

# Q4

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



# A Stronger MDS



*Science advancing health*

## RESTATED MANAGEMENT'S DISCUSSION AND ANALYSIS

December 12, 2007

The following management's discussion and analysis of the results of operations for MDS Inc. (MDS or the Company) for the quarter ended October 31, 2007 and its financial position as at October 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 end of 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 under US GAAP 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 December, 12, 2007 (as revised) unless otherwise indicated. Accordingly, this Restated MD&A has not been updated to reflect new facts, events or circumstances since December, 12, 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](http://www.mdsinc.com) and at [www.sedar.com](http://www.sedar.com). In addition, the Company's 40-F filing is available at [www.sec.gov](http://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 October 31, 2007. We provide information and analysis in our Restated MD&A comparing the results of operations for the current interim period to those of the same period in the preceding fiscal year and comparing our financial position to that at the end of 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

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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 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

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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.

Amounts are in millions of United States 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.

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

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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.

### **Restatement to US GAAP**

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

The following tables highlight 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 quarter and the year-to-date results. 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 Fourth Quarter				2006 Fourth Quarter			
	Previously Reported (CAD GAAP)	GAAP Adjustments	Correction	Restated Correction (US GAAP)	Previously Reported (CAD GAAP)	GAAP Adjustments	Correction	Restated Correction (US GAAP)
Total revenues	\$338	(11)	-	\$327	\$285	(10)	-	\$275
Reimbursement revenues	(20)	-	-	(20)	(25)	-	-	(25)
<b>Net revenues</b>	<b>\$318</b>	<b>(11)</b>	<b>-</b>	<b>\$307</b>	<b>\$260</b>	<b>(10)</b>	<b>-</b>	<b>\$250</b>
<b>Income (loss) from continuing operations</b>	<b>17</b>	<b>(3)</b>	<b>1</b>	<b>15</b>	<b>14</b>	<b>(2)</b>	<b>-</b>	<b>12</b>
Income taxes	8	(8)	-	-	2	(6)	-	(4)
Net interest expense	-	-	-	-	2	-	-	2
Loss (gain) on derivatives	(2)	1	-	(1)	(2)	-	-	(2)
Depreciation and amortization	26	(3)	-	23	18	(4)	-	14
<b>EBITDA</b>	<b>49</b>	<b>(13)</b>	<b>1</b>	<b>37</b>	<b>34</b>	<b>(12)</b>	<b>-</b>	<b>22</b>
Restructuring charges, net	(4)	-	-	(4)	(11)	-	-	(11)
Valuation provisions	2	-	-	2	-	-	-	-
MAPLE settlement	(3)	3	-	-	-	-	-	-
Gain on sale of a business/investment	(5)	-	-	(5)	-	-	-	-
Acquisition integration	5	-	-	5	-	-	-	-
<b>Adjusted EBITDA</b>	<b>\$44</b>	<b>(10)</b>	<b>1</b>	<b>\$35</b>	<b>\$23</b>	<b>(12)</b>	<b>-</b>	<b>\$11</b>
<b>Adjusted EBITDA margin</b>	<b>14%</b>			<b>11%</b>	<b>9%</b>			<b>4%</b>

	2007 Fourth Quarter YTD				2006 Fourth Quarter YTD			
	Previously Reported (CAD GAAP)	GAAP Adjustments	Correction	Restated Correction (US GAAP)	Previously Reported (CAD GAAP)	GAAP Adjustments	Correction	Restated Correction (US GAAP)
Total revenues	\$1,253	(43)	-	\$1,210	\$1,107	(47)	-	\$1,060
Reimbursement revenues	(91)	-	-	(91)	(105)	-	-	(105)
<b>Net revenues</b>	<b>\$1,162</b>	<b>(43)</b>	<b>-</b>	<b>\$1,119</b>	<b>\$1,002</b>	<b>(47)</b>	<b>-</b>	<b>\$955</b>
<b>Income (loss) from continuing operations</b>	<b>(34)</b>	<b>(3)</b>	<b>4</b>	<b>(33)</b>	<b>29</b>	<b>(7)</b>	<b>-</b>	<b>22</b>
Income taxes	(7)	(18)	2	(23)	13	(48)	-	(35)
Net interest expense	2	-	-	2	6	-	-	6
Loss (gain) on derivatives	(1)	-	-	(1)	1	(1)	-	-
Depreciation and amortization	91	(12)	-	79	63	(12)	-	51
<b>EBITDA</b>	<b>51</b>	<b>(33)</b>	<b>6</b>	<b>24</b>	<b>112</b>	<b>(68)</b>	<b>-</b>	<b>44</b>
Restructuring charges, net	40	(3)	-	37	(7)	-	-	(7)
Valuation provisions	8	-	-	8	6	-	-	6
MAPLE settlement	(6)	6	-	-	9	27	-	36
Gain on sale of a business/investment	(4)	-	-	(4)	(2)	-	-	(2)
Provision for FDA-related settlements	61	-	-	61	-	-	-	-
Acquisition integration	19	-	-	19	-	-	-	-
<b>Adjusted EBITDA</b>	<b>\$169</b>	<b>(30)</b>	<b>6</b>	<b>\$145</b>	<b>\$118</b>	<b>(41)</b>	<b>-</b>	<b>\$77</b>
<b>Adjusted EBITDA margin</b>	<b>15%</b>			<b>13%</b>	<b>12%</b>			<b>8%</b>

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

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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 October 31, 2007, include accounting for: joint ventures, investment tax credits, research and development, stock-based compensation, embedded derivatives, pensions and hedge contracts.

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 Analytical Technologies, whereas under US GAAP we apply the method of equity accounting. For the fourth quarter of 2007, we reported \$12 million less revenue and \$15 million less operating income under US GAAP than we would have reported under Canadian GAAP (\$7 million less and \$14 million less, respectively for the fourth quarter of 2006). Under US GAAP, the income from the joint ventures is included in equity earnings, which were \$13 million in fourth quarter of 2007 (\$12 million in fourth 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.

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 fourth quarter of 2007, there were \$8 million (\$6 million in the fourth quarter of 2006) of ITCs. Adjusted EBITDA was reduced by \$5 million (\$6 million in the fourth quarter of 2006) when calculated based on US GAAP, compared to Canadian GAAP, as \$3 million of ITCs (nil in the fourth quarter of 2006) related to MAPLE project and were treated as an adjusting item in our calculation of adjusted EBITDA.
- **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 fourth quarter of 2007, the \$5 million (\$2 million in fourth 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 \$1 million for fourth quarter of 2007 (nil in 2006) when calculated based on US GAAP, compared to Canadian GAAP.
- The other differences, which are described in Note 15 to our restated interim financial statements, include accounting for embedded derivatives, pensions and hedges. In the fourth quarter of 2007, embedded derivatives increase adjusted EBITDA by \$4 million (nil in 2006) and pensions decreased adjusted EBITDA by \$4 million (nil in 2006) when calculated based on US GAAP, compared to Canadian GAAP.

In calculating adjusted EBITDA, the significant changes to the adjusting items include the following two items:

- In 2007, capitalized R&D was charged to restructuring under Canadian GAAP. Under US GAAP, these expenditures may not be capitalized and therefore there is no adjustment. This difference only impacts the year-to-date adjusting items.
- In 2006, under Canadian GAAP, ITCs were netted against MAPLE settlement. Under US GAAP these are treated as reduction to income tax.

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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 October 31, 2007, for our corresponding MD&A based on Canadian GAAP.

### MDS Inc.

Consolidated operating highlights and reconciliation of consolidated adjusted EBITDA

Fourth Quarter			Year-to-date		
2007	2006		2007	2006	
327	275	Total revenues	1,210	1,060	
(20)	(25)	Reimbursement revenues	(91)	(105)	
\$ 307	\$ 250	Net revenues	\$ 1,119	\$ 955	
15	12	<b>Income (loss) from continuing operations</b>	<b>(33)</b>	22	
-	(4)	Income taxes	(23)	(35)	
-	2	Net interest expense	2	6	
(1)	(2)	Loss (gain) on derivatives	(1)	-	
23	14	Depreciation and amortization	79	51	
37	22	<b>EBITDA</b>	<b>24</b>	44	
(4)	(11)	Restructuring charges, net	37	(7)	
2	-	Valuation provisions	8	6	
-	-	MAPLE settlement	-	36	
(5)	-	Gain on sale of a business/investment	(4)	(2)	
-	-	Provision for FDA-related settlements	61	-	
5	-	Acquisition integration	19	-	
\$ 35	\$ 11	<b>Adjusted EBITDA</b>	<b>\$ 145</b>	\$ 77	
11%	4%	<b>Adjusted EBITDA margin</b>	<b>13%</b>	8%	

Consolidated net revenues, which exclude reimbursement revenues associated with reimbursed expenses in the MDS Pharma Services segment, were up 23% on a reported basis to \$307 million for the fourth quarter of 2007 compared to \$250 million last year. The Molecular Devices (MD) division of MDS Analytical Technologies, which was acquired earlier this year, added \$54 million of net revenue in the quarter, pushing net revenue growth for MDS Analytical Technologies to slightly more than double compared to that of the fourth quarter of 2006. MDS Pharma Services net revenues increased 1% compared to the same period in 2006, as 10% growth in our late-stage businesses continued to be offset by declines in the early-stage businesses. MDS Nordion net revenues were up 1% compared to the same period in 2006 on a reported basis, and up 4% excluding the impact of deferred revenue realized last year associated with our Zevalin® contract, which expired in February 2007.

Income from continuing operations for the fourth quarter of 2007 was \$15 million compared to \$12 million reported for the same period in 2006. The fourth quarter of 2007 included \$11 million in expenses for integration and amortization related to Molecular Devices. Adjusted EBITDA for the quarter was \$35 million, up more than three times compared to \$11 million reported for last year. On a year-over-year basis, the significant decline in the value of the US dollar negatively impacted adjusted EBITDA due to both the foreign exchange impact on our operating activities and a \$10 million increase in the loss for the impact of foreign exchange on certain monetary assets and liabilities. MDS Pharma Services delivered improvement in adjusted EBITDA. MDS Analytical Technologies also had a strong quarter on an adjusted EBITDA basis, with and without the impact of the MD acquisition.

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Adjustments reported for the quarter include \$5 million of costs related to the integration of MDS Analytical Technologies, including \$2 million related to amortization of fair value increments recorded for deferred revenue from service contracts. Although we report this deferred revenue adjustment as an operating income adjustment in this non-GAAP measure, our GAAP-based income statement reports this amount as a reduction in revenues.

Other adjustments for the quarter include a release of \$4 million of restructuring reserves related primarily to severance costs for employees who left voluntarily prior to their planned termination.

In early August 2007, we invested in \$17 million of asset-backed commercial paper that has since been affected by the recent liquidity disruption in that market. We recorded a valuation provision of \$2 million as an adjusting item to reflect our estimate of the current value of that asset. The provision reflects management's best estimate of the likely impairment based on a risk-adjusted estimate of expected future cash flows. Continuing uncertainties regarding the value of the assets, the nature and timing of future cash flows, and the outcome of the restructuring of this financial market may impact the amount that MDS will ultimately realize on this investment.

In October, we were advised that we were entitled to receive \$5 million of bankruptcy proceeds resulting from the final liquidation of Protana Inc. (formerly MDS Proteomics Inc.). This recovery is included in other income and it has been treated as an adjusting item.

Selling, general, and administration (SG&A) expenses for the quarter totaled \$84 million or 27% of net revenues compared to \$58 million and 23% last year. The increase in SG&A of \$26 million includes \$17 million resulting from the addition of MD during the year.

