates; the possible impact on our businesses from natural disasters, public health emergencies, international conflicts and other developments including those relating to terrorism; and our success in anticipating and managing the foregoing risks.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to the Company, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. We do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by us or on our behalf.

Use of non-GAAP measures

In addition to measures based on generally accepted accounting principles (GAAP) in this Restated MD&A, we use terms such as adjusted operating income; adjusted earnings before interest, taxes, depreciation and amortization (EBITDA); adjusted EBITDA margin; adjusted earnings per share (EPS); operating working capital; net revenue; and backlog. These terms are not defined by GAAP and our use of such terms or measurement of such items may vary from that of other companies. In addition, measurement of growth is not defined by GAAP and our use of these terms or measurement of these items may vary from that of other companies. Where relevant, and particularly

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for earnings-based measures, we provide tables in this document that reconcile the non-GAAP measures used to amounts reported on the face of the consolidated financial statements. Our executive management team assesses the performance of our businesses based on a review of results comprising GAAP measures and these non-GAAP measures. We also report on our performance to the Company's Board of Directors based on these GAAP and non-GAAP measures. In addition, adjusted EBITDA and operating working capital are the primary metrics for our annual incentive compensation plan for senior management. We provide this non-GAAP detail so that readers have a better understanding of the significant events and transactions that have had an impact on our results, and can view our results through the eyes of management.

Substantially all of the products of the Sciex division of MDS Analytical Technologies are sold through two joint ventures. Under the terms of these joint ventures, we are entitled to a 50% share of the net earnings of the worldwide business that we conduct with our partners in these joint ventures. These earnings include a share of the profits generated by our partners that are paid to the joint ventures as profit sharing. Under US GAAP, we report our direct revenues from sales to the joint ventures and we report our share of the profits of the joint ventures as equity earnings. We do not report our share of all end-user revenues, despite the fact that these revenues contribute substantially to our profitability. In order to provide readers with a better understanding of the drivers of profitability for the Sciex products of MDS Analytical Technologies, we report growth in end-user revenues as reported by our joint venture partners. This figure provides management and readers with additional information on the performance of our global business, including trends in customer demand and our performance relative to the overall market.

MDS Pharma Services measures and tracks contract backlog. Contract backlog is a non-GAAP measure that we define to include the amount of contract value associated with confirmed contracts that has not yet been recognized as net revenue. A confirmed contract is one for which the Company has received customer commitment in a manner that is customary for the type of contract involved. For large, long-term contracts, customer commitment is generally evidenced by the receipt of a signed contract or confirmation awarding the work to MDS. For smaller and short-term contracts, customer commitment may be documented in other ways, including email messages and oral confirmations. Only contracts for which such commitments have been received are included in backlog and the amount of backlog for these contracts is measured based on the net revenue that is expected to be earned by MDS under the contract terms. A contract is removed from backlog if the Company receives notice from the customer that the contract has been cancelled, indefinitely delayed, or reassigned to another service provider.

Tabular amounts are in millions of United States (US) dollars, except per share amounts and where otherwise noted.

Introduction

MDS is a global life sciences company that provides market-leading products and services that our customers use for the development of drugs and the diagnosis and treatment of disease. Through our three business segments, we are a leading global provider of pharmaceutical contract research services (MDS Pharma Services), medical isotopes for molecular imaging and radiotherapeutics (MDS Nordion), and analytical instruments (MDS Analytical Technologies). Each of these business segments sells a variety of products and services to customers in markets around the world.

Discontinued operations

All financial references in this document exclude those businesses that we consider to be discontinued. Our discontinued businesses include our diagnostics businesses, certain early-stage pharmaceutical research services operations, and our interest in Source Medical Corporation (Source). All financial references for the prior year have been restated to reflect this treatment. From the amounts reported in our first quarter 2006 interim report, revenues for 2006 have been reduced by \$71 million and income from continuing operations has been reduced by \$15 million to reflect what is now deemed to be discontinued.

Change in Presentation Related to Reimbursement of Out-of-Pocket Costs

In addition to changes that relate to the adoption of US GAAP, the Company changed its presentation of certain revenues that arise from the reimbursement of the Company by our customers (reimbursement revenues) for certain reimbursable out-of-pocket expenses that we incur on behalf of these customers during the conduct of clinical trials (reimbursed expenses). The Company has the right to bill customers for reimbursement of the amounts, but is generally not entitled to a mark-up or other form of profit margin related to these activities. In the financial reports for prior years, the reimbursement revenues were offset against the related out-of-pocket costs, and because these amounts offset, neither a revenue nor an expense item associated with this activity was reported.

In the current presentation, the Company is reporting reimbursement revenues and reimbursed expenses on a gross basis as separate lines on the consolidated statements of operations. As a result of this change, although both total revenues and total expenses have increased, there is no impact on operating income reported. This change in presentation reflects a reconsideration of the Company's reporting of revenues under both Canadian GAAP and US GAAP. We now believe that the presentation used in prior Canadian GAAP financial statements is not permitted under Canadian GAAP. While this change does not reflect a Canadian GAAP to US GAAP difference, it does reflect a change in the presentation compared to the previously filed Canadian GAAP financial statements and therefore, comparative amounts reflected in these restated interim consolidated financial statements have been revised to reflect this change on both a Canadian GAAP and a US GAAP basis.

Throughout this report, when we refer to total revenues we mean revenues including reimbursement revenues. We use the term *net revenues* to mean revenues excluding such amounts. All revenue growth figures and adjusted EBITDA margin figures are based on net revenues. We use net revenues to measure the growth and profitability of MDS and MDS Pharma Services because the pass-through invoicing of reimbursable out-of-pocket expenses varies from period-to-period, is not a reliable measure of the underlying performance of the business, and does not have an impact on net income or cash flows in any significant way. Management assesses and rewards the performance of MDS Pharma Services and the segment's senior management team using metrics that are based on net revenues

Change in reporting currency to US dollars

MDS has historically measured and presented its consolidated financial statements in Canadian dollars. Effective November 1, 2006, we adopted the US dollar as our reporting currency as a significant portion of revenues, expenses, assets and liabilities are denominated in US dollars, the global character of the Company's operations has increased dramatically following the divestiture of the diagnostics business, and the majority of the companies with which we compete report their financial results in US dollars; consequently, we believe that investors will gain a better understanding of our operating results when they are presented in US dollars.

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The functional currency of MDS Inc., the parent company and reporting entity, remains the Canadian dollar. When there is a change in reporting currency, US GAAP requires that financial statements for previous years be presented using a translation method that retains the company's functional currency (in this case, the Canadian dollar) as the currency of measurement. For comparative purposes, we have prepared US-dollar historical financial statements by translating the previously reported Canadian dollar amounts using the following methods and exchange rates:

Revenues, expenses, and cash flows – translated into US dollars using the weighted-average exchange rate for the applicable periods.

Assets and liabilities – translated into US dollars using the exchange rate in effect at the end of the applicable period.

Share capital – share capital transactions were translated into US dollars using the exchange rate in effect when the transaction occurred.

Retained earnings – net income transactions were translated into US dollars as described above. Other transactions affecting retained earnings, principally as a result of dividend payments and share repurchases, were translated into US dollars using the exchange rate in effect when the transaction occurred.

Restatement to US GAAP

For the Company's 2007 year end as at October 31, 2007, it has chosen to adopt US GAAP for financial reporting.

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The following table highlights the differences between Canadian and US GAAP, and the impact of the US GAAP error correction related to the valuation of a stock-based compensation program on the results for the quarter. Our accounting for stock-based compensation was correct under Canadian GAAP and there has been no change to the Canadian GAAP results shown in the following table.

| | 2007 First Quarter | | | | 2006 First Quarter | | |
|---|--------------------------------|------------------|------------|-------------------------------|--------------------------------|------------------|-------------------------------|
| | Previously Reported (CAD GAAP) | GAAP Adjustments | Correction | Restated Correction (US GAAP) | Previously Reported (CAD GAAP) | GAAP Adjustments | Restated Correction (US GAAP) |
| Total revenues | \$273 | (9) | - | \$264 | \$273 | \$(12) | \$261 |
| Reimbursement revenues | (23) | - | - | (23) | (31) | - | (31) |
| Net revenues | \$250 | (9) | - | \$241 | \$242 | \$(12) | \$230 |
| Income (loss) from continuing operations | (2) | 1 | 1 | - | 14 | (1) | 13 |
| Income taxes | 3 | (1) | 1 | 3 | 8 | (4) | 4 |
| Net interest expense | 2 | - | - | 2 | 1 | - | 1 |
| Loss (gain) on derivatives | 1 | (1) | - | - | 1 | (1) | - |
| Depreciation and amortization | 17 | (3) | - | 14 | 13 | (2) | 11 |
| EBITDA | 21 | (4) | 2 | 19 | 37 | (8) | 29 |
| Restructuring charges, net | 13 | - | - | 13 | 1 | - | 1 |
| Gain on sale of a business/investment | (2) | - | - | (2) | - | - | - |
| Adjusted EBITDA | \$32 | \$(4) | \$2 | \$30 | \$38 | \$(8) | \$30 |
| Adjusted EBITDA margin | 13% | | | 12% | 16% | | 13% |

Note 15 to our consolidated financial statements for the first quarter of 2007 contains a reconciliation of results reported in US GAAP to the net income we would report in Canadian GAAP.

The differences between US GAAP and Canadian GAAP that have the most significant impact on the Company's financial condition and results of operations for the interim period ended January 31, 2007, include accounting for: joint ventures, investment tax credits, research and development, and stock-based compensation.

The primary difference between Canadian GAAP and US GAAP affecting the consolidated revenues and operating margin is that under Canadian GAAP proportionate consolidation is used for the results of our joint ventures within MDS Sciex, whereas under US GAAP we apply the method of equity accounting. For the first quarter of 2007, we reported \$10 million less revenue and \$16 million less operating income under US GAAP than we would have reported under Canadian GAAP (\$11 million less and \$12 million less, respectively for the first quarter of 2006). Under US GAAP, the income from the joint ventures is included in equity earnings, which were \$14 million in 2007 (\$14 million in first quarter of 2006). Under Canadian GAAP this amount was included in operating income as part of the proportionate consolidation. There is no significant impact to the calculation of adjusted EBITDA from this accounting difference.

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Other differences in adjusted EBITDA are listed below.

- **Non-refundable investment tax credits (ITCs)** are treated as a reduction of expenditure under Canadian GAAP and a reduction of income tax under US GAAP. In the first quarter of 2007, there were \$1 million (\$3 million in the first quarter of 2006) of ITCs which when calculated based on US GAAP reduced adjusted EBITDA, as compared to Canadian GAAP.
- **Research and Development (R&D)** expenditures may be capitalized under Canadian GAAP if certain criteria are met, however these expenditures are expensed in the period they are incurred under US GAAP. In the first quarter of 2007, the \$2 million (\$2million in first quarter of 2006) of R&D capitalized under Canadian GAAP resulted in a reduction of adjusted EBITDA when calculated based on US GAAP, compared to Canadian GAAP.
- Due to a difference in **valuation methods for stock-based compensation** under US GAAP and Canadian GAAP, adjusted EBITDA was higher by \$2 million for first quarter of 2007 (nil in 2006) when calculated based on US GAAP, compared to Canadian GAAP.

There are no differences between US GAAP and Canadian GAAP in the adjustment used in calculating adjusted EBITDA for the first quarters of 2007 or 2006.

The results discussed in this Restated MD&A are based on US GAAP. To supplement the US GAAP Restated MD&A included in this document, please refer to our Canadian Supplement to this Restated MD&A which is being filed at the same time as our Restated MD&A and our previously filed Interim Report for January 31, 2007 for our corresponding MD&A based on Canadian GAAP.

Strategic initiatives

On September 1, 2005, we announced our strategic plan to pursue growth in the global life sciences market and divest of assets that do not contribute to the Company's areas of focus. During fiscal 2006, we completed a number of transactions in pursuit of this renewed focus, culminating in the announcement on October 5, 2006 of the sale of our remaining Canadian diagnostics businesses to Borealis Infrastructure Management Inc. for gross proceeds of CDN\$1.3 billion, which includes amounts ultimately paid to holders of minority interests in these businesses.

On February 26, 2007, we announced the closing of this transaction. Under the terms of the final agreements, MDS received net cash proceeds (after expenses and taxes) of CDN\$1.0 billion and a CDN\$75 million promissory note due in 2009. After paying costs of the transaction, taxes, and distributions to our minority partners in these businesses, we expect to report a gain of approximately US\$0.8 billion in our second quarter.

Also on February 26, 2007, and coinciding with the completion of the sale of the diagnostics businesses, we announced the launch of a substantial issuer bid. Under the bid, we are proposing to repurchase up to CDN\$500 million of our Common shares (US\$425 million). We expect this bid to close in early April.

In our September 2005 announcement, we reconfirmed our commitment to focus on building our life sciences businesses. On January 29, 2007, we announced our intention to acquire Molecular Devices Corporation (MDC), a leading provider of high-performance measurement tools for high-content screening, cellular analysis, and biochemical testing, in a \$615 million cash transaction. Under this

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agreement, MDS proposes to acquire all of the Common shares of MDC for \$35.50 per share. The Boards of Directors of both companies unanimously approved the merger agreement and we commenced a cash tender offer for all of the outstanding shares of MDC on February 13, 2007.

This strategic acquisition marks a significant expansion for MDS. By acquiring Sunnyvale, California-based MDC, with its strong brand recognition and leading edge products and capabilities, MDS will strengthen its leadership position as one of the top global providers of life sciences solutions. We will now offer systems that provide high-content screening, and cellular and biochemical testing for leading drug discovery and life sciences laboratories in pharmaceutical, biotechnology, academic, and government institutions.

Upon completion of this acquisition, we plan to establish a new business unit, led by the current President of MDS Sciex, Andy Boorn that will combine the MDC and MDS Sciex businesses. This combined organization will have more than 1,100 employees, including over 250 scientists and engineers.

We expect to close this transaction in the second quarter and we will begin integration activities as soon as the transaction closes.

MDS Inc.
Consolidated operating highlights and reconciliation of consolidated adjusted EBITDA

| | First Quarter | |
|--|---------------|--------------|
| | 2007 | 2006 |
| Total revenues | \$ 264 | \$ 261 |
| Reimbursement revenues | (23) | (31) |
| Net revenues | \$ 241 | \$ 230 |
| Income from continuing operations | - | 13 |
| Income taxes | 3 | 4 |
| Net interest expense | 2 | 1 |
| Depreciation and amortization | 14 | 11 |
| EBITDA | 19 | 29 |
| Restructuring charges, net | 13 | 1 |
| Gain on sale of a business/investment | (2) | - |
| Adjusted EBITDA | \$ 30 | \$ 30 |
| Adjusted EBITDA margin | 12% | 13% |

Net revenue for the first quarter of 2007 was up 5% to \$241 million compared to \$230 million last year. Strong growth in MDS Pharma Services, driven by growth in its late-stage businesses, offset a decline in revenues from MDS Nordion in the quarter compared to the first quarter of 2006. Excluding the impact of unusual market conditions in the first quarter of 2006, MDS Nordion revenues grew 6%.

Adjusted EBITDA of \$30 million was level with last year. Adjusted EBITDA was impacted by the non-recurring isotopes revenues earned last year and continued costs in MDS Pharma Services related to the self-review of bioequivalence studies conducted at our St. Laurent facility from 2000 through 2004 (the Retrospective Review). While we suspended this review at the end of the quarter in response to actions taken by the US Food and Drug Administration (FDA), costs incurred in the first quarter of 2007 totalled \$4 million compared to \$5 million in the same quarter last year.

Adjustments reported for the quarter include restructuring costs totaling \$13 million, of which \$8 million relates to ongoing profit improvement initiatives in MDS Pharma Services. Other restructuring costs amounting to \$5 million were incurred in the quarter as we neared completion of the transition of our information technology infrastructure and support to a new provider. The other adjusting item was a \$2 million gain realized on the sale of our debt interest in Hemosol Corp.

Selling, general, and administration (SG&A) expenses for the quarter totalled \$54 million and 22% of revenues compared to \$47 million and 20% last year.

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We spent \$12 million on R&D activities in the first quarter of both 2007 and 2006.

Consolidated depreciation and amortization expense increased \$3 million compared to last year. The increase is principally related to depreciation on our expanded pre-clinical facility in Lyon, France, our new US central laboratory, and our new manufacturing facility in Singapore. Capital expenditures for the quarter were \$9 million. In the first quarter of fiscal 2006, we reported capital expenditures of \$22 million, reflecting spending on new facilities in MDS Pharma Services and expenditures related to the MAPLE facility.

Results from discontinued operations for this year include only the results of our remaining Canadian diagnostics businesses, as all other discontinued businesses were sold or closed during 2006. The first quarter results from discontinued operations for 2006 include these businesses, along with the results of our other discontinued business and include the after-tax gain resulting from the sale of our interest in Source.

Reported earnings per share from continuing operations were nil for the quarter, compared to \$0.09 in 2006. Adjusted earnings per share from continuing operations for the quarter were \$0.07 compared to \$0.13 earned in the same period last year. Earnings per share from discontinued operations were \$0.11 compared to \$0.23. Adjusted earnings per share for the two periods were as follows:

| | First Quarter | |
|--|---------------|---------|
| | 2007 | 2006 |
| Basic and diluted EPS from continuing operations – as reported | \$ - | \$ 0.09 |
| Adjusted for: | | |
| Restructuring charges, net | 0.08 | 0.01 |
| Gain on sale of business and long-term investments | (0.01) | 0.01 |
| Tax rate changes | - | 0.02 |
| Adjusted EPS | \$ 0.07 | \$ 0.13 |

**MDS Pharma Services
Financial Highlights**

| | First Quarter | | | |
|--------------------------------------|---------------|----------------------|-------------|----------------------|
| | 2007 | % of net revenues | 2006 | % of net revenues |
| Early-stage | \$ 66 | 55% | \$ 67 | 60% |
| Late-stage | 55 | 45% | 44 | 40% |
| Net revenues | 121 | 100% | 111 | 100% |
| Reimbursement revenues | \$ 23 | - | \$ 31 | - |
| Total revenues | 144 | - | 142 | - |
| Cost of revenues | (89) | (74%) | (81) | (73%) |
| Reimbursed expenses | (23) | - | (31) | - |
| Selling, general, and administration | (33) | (26%) | (29) | (27%) |
| Depreciation and amortization | (8) | (7%) | (7) | (6%) |
| Restructuring charges - net | (8) | (7%) | 1 | 1% |
| Other income (expense) | 2 | 2% | - | - |
| Operating loss | (15) | (12%) | (5) | (5%) |
| Adjustments: | | | | |
| Restructuring charges | 8 | 7% | (1) | (1%) |
| Depreciation and amortization | (7) | (6%) | (6) | (5%) |
| Adjusted EBITDA | \$ 1 | 1% | \$ 1 | 1% |
| Margins: | | | | |
| Gross margin | 26% | - | 27% | - |
| Adjusted EBITDA | 1% | - | 1% | - |
| Capital expenditures | \$ 2 | | \$ 7 | |

Net revenues for MDS Pharma Services grew 9% on a reported basis. Growth was driven by continued strong results in preclinical discovery and our late-stage businesses, which were up 6% and 25%, respectively. Both global clinical development and global central labs services businesses contributed to the strong revenue growth for late-stage. Revenues from our bioanalytical business were lower for the first quarter of 2007 than for the same period in 2006, which is attributable to continuing negative results from our Montreal-area facilities. Early-clinical revenues were also down in the quarter and we noted a fall in demand immediately after the January 10, 2007 letter issued by the FDA.

Our late-stage businesses continued to grow their backlog and account for most of the growth in our reported balance, although we have seen some renewed growth in backlog for our early-stage businesses this quarter. Our average monthly pharmaceutical research backlog continues to expand and averaged \$450 million for the first quarter of 2007, an increase of approximately 22% when compared to the average for the first quarter of fiscal 2006. It is also up 5% sequentially from the fourth quarter last year.

Average monthly backlog

| | | |
|-------------------------|----|-----|
| Fiscal 2005 – Quarter 1 | \$ | 315 |
| Quarter 2 | | 305 |
| Quarter 3 | | 315 |
| Quarter 4 | | 340 |
| Fiscal 2006 – Quarter 1 | | 370 |
| Quarter 2 | | 400 |
| Quarter 3 | | 400 |
| Quarter 4 | | 430 |
| Fiscal 2007 – Quarter 1 | | 450 |

Reported operating income and adjusted EBITDA were impacted by decreased profits in our bioanalytical and early clinical research businesses.

Capital expenditures in the pharmaceutical services segment were \$2 million in this first quarter compared to \$7 million last year. Expenditures in 2006 related to an ongoing expansion in Lyon, as well as an expansion of the Skeletech site in Bothell that had been planned at the time of the acquisition.

Profit improvement initiatives

We remain focused on taking action to position MDS Pharma Services for continued growth and improved and sustainable operating profitability as we move forward. Over the past several quarters, we implemented a number of steps designed to focus on MDS Pharma Services' core competencies and strengthen the business:

- Appointment of David Spaight as President of MDS Pharma Services
- Strengthening our senior management team with new global leaders in preclinical discovery, early clinical research, bioanalytical, global clinical development, and global central labs
- Expansion of our early clinical research capacity in Lincoln (50 beds), expansion of capacity in our pre-clinical testing business in Lyon, and beginning the expansion of our Phoenix early clinical research capacity (300 beds)
- Selling or closing a number of our smaller, less profitable pre-clinical business lines and sites including, Munich, Geneva, Taipei, Tampa, Blainville, Bothell and Lincoln
- Stringent management of hiring and discretionary spending
- Enhanced management review and reporting processes
- More selective business development activities, particularly in our late-stage businesses
- Introduction of LeanSigma as a primary tool to facilitate continuous improvement.

During the first quarter of 2007 we continued implementing our operating improvement plan with the closure of our early clinical research facility in New Orleans, the sale of the local portion of our Spanish clinical development business located in Madrid, and completion of negotiations for the February sale of our phase 1 facility in Hamburg, Germany. These operations were not profitable and were not considered to be of strategic importance.

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As a result of these activities, we have streamlined our workforce with a personnel reduction of 8% since the end of the second quarter of 2006, with the majority of the reduction occurring in the last six months.

We have incurred charges totalling \$8 million related to these activities in the first quarter, all of which are reported as restructuring charges.

Additional operating improvement initiatives are currently under evaluation, and we expect to implement these initiatives in the coming months. We currently expect to announce further workforce reductions and site rationalizations as we continue to align our global footprint and cost structure with our business outlook, particularly in our bioanalytical business. We currently expect to record additional restructuring charges in the second quarter of 2007 totalling \$20 to \$25 million related to these initiatives.