We spent \$20 million on research and development (R&D) activities in the fourth quarter this year, compared to spending of \$16 million last year. The majority of the increase in R&D spending comes from the spending in our new MD business.

Consolidated depreciation and amortization expense increased \$9 million compared to the fourth quarter of last year. In the fourth quarter of 2007, we amortized \$6 million of intangible assets acquired as part of the MD transaction. In total, we recorded \$161 million of intangible assets related to acquired technology, reagents, and intellectual property that we currently estimate will be amortized over a weighted average useful life of 6 years. Capital expenditures for the quarter were \$28 million, compared to \$15 million in the fourth quarter of 2006.

Other expenses included the impact of the significant \$0.12 drop in the value of the US dollar compared to the Canadian dollar following our July quarter-end, which resulted in consolidated foreign exchange losses from the translation of certain monetary assets and liabilities of \$11 million, compared to a \$1 million loss in the prior-year quarter.

The loss from discontinued operations of \$2 million for the fourth quarter this year reflects costs associated with the sale of our Canadian diagnostics businesses. Income from discontinued operations of \$33 million for 2006 reflects the operating results of our Canadian diagnostics businesses for that period.

Earnings per share from continuing operations were \$0.12 for the quarter, compared to \$0.08 in 2006. Adjusted earnings per share from continuing operations for the quarter were \$0.07 compared to \$0.00 earned in the same period last year. Earnings per share from

RESTATED MANAGEMENT'S DISCUSSION AND ANALYSIS

discontinued operations were a loss of \$0.01 compared to income of \$0.23 last year. Adjusted earnings per share for the two periods were as follows:

	Fourth Quarter		Year-to-date	
	2007	2006	2007	2006
Basic earnings (loss) per share from continuing operations – as reported	\$ 0.12	\$ 0.08	\$ (0.25)	\$ 0.15
Adjusted for:				
Restructuring charges, net	(0.02)	(0.05)	0.19	(0.04)
FDA-related customer settlements	-	-	0.31	-
Valuation provisions	0.01	-	0.06	0.05
Mark-to-market on interest rate swaps	(0.01)	-	(0.01)	-
MAPLE settlement	(0.01)	-	(0.03)	0.04
Gain on sale of business and long-term investments	(0.04)	-	(0.02)	-
Acquisition integration	0.02	-	0.09	-
Tax rate changes	-	(0.03)	-	(0.03)
Adjusted EPS	\$ 0.07	\$ 0.00	\$ 0.34	\$ 0.17

**MDS Pharma Services  
Financial Highlights**

Fourth Quarter					Year-to-date				
2007	% of net revenues	2006	% of net revenues		2007	% of net revenues	2006	% of net revenues	
\$ 66	54%	\$ 70	57%	Early-stage	\$ 254	53%	\$ 267	58%	
57	46%	52	43%	Late-stage	223	47%	191	42%	
123	100%	122	100%	Net revenues	477	100%	458	100%	
\$ 20	-	\$ 25	-	Reimbursement revenues	\$ 91	-	\$ 105	-	
143		147		<b>Total revenues</b>	568		563		
(81)	(66%)	(97)	(80%)	Cost of revenues	(332)	(70%)	(359)	(78%)	
(20)		(25)		Reimbursed expenses	(91)		(105)		
(35)	(28%)	(34)	(28%)	Selling, general, and administration	(130)	(27%)	(125)	(27%)	
-	-	-	-	Research and development	-	-	-	-	
(9)	(7%)	(9)	(7%)	Depreciation and amortization	(35)	(7%)	(30)	(6%)	
4	3%	1	1%	Restructuring charges	(28)	(6%)	-	-	
(6)	(5%)	(3)	(2%)	Other income (expense)	(74)	(16%)	2	0%	
(4)	(3%)	(20)	(16%)	<b>Operating income (loss)</b>	(122)	(26%)	(54)	(12%)	
-	-	-	-	Adjustments:					
(4)	(3%)	(1)	(1%)	Provision for FDA-related settlements	61	13%	-	-	
-	-	-	-	Restructuring charges	28	6%	-	-	
-	-	-	-	Loss (gain) on sale of a business	4	1%	(2)	(0%)	
-	-	-	-	Valuation provision	-	-	-	-	
(8)	(6%)	(21)	(17%)		(29)	(6%)	(56)	(12%)	
9	7%	9	7%	Depreciation and amortization	35	7%	30	6%	
\$ 1	1%	\$ (12)	(10%)	<b>Adjusted EBITDA</b>	\$ 6	1%	\$ (26)	(6%)	
34%		20%		<b>Margins:</b>					
1%		(10%)		Gross margin	30%		22%		
				Adjusted EBITDA	1%		(6%)		
\$ 20		\$ 11		<b>Capital expenditures</b>	\$ 48		\$ 37		

MDS Pharma Services net revenues grew 1% as a result of continued revenue growth from our late-stage businesses. Late-stage revenues grew 10% compared to the fourth quarter of 2006; however, this growth was largely offset by weaker early-stage revenues, which were down 6% compared to the same quarter last year. Weakness in revenues from bioanalytical and discovery/preclinical services more than offset otherwise strong growth in drug safety testing. Phase I revenues were level with the fourth quarter last year and are gaining momentum sequentially.

Early-stage contract awards were strong this quarter compared to last year; however, we experienced some order weakness and a higher than normal level of contract cancellations relating to compound failures and customer mergers affecting our late-stage businesses. Combined with the improved conversion of contract backlog, this weakness contributed to an overall decrease in average monthly pharmaceutical research backlog to \$385 million, down 10% compared to the fourth quarter of 2006. We are encouraged by the strength of new bioanalytical orders, which doubled compared to the fourth quarter of 2006, as well as the improved quality of our period-end backlog resulting from our focus on bidding on contracts that enable us to achieve reliable profitability.

**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
Quarter 2		450
Quarter 3		420
Quarter 4		385

MDS Pharma Services had an operating loss of \$4 million for the quarter, compared to a loss of \$20 million for the same period last year. MDS Pharma Services also experienced approximately \$6 million of unfavourable foreign currency impact in the quarter compared to the prior year. Fourth quarter 2006 operating income reflects \$8 million of spending on the US Food and Drug Administration (FDA) review of our Montreal bioanalytical operations. Spending on this matter during the fourth quarter of 2007 amounted to \$6 million, and this was charged to the reserve established for this purpose.

Adjusted EBITDA for the fourth quarter was \$1 million, up substantially from the \$12 million adjusted EBITDA loss reported for the fourth quarter of 2006. Fiscal 2007 adjustments reflect the release of restructuring provisions related to severance for employees who resigned prior to being terminated and to whom no severance was therefore paid. Fiscal 2006 operating income was adjusted downwards by \$1 million to eliminate a net recovery of certain restructuring costs as the related restructuring initiatives were completed below budget.

During the fourth quarter of 2007, we continued to implement our restructuring plan, largely completing the staff reductions at our Montreal facility, including a substantial reduction of staff supporting the FDA audits and other audits being conducted by our clients. We made substantial progress on the consolidation of central laboratory operations in Europe and completed the closure of our Sittingbourne, UK facility. During the quarter, we also completed the transfer of certain operations from Montreal to our Bothell, Washington and Lincoln, Nebraska facilities. To date, these restructuring activities have resulted in a headcount reduction of approximately 400 employees and we have utilized \$15 million of the restructuring reserve established in the second quarter of 2007 on these activities. The remaining reserve is \$11 million and we anticipate further headcount reductions affecting 100 positions in the first half of next year.

Capital expenditures in the pharmaceutical services segment were \$20 million compared to \$11 million last year. Late in the quarter, our Beijing, China central laboratory facility moved to larger and more modern facilities, resulting in a significant increase in testing capacity. The new facility also provides for more kit production space and can accommodate a wider range of specialized clinical testing services.

**Regulatory Review of Montreal Bioanalytical Operations**

The six-month time limit imposed by the FDA for generic audits has passed, and we believe we have substantially completed all site audits for generic customers that were required of them by the FDA. We continue to receive a limited number of study audit requests from innovator customers and expect we may continue to receive these requests in low numbers in the coming months.

## RESTATED MANAGEMENT'S DISCUSSION AND ANALYSIS

We have responded to questions from European regulators about the nature of the work that was done for the FDA. Although we are not able to assess the potential impact of possible foreign regulatory actions, if any, at this time we are satisfied with the progression of these discussions.

During the second quarter, we approved and recorded a \$61 million provision for a reimbursement policy for clients who have incurred or will incur third party audit costs or study re-run costs to complete the work required by the FDA and other regulators. We have utilized \$11 million of this reserve for such costs, an amount that was partially offset by a foreign currency translation gain on the US-dollar denominated components of the cost estimate. We await reimbursement requests for the majority of the generic and innovator study audits that were completed in our facility. Based on information currently available, we believe that the remaining reserve of \$55 million will be sufficient to cover any agreements reached with clients for study audits, study re-runs, and other related costs.

Full and complete resolution of the bioanalytical regulatory issues has been a key area of focus for MDS Pharma Services and MDS. We remain committed to working cooperatively with the FDA, other regulators, and our customers to address any regulatory concerns and to support our customers with further follow up, if any. The remaining reserve reflects our current best estimate of the costs we expect to incur with respect to this work and for obligations we have to clients. There can be no assurance at this time that the full balance of this reserve will be required, or that costs will not exceed the amounts we have currently estimated.

### MDS Nordion Financial Highlights

Fourth Quarter					Year-to-date				
	2007	% of net revenues	2006	% of net revenues		2007	% of net revenues	2006	% of net revenues
\$	74	97%	\$ 73	97%	Product revenues	\$ 284	98%	\$ 290	98%
	2	3%	2	3%	Service revenues	6	2%	5	2%
	76	100%	75	100%	<b>Net revenues</b>	<b>290</b>	<b>100%</b>	295	100%
	(39)	(51%)	(38)	(51%)	Cost of product revenues	(147)	(51%)	(147)	(50%)
	(1)	(1%)	(1)	(1%)	Cost of service revenues	(3)	(1%)	(3)	(1%)
	(18)	(25%)	(14)	(19%)	Selling, general, and administration	(54)	(19%)	(51)	(17%)
	(1)	(1%)	(1)	(1%)	Research and development	(4)	(1%)	(5)	(2%)
	(3)	(4%)	(4)	(5%)	Depreciation and amortization	(13)	(4%)	(15)	(5%)
	-	-	2	2%	Restructuring charges	-	-	2	1%
	3	4%	-	-	Other income (expense)	3	1%	(36)	(12%)
	17	22%	19	25%	<b>Operating income</b>	<b>72</b>	<b>25%</b>	40	14%
	-	-	-	-	Adjustments:				
	-	-	-	-	MAPLE settlement	-	-	36	12%
	-	-	-	-	Gain on a sale of a business	(1)	(0%)	-	-
	-	-	(2)	(2%)	Restructuring charges, net	-	-	(2)	(1%)
	17	22%	17	23%		71	25%	74	25%
	3	4%	4	5%	Depreciation and amortization	13	4%	15	5%
\$	20	26%	\$ 21	28%	<b>Adjusted EBITDA</b>	<b>\$ 84</b>	<b>29%</b>	\$ 89	30%
	48%		48%		<b>Margins:</b>				
	26%		28%		Gross margin	48%		49%	
					Adjusted EBITDA	29%		30%	
\$	3		\$ -		<b>Capital expenditures</b>	<b>\$ 8</b>		\$ -	

## RESTATED MANAGEMENT'S DISCUSSION AND ANALYSIS

MDS Nordion revenues were up 1% year-over-year on a reported basis. Revenues for 2006 included \$2 million related to deferred revenue associated with the 2004 cancellation of the supply agreement between MDS Nordion and Biogen Idec. Excluding the impact of this item, revenues were up 4% compared to the fourth quarter of 2006, largely due to the strength of the Canadian dollar this year and increased revenue associated with our expanding TheraSphere® markets. These increases were offset by declines in cobalt shipments and the prior-year sale of a production irradiator that was not repeated in the current-year quarter.