FDA review of bioanalytical operations

We are continuing to work to address FDA issues related to bioanalytical operations in our St. Laurent and Blainville, Canada facilities. Our other lines of business and other sites where bioanalytical work is conducted are not the subjects of the FDA review described below. These other lines of business and sites are subject to routine FDA inspections and we have no indication that the FDA has any concerns with respect to these operations.

In October 2006, we met with the FDA regarding the status of the Retrospective Review and related matters. At this meeting, and in correspondence with the FDA, MDS responded to concerns previously raised by the FDA and highlighted upgrades and enhancements to the Retrospective Review.

In January 2007, the FDA issued statements that outlined a path that will enable the Company and its clients to bring closure to issues associated with bioanalytical studies conducted in our St. Laurent and Blainville facilities. Sponsors of approved and pending generic drug submissions that contain study data produced in these facilities during the period between January 2000 to December 2004 have been asked to take one of three actions to address FDA concerns about the accuracy and validity of these bioanalytical studies: 1) repeat their bioanalytical studies; 2) re-analyze their original study samples at a different bioanalytical facility or 3) independently audit original study results. To date, nearly all of our generic customers have indicated their intention to pursue the third option and either have or are intending to commission third party study audits.

The FDA stated that it was taking this action as a precautionary measure to ensure that data submitted to the Agency and used in making approval decisions is of the highest quality. At the same time, the FDA made it clear that the adverse event surveillance-monitoring program has not detected any signals or any evidence that any of the drugs involved pose a safety or lack of efficacy risk. The FDA also made it clear that it does not have any evidence that there are problems with the quality, purity, or potency of the affected drug products.

During the first quarter of fiscal 2007 we continued to expend effort and resources in conducting the Retrospective Review, incurring direct costs of \$4 million, of which \$3 million is included in MDS Pharma Services' results and \$1 million is recorded in our Corporate segment. These amounts include direct labour, consulting costs, and the cost of related customer accommodations. In the first quarter of 2006, we incurred review costs totaling \$5 million, all of which was recorded by MDS Pharma Services. Based on the FDA's new direction,

RESTATED MANAGEMENT'S DISCUSSION AND ANALYSIS

MDS terminated the Retrospective Review in January 2007 and re-directed efforts to support clients with independent audit activities. Work completed as part of the Retrospective Review is being used, where applicable, to facilitate independent audit reviews.

The FDA has identified 217 generic drug applications as being subject to the new requirements. This total is made up of 140 approved and 77 pending applications. As of February 28, 2007, independent study audits supporting approximately 20% of these applications had been completed. We currently estimate that the reviews of generic drug files will be completed within calendar 2007. We have been advised that, to date, three generic drug applications have received FDA approval based on third party audits.

In addition to generic studies, the FDA has requested information regarding submitted applications for innovative drugs that contain data from bioanalytical studies conducted from January 2000 to December 2004 in our St. Laurent and Blainville facilities. It is not yet clear what work, if any, the FDA will require with respect to this study category. The number of such studies that may contain data from these facilities is not currently estimatable but is expected to be substantially less than the corresponding number of generic bioequivalency studies.

Since receipt of the first FDA letter, we have worked closely with our clients to keep them informed of our ongoing discussions with the FDA. We have worked especially closely with clients who have had bioanalytical data produced in our St. Laurent and Blainville facilities questioned by the FDA by prioritizing study reviews to correspond with their priorities.

Bioequivalence work for our generic customers has suffered a significant decline over the period in which we have been addressing the FDA issues. Our early clinical research business has continued to experience a noticeable decline in business, generally attributable to reluctance by certain of our generic customers to place work in the St. Laurent clinic while the review is underway.

Full and complete resolution of the FDA issues remains a key focus for MDS Pharma Services and MDS. We remain committed to working cooperatively with the FDA and our customers to address all of the FDA's concerns and to assist them while they complete the study audits mandated by the FDA in a satisfactory manner.

The Company is currently assessing the financial impact of addressing the FDA's new requirements, including the cost of customer accommodations. We are working closely with study sponsors and currently expect to be in a position to record a provision for customer accommodations and related costs in our second quarter. We are not able to estimate the full extent or cost of the effort required to satisfy the FDA and related client obligations, if any. There can be no assurance at this time that the study audits will be acceptable to the FDA or that the FDA will not require additional work. We also are unable to judge what further impact this situation will have on our business development activities, particularly for our bioanalytical and early clinical operations.

**MDS Nordion
Financial Highlights**

| | First Quarter | | | |
|--------------------------------------|---------------|----------------------|--------------|----------------------|
| | 2007 | % of net revenues | 2006 | % of net revenues |
| Product revenues | \$ 67 | 100% | \$ 69 | 99% |
| Service revenues | - | - | 1 | 1% |
| Net revenues | 67 | 100% | 70 | 100% |
| Cost of product revenues | (34) | (51%) | (33) | (47%) |
| Cost of service revenues | (1) | (2%) | (1) | (1%) |
| Selling, general, and administration | (11) | (16%) | (11) | (17%) |
| Research and development | (1) | (2%) | (1) | (1%) |
| Depreciation and amortization | (3) | (4%) | (3) | (4%) |
| Operating income | 17 | 25% | 21 | 30% |
| Depreciation and amortization | 3 | 4% | 3 | 4% |
| Adjusted EBITDA | \$ 20 | 28% | \$ 24 | 34% |
| Margins: | | | | |
| Gross margin | 47% | - | 52% | - |
| Adjusted EBITDA | 30% | - | 34% | - |
| Capital expenditures | \$ 1 | | \$ 10 | - |

Our isotopes business fell 4% year-over-year on a reported basis, due to difficult comparison to unusually strong results in the first quarter of 2006. The 2006 results were driven by very strong sales of medical isotopes during a period when a major competitor announced a voluntary recall of its products used primarily for cardiac imaging. Their facility was out of production for most of the first two quarters of 2006 and we estimate that approximately \$7 million of high-margin revenues were realized in the quarter. Excluding the impact of this on 2006, revenues were up 6%.

Revenues from cobalt sterilization were strong this quarter and results from radiotherapeutics were also up due in particular to strong sales of Therasphere® and FDG (Glucotrace™), an imaging agent used in PET scans.

Adjusted EBITDA margin for the quarter was 30%, down from last year on lower medical isotope revenues. SG&A, R&D expenses and depreciation and amortization were level with the prior year. There were no adjusting items for the quarter.

Capital expenditures in the isotopes segment were \$1 million, compared to \$10 million last year. The expenditures last year reflected amounts spent on the MAPLE project prior to the February 2006 settlement with AECL and which were assumed by AECL as part of the MAPLE settlement in the second quarter last year.

During the quarter, we announced that we have extended the clinical trial for Therasphere to Europe and India.

**MDS Sciex
Financial Highlights**

| | First Quarter | | | |
|--------------------------------------|---------------|----------------------|-------|----------------------|
| | 2007 | % of net revenues | 2006 | % of net revenues |
| Product revenues | \$ 38 | 72% | \$ 36 | 73% |
| Service revenues | 15 | 28% | 13 | 27% |
| Net revenues | 53 | 100% | 49 | 100% |
| Cost of product revenues | (37) | (70%) | (38) | (78%) |
| Cost of service revenues | - | - | - | - |
| Selling, general, and administration | (6) | (11%) | (2) | (4%) |
| Research and development | (11) | (21%) | (11) | (22%) |
| Depreciation and amortization | (3) | (5%) | (1) | (2%) |
| Other income (expense) net | (1) | (2%) | 1 | 2% |
| Operating loss | (5) | (9%) | (2) | (4%) |
| Adjustments: | | | | |
| Equity earnings | 14 | 26% | 13 | 27% |
| Depreciation and amortization | 9 | 17% | 11 | 23% |
| Adjusted EBITDA | \$ 12 | 23% | \$ 12 | 25% |
| Margins: | | | | |
| Gross margin | 30% | - | 22% | - |
| Adjusted EBITDA | 23% | - | 25% | - |
| Capital expenditures | \$ 3 | | \$ 1 | |

MDS Sciex carries out the majority of its business through joint ventures. Currently, MDS generates the majority of its income associated with these joint ventures from the net income of the joint ventures, and not from its sales to the joint ventures. Under US GAAP, we equity account for the joint ventures and therefore the majority of the income related to the Sciex division is reflected in equity earnings, which represent our share of the net income of the joint ventures. We include equity earnings in our calculation of adjusted EBITDA, however, under US GAAP, these earnings are not included in operating income.

Our instruments business grew 8% as reported and end-user revenues in the markets served by our joint ventures grew 10% in the quarter. Growth remains strong in Europe and in the small molecule and applied markets. Our QStar™, 4000Qtrap™, and API 4000™ have maintained the sales momentum from 2006. The service business has developed and is showing solid growth so far this year. MDS Sciex shares in the profitability of the services business, although we do not report services revenues due to the terms of our partnership agreements. Inorganic markets were also strong in the first quarter of 2007, led by sales of our Elan DRC products.

Adjusted EBITDA for the segment was \$12 million and was level compared to the same period last year. Capital expenditures in the instruments segment were \$3 million this year compared to \$1 million for 2006.

**Corporate and Other
Financial Highlights**

| | First Quarter | |
|--------------------------------------|----------------------|---------------|
| | 2007 | 2006 |
| Selling, general, and administration | \$ (4) | \$ (5) |
| Restructuring charges | (5) | (2) |
| Other income (expense) | 3 | (3) |
| Operating loss | (6) | (10) |
| Adjustments: | | |
| Equity earnings | - | 1 |
| Gain on sale of investments | (2) | - |
| Restructuring | 5 | 2 |
| Adjusted EBITDA | \$ (3) | \$ (7) |

Corporate SG&A expenses were \$1 million lower this year compared to 2006 due to lower stock based compensation expense, the completion of our initial Sarbanes/Oxley certification initiative and efforts to contain head office spending continued. Restructuring charges in the quarter relate to the transition of IT support and infrastructure to a new provider. These efforts were substantially completed in February 2007.

On November 3, 2006, we sold a secured debt interest in Hemosol Corp., along with an interest in related debtor-in-possession financing for combined proceeds of \$14 million. We recorded a gain of \$2 million as a result of this transaction, and we have treated this as an adjusting item in the quarter.

Net interest expense was \$2 million compared to \$1 million last year. In 2006, we capitalized \$2 million of interest expense related to the MAPLE project. Higher cash and short-term investment balances resulted in higher interest income in the first quarter of 2007 compared to the same period in 2006.

Income taxes

Our effective tax rate for the quarter was 100%, as we incurred losses this quarter in jurisdictions where we have full valuation allowances recorded against our deferred tax assets. As a result no tax benefit could be recorded for these losses in the current quarter. The favourable impact of tax credits relating to eligible research and development carried out in Canada reduced the taxes we reported in the quarter by \$1 million.

Discontinued operations

The results of our discontinued businesses for the first quarter of 2007 and 2006 were as follows:

| | First Quarter | |
|---|---------------|---------|
| | 2007 | 2006 |
| Net revenues | \$ 75 | \$ 100 |
| Cost of revenues | (46) | (68) |
| Selling, general and administration | (8) | (15) |
| Depreciation and amortization | - | (3) |
| Restructuring charges | - | (1) |
| Operating income | 21 | 13 |
| Gain on sale of discontinued operations | - | 24 |
| Income taxes | (3) | (3) |
| Minority interest | (3) | (2) |
| Equity earnings | 1 | 1 |
| Income from discontinued operations | 16 | 33 |
| Basic EPS from discontinued operations | \$ 0.11 | \$ 0.23 |

Income from discontinued operations for fiscal 2007 reflects only the results of our remaining diagnostics businesses. Results for the first quarter of 2006 included Source operations up to the sale of that business in late November 2005 and the results from our Calgary laboratory business, which was sold in April of 2006. Income from discontinued operations for 2006 also reflects the gain resulting from the sale of Source.