Operating income was \$17 million compared to \$19 million last year in the same period and adjusted EBITDA was \$20 million in the fourth quarter of 2007, down \$1 million year-over-year. There was one adjustment for 2006 for unused restructuring reserves associated with our European generic radiopharmaceutical manufacturing business, the closure of which was completed at the end of last year. SG&A expense of \$18 million was up \$4 million primarily due to increased pension expense in the fourth quarter of 2007. Other income of \$3 million in the fourth quarter of 2007 primarily related to a gain on an embedded derivative associated with our cobalt supply agreements described below. Capital expenditures in the isotopes segment for the quarter were \$3 million, compared to none last year.

Late in the quarter, MDS Nordion announced the signing of a 17-year, \$83 million agreement for the supply of cobalt-60 with Rosenergoatom, the operating utility of Russia's nuclear power plants. This contract, together with an existing agreement signed in 2005, provides for a 30% increased supply of cobalt-60 to MDS Nordion by 2016. Cobalt-60 is primarily used for the sterilization of hospital medical supplies to help prevent patient infection and disease by reducing harmful bacteria.

Subsequent to the year-end, we announced the signing of an agreement to sell our external beam therapy and self-contained irradiator product lines. The sale is a key part 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. Best Medical International Inc. will acquire these two product lines with combined annualized revenues of approximately US\$32 million at an adjusted EBITDA margin of 5% and approximately 150 employees. The transaction, which is subject to the usual closing conditions, is expected to close in the second quarter of 2008. We anticipate that we will report a loss on disposal of this business, including all costs associated with the disposal, in the range of \$4 million to \$6 million.

## MDS Analytical Technologies

## Financial Highlights

Fourth Quarter				Year-to-date				
2007	% of net revenues	2006	% of net revenues		2007	% of net revenues	2006	% of net revenues
\$ 86	80%	\$ 39	74%	Product revenues	\$ 280	80%	\$ 148	73%
22	20%	14	26%	Service revenues	72	20%	54	27%
108	100%	53	100%	<b>Net revenues</b>	352	100%	202	100%
(58)	(54%)	(38)	(72%)	Cost of product revenues	(213)	(61%)	(149)	(74%)
(1)	(1%)	-	-	Cost of service revenues	(3)	(1%)	-	-
(20)	(18%)	(6)	(11%)	Selling, general, and administration	(57)	(16%)	(20)	(9%)
(19)	(18%)	(15)	(28%)	Research and development	(64)	(18%)	(48)	(24%)
(10)	(9%)	(1)	(2%)	Depreciation and amortization	(29)	(8%)	(6)	(3%)
(1)	(1%)	2	4%	Restructuring charges				
(1)	(1%)	(5)	(9%)	Other income (expense) net	(6)	(2%)	5	2%
				<b>Operating income</b>	(20)	(6%)	(16)	(8%)
				Adjustments:				
13	12%	12	22%	Equity earnings	53	16%	54	27%
5	5%	-	-	Acquisition integration	19	5%	-	-
-	-	-	-	Restructuring charges	-	-	-	-
17	16%	7	13%	Depreciation and amortization	52	15%	38	19%
10	9%	1	2%		29	8%	6	3%
\$ 27	25%	\$ 8	15%	<b>Adjusted EBITDA</b>	\$ 81	23%	\$ 44	22%
				<b>Margins:</b>				
45%		28%		Gross margin	38%		26%	
25%		15%		Adjusted EBITDA	23%		22%	
\$ 2		\$ 2		<b>Capital expenditures</b>	\$ 8		\$ 4	

The Sciex division of MDS Analytical Technologies 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.

MDS Analytical Technologies reported revenues of \$108 million for the fourth quarter of 2007, compared to \$53 million for the same period last year. Fourth quarter revenues for the current year include \$54 million of revenues from the newly acquired Molecular Devices business (MD). This amount is net of a \$2 million purchase price adjustment related to assigning fair value to deferred service contracts that were on the acquisition date balance sheet of MD. Excluding this adjustment, MD revenues were up 15% compared to the same three-month period in 2006, and have totaled \$140 million since the acquisition date.

MD has been a strong contributor to segment revenues and adjusted EBITDA since it was combined with Sciex. Given the strong start, we believe the division is on track to exceed the expected \$190 million in revenues and \$45 - \$50 million in adjusted EBITDA in the first full year of MDS ownership.

## RESTATED MANAGEMENT'S DISCUSSION AND ANALYSIS

Sciex revenues were up 2% and the small molecule markets continued to be an area of strength for the business. Our high-end triple-quad and ion-trap instruments have maintained strong sales momentum, across most markets. Good strength from our core LC/MS products was augmented by continued strength from our ICP/MS product line, although the proteomics markets continued to perform below expectations. End-user revenues for Sciex products grew 4% in the fourth quarter compared to the same period last year.

The operating loss was \$1 million for the fourth quarter of 2007 compared to a loss of \$5 million for the fourth quarter of 2006. On an operating income basis, MD lost \$2 million in the fourth quarter because of the acquisition-related items which partially offset the \$6 million improvement in Sciex performance. Equity earnings, which are not included in operating income and represent our share of earnings from the Sciex joint ventures was \$13 million for the third quarter of 2007 and up \$1 million year-over-year.

Adjusted EBITDA for the quarter was \$27 million compared to \$8 million last year. Excluding growth attributable to the acquisition of MD adjusted EBITDA grew by 88% as a result of improved gross margins and a \$2 million gain on the sale of land. The adjustment for integration costs of \$5 million for the quarter includes \$2 million of deferred service contract revenue adjustments. There were no adjustments in the prior year.

Increased SG&A and R&D expenses in MDS Analytical Technologies for the fourth quarter of 2007 reflect the additional costs associated with the MD business. Depreciation and amortization expense was also up, reflecting \$6 million for amortization of intangible assets acquired as part of the MD acquisition, plus the inclusion of depreciation on MD property, plant, and equipment. Capital expenditures were \$2 million this year and last year.

During the fourth quarter, MDS Analytical Technologies announced the launch of a significant advance in high-speed imaging technologies with the release of the MetaMorph<sup>1</sup> ICS (Integrated Confocal System), in partnership with VisiTech International, a manufacturer of confocal hardware. This turnkey, confocal microscope is the first of its kind in the imaging industry. It has the capability to obtain high resolution images in multiple dimensions to support researchers in their exploration of live cell and functional imaging without the limitations inherent in other high-speed imaging technologies.

The division also introduced a new automated toxicology testing application for drugs of abuse. The new Cliquid<sup>TM</sup> Drug Screen and Quant Software for Routine Forensic Toxicology applications equips toxicology laboratories for the first time with a built-in library of 1,200 compounds and a search reporting function designed to screen hundreds of drugs in less than 20 minutes. This software application is an improvement over existing toxicology testing methods. It enables faster delivery of results, more thorough screening and, ultimately, more accurate analysis to be used as evidence in criminal court cases.

**Corporate and Other  
Financial Highlights**

Fourth Quarter				Year-to-Date		
2007		2006		2007		2006
\$ (11)	\$	(4)	Selling, general, and administration	\$ (24)	\$	(24)
-		-	Research and development	-		-
(1)		-	Depreciation and amortization	(2)		
-		8	Restructuring charges	(9)		5
1		(1)	Other expense	(3)		(7)
(11)		3	<b>Operating income (loss)</b>	(38)		(26)
			Adjustments:			
-		(1)	Equity earnings	-		(4)
(5)		-	Gain on sale of investments	(7)		-
2		-	Valuation provisions	8		6
-		(8)	Restructuring	9		(5)
1		-	Depreciation and amortization	2		-
\$ (13)	\$	(6)	<b>Adjusted EBITDA</b>	\$ (26)	\$	(29)

The increase in corporate SG&A expenses from \$11 million in the fourth quarter of 2007 compared to \$4 million in 2006 was primarily due to increased costs associated with incentive compensation plans and spending associated with certain corporate projects, including conversion to US GAAP.

Other income for the quarter includes a \$4 million of foreign exchange loss on balance sheet translation and a \$2 million valuation provision for asset-backed commercial paper we own and which is not currently liquid. Also included in other income is \$5 million of bankruptcy proceeds resulting from the wind-up of Protana Inc., a successor company to MDS Proteomics. We were advised by the liquidator of these proceeds late in the fourth quarter and we expect to receive the funds in the first half of 2008. Other income for the fourth quarter in 2006 included a \$2 million mark-to-market gain and an \$8 million release of restructuring reserves originally set aside in 2005 for expected contract cancellation costs. We were able to negotiate termination of this contract without penalty during 2006 and as a consequence, this reserve was no longer required. With the exception of the \$4 million foreign exchange loss, all of these items were treated as adjustments to arrive at adjusted EBITDA for the quarter.

Fourth quarter interest expense increased from \$6 million in 2006 to \$7 million in 2007 and interest income in the quarter was \$7 million this year compared to \$4 million last year.

**Income Taxes**

We reported no tax expense this quarter as the benefit of tax credits relating to eligible research and development offset the taxes we otherwise reported. And the bankruptcy proceeds that we recorded in the quarter relating to the wind-up of Protana are not subject to income tax.

**Discontinued Operations**

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

	Fourth Quarter		Year-to-date	
	2007	2006	2007	2006
<b>Net revenues</b>	\$	\$ 82	\$ 95	\$ 362
Cost of revenues	-	(45)	(57)	(225)
Selling, general and administration	(1)	(15)	(16)	(53)
Depreciation and amortization	-	(3)	-	(10)
Goodwill write-down	-	-	-	-
Restructuring charges	-	-	-	(1)
Other expenses	-	(3)	-	(3)
<b>Operating income</b>	(1)	16	22	70
Gain on sale of discontinued operations	-	-	904	24
Interest expense	-	-	-	-
Interest income	-	1	1	2
Income taxes	-	16	(117)	7
Minority interest	(1)	(1)	(5)	(8)
Equity earnings	-	1	1	3
<b>Income (loss) from discontinued operations</b>	(2)	33	806	98
<b>Basic EPS from discontinued operations</b>	\$ (0.01)	\$ 0.23	\$ 6.12	\$ 0.68

The results from discontinued operations in the fourth quarter of 2007 reflect expenses associated with the sale of our diagnostics business. The results from discontinued operations for 2006 include results from the Canadian diagnostic services business and certain small MDS Pharma Services businesses discontinued in 2005.

**Liquidity and Capital Resources**

	October 31 2007		October 31 2006		Change
Cash, cash equivalents and short-term investments	\$	337	\$	382	(12%)
Operating working capital <sup>1</sup>	\$	59	\$	97	(39%)
Current ratio (excludes net assets held for sale)	\$	1.6	\$	2.4	

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

Cash and short-term investments totaled \$337 million compared to \$311 million at the end of July 2007 and \$382 million at the end of October 2006. The increase in cash primarily results from an increase in accounts payable at year-end.

As at the date of this report, we had \$17 million in short-term investments in asset-backed commercial paper (ABCP) that was purchased in August 2007. This ABCP was due to mature on September 7, 2007 and the issuer has been affected by the recent liquidity issues in these investment markets. We received notice on the roll-over date that the sponsor of these obligations would be unable to meet its obligations. At the present time, we have only limited access to information that would help us to determine the amount and timing for the repayment of these obligations. As a result, we have estimated that a write-down in the value of these investments is required, and accordingly, we recorded a \$2 million provision in the fourth quarter. In addition, while these investment vehicles would ordinarily qualify as cash equivalents, we believe that the current market conditions are such that it is no longer appropriate to record these investments as current assets. We have therefore classified these commercial paper assets as long-term investments that are available for sale.