Liquidity and capital resources

| | January 31 2007 | October 31 2006 | Change |
|---|-----------------|-----------------|--------|
| Cash, cash equivalents and short-term investments | \$ 364 | \$ 382 | (5%) |
| Operating working capital ¹ | \$ 116 | \$ 97 | 20% |
| Current ratio (excludes net assets held for sale) | 2.1 | 2.4 | |

¹ Our measure of operating working capital equals accounts receivable plus unbilled revenue and inventory less accounts payable, accrued liabilities, and current deferred revenue.

During the first quarter, cash was utilized to pay normal year-end accruals and, as a result, cash balances are down and operating working capital has increased. The decrease in the current ratio is attributable to the classification of a portion of our long-term debt into current liabilities this period, reflecting the December 2007 repayment obligation.

Our liquidity needs can be satisfied from cash generated from operations and short-term borrowings against our available lines of credit. We have available a CDN\$500 million, five-year committed, revolving credit facility to fund our liquidity requirements. No funds were borrowed under the facility as of January 31, 2007. On February 6, 2007 we drew CDN\$500 million from this facility to ensure that we had adequate funds on hand to complete our planned acquisition of MDC. We have repaid this advance from the proceeds resulting from the sale of the diagnostics business.

To complete the acquisition of MDC and the substantial issuer bid, we expect to utilize the full proceeds realized from the sale of the diagnostics business and a portion of our existing cash resources. Following these transactions, we expect to have sufficient liquidity resources, including our revolving credit facility, to meet our liquidity requirements.

Cash used in financing activities (excluding discontinued operations) during the quarter was \$4 million versus \$2 million last year. We made no purchases under our NCIB during the quarter.

RESTATED MANAGEMENT'S DISCUSSION AND ANALYSIS

We believe that cash flow generated from operations, coupled with available borrowings from existing financing sources, will be sufficient to meet our anticipated requirements for acquisitions, capital expenditures, research and development expenditures and operations in 2007. At this time, we do not reasonably expect any presently known trend or uncertainty to affect our ability to access our current sources of cash. We remain in compliance with all covenants for our senior unsecured notes and our bank credit facility.

Contractual obligations

There have been no material changes in contractual obligations since October 31, 2006, and there has been no substantive change in any of our long-term debt or other long-term obligations since that date. We have not entered into any new guarantees of the debt of other parties, nor do we have any off-balance sheet arrangements.

Derivative instruments

We use derivative financial instruments to manage our foreign currency and interest rate exposure. These instruments consisted of forward foreign exchange and option contracts and interest rate swap agreements entered into in accordance with established risk management policies and procedures. All derivative instrument contracts are with banks listed on Schedules I to III to the Bank Act (Canada) and the Company utilizes financial information provided by certain of these banks to assist in the determination the fair market values of the financial instruments.

The net mark-to-market value of all derivative instruments at January 31, 2007 was a liability of \$7 million.

Capitalization

| | January 31, 2007 | October 31, 2006 | Change |
|--|------------------|------------------|--------|
| Long-term debt | \$ 383 | \$ 394 | (3%) |
| Less: cash and cash equivalents and short-term investments | 364 | 382 | (5%) |
| Net debt | 19 | 12 | 58% |
| Shareholders' equity | 1,355 | 1,354 | 0% |
| Capital employed ¹ | \$ 1,374 | \$ 1,366 | 1% |

¹ Capital employed is a measure of how much of our net assets are financed by debt and equity.

Long-term debt decreased \$11 million due principally to revaluation of our Canadian dollar denominated long-term debt and reflecting the strength of the US dollar in the quarter. Changes in the value of the US-dollar denominated debt, which is treated as a hedge in the US net investment, are reflected in Other Comprehensive Income in the Statement of Financial Position.

Quarterly highlights

Following is a summary of selected financial information derived from the Company's unaudited interim period consolidated financial statements for each of the eight most recently completed quarters. This financial data has been prepared in accordance with US GAAP and prior periods have been restated to reflect the discontinuance of the operations discussed above.

[millions of US dollars, except earnings per share]

| | Trailing Four Quarters | Jan 2007 | Oct 2006 | Jul 2006 | Apr 2006 |
|---|---------------------------|----------|----------|-----------|-----------|
| Net revenues | \$ 966 | \$ 241 | \$ 250 | \$ 241 | \$ 234 |
| Operating income (loss) | \$ (69) | \$ (9) | \$ (3) | \$ (21) | \$ (36) |
| Income (loss) from continuing operations | \$ 9 | \$ - | \$ 12 | \$ (2) | \$ (1) |
| Net income (loss) | \$ 90 | \$ 16 | \$ 45 | \$ 14 | \$ 15 |
| Earnings (loss) per share from continuing operations | | | | | |
| Basic and diluted | \$ 0.06 | \$ 0.00 | \$ 0.08 | \$ (0.01) | \$ (0.01) |
| Earnings (loss) per share | | | | | |
| Basic and diluted | \$ 0.62 | \$ 0.11 | \$ 0.30 | \$ 0.10 | \$ 0.11 |

[millions of US dollars, except earnings per share]

| | Trailing Four Quarters | Jan 2006 | Oct 2005 | Jul 2005 | Apr 2005 |
|---|---------------------------|----------|-----------|----------|----------|
| Net revenues | \$ 900 | \$ 230 | \$ 248 | \$ 213 | \$ 209 |
| Operating income (loss) | \$ (70) | \$ 4 | \$ (47) | \$ (15) | \$ (12) |
| Income (loss) from continuing operations | \$ (24) | \$ 13 | \$ (35) | \$ 2 | \$ (4) |
| Net income (loss) | \$ 22 | \$ 46 | \$ (43) | \$ 10 | \$ 9 |
| Earnings (loss) per share from continuing operations | | | | | |
| Basic and diluted | \$ (0.14) | \$ 0.09 | \$ (0.25) | \$ 0.02 | \$ - |
| Earnings (loss) per share | | | | | |
| Basic and diluted | \$ 0.18 | \$ 0.32 | \$ (0.30) | \$ 0.07 | \$ 0.09 |

Items that impact the comparability of operating income include:

- Results for the quarter ended January 31, 2007 reflect the impact of restructuring charges totalling \$13 million.
- Results for the quarter ended April 30, 2006 reflect a loss of \$36 million resulting from the completion of the MAPLE settlement.
- Results for the quarter ended October 31, 2005 reflect restructuring charges of \$47 million and valuation provisions on certain long-term investments totalling \$11 million.

Outlook

As we enter the second quarter of fiscal 2007, we believe that we now have a path forward to resolution of our FDA issues. We have completed a number of key outstanding matters, including the sale of our Canadian diagnostics business and launching a large share repurchase offer. At the end of the first quarter, we announced our intention to materially expand our instruments business with the acquisition of MDC. We have also taken steps to clarify our financial reporting and to make it more comparable to others in our sector by adopting the US dollar as our reporting currency and reporting our results under US GAAP.

Our businesses are well positioned to gather momentum as the year progresses. Customer demand and market growth in all segments

RESTATED MANAGEMENT'S DISCUSSION AND ANALYSIS

remains strong and both MDS Nordion and MDS Sciex have shown growth in the current quarter, taking into account the unexpected strength in the medical isotopes market in 2006. MDS Pharma Services delivered very strong growth in late-stage services and in backlog, but the FDA issue continued to impact earnings. We are confident that we now have a path forward on this matter and we are taking steps to improve the operating performance of this business.

The Molecular Devices transaction is proceeding as expected towards closure. On March 2, the waiting period for Hart Scott Rodino pre-merger clearance in the US expired. We are awaiting conclusion of regulatory approvals in other jurisdictions. The closing of the transaction remains subject to other customary conditions, including other regulatory approvals, which we anticipate will be satisfied over the next several weeks.

MDS Sciex continues to transfer production to our new Singapore facility. We expect to move production of additional lines to Singapore over the course of the year and realize cost savings as a result. We see continued market strength in most of our markets for the second quarter.

MDS Nordion has had a good start to the year and we are comfortable with the momentum entering the second quarter. The Therasphere clinical trial will drive both revenues and R&D expense in future quarters, but successful registration of this medical device is expected to enable us to expand the market for the product.

The nature of our isotope products makes them subject to considerable regulation. Ongoing interest in safety and security may impact the cost of regulatory compliance for products such as cobalt and cesium and may affect patterns of customer demand. We continue to be involved in discussions on these issues.

With the completion of the sale of our diagnostics business, we are now a focused life sciences company and we are well positioned to take advantage of the opportunities available in this industry. We have a strong balance sheet and the financial resources to pursue selected growth opportunities, including acquisitions. Our selection of appropriate opportunities to pursue will be made using a disciplined and methodical approach.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
[UNAUDITED]

Restated See Note 2

As at January 31 with comparatives at October 31

[millions of US dollars]

| | 2007 | 2006 |
|---|-----------------|-----------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 335 | \$ 247 |
| Short-term investments | 29 | 135 |
| Accounts receivable, net | 210 | 224 |
| Unbilled revenue | 138 | 122 |
| Inventories, net | 84 | 80 |
| Income taxes recoverable | 29 | 42 |
| Prepaid expenses and other | 33 | 21 |
| Assets held for sale | 181 | 196 |
| Total Current Assets | \$ 1,039 | \$ 1,067 |
| Property, plant and equipment, net | 321 | 334 |
| Deferred tax assets | 33 | 47 |
| Long-term investments and other | 154 | 176 |
| Goodwill | 394 | 397 |
| Intangible assets, net | 306 | 322 |
| Total Assets | \$ 2,247 | \$ 2,343 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | \$ 207 | \$ 237 |
| Deferred revenue | 109 | 92 |
| Income taxes payable | - | 8 |
| Current portion of long-term debt | 93 | 20 |
| Liabilities related to assets held for sale | 98 | 114 |
| Total Current Liabilities | \$ 507 | \$ 471 |
| Long-term debt | 290 | 374 |
| Deferred revenue | 16 | 17 |
| Other long-term obligations | 23 | 24 |
| Deferred tax liabilities | 56 | 103 |
| Total Liabilities | \$ 892 | \$ 989 |
| Shareholders' Equity | | |
| Common shares, at par – Authorized shares: unlimited; Issued and outstanding shares: 144,690,532 and 144,319,249 for January 31, 2007 and October 31, 2006 respectively | \$ 572 | \$ 566 |
| Additional paid in capital | 69 | 69 |
| Retained earnings | 402 | 391 |
| Accumulated other comprehensive income | 312 | 328 |
| Total Shareholders' Equity | \$ 1,355 | \$ 1,354 |
| Total Liabilities and Shareholders' Equity | \$ 2,247 | \$ 2,343 |

*Incorporated under the Canada Business Corporation Act
See accompanying notes*

CONSOLIDATED STATEMENTS OF OPERATIONS
[UNAUDITED]

Restated See Note 2
 Three months ended January 31

[millions of US dollars except per share amounts]

| | 2007 | 2006 |
|--|-----------------|-----------------|
| Revenues | | |
| Products | \$ 105 | \$ 105 |
| Services | 136 | 125 |
| Reimbursement revenues | 23 | 31 |
| Total revenues | \$ 264 | \$ 261 |
| Costs and expenses | | |
| Direct cost of products | (71) | (71) |
| Direct cost of services | (90) | (82) |
| Reimbursed expenses | (23) | (31) |
| Selling, general and administration | (54) | (47) |
| Research and development | (12) | (12) |
| Depreciation and amortization | (14) | (11) |
| Restructuring charges - net | (13) | (1) |
| Other income (expense) - net | 4 | (2) |
| Total costs and expenses | \$ (273) | \$ (257) |
| Operating income (loss) from continuing operations | \$ (9) | \$ 4 |
| Interest expense | (6) | (3) |
| Interest income | 4 | 2 |
| Equity earnings | 14 | 14 |
| Income from continuing operations before income taxes | \$ 3 | \$ 17 |
| Income tax expense | | |
| - current | (2) | (2) |
| - deferred | (1) | (2) |
| Income from continuing operations | \$ - | \$ 13 |
| Income from discontinued operations - net of income tax | 16 | 33 |
| Net income | \$ 16 | \$ 46 |
| Basic and diluted earnings per share | | |
| - from continuing operations | \$ - | \$ 0.09 |
| - from discontinued operations | 0.11 | 0.23 |
| Basic earnings per share | \$ 0.11 | \$ 0.32 |

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
[unaudited]

| | Restated See Note 2 | |
|--|-------------------------------|--------------|
| | Three months ended January 31 | |
| [millions of US dollars] | 2007 | 2006 |
| Net income | \$ 16 | \$ 46 |
| Foreign currency translation | (13) | 42 |
| Unrealized loss on available-for-sale assets | (3) | (3) |
| Other comprehensive income | \$ (16) | \$ 39 |
| Comprehensive income | - | 85 |

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS
[UNAUDITED]

| | Restated See Note 2 | |
|--|-------------------------------|---------------|
| | Three months ended January 31 | |
| [millions of US dollars] | 2007 | 2006 |
| Operating activities | | |
| Net income | \$ 16 | \$ 46 |
| Less: income from discontinued operations – net of tax | 16 | 33 |
| Income from continuing operations | - | 13 |
| Adjustments to reconcile net income to cash provided by operating activities relating to continuing operations | | |
| Items not affecting current cash flow | 28 | 9 |
| Changes in non-cash working capital balances relating to operations | (33) | (40) |
| Cash used in operating activities of continuing operations | (5) | (18) |
| Cash provided by operating activities of discontinued operations | 16 | 13 |
| | 11 | (5) |
| Investing activities | | |
| Purchase of property, plant and equipment | (9) | (22) |
| Proceeds on sale of short-term investments | 126 | - |
| Purchase of short-term investments | (22) | - |
| Proceeds on sale of long-term investments | 11 | - |
| Other | 1 | (17) |
| Cash provided by (used in) investing activities of continuing operations | 107 | (39) |
| Cash provided by investing activities of discontinued operations | - | 68 |
| Financing activities | | |
| Repayment of long-term debt | (6) | - |
| Increase (decrease) in deferred revenue and other long-term obligations | 1 | (9) |
| Payment of cash dividends | (3) | (3) |
| Issuance of shares | 4 | 10 |
| Cash used in financing activities of continuing operations | (4) | (2) |
| Cash used in financing activities of discontinued operations | (2) | (7) |
| Effect of foreign exchange rate changes on cash and cash equivalents | (24) | 13 |
| Increase in cash and cash equivalents during the period | 88 | 28 |
| Cash and cash equivalents, beginning of period | 247 | 215 |
| Cash and cash equivalents, end of period | \$ 335 | \$ 243 |

See accompanying notes

1. Basis of Presentation

As a Canadian-based company, MDS Inc. (MDS or the Company) historically has prepared its consolidated financial statements in Canadian dollars in conformity with accounting principles generally accepted in Canada (Canadian GAAP) and has also provided a reconciliation to United States (US) generally accepted accounting principles (US GAAP).

To enhance its communication with its shareholders, improve comparability of financial information with its competitors and peer group, and promote a common financial language within MDS, the Company adopted the US dollar as its reporting currency as of the first quarter of 2007 and US GAAP as its primary reporting standard for the presentation of its consolidated financial statements as of fiscal year end 2007.

All revenues, expenses and cash flows for each year were translated into the reporting currency using average rates for the year, or the rates in effect at the date of the transaction for significant transactions. Assets and liabilities were translated using the exchange rate at the end of each year. All resulting exchange differences are reported as a separate component of accumulated other comprehensive income. The functional currency of each of the Company's operations is unchanged. Assets and liabilities of the Company's operations having a functional currency other than US dollars are consolidated and translated into US dollars using the exchange rate in effect at the end of the period, and revenues and expenses are translated at the average rate during the period.

The cumulative impact of the change in reporting currency was to increase the cumulative translation adjustment by \$371 million through October 31, 2006.

As a result of adopting US GAAP as its primary reporting standard for its 2007 consolidated year-end statements, the Company is required to restate to US GAAP its previously filed financial statements for the four quarters of 2007. Previously, our filings prepared in accordance with Canadian GAAP disclosed a reconciliation of earnings to US GAAP due to our status as a foreign private issuer in the US. Going forward, with US GAAP as our primary basis of accounting, we will reconcile our US GAAP earnings to Canadian GAAP. This reconciliation will be done as required by applicable Canadian regulations on an annual and quarterly basis for a minimum of the next two fiscal years (see Note 15).

2. Changes Affecting Fiscal 2007 Consolidated Financial Statements

a. Restatement

During the preparation of our 2007 annual financial statements, an error was identified in the US GAAP reconciliation provided as part of the interim financial statements prepared during the 2007 fiscal year with respect to certain stock based incentive compensation plans for which an incorrect valuation methodology was utilized. The Company has corrected this error by restating selling, general and administration expenses with a reduction of \$2 million in the accompanying quarterly consolidated financial statements and reducing the value of accrued liabilities by a similar amount. The Canadian GAAP financial statements previously reported were not impacted by the change, except for the reconciliation to US GAAP (see Note 15).

NOTES TO RESTATED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
[All tabular amounts in millions of US Dollars, except where noted]

As a result of adopting US GAAP as the primary reporting standard for the Company, management has determined that investment tax credits (ITCs) having an after-tax value of \$13 million realized in its fiscal year ended October 31, 2001 and resulting from its acquisition of Phoenix International Life Sciences Inc. in the previous year had not been identified as a net income reconciliation item in the GAAP reconciliation note for fiscal 2001.

Under Canadian GAAP, acquired ITCs that are determined to have nil value for purposes of purchase price allocation are, if subsequently realized, recorded as income. Under US GAAP, such acquired ITCs are recorded when realized as a reduction in goodwill arising from that prior period acquisition. This item should therefore have been identified as a US GAAP net income reconciliation item in fiscal 2001. In subsequent periods, the reported amount of goodwill and retained earnings for US GAAP purposes were likewise overstated by this amount. The Company has corrected this error by restating opening retained earnings for fiscal 2005 in the accompanying consolidated statement of shareholders' equity and reducing the carrying value of goodwill by \$13 million. The impact of this restatement has been similarly reflected for subsequent periods.

b. Change in Accounting Policy

In addition, in adopting US GAAP, the Company has changed its accounting policy for non-refundable investment tax credits (ITCs). In these consolidated financial statements, the Company has recorded non-refundable ITCs as a reduction in income tax expense for the year in which the ITCs were recognized. Previously, the Company recorded non-refundable ITCs as a reduction of the related expenditure. Management believes this accounting policy change will make the Company's reporting of ITCs consistent with the majority of other companies who report under US GAAP.

There is no impact on net income from continuing operations, earnings per share, or retained earnings of any period as a result of this change. This change in policy increased (decreased) other lines on the consolidated statements of operations as follows:

| | | Three months ended January 31 | |
|--------------------------|----|-------------------------------|------|
| | | 2007 | 2006 |
| Direct cost of services | \$ | - | \$ 1 |
| Research and development | | 1 | 2 |
| Current income taxes | | (1) | (3) |

c. Adoption of SAB 108

MDS has adopted the provisions of Staff Accounting Bulletin (SAB) No. 108 – *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. In accordance with the provisions of SAB No. 108, the Company has recorded a cumulative adjustment to correct the treatment of certain deferred charges and related income tax expenses. The adjustments resulted in an increase in fiscal 2005 opening retained earnings of \$2 million and an adjustment to the tax expense associated with prior year deferred charges that reduced fiscal 2005 opening retained earnings by \$4 million. The cumulative net effect of these adjustments on retained earnings as at November 1, 2004 is a reduction of \$2 million. In addition, the Company has recorded a \$6 million reduction in November 1, 2004 retained earnings and a corresponding increase in additional paid-in capital to correct an amount that had previously been misclassified in the continuity of retained earnings.

3. Pending Acquisition

On January 29, 2007, MDS announced the signing of a definitive agreement to offer to purchase all of the outstanding shares of Common stock of Molecular Devices Corporation (MDC), a Delaware corporation at a price of \$35.50 per share, net to the seller in cash, without interest thereon, upon the terms and subject to the conditions set forth in the Offer to Purchase filed on February 13, 2007.

MDC is principally involved in the design, development, manufacture, sale and service of bioanalytical measurement systems that accelerate and improve drug discovery and other life sciences research. As a result of this acquisition, a new business segment will be created that will combine the MDC and MDS Sciex businesses.

The transaction, which is conditional upon certain regulatory approvals and upon MDS acquiring in excess of 50% of the fully diluted shares outstanding, is expected to close in the second quarter of 2007. The Company estimates that the total amount of funds required to purchase all 16,493,470 shares that were outstanding as of January 25, 2007 plus any stock options that have subsequently been converted to shares pursuant to the Offer and to pay related fees and expenses will be approximately \$615 million.

4. Discontinued Operations

In October 2006, the Company signed an agreement to sell its Canadian laboratory services business, MDS Diagnostic Services in a C\$1.325 billion transaction. This strategic sale is designed to shift the Company's business focus to the global life sciences market. In 2005, the Company approved a plan to divest of its interests in Source Medical Corporation, Calgary Laboratory Services LP and certain MDS Pharma Services businesses. As a result of these actions, these businesses are classified as discontinued operations.

The results of discontinued operations in the first quarter were as follows:

| | First Quarter | |
|---|----------------------|----------------|
| | 2007 | 2006 |
| Net revenues | \$ 75 | \$ 100 |
| Cost of revenues | (46) | (68) |
| Selling, general and administration | (8) | (15) |
| Depreciation and amortization | - | (3) |
| Restructuring charges | - | (1) |
| Operating income | 21 | 13 |
| Gain on sale of discontinued operations | - | 24 |
| Income taxes | (3) | (3) |
| Minority interest | (3) | (2) |
| Equity earnings | 1 | 1 |
| Income from discontinued operations | 16 | 33 |
| Basic EPS from discontinued operations | \$ 0.11 | \$ 0.23 |

NOTES TO RESTATED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 [All tabular amounts in millions of US Dollars, except where noted]

Assets held for sale and liabilities related to assets held for sale comprised:

| | As at January 31 2007 | As at October 31 2006 |
|--|--------------------------|--------------------------|
| Assets held for sale | | |
| Accounts receivable, net | \$ 28 | \$ 31 |
| Inventories, net | 3 | 3 |
| Prepaid expenses and other | 5 | 3 |
| Property, plant and equipment, net | 24 | 28 |
| Deferred tax assets | 55 | 63 |
| Long-term investments and other | 13 | 13 |
| Goodwill | 52 | 54 |
| Intangibles assets, net | 1 | 1 |
| Total assets held for sale | 181 | 196 |
| Less: Current assets held for sale ¹ | (181) | (196) |
| Long-term assets held for sale | \$ - | \$ - |
| Liabilities related to assets held for sale | | |
| Accounts payable and accrued liabilities | \$ 24 | \$ 33 |
| Income tax payable | 1 | - |
| Long-term debt | 3 | 4 |
| Other long-term obligations | 6 | 6 |
| Deferred tax liabilities | 48 | 55 |
| Minority interest | 16 | 16 |
| Total liabilities related to assets held for sale | 98 | 114 |
| Less: Current liabilities related to assets held for sale ¹ | (98) | (114) |
| Long-term liabilities related to assets held for sale | \$ - | \$ - |

¹ Assets held for sale and liabilities related to assets held for sale have been classified as current if the Company has signed agreements where such assets are expected to be disposed of within one year.