Operating working capital of \$59 million at the end of the fourth quarter was down from \$82 million at the end of July, and down substantially compared to the October 2006 balance of \$97 million. The decline since the 2006 year-end reflects higher than usual accounts

## RESTATED MANAGEMENT'S DISCUSSION AND ANALYSIS

payable and accrued liabilities as at October 31, 2007. This reflects, in part, the balance that remains unpaid from the FDA and restructuring provisions recorded in the second quarter, along with an increase in trade payables at year-end, partially driven by increased capital expenditures in the fourth quarter. The FDA and restructuring provisions are offsetting the addition of operating working capital associated with MD. We expect that our operating working capital will rise to normal levels in future quarters as these reserves are utilized and accounts payable drop to normal levels.

We expect our operating cash inflows to remain strong throughout fiscal 2008. Cash outflows are expected to include FDA-related reimbursements to our customers and the payment of severance obligations associated with our restructuring activities. In addition, we will make a principal repayment of \$79 million on our long-term debt in December 2007. We believe that these liquidity needs can be satisfied from cash generated by operations and cash on hand. We also have available a C\$500 million, five-year, committed, revolving credit facility to fund our liquidity requirements. There were no borrowings under this facility as at October 31, 2007. We do not believe that the current liquidity issues affecting the ABCP markets will have any significant impact on our liquidity.

Cash used in investing activities for continuing operations totaled \$36 million for the fourth quarter this year, compared to \$8 million for 2006, primarily due to capital expenditures. The \$28 million of capital expenditures this quarter includes higher levels of capital expenditures in MDS Pharma Services related to investments in information systems to support growth in MDS Pharma Services, the 300-bed expansion of our Phoenix, Arizona Phase I clinic and the build-out of our central laboratory in Beijing, China.

Financing activities (excluding discontinued operations) used \$13 million of cash in the quarter, primarily for scheduled debt repayments, compared to \$5 million in the prior year. Cash used in financing activities for the prior year included a \$3 million dividend payment.

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, FDA settlements, restructuring costs and operations in 2008. 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**

In October 2007, we signed a 17-year, \$83 million cobalt supply agreement in the normal course of business. Aside from this, there have been no material changes in contractual obligations since October 31, 2006 other than those arising from the acquisition of MD, 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 third parties, nor do we have any off-balance sheet arrangements. The acquisition of MD has added \$6 million of annual commitments related to operating leases and approximately \$14 million of inventory purchase commitments in 2007.

### **Derivative Instruments**

We use derivative financial instruments to manage our foreign currency and interest rate exposure. These instruments consist of forward foreign exchange and option contracts and interest rate swap agreements entered into in accordance with our 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

## RESTATED MANAGEMENT'S DISCUSSION AND ANALYSIS

Company utilizes financial information provided by certain of these banks to assist in the determination of fair market values of the financial instruments.

The net mark-to-market value of all derivative instruments at October 31, 2007 was a net liability of \$6 million. We recorded a \$2 million mark-to-market gain on interest rate swaps during the fourth quarter of 2007.

### Capitalization

	October 31 2007	October 31 2006	Change
Long-term debt	\$ 384	\$ 394	(3%)
Less: cash and cash equivalents and short-term investments	337	382	(12%)
Net debt	47	12	292%
Shareholders' equity	1,897	1,354	40%
Capital employed <sup>1</sup>	\$ 1,944	\$ 1,366	42%

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

Long-term debt decreased \$10 million due to principal payments, and the current portion of the long-term debt is \$94 million compared to \$20 million at October 31, 2006. The increase in the current portion reflects the inclusion of \$79 million of long-term debt that will be repaid in December 2007. During the third quarter, we re-designated \$70 million of the US-dollar debt as a hedge of our US net investment in accordance with FAS 133 and entered into foreign exchange contracts to fix the exchange rate that we will pay to buy the US dollars required to make the December debt payments. Gains and losses on the foreign exchange contracts and on this portion of the US-dollar denominated debt are offsetting.

## RESTATED MANAGEMENT'S DISCUSSION AND ANALYSIS

### 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 and the inclusion of reimbursement revenues in the MDS Pharma Services segment, both of which are discussed above.

(millions of US dollars, except earnings per share)

	Fiscal 2007	Oct 2007	July 2007	Apr 2007	Jan 2007
Net revenues	\$ 1,119	\$ 307	\$ 308	\$ 263	\$ 241
Operating income (loss)	\$ (108)	\$ 1	\$ (4)	\$ (96)	\$ (9)
Income (loss) from continuing operations	\$ (33)	\$ 15	\$ 7	\$ (55)	\$ -
Net income (loss)	\$ 773	\$ 13	\$ 7	\$ 737	\$ 16
<b>Earnings (loss) per share from continuing operations</b>					
Basic and diluted	\$ (0.25)	\$ 0.12	\$ 0.06	\$ (0.40)	\$ -
<b>Earnings (loss) per share</b>					
Basic	\$ 5.87	\$ 0.11	\$ 0.05	\$ 5.37	\$ 0.11
Diluted	\$ 5.86	\$ 0.11	\$ 0.05	\$ 5.35	\$ 0.11

(millions of US dollars, except earnings per share)

	Fiscal 2006	Oct 2006	July 2006	Apr 2006	Jan 2006
Net revenues	\$ 955	\$ 250	\$ 241	\$ 234	\$ 230
Operating income (loss)	\$ (56)	\$ (3)	\$ (21)	\$ (36)	\$ 4
Income (loss) from continuing operations	\$ 22	\$ 12	\$ (2)	\$ (1)	\$ 13
Net income (loss)	\$ 120	\$ 45	\$ 14	\$ 15	\$ 46
<b>Earnings (loss) per share from continuing operations</b>					
Basic and diluted	\$ 0.15	\$ 0.08	\$ (0.01)	\$ (0.01)	\$ 0.09
<b>Earnings (loss) per share</b>					
Basic and diluted	\$ 0.83	\$ 0.30	\$ 0.10	\$ 0.11	\$ 0.32

Items that impact the comparability of operating income include:

- Results for the quarter ended April 30, 2007 reflect a \$792 million net gain from the sale of our diagnostics businesses, the 41 days of operating results of Molecular Devices, \$61 million of charges related to assisting clients in respect of the FDA review, and \$25 million of restructuring charges.
- Results for the quarter ended January 31, 2007 reflect the impact of restructuring charges totaling \$13 million.
- Results for the quarter ended April 30, 2006 reflect a loss of \$36 million resulting from the completion of the MAPLE settlement.

### Outlook

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 while they completed a scheduled shutdown and an upgrade to the electrical system of the National Research Universal reactor. Our supplier advised us that they are working closely with industry regulators

## RESTATED MANAGEMENT'S DISCUSSION AND ANALYSIS

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 adjusted EBITDA at \$8 to \$9 million in total for the first quarter of 2008.

We closed our 2007 fiscal year strongly, with all businesses showing growth over the prior year. Despite the supply issues at MDS Nordion, we believe that the Company is well positioned as we enter fiscal 2008.

Our integration of MDS Analytical Technologies is tracking well to plan and we continue to believe that the MD business will exceed our first year targets of \$190 million in revenue and adjusted EBITDA of between \$45 million and \$50 million. We are pleased by the continued pace of new product launches and we will continue to drive innovation in this business next year. Our MetaMorph® ICS microscope launch this quarter was well received and is an example of our commitment to provide leading-edge technology to our customers in the drug development industry. Strong sales of FLIPR Tetra and Image Express during the year have contributed to positive momentum as we enter fiscal 2008. Continued growth from our many new platforms is expected. We also anticipate continuing strong adjusted EBITDA margins from MDS Analytical Technologies as we complete our integration and drive further migration of our production capabilities to Asia.

We are pleased with the continuing improvement in profitability at MDS Pharma Services. The business has now delivered five straight quarters of sequential improvement in adjusted EBITDA. By year-end, the business had implemented 80% of the restructuring initiatives announced earlier in the year, although the timing of completing these steps meant that the savings from these activities were only partially realized this year. We expect adjusted EBITDA in this business to improve further in fiscal 2008 because of the actions we took this year.

We have been very pleased with the performance of our late-stage operations this year, which produced strong revenue growth and solid adjusted EBITDA. Although a number of contract cancellations have resulted in reduced reported backlog at year-end, our focus on bidding only on contracts from which we can achieve solid profitability has improved the quality of the remaining backlog. In addition, the increase in bioanalytical orders in the fourth quarter increases our level of confidence that our customers in this line of business are returning.

MDS Nordion has continued solid performance this year and has been able to grow both revenues and adjusted EBITDA after taking into account foreign exchange; the Biogen Idec deferred revenue, and the unusual market conditions that existed in the first half of 2006. Our expanded contract for cobalt supply with Rosenergoatom positions MDS Nordion well to serve continued growth in cobalt sterilization. It is also evidence of our strength in establishing new business relationships on a global basis.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
[UNAUDITED]

RESTATED SEE NOTE 2

As at October 31

[millions of US dollars]

	2007		2006
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 235	\$	247
Short-term investments	102		135
Accounts receivable, net	287		224
Unbilled revenue	99		122
Inventories, net	128		80
Income taxes recoverable	54		42
Current portion of deferred tax assets	45		-
Prepaid expenses and other	22		21
Assets held for sale	1		196
<b>Total Current Assets</b>	<b>\$ 973</b>	<b>\$</b>	<b>1,067</b>
Property, plant and equipment, net	386		334
Deferred tax assets	4		47
Long-term investments and other	290		176
Goodwill	782		397
Intangible assets, net	583		322
<b>Total Assets</b>	<b>\$ 3,018</b>	<b>\$</b>	<b>2,343</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	\$ 384	\$	237
Deferred revenue	71		92
Income taxes payable	57		8
Current portion of long-term debt	94		20
Deferred tax liabilities	10		-
Liabilities related to assets held for sale	-		114
<b>Total Current Liabilities</b>	<b>\$ 616</b>	<b>\$</b>	<b>471</b>
Long-term debt	290		374
Deferred revenue	17		17
Other long-term obligations	30		24
Deferred tax liabilities	168		103
<b>Total Liabilities</b>	<b>\$ 1,121</b>	<b>\$</b>	<b>989</b>
<b>Shareholders' Equity</b>			
Common shares, at par – Authorized shares: unlimited; Issued and outstanding shares: 122,578,331 and 144,319,249 for October 31, 2007 and October 31, 2006, respectively	493		566
Additional paid in capital	72		69
Retained earnings	842		391
Accumulated other comprehensive income	490		328
<b>Total Shareholders' Equity</b>	<b>\$ 1,897</b>	<b>\$</b>	<b>1,354</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 3,018</b>	<b>\$</b>	<b>2,343</b>

*Incorporated under the Canadian Business Companies Act.  
See accompanying notes.*

CONSOLIDATED STATEMENTS OF OPERATIONS  
[UNAUDITED]

	Restated See Note 2 Three months to October 31		Restated See Note 2 Year ended October 31	
[millions of US dollars, except per share amounts]	2007	2006	2007	2006
<b>Revenues</b>				
Products	\$ 160	\$ 112	\$ 564	\$ 438
Services	147	138	555	517
Reimbursement revenues	20	25	91	105
<b>Total revenues</b>	<b>\$ 327</b>	<b>\$ 275</b>	<b>1,210</b>	<b>\$ 1,060</b>
<b>Costs and expenses</b>				
Direct cost of products	\$ (97)	\$ (76)	\$ (360)	\$ (296)
Direct cost of services	(83)	(98)	(338)	(362)
Reimbursed expenses	(20)	(25)	(91)	(105)
Selling, general and administration	(84)	(58)	(265)	(220)
Research and development	(20)	(16)	(68)	(53)
Depreciation and amortization	(23)	(14)	(79)	(51)
Restructuring charges - net	4	11	(37)	7
Other expense - net	(3)	(2)	(80)	(36)
<b>Total costs and expenses</b>	<b>\$ (326)</b>	<b>\$ (278)</b>	<b>\$ (1,318)</b>	<b>\$ (1,116)</b>
<b>Operating income (loss) from continuing operations</b>	<b>1</b>	<b>(3)</b>	<b>(108)</b>	<b>(56)</b>
Interest expense	(7)	(6)	(27)	(21)
Interest income	7	4	25	15
Mark-to-market on interest note swaps	1	2	1	-
Equity earnings	13	11	53	49
<b>Income (loss) from continuing operations before income taxes</b>	<b>15</b>	<b>8</b>	<b>(56)</b>	<b>(13)</b>
Income tax (expense) recovery				
- current	(9)	48	25	65
- deferred	9	(44)	(2)	(30)
<b>Income (loss) from continuing operations</b>	<b>15</b>	<b>12</b>	<b>(33)</b>	<b>22</b>
<b>Income (loss) from discontinued operations - net of income tax</b>	<b>(2)</b>	<b>33</b>	<b>806</b>	<b>98</b>
<b>Net income</b>	<b>\$ 13</b>	<b>\$ 45</b>	<b>\$ 773</b>	<b>\$ 120</b>
<b>Basic earnings (loss) per share</b>				
- from continuing operations	\$ 0.12	\$ 0.08	\$ (0.25)	\$ 0.15
- from discontinued operations	(0.01)	0.23	6.12	0.68
<b>Basic earnings per share</b>	<b>\$ 0.11</b>	<b>\$ 0.31</b>	<b>\$ 5.87</b>	<b>\$ 0.83</b>
<b>Diluted earnings (loss) per share</b>				
- from continuing operations	\$ 0.12	\$ 0.08	\$ (0.25)	\$ 0.15
- from discontinued operations	(0.01)	0.23	6.11	0.68
<b>Diluted earnings per share</b>	<b>\$ 0.11</b>	<b>\$ 0.31</b>	<b>\$ 5.86</b>	<b>\$ 0.83</b>

See accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
[UNAUDITED]

Restated See Note 2

[millions of US dollars]	Three months to October 31		Year ended October 31	
	2007	2006	2007	2006
<b>Net income</b>	\$ 13	\$ 45	\$ 773	\$ 120
Foreign currency translation	112	9	183	60
Unrealized loss on available-for-sale assets	-	(3)	(3)	(10)
Unrealized loss on derivatives designated as cash flow hedges, net of tax	1	1	6	1
Reclassification of realized losses	-	4	(2)	9
Adoption of FAS 158	11	-	11	-
Repurchase and cancellation of common shares	-	-	(33)	-
Other comprehensive income	124	11	162	60
<b>Comprehensive income</b>	\$ 137	\$ 56	\$ 935	\$ 180

CONSOLIDATED STATEMENTS OF CASH FLOWS  
[UNAUDITED]

	Restated See Note 2 Three months to October 31		Restated See Note 2 Year ended October 31	
[millions of US dollars]	2007	2006	2007	2006
<b>Operating activities</b>				
Net income	\$ 13	\$ 45	\$ 773	\$ 120
Income (loss) from discontinued operations – net of tax	(2)	33	806	98
Income (loss) from continuing operations	15	12	(33)	22
Adjustments to reconcile net income to cash provided by operating activities relating to continuing operations				
Items not affecting current cash flow	(6)	61	128	94
Changes in non-cash working capital balances relating to operations	63	(28)	83	(91)
Cash provided by operating activities of continuing operations	72	45	178	25
Cash provided by (used in) operating activities of discontinued operations	(4)	53	(56)	104
	68	98	122	129
<b>Investing activities</b>				
Acquisitions	1	-	(600)	-
Proceeds from MAPLE transaction	-	-	-	24
Purchase of property, plant and equipment	(28)	(15)	(71)	(51)
Proceeds from sale of property, plant and equipment	4	-	4	-
Proceeds from sale of business and investments	-	3	13	5
Proceeds on sale of short-term investments	-	-	165	-
Purchases of short-term investments	-	(1)	(118)	(135)
Other	(13)	5	(15)	(11)
Cash used in investing activities of continuing operations	(36)	(8)	(622)	(168)
Cash provided by (used in) investing activities of discontinued operations	-	(8)	929	73
<b>Financing activities</b>				
Repayment of long-term debt	(10)	(6)	(18)	(7)
Increase (decrease) in deferred revenue and other long-term obligations	(3)	2	(2)	(7)
Payment of cash dividends	-	(3)	(3)	(13)
Issuance of shares	-	2	15	26
Repurchase of shares	-	-	(441)	-
Cash used in financing activities of continuing operations	(13)	(5)	(449)	(1)
Cash used in financing activities of discontinued operations	-	(3)	(2)	(12)
Effect of foreign exchange rate changes on cash and cash equivalents	(5)	(3)	10	11
<b>Increase (decrease) in cash and cash equivalents during the period</b>	<b>14</b>	<b>71</b>	<b>(12)</b>	<b>32</b>
Cash and cash equivalents, beginning of period	221	176	247	215
<b>Cash and cash equivalents, end of period</b>	<b>\$ 235</b>	<b>\$ 247</b>	<b>\$ 235</b>	<b>\$ 247</b>

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 and has also provided a reconciliation to United States (US) generally accepted accounting principles (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 2007. 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 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 (see Note 15).

## **2. Changes Affecting Fiscal 2007 Consolidated Financial Statements**

### **a. Restatement**

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 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 \$1 million in the accompanying quarterly consolidated financial statements and reducing the value of accrued liabilities by a similar amount. The Canadian GAAP statements previously reported were not impacted by the change, except for the reconciliation to US GAAP (see Note 15).

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:

		2007		2006
Direct cost of services	\$	3	\$	5
Research and development		2		1
Other expense – net		3		-
Current income taxes		(8)		(6)

**c. Adoption of SAB 108**

MDS has adopted the provisions of Staff Accounting Bulletin 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.

**d. Recently Adopted Accounting Pronouncement**

On October 31, 2007, the Company adopted the recognition and disclosure requirements of SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Post-Retirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)”. This statement requires employers that sponsor defined benefit plans to recognize the funded status of a benefit plan on its balance sheet; recognize gains, losses, and prior service costs or credits that arise during the period that are not recognized as components of net periodic benefit cost as a component of accumulated other comprehensive income, net of tax; measure defined benefit plan assets and obligations as of the date of the employer’s fiscal year-end balance sheet; and, disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition assets or obligations.

**3. Acquisition of Molecular Devices Corporation**

On March 20, 2007, the Company completed a tender offer which resulted in MDS acquiring 100% of the shares of Molecular Devices Corporation (MD), a California-based company with global operations. MD designs, develops, manufactures, sells and services bioanalytical measurement systems that accelerate and improve drug discovery and other life sciences research. The Company acquired MD primarily to add their leading-edge products to those of MDS Sciex to strengthen MDS’s position as one of the top global providers of analytical instrumentation and related products marketed to life sciences customers.

The operations for this acquisition are reported within the results of the Company’s newly formed MDS Analytical Technologies segment (which combines MD with the previous Instruments segment) in the consolidated financial statements from the acquisition date.

The aggregate purchase consideration (net of cash acquired of \$21 million) was approximately \$600 million paid in cash from existing cash on hand. Included in the consideration is the cash cost of \$27 million to settle all outstanding in-the-money options of MD at the closing date of the acquisition. Direct and incremental third-party acquisition costs associated with the acquisition were approximately \$7 million.

The acquisition has been accounted for as a purchase in accordance with SFAS No. 141, “Business Combinations” and the Company has accordingly allocated the purchase price of the acquisition based upon the preliminary fair values of the assets acquired and liabilities assumed. The purchase price and related allocations have not been finalized and may be revised as a result of adjustments made to the purchase price as additional information becomes available regarding liabilities incurred and revisions are made to preliminary estimates of fair values made at the acquisition date. In connection with determining the fair value of the assets acquired and liabilities assumed, management performed assessments of intangible assets using customary valuation procedures and techniques.

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

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

The components of the preliminary purchase price allocation for the acquisition cost of MD are as follows:

Consideration and acquisition costs:	
Cash and payments, net of cash acquired	\$ 593
Transaction costs	7
<hr/>	
Net consideration and acquisition costs	\$ 600
<hr/>	
Allocation of purchase price:	
Net tangible assets acquired	\$ 15
Intangible assets acquired:	
Developed technologies	161
Brands	60
Goodwill (non-tax deductible)	364
<hr/>	
Total purchase price	\$ 600

The following table summarizes the components of the net tangible assets acquired at fair value:

Inventories	\$ 40
Property, plant and equipment	12
Other assets and liabilities, net	(37)
<hr/>	
Net tangible assets acquired	\$ 15

Other assets and liabilities include \$25 million of net future tax liabilities. Net tangible assets acquired include a charge of \$8 million to eliminate redundant positions and consolidate redundant facilities at MD over the course of the next year. The developed technologies will be amortized over their estimated lives, which are estimated to range between five and seven years, while the brands have an indefinite life and are not amortized.

The acquisition of MD has added \$6 million of annual commitments related to operating leases and \$14 million of inventory purchase commitments in 2007.

#### **4. Sale of Canadian Diagnostics Business and Discontinued Operations**

In 2005, the Board of Directors of the Company approved a strategic plan to focus the Company on its life sciences businesses and to close or divest of businesses that were not strategic to this plan. As a result, the Company had reclassified its Canadian diagnostics business as discontinued operations.

On February 26, 2007, the Company completed the sale of its Canadian diagnostic services business to Borealis Infrastructure Management Inc. for gross proceeds of C\$1.325 billion. The sale was structured as an asset purchase transaction and after provision for taxes, expenses and amounts attributable to minority interests, resulted in net proceeds of US\$988 million comprising \$929 million in cash and \$65 million in an unconditional non-interest bearing note payable in March 2009. This note was recorded at an effective interest rate of 4.4% and had a book value of \$59 million. Included in income from discontinued operations, the Company recorded a net gain of US\$791 million on the transaction.

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

As a result of the sale, MDS sold \$84 million in net assets consisting of:

Accounts receivable	\$	31
Property, plant and equipment		27
Long-term investments and other		18
Goodwill		57
Accounts payable and accrued liabilities		(25)
Long-term debt and other long-term obligations		(24)
<b>Net assets</b>	<b>\$</b>	<b>84</b>

The results of discontinued operations in the quarter and the twelve months ended October 31 were as follows:

	Fourth Quarter		Year-to-date	
	2007	2006	2007	2006
<b>Net revenues</b>	<b>\$</b>	<b>\$</b> 82	<b>\$</b> 95	<b>\$</b> 362
Cost of revenues	-	(45)	(57)	(225)
Selling, general and administration	(1)	(15)	(16)	(53)
Depreciation and amortization	-	(3)	-	(10)
Goodwill write-down	-	-	-	-
Restructuring charges	-	-	-	(1)
Other expenses	-	(3)	-	(3)
<b>Operating income</b>	<b>(1)</b>	<b>16</b>	<b>22</b>	<b>70</b>
Gain on sale of discontinued operations	-	-	904	24
Interest expense	-	-	-	-
Interest income	-	1	1	2
Income taxes	-	16	(117)	7
Minority interest	(1)	(1)	(5)	(8)
Equity earnings	-	1	1	3
<b>Income (loss) from discontinued operations</b>	<b>(2)</b>	<b>33</b>	<b>806</b>	<b>98</b>
<b>Basic EPS from discontinued operations</b>	<b>\$ (0.01)</b>	<b>\$ 0.23</b>	<b>\$ 6.12</b>	<b>\$ 0.68</b>

The results from discontinued operations for 2007 reflect only the Canadian diagnostic services business. The results from discontinued operations for 2006 include results from the Canadian diagnostic services business, the results of Source Medical Corporation, and certain small MDS Pharma Services businesses discontinued in 2005. In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", long-lived assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell.