5. Accumulated Other Comprehensive Income [unaudited]

Restated see Note 2
 Three months ended January 31

| [millions of US dollars] | 2007 | 2006 |
|---|--------|--------|
| Accumulated other comprehensive income, net of income taxes, beginning of period | \$ 328 | \$ 268 |
| Foreign currency translation | (13) | 42 |
| Unrealized loss on available-for-sale assets | (3) | (3) |
| Accumulated other comprehensive income, net of income taxes, end of period | \$ 312 | \$ 307 |

See accompanying notes

NOTES TO RESTATED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 [All tabular amounts in millions of US Dollars, except where noted]

6. Restructuring Charges

An analysis of the activity in the provision through January 31, 2007 is as follows:

| | Restructuring Charge | Cumulative drawdowns | | Provision Balance at January 31, 2007 |
|---|-------------------------|----------------------|----------|---|
| | | Cash | Non-cash | |
| 2005: | | | | |
| Workforce reductions | \$ 34 | \$ (30) | \$ (1) | \$ 3 |
| Equipment and other asset write-downs – adjustment | 7 | - | (7) | - |
| Contract cancellation charges | 10 | (2) | (8) | - |
| | \$ 51 | \$ (32) | \$ (16) | \$ 3 |
| 2006: | | | | |
| Workforce reductions | \$ 1 | \$ (1) | \$ - | \$ - |
| Contract cancellation charges | (8) | (1) | 9 | - |
| | \$ (7) | \$ (2) | \$ 9 | \$ - |
| 2007: | | | | |
| Workforce reductions | \$ 3 | \$ (2) | \$ - | \$ 1 |
| Contract cancellation charges | 5 | (5) | - | - |
| Other | 5 | (1) | - | 4 |
| | \$ 13 | \$ (8) | \$ - | \$ 5 |
| | | | | \$ 8 |

The Company has continued to utilize the reserves established in prior years relating to change initiatives affecting support services, senior management reductions, and system implementations.

7. Earnings Per Share

a) Dilution

| [number of shares in millions] | Three months ended January 31 | |
|--|-------------------------------|--------|
| | 2007 | 2006 |
| Weighted average number of Common shares outstanding – basic | \$ 145 | \$ 143 |
| Impact of stock options assumed exercised | \$ - | \$ 1 |
| Weighted average number of Common shares outstanding – diluted | \$ 145 | \$ 144 |

b) Pro forma Impact of Stock-Based Compensation

Companies are required to calculate and disclose, in the notes to the consolidated financial statements, compensation expense related to the grant-date fair value of stock options for all grants of options for which no expense has been recorded in the consolidated statements of operations. For the Company, this includes those stock options issued prior to November 1, 2003.

NOTES TO RESTATED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 [All tabular amounts in millions of US Dollars, except where noted]

For purposes of these pro forma disclosures, the Company's net income and basic and diluted earnings per share would have been:

| | Three months ended January 31 | |
|--|-------------------------------|---------|
| | 2007 | 2006 |
| Net income | \$ 16 | \$ 46 |
| Compensation expense for options granted prior to November 1, 2003 | - | (1) |
| Net income – pro forma | \$ 16 | \$ 45 |
| Pro forma basic earnings per share | \$ 0.11 | \$ 0.32 |
| Pro forma diluted earnings per share | \$ 0.11 | \$ 0.32 |

8. Share Capital and Stock Options

The following table summarizes information on share capital and stock options and related matters as at January 31, 2007:

| [number of shares in thousands] | Number | Amount |
|---------------------------------|---------|--------|
| Common shares | | |
| Balance as at October 31, 2006 | 144,319 | \$ 566 |
| Issued during the period | 372 | 6 |
| Balance as at January 31, 2007 | 144,691 | \$ 572 |

| [number of stock options in thousands] | Number | Average Exercise Price (C\$) |
|--|--------|------------------------------|
| Stock options | | |
| Balance as at October 31, 2006 | 5,850 | \$ 18.76 |
| Activity during the period: | | |
| Granted | 59 | 20.71 |
| Exercised | (309) | 14.36 |
| Cancelled or forfeited | (91) | 20.10 |
| Balance as at January 31, 2007 | 5,509 | \$ 19.00 |

There were 3,938 stock options exercisable as at January 31, 2007.

During the quarter, the Company granted 59,000 options (2006 – 934,450) at an average exercise price of C\$20.71 (2006 - C\$19.98). These options have a fair value determined using the Black-Scholes model of C\$4.40 per share (2006 - C\$4.13) based on the following assumptions:

| | 2007 | 2006 |
|-----------------------------------|-------|-------|
| Risk-free interest rate | 4.0 % | 3.9 % |
| Expected dividend yield | 0.0 % | 0.7 % |
| Expected volatility | 0.22 | 0.23 |
| Expected time to exercise (years) | 3.25 | 3.25 |

9. Other Income (Expense) - Net

| | Three months ended January 31 | |
|--------------------------------------|-------------------------------|--------|
| | 2007 | 2006 |
| Write-down of other long-term assets | \$ - | \$ (1) |
| Gain on sale of investment | 2 | - |
| Foreign exchange gain | 3 | (1) |
| Other | (1) | - |
| Other income (expense) - net | \$ 4 | \$ (2) |

10. Post Employment Obligations

The Company sponsors various post-employment benefit plans including defined benefit and contribution pension plans, retirement compensation arrangements, and plans that provide extended health care coverage to retired employees. All defined benefit pension plans sponsored by the Company are funded plans. Other post-employment benefits are unfunded. During 2005, the Company amended the terms of certain post-employment plans such that effective January 1, 2008, and subject to certain transitional conditions, newly retired employees will no longer be entitled to extended health care benefits. The post employment obligation expense for the quarter was \$1 million (2006 - \$1 million).

11. Supplementary Cash Flow Information

Non-cash items affecting net income comprise:

| | Three months ended January 31 | |
|-------------------------------|-------------------------------|-------|
| | 2007 | 2006 |
| Depreciation and amortization | \$ 14 | \$ 11 |
| Stock option compensation | 1 | 2 |
| Deferred revenue | (2) | (3) |
| Deferred income taxes | 16 | (1) |
| Gain on sale of business | (2) | - |
| Mark-to-market on derivatives | - | 1 |
| Equity earnings | - | 3 |
| Other | 1 | (4) |
| | \$ 28 | \$ 9 |

Changes in non-cash working capital balances relating to operations include:

| [millions of US dollars] | Three months ended January 31 | |
|---------------------------------------|-------------------------------|---------|
| | 2007 | 2006 |
| Accounts receivable | \$ 13 | \$ 32 |
| Unbilled revenue | (16) | 12 |
| Inventories | (4) | 8 |
| Prepaid expenses | (24) | (14) |
| Accounts payable and deferred revenue | (14) | (82) |
| Income taxes | 12 | 4 |
| | \$ (33) | \$ (40) |

NOTES TO RESTATED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 [All tabular amounts in millions of US Dollars, except where noted]

12. Segment Information

Three months to January 31, 2007

| | MDS Pharma Services | MDS Nordion | MDS Sciex | Corporate and Other | Total |
|--|------------------------|----------------|---------------|------------------------|-----------------|
| Product revenues | \$ - | \$ 67 | \$ 38 | \$ - | \$ 105 |
| Service revenues | 121 | 0 | 15 | - | 136 |
| Reimbursement revenues | 23 | - | - | - | 23 |
| Total revenues | 144 | 67 | 53 | - | 264 |
| Direct product cost | - | (34) | (37) | - | (71) |
| Direct service costs | (89) | (1) | - | - | (90) |
| Reimbursed expenses | (23) | - | - | - | (23) |
| Selling, general and administration | (33) | (11) | (6) | (4) | (54) |
| Research and development | - | (1) | (11) | - | (12) |
| Depreciation and amortization | (8) | (3) | (3) | - | (14) |
| Restructuring charges – net | (8) | - | - | (5) | (13) |
| Other income (expense) – net | 2 | - | (1) | 3 | 4 |
| Equity earnings | - | - | 14 | - | 14 |
| Segment earnings (loss) | \$ (15) | \$ 17 | \$ 9 | \$ (6) | \$ 5 |
| Total Assets | \$ 846 | \$ 604 | \$ 125 | \$ 491 | \$ 2,066 |
| Capital expenditures | \$ 2 | \$ 1 | \$ 3 | \$ 3 | \$ 9 |

Total assets for 2007 exclude assets held for sale relating to discontinued operations

Three months to January 31, 2006

| | MDS Pharma Services | MDS Nordion | MDS Sciex | Corporate and Other | Total |
|--|------------------------|----------------|---------------|------------------------|-----------------|
| Product revenues | \$ - | \$ 69 | \$ 36 | \$ - | \$ 105 |
| Service revenues | 111 | 1 | 13 | - | 125 |
| Reimbursement revenues | 31 | - | - | - | 31 |
| Total revenues | 142 | 70 | 49 | - | 261 |
| Direct product cost | - | (33) | (38) | - | (71) |
| Direct service costs | (81) | (1) | - | - | (82) |
| Reimbursed expenses | (31) | - | - | - | (31) |
| Selling, general and administration | (29) | (11) | (2) | (5) | (47) |
| Research and development | - | (1) | (11) | - | (12) |
| Depreciation and amortization | (7) | (3) | (1) | - | (11) |
| Restructuring charges – net | 1 | - | - | (2) | (1) |
| Other income (expense) – net | - | - | 1 | (3) | (2) |
| Equity earnings | - | - | 13 | 1 | 14 |
| Segment earnings (loss) | \$ (5) | \$ 21 | \$ 11 | \$ (9) | \$ 18 |
| Total Assets | \$ 715 | \$ 692 | \$ 145 | \$ 458 | \$ 2,010 |
| Capital expenditures | \$ 7 | \$ 10 | \$ 1 | \$ 4 | \$ 22 |

Total assets for 2006 exclude assets held for sale relating to discontinued operations

13. Financial Instruments

The carrying amounts and fair values for all derivative financial instruments are as follows:

| | As at January 31 2007 | | As at January 31 2006 | |
|---|--------------------------|---------------|--------------------------|---------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Asset (liability) position: | | | | |
| Currency forward and option - assets | \$ - | \$ - | \$ 5 | \$ 5 |
| Currency forward and option - liabilities | \$ (4) | \$ (4) | \$ - | \$ - |
| Interest rate swap and option contracts | \$ (3) | \$ (3) | \$ (2) | \$ (2) |

As of January 31, 2007, the Company had outstanding foreign exchange contracts and options in place to sell up to \$178 million at a weighted average exchange rate of C\$1.1468 maturing over the next 12 months. The Company also had interest rate swap contracts that economically convert a notional amount of \$80 million of debt from a fixed to a floating interest rate.