NOTES TO 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 October 31, 2007	As at October 31, 2006
<b>Assets held for sale</b>		
Accounts receivable	\$ -	\$ 31
Inventories	-	3
Prepaid expenses and other	-	3
Property, plant and equipment	-	28
Future tax assets	-	63
Long-term investments and other	1	13
Goodwill	-	54
Intangible assets, net	-	1
Total assets held for sale	1	196
Less: Current assets held for sale <sup>1</sup>	(1)	(196)
Long-term assets held for sale	\$ -	\$ -
<b>Liabilities related to assets held for sale</b>		
Accounts payable and accrued liabilities	\$ -	\$ 33
Income taxes payable	-	-
Long-term debt	-	4
Other long-term obligations	-	6
Future tax liabilities	-	55
Minority interest	-	16
Total liabilities related to assets held for sale	-	114
Less: Current liabilities related to assets held for sale <sup>1</sup>	-	(114)
Long-term liabilities related to assets held for sale	\$ -	\$ -

<sup>1</sup>Assets held for sale and liabilities related to assets held for sale have been classified as current as the Company had signed agreements where such assets were expected to be disposed of within one year.

**5. Accumulated Other Comprehensive Income**

[millions of US dollars]	Three months ended October 31	
	2007	2006
<b>Accumulated other comprehensive income, net of income taxes, beginning of period</b>	<b>\$ 366</b>	<b>\$ 317</b>
Foreign currency translation	112	9
Unrealized loss on available-for-sale assets	-	1
Unrealized loss on derivatives designated as cash flow hedges, net of tax	1	4
Reclassification of realized loss	-	(3)
Adoption of FAS 158	11	-
<b>Accumulated other comprehensive income, net of income taxes, end of period</b>	<b>\$ 490</b>	<b>\$ 328</b>

**6. Restructuring Charges**

An analysis of the activity in the reserve, which covers restructuring plans announced and recorded in 2005, 2006 and 2007, is as follows:

	Restructuring Charge	Cumulative drawdowns		Reserve Balance
		Cash	Non-cash	
<b>2005 Restructuring Plan:</b>				
Workforce reductions	\$ 34	\$ (32)	\$ (1)	\$ 1
Equipment and other asset write-downs – adjustment	7	-	(7)	-
Contract cancellation charges	10	(2)	(8)	-
Total for 2005 Plan	\$ 51	\$ (34)	\$ (16)	\$ 1
<b>2006 Restructuring Plan:</b>				
Workforce reductions	\$ 1	\$ (1)	\$ -	\$ -
Contract cancellation charges	(8)	(1)	9	-
Total for 2006 Plan	\$ (7)	\$ (2)	\$ 9	\$ -
<b>2007 Restructuring Plan:</b>				
Workforce reductions	\$ 18	\$ (9)	\$ -	\$ 9
Equipment and other asset write-downs	1	-	1	2
Contract cancellation charges	5	(5)	-	-
Other	13	(9)	(2)	2
Total for 2007 Plan	\$ 37	\$ (23)	\$ (1)	\$ 13
Remaining Reserve Balance, Total				\$ 14

During the quarter ended April 30, 2007, management of the Company approved a restructuring plan designed principally to improve the profitability of MDS Pharma Services. The Company recorded a restructuring provision of \$25 million in the second quarter including \$17 million for severance, \$2 million to reduce the carrying value of certain assets and \$6 million for other costs. During the three months ended October 31, 2007, the Company utilized \$5 million of this provision.

## 7. Earnings Per Share

### (a) Dilution

[number of shares in millions]	Three months to October 31		Year ended October 31	
	2007	2006	2007	2006
Weighted average number of Common shares outstanding – basic	123	143	132	143
Impact of stock options assumed exercised	-	1	-	1
Weighted average number of Common shares outstanding – diluted	123	144	132	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. For the Company, this includes those stock options issued prior to November 1, 2003

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

	Three months to October 31		Year ended to October 31	
	2007	2006	2007	2006
Net income	\$ 13	\$ 45	\$ 773	\$ 120
Compensation expense for options granted prior to November 1, 2003	-	-	(1)	(2)
Net income – pro-forma	\$ 13	\$ 45	\$ 772	\$ 118
Pro-forma basic earnings per share	\$ 0.11	\$ 0.31	\$ 5.87	\$ 0.82
Pro-forma diluted earnings per share	\$ 0.11	\$ 0.31	\$ 5.85	\$ 0.82

## 8. Share Capital and Stock Options

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

[number of shares in thousands]	Number	Amount
<b>Common shares</b>		
Balance as at October 31, 2006	144,319	\$ 566
Issued during the period	1,090	17
Repurchased during the period	(22,831)	(90)
Balance as at January 31, 2007	122,578	\$ 493

[number of options in thousands]	Number	Average Exercise Price
<b>Stock options</b>		
Balance as at October 31, 2006	5,850	C\$ 18.76
Activity during the period:		
Granted	1,241	21.72
Exercised	(982)	16.47
Cancelled or forfeited	(554)	20.35
Balance as at October 31, 2007	5,555	C\$ 19.66

There were 3,223 stock options exercisable as at October 31, 2007.

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

[All tabular amounts in millions of US Dollars, except where noted]

During the quarter, the Company granted 17,900 options (2006 – 9,000) at an average exercise price of C\$20.87 (2006 - C\$19.77). These options have a fair value determined using the Black-Scholes model of C\$5.32 per share (2006 - C\$4.18) based on the following assumptions:

	2007		2006	
Risk-free interest rate	4.2	%	4.0	%
Expected dividend yield	0.0	%	0.0	%
Expected volatility	0.20		0.21	
Expected time to exercise (years)	4.40		3.25	

**9. Other Income (Expense) - Net**

	Three months to October 31		Year ended October 31	
	2007	2006	2007	2006
Write-down of other long-term assets	\$ -	\$ -	\$ -	\$ (1)
Write-down of investments	-	-	(6)	-
Gain on sale of long-term assets	1	-	3	2
Loss on sale of Hamburg clinic	-	-	(4)	-
Gain on sale of business	-	-	1	-
Acquisition integration costs	(2)	-	(4)	-
FDA provision	-	-	(61)	-
Valuation provision	(2)	-	(2)	-
Protana settlement	5	-	5	-
MAPLE settlement	-	-	-	(36)
Insurance settlement	-	(1)	-	2
Foreign exchange loss	(11)	(1)	(16)	(3)
Gain on embedded derivatives	4	-	4	-
Other	2	-	-	-
Other income (expense) - net	\$ (3)	\$ (2)	\$ (80)	\$ (36)

**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 nil (2006 - nil) and \$2 million (2006 - \$1 million) for the year.

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

**11. Supplementary Cash Flow Information**

Non-cash items affecting net income comprise:

	Three months to October 31		Year ended October 31	
	2007	2006	2007	2006
Depreciation and amortization	\$ 23	\$ 17	\$ 79	\$ 54
Stock option compensation	2	1	4	4
Deferred revenue	(2)	(1)	(5)	(7)
Deferred income taxes	(15)	31	31	17
Equity earnings – net of distribution	(9)	10	(1)	16
Write-down of MAPLE assets	-	-	-	9
Write-down of investments	2	-	8	-
Write-down of intangible assets	1	-	1	-
Loss on sale of Hamburg clinic	-	-	4	(2)
(Gain) loss on disposal of equipment and other assets	(5)	1	-	1
Gain on sale of investment/business	-	-	(2)	-
Mark-to-market of derivatives	(5)	3	(5)	5
Amortization of purchase price adjustments	2	-	14	-
Other	-	(1)	-	(3)
	\$ (6)	\$ 61	\$ 128	\$ 94

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

[millions of US dollars]	Three months to October 31		Year ended October 31	
	2007	2006	2007	2006
Accounts receivable	\$ (17)	\$ (27)	\$ (32)	\$ (18)
Unbilled revenue	11	44	23	(25)
Inventories	(9)	4	(19)	49
Prepaid expenses	32	7	33	(3)
Accounts payable and deferred revenue	42	-	78	(39)
Income taxes	4	(56)	-	(55)
	\$ 63	\$ (28)	\$ 83	\$ (91)

12. Segmented Information

Three months to October 31, 2007

	MDS Pharma Services	MDS Nordion	MDS Analytical Technologies	Corporate and Other	Total
Product revenues	\$ -	\$ 74	\$ 86	\$ -	\$ 160
Service revenues	123	2	22	-	147
Reimbursement revenues	20	-	-	-	20
<b>Total revenues</b>	<b>143</b>	<b>76</b>	<b>108</b>	<b>-</b>	<b>327</b>
Direct product cost	-	(39)	(58)	-	(97)
Direct service cost	(81)	(1)	(1)	-	(83)
Reimbursed expenses	(20)	-	-	-	(20)
Selling, general and administration	(35)	(18)	(20)	(11)	(84)
Research and development	-	(1)	(19)	-	(20)
Depreciation and amortization	(9)	(3)	(10)	(1)	(23)
Restructuring charges - net	4	-	-	-	4
Other income (expense) - net	(6)	3	(1)	1	(3)
Equity Earnings	-	-	13	-	13
<b>Segment earnings (loss)</b>	<b>\$ (4)</b>	<b>\$ 17</b>	<b>\$ 12</b>	<b>\$ (11)</b>	<b>\$ 14</b>
Total Assets	\$ 835	\$ 789	\$ 857	\$ 537	\$ 3,018
Capital expenditures	\$ 20	\$ 3	\$ 2	\$ 3	\$ 28

Three months to October 31, 2006

	MDS Pharma Services	MDS Nordion	MDS Analytical Technologies	Corporate and Other	Total
Product revenues	\$ -	\$ 73	\$ 39	\$ -	\$ 112
Service revenues	122	2	14	-	138
Reimbursement revenues	25	-	-	-	25
<b>Total revenues</b>	<b>147</b>	<b>75</b>	<b>53</b>	<b>-</b>	<b>275</b>
Direct product cost	-	(38)	(38)	-	(76)
Direct service cost	(97)	(1)	-	-	(98)
Reimbursed expenses	(25)	-	-	-	(25)
Selling, general and administration	(34)	(14)	(6)	(4)	(58)
Research and development	-	(1)	(15)	-	(16)
Depreciation and amortization	(9)	(4)	(1)	-	(14)
Restructuring charges - net	1	2	-	8	11
Other income (expense) - net	(3)	-	2	(1)	(2)
Equity Earnings	-	-	12	(1)	11
<b>Segment earnings (loss)</b>	<b>\$ (20)</b>	<b>\$ 19</b>	<b>\$ 7</b>	<b>\$ 2</b>	<b>\$ 8</b>
Total Assets	\$ 858	\$ 621	\$ 132	\$ 536	\$ 2,147
Capital expenditures	\$ 11	\$ -	\$ 2	\$ 2	\$ 15