14. Income Taxes

A reconciliation of expected income taxes to reported income tax expense is provided below. Income before taxes for continuing operations for the quarter ended January 31, 2007 include losses incurred in foreign jurisdictions for which no tax effect has been recorded. As a result, income tax expense for the quarter of \$3 million exceeded the amount expected based on statutory rates.

| | Three months ended January 31 | |
|--|-------------------------------|------|
| | 2007 | 2006 |
| Expected income tax expense at MDS's 35% (2006 – 35%) statutory rate | \$ 1 | \$ 6 |
| Increase (decrease) to tax expense as a result of: | | |
| Tax credits for research and development | (1) | (3) |
| Foreign losses that have not been recognized, net | 4 | - |
| Impact of tax rate changes on deferred tax balances | - | 2 |
| Other | (1) | (1) |
| Reported income tax expense | \$ 3 | \$ 4 |

15. Differences Between US and Canadian Generally Accepted Accounting Principles

The US GAAP accounting principles used in the preparation of these consolidated financial statements conform in all material respects to Canadian GAAP, except as set out below.

- i) Accounting for equity interests in joint ventures – The Company owns 50% interests in two partnerships that are subject to joint control. Under US GAAP, the Company records its share of earnings of these partnerships as equity earnings. Under Canadian GAAP, the Company proportionately consolidates these businesses. Under the proportionate consolidation method of accounting, MDS recognizes its share of the results of operations, cash flows, and financial position of the partnerships on a line-by-line basis in its consolidated financial statements and eliminates its share of all material intercompany transactions with the partnerships. While there is no impact on net income from continuing operations or earnings per share from continuing operations as a result of this

NOTES TO RESTATED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
[All tabular amounts in millions of US Dollars, except where noted]

difference, there are numerous presentation differences affecting the disclosures in these consolidated financial statements and in certain of the supporting notes.

- ii) Research and development – The Company expenses research and development costs as incurred. Under Canadian GAAP, the Company is required to capitalize development costs provided certain conditions are met. Such capitalized costs are referred to as deferred development costs and they are amortized over the estimated useful life of the related products, generally periods ranging from three to five years.
- iii) Investment tax credits – The Company records non-refundable investment tax credits as a reduction in current income tax expense in the year in which the tax credits are earned. The majority of non-refundable investment tax credits earned by MDS are related to research and development expenditures. Under Canadian GAAP, non-refundable investment tax credits are recorded as a reduction in the expense or the capital expenditure to which they relate.
- iv) Embedded derivatives – Under SFAS 133 – “Accounting for derivative instruments and hedging activities”, certain contractual terms are considered to behave in a similar fashion to a derivative contract and parties to the contracts are therefore required to separate the accounting for these embedded derivatives from the accounting for the host contract. Once separated, these embedded derivatives are subject to the general derivative accounting guidelines outlined in SFAS 133, particularly the requirement to mark these derivatives to market. For MDS, these terms typically relate to the currency in which the contract is denominated. Canadian GAAP is largely aligned with SFAS 133 for most embedded derivatives; however, Canadian GAAP provides exemptions for contracts that are written in a currency that is not the functional currency of one of the substantial parties to the contract but which is a currency in common usage in the economic environment of one of the contracting parties. The Company has elected to use this exemption available under Canadian GAAP in accounting for certain cobalt supply contracts entered into with a supplier located in Russia. The affected contracts are denominated in US dollars.
- v) Currency forward and option contracts – The Company currently designates the majority of the forward foreign exchange contracts it enters into as hedges of future anticipated cash inflows. In prior years, these contracts did not qualify for treatment as hedges according to US GAAP and, accordingly, such contracts were carried at fair value and changes in fair value were reflected in earnings. Under Canadian GAAP, all such contracts were eligible for hedge accounting, and as a result, gains and losses on these contracts were deferred and recognized in the period in which the cash flows to which they relate were incurred.
- vi) Comprehensive income – US GAAP requires that a statement of other comprehensive income and accumulated other comprehensive income be displayed with the same prominence as other financial statements. Under Canadian GAAP, statements of other comprehensive income and accumulated other comprehensive income were not required for years prior to the Company’s 2007 fiscal year.

NOTES TO RESTATED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
[All tabular amounts in millions of US Dollars, except where noted]

- vii) Pensions - Under US GAAP, the net funded status of pension plans sponsored by a Company are fully reflected in the consolidated assets or liabilities of the Company. The amount by which plan assets exceed benefit obligations or benefit obligations exceed plan assets, on a plan-by-plan basis, is reflected as an increase in assets or liabilities, with a corresponding adjustment to accumulated other comprehensive income. Under Canadian GAAP, only the net actuarial asset or liability is reflected in the consolidated financial statements.

- viii) Stock-based compensation – Under US GAAP, certain equity-based incentive compensation plans are accounted for under the liability method using a fair value model to determine the amount of the liability at each period end. Under Canadian GAAP, these plans are accounted for under the liability method using intrinsic value to measure the liability at each period end.

As mentioned in Note 1, in the fourth quarter 2007 during the preparation of our 2007 annual financial statements under US GAAP an error was identified in the prior interim financial statements with respect to certain stock based incentive compensation plans. The Company has corrected this error of \$2 million in these consolidated financial statements. The previous Canadian GAAP to US GAAP reconciliation is therefore amended by the below restated reconciliation.

Recent Canadian Accounting Pronouncements

- a) Capital disclosures – The CICA issued Section 1535, “Capital Disclosures”, which requires the disclosure of both the qualitative and quantitative information that enables users of financial statements to evaluate the entity’s objectives, policies, and processes for managing capital.
- b) Inventories – The CICA issued Section 3031, “Inventories”, which replaces existing Section 3030 and harmonizes the Canadian standards related to inventories with International Financial Reporting Standards. The new Section includes changes to the measurement of inventories, including guidance on costing, impairment testing, and disclosure requirements.
- c) Financial instruments – The CICA issued section 3862, “Financial Instruments – Disclosure” and Section 3863, “Financial Instruments – Presentation” to replace Section 3861, “Financial Instruments – Disclosure and Presentation”.

The Company is required to adopt Sections 1535, 3862, and 3863 effective for its fiscal year end beginning November 1, 2007 and these sections affect disclosures only. The Company is required to adopt Section 3031 effective February 1, 2008. The Company is currently evaluating the effects that the adoption of Section 3031 will have on its consolidated results of operations and financial condition and is not yet in a position to determine such effects.

NOTES TO RESTATED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 [All tabular amounts in millions of US Dollars, except where noted]

CONSOLIDATED STATEMENTS OF
 FINANCIAL POSITION

| As at January 31 [millions of US dollars] | 2007 Canadian GAAP | Reconciling Adjustments | Restated 2007 US GAAP |
|---|-----------------------|----------------------------|-----------------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 340 | \$ (5) | \$ 335 |
| Short-term investments | 29 | - | 29 |
| Accounts receivable, net | 212 | (2) | 210 |
| Unbilled revenue | 138 | - | 138 |
| Inventories, net | 90 | (6) | 84 |
| Income taxes recoverable | 29 | - | 29 |
| Prepaid expenses and other | 33 | - | 33 |
| Assets held for sale | 181 | - | 181 |
| Total Current Assets | \$ 1,052 | \$ (13) | \$ 1,039 |
| Property, plant and equipment, net | \$ 325 | \$ (4) | \$ 321 |
| Deferred tax asset | 17 | 16 | 33 |
| Long-term investments and other | 154 | - | 154 |
| Goodwill | 413 | (19) | 394 |
| Intangible assets, net | 322 | (16) | 306 |
| Total Assets | \$ 2,283 | \$ (36) | \$ 2,247 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current Liabilities | | | |
| Accounts payable and accrued liabilities | \$ 212 | \$ (5) | \$ 207 |
| Deferred revenue | 109 | - | 109 |
| Income taxes payable | 9 | (9) | - |
| Current portion of long-term debt | 93 | - | 93 |
| Liabilities related to assets held for sale | 98 | - | 98 |
| Total Current Liabilities | \$ 521 | \$ (14) | \$ 507 |
| Long-term debt | \$ 290 | \$ - | \$ 290 |
| Deferred revenue | 16 | - | 16 |
| Other long-term obligations | 23 | - | 23 |
| Deferred tax liabilities | 75 | (19) | 56 |
| Total Liabilities | \$ 925 | \$ (33) | \$ 892 |
| Shareholders' Equity | | | |
| Share capital | \$ 578 | \$ (6) | \$ 572 |
| Additional paid in capital | n/a | 69 | 69 |
| Retained earnings | 505 | (103) | 402 |
| Accumulated other comprehensive income | 275 | 37 | 312 |
| Total Shareholders' Equity | \$ 1,358 | \$ (3) | \$ 1,355 |
| Total Liabilities and Shareholders' Equity | \$ 2,283 | \$ (36) | \$ 2,247 |

NOTES TO RESTATED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 [All tabular amounts in millions of US Dollars, except where noted]

CONSOLIDATED STATEMENTS OF FINANCIAL
 POSITION

| As at October 31 [millions of US dollars] | 2006 Canadian GAAP | Reconciling Adjustment | Restated 2006 US GAAP |
|---|--------------------------|---------------------------|-----------------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 253 | \$ (6) | \$ 247 |
| Short-term investments | 135 | - | 135 |
| Accounts receivable, net | 229 | (5) | 224 |
| Unbilled revenue | 121 | 1 | 122 |
| Inventories, net | 86 | (6) | 80 |
| Income taxes recoverable | 42 | - | 42 |
| Prepaid expenses and other | 21 | - | 21 |
| Assets held for sale | 196 | - | 196 |
| Total Current Assets | \$ 1,083 | \$ (16) | \$ 1,067 |
| Property, plant and equipment, net | \$ 339 | \$ (5) | \$ 334 |
| Deferred tax asset | 37 | 10 | 47 |
| Long-term investments and other | 170 | 6 | 176 |
| Goodwill | 417 | (20) | 397 |
| Intangible assets, net | 338 | (16) | 322 |
| Total Assets | \$ 2,384 | \$ (41) | \$ 2,343 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current Liabilities | | | |
| Accounts payable and accrued liabilities | \$ 239 | \$ (2) | \$ 237 |
| Deferred revenue | 93 | (1) | 92 |
| Income taxes payable | 8 | - | 8 |
| Current portion of long-term debt | 20 | - | 20 |
| Liabilities related to assets held for sale | 114 | - | 114 |
| Total Current Liabilities | \$ 474 | \$ (3) | \$ 471 |
| Long-term debt | \$ 374 | \$ - | \$ 374 |
| Deferred revenue | 17 | - | 17 |
| Other long-term obligations | 23 | 1 | 24 |
| Deferred tax liabilities | 82 | 21 | 103 |
| Total Liabilities | \$ 970 | \$ 19 | \$ 989 |
| Shareholders' Equity | | | |
| Share capital | \$ 572 | \$ (6) | \$ 566 |
| Additional paid in capital | - | 69 | 69 |
| Retained earnings | 495 | (104) | 391 |
| Accumulated other comprehensive income | 347 | (19) | 328 |
| Total Shareholders' Equity | \$ 1,414 | \$ (60) | \$ 1,354 |
| Total Liabilities and Shareholders' Equity | \$ 2,384 | \$ (41) | \$ 2,343 |

CONSOLIDATED STATEMENTS OF OPERATIONS

Three months ended January 31, 2007

| [millions of US dollars except per share amounts] | Canadian GAAP | Reconciling Items | US GAAP |
|--|------------------|----------------------|-----------------|
| Revenues | | | |
| Products | \$ - | \$ - | \$ 105 |
| Services | - | - | 136 |
| Reimbursement revenues | - | - | 23 |
| Total revenues | \$ 250 | \$ 14 | \$ 264 |
| Costs and expenses | | | |
| Direct cost of products | \$ - | \$ (71) | \$ (71) |
| Direct cost of services | (160) | 70 | (90) |
| Reimbursed expenses | - | (23) | (23) |
| Selling, general and administration | (53) | (1) | (54) |
| Research and development | (5) | (7) | (12) |
| Depreciation and amortization | (17) | 3 | (14) |
| Restructuring charges - net | (13) | - | (13) |
| Other expense - net | 1 | 3 | 4 |
| Total costs and expenses | \$ (247) | \$ (26) | \$ (273) |
| Operating income (loss) from continuing operations | \$ 3 | (12) | (9) |
| Interest expense | (6) | - | (6) |
| Interest income | 4 | - | 4 |
| Equity earnings | - | 14 | 14 |
| Income from continuing operations before income taxes | 1 | 2 | 3 |
| Income tax expense | | | |
| - current | (3) | 1 | (2) |
| - deferred | - | (1) | (1) |
| Income (loss) from continuing operations | (2) | 2 | - |
| Income from discontinued operations - net of income tax | 16 | - | 16 |
| Net income | \$ 14 | \$ 2 | \$ 16 |
| Basic earnings (loss) per share | | | |
| - from continuing operations | \$ (0.02) | \$ 0.02 | \$ - |
| - from discontinued operations | 0.12 | (0.01) | 0.11 |
| Basic earnings (loss) per share | \$ 0.10 | \$ 0.01 | \$ 0.11 |
| Diluted earnings (loss) per share | | | |
| - from continuing operations | \$ (0.02) | \$ 0.02 | \$ - |
| - from discontinued operations | 0.12 | (0.01) | 0.11 |
| Diluted earnings(loss) per share | \$ 0.10 | \$ 0.01 | \$ 0.11 |

CONSOLIDATED STATEMENTS OF OPERATIONS

Three months ended January 31, 2006

| [millions of US dollars except per share amounts] | Canadian GAAP | | Reconciling Items | | Restated US GAAP |
|--|---------------|--------------|----------------------|---------------|---------------------|
| Revenues | | | | | |
| Products | \$ | - | \$ | - | \$ 105 |
| Services | | - | | - | 125 |
| Reimbursement revenues | | - | | - | 31 |
| Total revenues | \$ | 242 | \$ | 19 | \$ 261 |
| Costs and expenses | | | | | |
| Direct cost of products | \$ | - | \$ | (71) | \$ (71) |
| Direct cost of services | | (152) | | 70 | (82) |
| Reimbursed expenses | | - | | (31) | (31) |
| Selling, general and administration | | (48) | | 1 | (47) |
| Research and development | | (5) | | (7) | (12) |
| Depreciation and amortization | | (13) | | 2 | (11) |
| Restructuring charges - net | | (1) | | - | (1) |
| Other expense - net | | (1) | | (1) | (2) |
| Total costs and expenses | \$ | (220) | \$ | (37) | \$ (257) |
| Operating income (loss) from continuing operations | \$ | 22 | \$ | (18) | \$ 4 |
| Interest expense | | (3) | | - | (3) |
| Interest income | | 2 | | - | 2 |
| Equity earnings | | 1 | | 13 | 14 |
| Loss from continuing operations before income taxes | | 22 | | (5) | 17 |
| Income tax (expense) recovery | | | | | |
| - current | | (8) | | 6 | (2) |
| - deferred | | - | | (2) | (2) |
| Income (loss) from continuing operations | | 14 | | (1) | 13 |
| Income from discontinued operations - net of income tax | | 33 | | - | 33 |
| Net income (loss) | \$ | 47 | \$ | (1) | \$ 46 |
| Basic earnings per share | | | | | |
| - from continuing operations | \$ | 0.10 | \$ | (0.01) | \$ 0.09 |
| - from discontinued operations | | 0.23 | | - | 0.23 |
| Basic earnings per share | \$ | 0.33 | \$ | (0.01) | \$ 0.32 |
| Diluted earnings per share | | | | | |
| - from continuing operations | \$ | 0.10 | \$ | (0.01) | \$ 0.09 |
| - from discontinued operations | | 0.23 | | - | 0.23 |
| Diluted earnings per share | \$ | 0.33 | \$ | (0.01) | \$ 0.32 |

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Three months ended January 31, 2007 | | |
|--|-------------------------------------|----------------------|---------------------|
| [millions of US dollars] | Canadian GAAP | Reconciling Items | Restated US GAAP |
| Operating activities | | | |
| Net income | \$ 14 | \$ 2 | \$ 16 |
| Income from discontinued operations – net of tax | 16 | - | 16 |
| Income (loss) from continuing operations | (2) | 2 | - |
| Adjustments to reconcile net income to cash provided by operating activities relating to continuing operations | | | |
| Items not affecting current cash flow | 13 | 15 | 28 |
| Changes in non-cash working capital balances relating to operations | (28) | (5) | (33) |
| Cash used in operating activities of continuing operations | (17) | 12 | (5) |
| Cash provided by operating activities of discontinued operations | 16 | - | 16 |
| | (1) | 12 | 11 |
| Investing activities | | | |
| Increase (decrease) in deferred development charges | (2) | 2 | - |
| Purchase of property, plant and equipment | (8) | (1) | (9) |
| Proceeds on sale of short-term investments | 126 | - | 126 |
| Purchase of short-term investments | (22) | - | (22) |
| Proceeds on sale of long-term investments | 11 | - | 11 |
| Other | 1 | - | 1 |
| Cash provided by (used) in investing activities of continuing operations | 106 | 1 | 107 |
| Financing activities | | | |
| Repayment of long-term debt | (6) | - | (6) |
| Decrease in deferred revenue and other long-term obligations | 1 | - | 1 |
| Payment of cash dividends | (3) | - | (3) |
| Issuance of shares | 4 | - | 4 |
| Cash used in financing activities of continuing operations | (4) | - | (4) |
| Cash used in financing activities of discontinued operations | (2) | - | (2) |
| Effect of foreign exchange rate changes on cash and cash equivalents | (12) | (12) | (24) |
| Increase in cash and cash equivalents during the period | 87 | 1 | 88 |
| Cash and cash equivalents, beginning of period | 253 | (6) | 247 |
| Cash and cash equivalents, end of period | \$ 340 | \$ (5) | \$ 335 |

NOTES TO RESTATED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 [All tabular amounts in millions of US Dollars, except where noted]

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Three months ended January 31, 2006 | | |
|--|-------------------------------------|----------------------|---------------------|
| [millions of US dollars] | Canadian GAAP | Reconciling Items | Restated US GAAP |
| Cash flows from operating activities | | | |
| Net income | \$ 47 | \$ (1) | \$ 46 |
| Income from discontinued operations – net of tax | 33 | - | 33 |
| Income from continuing operations | 14 | (1) | 13 |
| Adjustments to reconcile net income to cash provided by operating activities relating to continuing operations | | | |
| Items not affecting current cash flow | 12 | (3) | 9 |
| Changes in non-cash working capital balances relating to operations | (43) | 3 | (40) |
| Cash provided by (used in) operating activities of continuing operations | (17) | (1) | (18) |
| Cash provided by (used in) operating activities of discontinued operations | 13 | - | 13 |
| | (4) | (1) | (5) |
| Investing activities | | | |
| Increase in deferred development charges | (1) | 1 | - |
| Purchase of property, plant and equipment | (22) | - | (22) |
| Proceeds on sale of short-term investments | - | - | - |
| Purchase of short-term investments | - | - | - |
| Other | (17) | - | (17) |
| Cash provided by (used in) investing activities of continuing operations | (40) | 1 | (39) |
| Cash provided by (used in) investing activities of discontinued operations | 68 | - | 68 |
| Financing activities | | | |
| Repayment of long-term debt | | | |
| Increase (decrease) in deferred revenue and other long-term obligations | (9) | - | (9) |
| Payment of cash dividends | (3) | - | (3) |
| Issuance of shares | 10 | - | 10 |
| Cash used in financing activities of continuing operations | (2) | - | (2) |
| Cash used in financing activities of discontinued operations | (7) | - | (7) |
| Effect of foreign exchange rate changes on cash and cash equivalents | 9 | 4 | 13 |
| Increase in cash and cash equivalents during the period | 24 | 4 | 28 |
| Cash and cash equivalents, beginning of period | 224 | (9) | 215 |
| Cash and cash equivalents, end of period | \$ 248 | \$ (5) | \$ 243 |

NOTES TO RESTATED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 [All tabular amounts in millions of US Dollars, except where noted]

| | Three months ended January 31 | |
|--|-------------------------------|----------------|
| | 2007 | 2006 |
| Net income (loss) from continuing operations in accordance with Canadian GAAP | \$ (2) | \$ 14 |
| US GAAP adjustments: | | |
| Deferred development costs - net | - | (1) |
| Mid term incentive plan reversal | 2 | - |
| Reduction in income tax expense arising from GAAP adjustments | - | - |
| Net income (loss) from continuing operations in accordance with US GAAP | - | 13 |
| Income from discontinued operations in accordance with Canadian and US GAAP – net of tax | 16 | 33 |
| Net income in accordance with US GAAP | \$ 16 | \$ 46 |
| Basic and diluted earnings per share in accordance with US GAAP | | |
| - from continuing operations | \$ - | \$ 0.09 |
| - from discontinued operations | 0.11 | 0.23 |
| | \$ 0.11 | \$ 0.32 |

16. Comparative Figures

All comparative financial information has been restated to reflect the Company's results as if they had been historically reported in US dollars and in accordance with US GAAP. Certain figures for the previous year have been reclassified to conform to the current year's financial statement presentation. In addition, segmented information for 2006 has been revised to reflect the discontinued operations reported.

17. Subsequent Events

Subsequent to the year-end, the Company signed an agreement to sell its external beam therapy and self-contained irradiator product lines. The sale is a result of MDS Nordion's strategy to focus its resources on being a leading innovator in molecular medicine. Under the terms of this agreement, Best Medical International Inc., a provider of radiotherapy and oncology products, will purchase MDS Nordion's external beam therapy and self-contained irradiator product lines for \$15 million. Best Medical International Inc. will acquire these two product lines with combined annualized revenues of approximately US\$32 million and approximately 150 employees. The transaction, which is subject to the usual closing conditions, is expected to close in the second quarter of 2008. The Company will report a loss on disposal of this product line, including all costs associated with the disposal, in the range of \$4 million to \$6 million.

On November 30 and December 5, 2007, we announced that MDS Nordion was experiencing an interruption in supply of medical isotopes from our primary supplier, Atomic Energy of Canada Limited (AECL) while they completed a scheduled shutdown and an upgrade to the electrical system of the National Research Universal reactor. AECL advised us that they are working closely with industry regulators on this matter. They also advised us that production was scheduled to recommence in early to mid-January. While we are working closely with our global supply network to lessen the impact of this shutdown, we will not be able to fully mitigate the impact of this supply disruption on our results. We currently estimate the impact of this disruption on operating income at \$8 to \$9 million in total for the first quarter of 2008.