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

Year ended October 31, 2007

	MDS Pharma Services	MDS Nordion	MDS Analytical Technologies	Corporate and Other	Total
Product revenues	\$ -	\$ 284	\$ 280	\$ -	\$ 564
Service revenues	477	6	72	-	555
Reimbursement revenues	91	-	-	-	91
<b>Total revenues</b>	<b>568</b>	<b>290</b>	<b>352</b>	<b>-</b>	<b>1,210</b>
Direct product cost	-	(147)	(213)	-	(360)
Direct service cost	(332)	(3)	(3)	-	(338)
Reimbursed expenses	(91)	-	-	-	(91)
Selling, general and administration	(130)	(54)	(57)	(24)	(265)
Research and development	-	(4)	(64)	-	(68)
Depreciation and amortization	(35)	(13)	(29)	(2)	(79)
Restructuring charges - net	(28)	-	-	(9)	(37)
Other income (expense) - net	(74)	3	(6)	(3)	(80)
Equity Earnings	-	-	53	-	53
<b>Segment earnings (loss)</b>	<b>\$ (122)</b>	<b>\$ 72</b>	<b>\$ 33</b>	<b>\$ (38)</b>	<b>\$ (55)</b>
Total Assets	\$ 835	\$ 789	\$ 857	\$ 537	\$ 3,018
Capital expenditures	\$ 48	\$ 8	\$ 8	\$ 7	\$ 71

Year ended October 31, 2006

	MDS Pharma Services	MDS Nordion	MDS Analytical Technologies	Corporate and Other	Total
Product revenues	\$ -	\$ 290	\$ 148	\$ -	\$ 438
Service revenues	458	5	54	-	517
Reimbursement revenues	105	-	-	-	105
<b>Total revenues</b>	<b>563</b>	<b>295</b>	<b>202</b>	<b>-</b>	<b>1,060</b>
Direct product cost	-	(147)	(149)	-	(296)
Direct service cost	(359)	(3)	-	-	(362)
Reimbursed expenses	(105)	-	-	-	(105)
Selling, general and administration	(125)	(51)	(20)	(24)	(220)
Research and development	-	(5)	(48)	-	(53)
Depreciation and amortization	(30)	(15)	(6)	-	(51)
Restructuring charges - net	-	2	-	5	7
Other income (expense) - net	2	(36)	5	(7)	(36)
Equity Earnings	(1)	-	54	(4)	49
<b>Segment earnings (loss)</b>	<b>\$ (55)</b>	<b>\$ 40</b>	<b>\$ 38</b>	<b>\$ (30)</b>	<b>\$ (7)</b>
Total Assets	\$ 858	\$ 621	\$ 132	\$ 536	\$ 2,147
Capital expenditures	\$ 37	\$ -	\$ 4	\$ 10	\$ 51

### 13. Financial Instruments

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

	As at October 31 2007		As at October 31 2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Asset (liability) position:				
Currency forward and option - asset	\$ 7	\$ 7	\$ 1	\$ 1
Currency forward and option - liabilities	\$ (12)	\$ (12)	\$ -	\$ -
Interest rate swap and option contracts	\$ (1)	\$ (1)	\$ (2)	\$ (2)

As of October 31, 2007, the Company had outstanding foreign exchange contracts in place to sell US\$34 million at a weighted average exchange rate of C\$1.1280 maturing over the next five months. The Company also had interest rate swap contracts that convert a notional amount of US\$80 million of debt from a fixed to a floating interest rate.

Foreign exchange options and interest rate swaps not eligible for hedge accounting are included in accounts payable and are marked to market each period.

During the third quarter, the Company re-designated \$70 million of the US dollar debt from being a hedge of its US net investment, and entered into foreign exchange contracts to lock in the exchange rate the Company would pay to buy the US dollars required to make the scheduled December debt payments. Gains and losses on the foreign exchange contracts and on this portion of the US dollar denominated debt are offsetting in the Consolidated Statement of Operations.

### 14. Income Taxes

A reconciliation of expected income taxes to the reported income tax expense is provided below. Our effective tax rate for the quarter was lower than expected due to the bankruptcy proceeds that we recorded this quarter relating to Protana Inc., that are not subject to income tax.

	Three months to October 31	
	2007	2006
Expected income tax expense (recovery) at MDS's 35% (2006 – 35%) statutory rate	\$ 5	\$ 3
Decrease to taxes expense as a result of:		
Tax credits for research and development	(5)	(3)
Protana bankruptcy proceeds not subject to tax	(1)	-
Impact of tax rate changes on future tax balances	-	(4)
Other	1	-
Reported income tax recovery	\$ -	\$ (4)

### 15. Differences Between United States 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.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

[All tabular amounts in millions of US Dollars, except where noted]

- 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 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

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

[All tabular amounts in millions of US Dollars, except where noted]

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.
- 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, 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 \$1 million in the accompanying quarter 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.

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

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.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at October 31 [millions of US dollars]	2007 Canadian GAAP	Reconciling Adjustments	2007 US GAAP
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 259	\$ (24)	\$ 235
Short-term investments	91	11	102
Accounts receivable	284	3	287
Unbilled revenue	99	-	99
Inventories, net	134	(6)	128
Income taxes recoverable	54	-	54
Current portion of deferred tax assets	45	-	45
Prepaid expenses and other	21	1	22
Assets held for sale	1	-	1
<b>Total Current Assets</b>	<b>\$ 988</b>	<b>\$ (15)</b>	<b>\$ 973</b>
Property, plant and equipment, net	\$ 390	\$ (4)	\$ 386
Deferred tax assets	4	-	4
Long-term investments and other	284	6	290
Goodwill	797	(15)	782
Intangible assets, net	601	(18)	583
<b>Total Assets</b>	<b>\$ 3,064</b>	<b>\$ (46)</b>	<b>\$ 3,018</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	\$ 391	\$ (7)	\$ 384
Deferred revenue	71	-	71
Income taxes payable	57	-	57
Current portion of long-term debt	94	-	94
Current portion of deferred tax liabilities	10	-	10
<b>Total Current Liabilities</b>	<b>\$ 623</b>	<b>\$ (7)</b>	<b>\$ 616</b>
Long-term debt	\$ 290	\$ -	\$ 290
Deferred revenue	16	1	17
Other long-term obligations	29	1	30
Deferred tax liabilities	182	(14)	168
Minority interest	1	(1)	-
<b>Total Liabilities</b>	<b>\$ 1,141</b>	<b>\$ (20)</b>	<b>\$ 1,121</b>
<b>Shareholders' Equity</b>			
Share capital	\$ 502	\$ (9)	\$ 493
Additional paid in capital	n/a	72	72
Retained earnings	945	(103)	842
Accumulated other comprehensive income	476	14	490
<b>Total Shareholders' Equity</b>	<b>\$ 1,923</b>	<b>\$ (26)</b>	<b>\$ 1,897</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 3,064</b>	<b>\$ (46)</b>	<b>\$ 3,018</b>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at October 31 [millions of US dollars]	2006 Canadian GAAP	Reconciling Adjustments	2006 US GAAP
<b>ASSETS</b>			
<b>Current Assets</b>			
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
<b>Total Current Assets</b>	<b>\$ 1,083</b>	<b>\$ (16)</b>	<b>\$ 1,067</b>
Property, plant and equipment, net	\$ 339	\$ (5)	\$ 334
Deferred tax assets	37	10	47
Long-term investments and other	170	6	176
Goodwill	417	(20)	397
Intangible assets, net	338	(16)	322
<b>Total Assets</b>	<b>\$ 2,384</b>	<b>\$ (41)</b>	<b>\$ 2,343</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	\$ 239	\$ (2)	\$ 237
Deferred revenue	93	(1)	92
Income taxes payable	8	1	9
Current portion of long-term debt	20	-	20
Current portion of deferred tax liabilities	-	(1)	(1)
Liabilities related to assets held for sale	114	-	114
<b>Total Current Liabilities</b>	<b>\$ 474</b>	<b>\$ (3)</b>	<b>\$ 471</b>
Long-term debt	\$ 374	\$ -	\$ 374
Deferred revenue	17	-	17
Other long-term obligations	23	1	24
Deferred tax liabilities	82	21	103
<b>Total Liabilities</b>	<b>\$ 970</b>	<b>\$ 19</b>	<b>\$ 989</b>
<b>Shareholders' Equity</b>			
Share capital	\$ 572	\$ (6)	\$ 566
Additional paid in capital	-	69	69
Retained earnings	495	(104)	391
Accumulated other comprehensive income	347	(19)	328
<b>Total Shareholders' Equity</b>	<b>1,414</b>	<b>(60)</b>	<b>1,354</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 2,384</b>	<b>\$ (41)</b>	<b>\$ 2,343</b>

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

CONSOLIDATED STATEMENTS OF OPERATIONS

[millions of US dollars except per share amounts]	Three months ended October 31, 2007			Year ended October 31, 2007		
	CDN GAAP	Recon. Items <sup>1</sup>	US GAAP	CDN GAAP	Recon. Items <sup>1</sup>	US GAAP
<b>Revenues</b>						
Products	\$ -	\$ -	\$ 160	\$ -	\$ -	\$ 564
Services	-	-	147	-	-	555
Reimbursement revenues	-	-	20	-	-	91
<b>Total revenues</b>	<b>\$ 318</b>	<b>\$ 9</b>	<b>\$ 327</b>	<b>\$ 1,162</b>	<b>\$ 48</b>	<b>\$ 1,210</b>
<b>Costs and expenses</b>						
Direct cost of products	\$ -	\$ (97)	\$ (97)	\$ -	\$ (360)	\$ (360)
Direct cost of services	(178)	95	(83)	(694)	356	(338)
Reimbursed expenses	-	(20)	(20)	-	(91)	(91)
Selling, general and administration	(92)	8	(84)	(286)	21	(265)
Research and development	(8)	(12)	(20)	(29)	(39)	(68)
Depreciation and amortization	(26)	3	(23)	(91)	12	(79)
Restructuring charges - net	4	-	4	(40)	3	(37)
Other expense - net	7	(10)	(3)	(61)	(19)	(80)
<b>Total costs and expenses</b>	<b>\$ (293)</b>	<b>\$ (33)</b>	<b>\$ (326)</b>	<b>\$ (1,201)</b>	<b>\$ (117)</b>	<b>\$ (1,318)</b>
<b>Operating income (loss) from continuing operations</b>	<b>\$ 25</b>	<b>\$ (24)</b>	<b>\$ 1</b>	<b>\$ (39)</b>	<b>\$ (69)</b>	<b>\$ (108)</b>
Interest expense	(7)	-	(7)	(27)	-	(27)
Interest income	7	-	7	25	-	25
Mark-to-market on interest rate swaps	-	1	1	-	1	1
Equity earnings	-	13	13	-	53	53
<b>Income (loss) from continuing operations before income taxes</b>	<b>25</b>	<b>(10)</b>	<b>15</b>	<b>(41)</b>	<b>(15)</b>	<b>(56)</b>
Income tax (expense) recovery :						
- current	(8)	(1)	(9)	7	18	25
- deferred	-	9	9	-	(2)	(2)
<b>Income (loss) from continuing operations</b>	<b>17</b>	<b>(2)</b>	<b>15</b>	<b>(34)</b>	<b>1</b>	<b>(33)</b>
<b>Income (loss) from discontinued operations - net of income tax</b>	<b>(2)</b>	<b>-</b>	<b>(2)</b>	<b>806</b>	<b>-</b>	<b>806</b>
<b>Net income</b>	<b>\$ 15</b>	<b>\$ (2)</b>	<b>\$ 13</b>	<b>\$ 772</b>	<b>\$ 1</b>	<b>\$ 773</b>
<b>Basic earnings (loss) per share</b>						
- from continuing operations	\$ 0.14	(0.02)	\$ 0.12	\$ (0.26)	\$ 0.01	\$ (0.25)
- from discontinued operations	(0.01)	-	(0.01)	6.12	-	6.12
<b>Basic earnings per share</b>	<b>\$ 0.13</b>	<b>(0.02)</b>	<b>\$ 0.11</b>	<b>\$ 5.86</b>	<b>\$ 0.01</b>	<b>\$ 5.87</b>
<b>Diluted earnings (loss) per share</b>						
- from continuing operations	\$ 0.14	(0.02)	\$ 0.12	\$ (0.25)	-	\$ (0.25)
- from discontinued operations	(0.01)	-	(0.01)	6.10	0.01	6.11
<b>Diluted earnings (loss) per share</b>	<b>\$ 0.13</b>	<b>(0.02)</b>	<b>\$ 0.11</b>	<b>\$ 5.85</b>	<b>0.01</b>	<b>\$ 5.86</b>

<sup>1</sup> Reconciling items between Canadian GAAP and US GAAP

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

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended October 31, 2006				Year ended October 31, 206			
[millions of US dollars except per share amounts]	CDN GAAP	Recon. Items <sup>1</sup>	US GAAP	CDN GAAP	Recon. Items <sup>1</sup>	US GAAP		
<b>Revenues</b>								
Products	\$ -	\$ -	\$ 112	\$ -	\$ -	\$ 438		
Services	-	-	138	-	-	517		
Reimbursement revenues	-	-	25	-	-	105		
<b>Total revenues</b>	\$ 260	\$ 15	\$ 275	\$ 1,002	\$ 58	\$ 1,060		
<b>Costs and expenses</b>								
Direct cost of products	\$ (169)	\$ 93	\$ (76)	\$ (644)	\$ 348	\$ (296)		
Direct cost of services	-	(98)	(98)	-	(362)	(362)		
Reimbursed expenses	-	(25)	(25)	-	(105)	(105)		
Selling, general and administration	(59)	1	(58)	(225)	5	(220)		
Research and development	(7)	(9)	(16)	(18)	(35)	(53)		
Depreciation and amortization	(18)	4	(14)	(63)	12	(51)		
Restructuring charges - net	11	-	11	7	-	7		
Other expense - net	1	(3)	(2)	(6)	(30)	(36)		
<b>Total costs and expenses</b>	\$ (241)	\$ (37)	\$ (278)	\$ (949)	\$ (167)	\$ (1,116)		
<b>Operating income (loss) from continuing operations</b>	\$ 19	\$ (22)	\$ (3)	\$ 53	\$ (109)	\$ (56)		
Interest expense	(6)	-	(6)	(21)	-	(21)		
Interest income	4	-	4	15	-	15		
Mark-to-market on interest note swaps	-	2	2	-	-	-		
Equity earnings	(1)	12	11	(5)	54	49		
<b>Income (loss) from continuing operations before income taxes</b>	16	(8)	8	42	(55)	(13)		
Income tax (expense) recovery:								
- current	(2)	50	48	(13)	78	65		
- deferred	-	(44)	(44)	-	(30)	(30)		
<b>Income (loss) from continuing operations</b>	14	(2)	12	29	(7)	22		
<b>Income from discontinued operations - net of income tax</b>	33	-	33	98	-	98		
<b>Net income (loss)</b>	\$ 47	\$ (2)	\$ 45	\$ 127	\$ (7)	\$ 120		
<b>Basic earnings per share</b>								
- from continuing operations	\$ 0.10	\$ (0.02)	\$ 0.08	\$ 0.21	\$ (0.06)	\$ 0.15		
- from discontinued operations	0.23	-	0.23	0.68	-	0.68		
<b>Basic earnings per share</b>	\$ 0.33	\$ (0.02)	\$ 0.31	\$ 0.89	\$ (0.06)	\$ 0.83		
<b>Diluted earnings per share</b>								
- from continuing operations	\$ 0.10	\$ (0.02)	\$ 0.08	\$ 0.21	\$ (0.06)	\$ 0.15		
- from discontinued operations	0.23	-	0.23	0.68	-	0.68		
<b>Diluted earnings per share</b>	\$ 0.33	\$ (0.02)	\$ 0.31	\$ 0.89	\$ (0.06)	\$ 0.83		

<sup>1</sup> Reconciling items between Canadian GAAP and US GAAP

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

[millions of US dollars]	Three months ended October 31, 2007				Year ended October 31, 2007	
	Cdn GAAP	Recon. Items <sup>1</sup>	US GAAP	Cdn GAAP	Recon. Items <sup>1</sup>	US GAAP
<b>Operating activities</b>						
Net income	\$ 15	\$ (2)	\$ 13	\$ 772	\$ 1	\$ 773
Income from discontinued operations – net of tax	(2)	-	(2)	806	-	806
Income (loss) from continuing operations	17	(2)	15	(34)	1	(33)
Adjustments to reconcile net income to cash provided by operating activities relating to continuing operations						
Items not affecting current cash flow	11	(17)	(6)	147	(19)	128
Changes in non-cash working capital balances relating to operations	58	5	63	87	(4)	83
Cash provided by operating activities of continuing operations	86	(14)	72	200	(22)	178
Cash used in operating activities of discontinued operations	(4)	-	(4)	(56)	-	(56)
	82	(14)	68	144	(22)	122
<b>Investing activities</b>						
Acquisitions	1	-	1	(600)	-	(600)
Purchase of intangible assets	-	-	-	(1)	1	-
Increase in deferred development charges	(7)	7	-	(14)	14	-
Purchase of property, plant and equipment	(28)	-	(28)	(73)	2	(71)
Proceeds from sale of property, plant and equipment	4	-	4	4	-	4
Proceeds on sale of short-term investments	-	-	-	165	-	165
Purchase of short-term investments	-	-	-	(118)	-	(118)
Proceeds on sale of long-term investment	-	-	-	13	-	13
Other	(18)	5	(13)	(20)	5	(15)
Cash provided by (used) in investing activities of continuing operations	(48)	12	(36)	(644)	22	(622)
Cash provided by investing activities of discontinued operations	-	-	-	929	-	929
<b>Financing activities</b>						
Repayment of long-term debt	(10)	-	(10)	(18)	-	(18)
Increase (decrease) in deferred revenue and other long-term obligations	(3)	-	(3)	(2)	-	(2)
Payment of cash dividends	-	-	-	(3)	-	(3)
Issuance of shares	-	-	-	15	-	15
Repurchase of shares	-	-	-	(441)	-	(441)
Cash used in financing activities of continuing operations	(13)	-	(13)	(449)	-	(449)
Cash used in financing activities of discontinued operations	-	-	-	(2)	-	(2)
Effect of foreign exchange rate changes on cash and cash equivalents	14	(19)	(5)	28	(18)	10
<b>Increase (decrease) in cash and cash equivalents during the period</b>	<b>35</b>	<b>(21)</b>	<b>14</b>	<b>6</b>	<b>(18)</b>	<b>(12)</b>
Cash and cash equivalents, beginning of period	224	(3)	221	253	(6)	247
<b>Cash and cash equivalents, end of period</b>	<b>\$ 259</b>	<b>\$ (24)</b>	<b>\$ 235</b>	<b>259</b>	<b>\$ (24)</b>	<b>\$ 235</b>

<sup>1</sup> Reconciling items between Canadian GAAP and US GAAP

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Three months ended October 31, 2006

Year ended October 31, 2006

[millions of US dollars]	CDN GAAP		Recon. Items <sup>1</sup>		US GAAP		CDN GAAP		Recon. Items <sup>1</sup>		US GAAP	
<b>Cash flows from operating activities</b>												
Net income	\$	47	\$	(2)	\$	45	\$	127	\$	(7)	\$	120
Income from discontinued operations – net of tax		33		-		33		98		-		98
Income (loss) from continuing operations		14		(2)		12		29		(7)		22
Adjustments to reconcile net income to cash provided by operating activities relating to continuing operations												
Items not affecting current cash flow		51		10		61		100		(6)		94
Changes in non-cash working capital balances relating to operations		(19)		(9)		(28)		(96)		5		(91)
Cash provided by operating activities of continuing operations		46		(1)		45		33		(8)		25
Cash provided by operating activities of discontinued operations		53		-		53		104		-		104
		99		(1)		98		137		(8)		129
<b>Investing activities</b>												
Increase in deferred development charges		(4)		4		-		(10)		10		-
Purchase of property, plant and equipment		(14)		(1)		(15)		(53)		2		(51)
Proceeds from MAPLE transaction								24		-		24
Proceeds on divestiture		3		-		3		5		-		5
Proceeds on sale of short-term investments		(1)		1		-		-		-		-
Purchase of short-term investments		-		(1)		(1)		(135)		-		(135)
Other		5		-		5		(11)		-		(11)
Cash provided by (used in) investing activities of continuing operations		(11)		3		(8)		(180)		12		(168)
Cash provided by (used in) investing activities of discontinued operations		(8)		-		(8)		73		-		73
<b>Financing activities</b>												
Repayment of long-term debt		(6)		-		(6)		(7)		-		(7)
Increase (decrease) in deferred revenue and other long-term obligations		2		-		2		(7)		-		(7)
Payment of cash dividends		(3)		-		(3)		(13)		-		(13)
Issuance of shares		2		-		2		26		-		26
Cash used in financing activities of continuing operations		(5)		-		(5)		(1)		-		(1)
Cash used in financing activities of discontinued operations		(3)		-		(3)		(12)		-		(12)
Effect of foreign exchange rate changes on cash and cash equivalents		5		(8)		(3)		12		(1)		11
<b>Increase in cash and cash equivalents during the period</b>		77		(6)		71		29		3		32
Cash and cash equivalents, beginning of period		176		-		176		224		(9)		215
<b>Cash and cash equivalents, end of period</b>	\$	253	\$	(6)	\$	247	\$	253	\$	(6)	\$	247

<sup>1</sup> Reconciling items between Canadian GAAP and US GAAP

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

	Three months to October 31		Year Ended October 31	
	2007	2006	2007	2006
Net income (loss) from continuing operations in accordance with Canadian GAAP	\$ 17	\$ 14	\$ (34)	\$ 29
US GAAP adjustments:				
Deferred development costs - net	(4)	-	(8)	(4)
Deferred development costs written off	-	-	3	-
Mid term incentive plan reversal	1	-	6	-
Unrealized gains on foreign exchange contracts and interest rate swaps	-	(3)	-	(5)
Pensions	(4)	-	(4)	-
Embedded derivative	4	-	4	-
Reduction in income tax expense arising from GAAP adjustments	1	1	-	2
Net income (loss) from continuing operations in accordance with US GAAP	15	12	(33)	22
Income from discontinued operations in accordance with Canadian and US GAAP – net of tax	(2)	33	806	98
Net income in accordance with US GAAP	\$ 13	\$ 45	\$ 773	\$ 120
Basic earnings (loss) per share in accordance with US GAAP				
- from continuing operations	\$ 0.12	\$ 0.08	\$ (0.25)	\$ 0.15
- from discontinued operations	(0.01)	0.23	6.12	0.68
Basic earnings per share	\$ 0.11	\$ 0.31	\$ 5.87	\$ 0.83
Diluted earnings (loss) per share in accordance with US GAAP				
- from continuing operations	\$ 0.12	\$ 0.08	\$ (0.25)	\$ 0.15
- from discontinued operations	(0.01)	0.23	6.11	0.68
Diluted earnings per share	\$ 0.11	\$ 0.31	\$ 5.86	\$ 0.83

## 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 period have been reclassified to conform to the current period's financial statement presentation.

## 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

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

[All tabular amounts in millions of US Dollars, except where noted]

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.