



MDS US GAAP Primer

January 29, 2008



Introduction



The charts included in this package are intended to provide an overview of the relevant differences between US and Canadian GAAP affecting MDS in advance of our year end financial statement filing date of January 29, 2008. This does not contain a comprehensive list of GAAP differences and describes only those items with the most significant impact on the MDS financial statements.

A more detailed explanation of the relevant differences between US and Canadian GAAP, as well as our summary of significant accounting policies, will be available in the notes to the financial statements included in the MDS Annual Report to be filed on January 29, 2008.

This MDS US GAAP Primer, in addition to summarizing the key GAAP differences, provides a more detailed explanation of accounting, presentation and disclosure differences and their impact on MDS.

As additional support, we intend to file 2007 interim financial statements that have been restated to US GAAP and to make available on our web-site supplemental Canadian to US GAAP bridges for MDS and its business units.

US GAAP Differences Overview



- The table below highlights the impact of moving from Canadian GAAP to US GAAP on our key financial measures
- The five key GAAP differences are explained in more detail in the following five charts

	Revenue	Adjusted EBITDA*	Net Income
Joint Venture Accounting	↓	↓	■
Research and Development	■	↓	↕
Investment Tax Credits	■	↓	■
Stock-Based Compensation	■	↕	↕
Hedges and Derivatives	↕	↕	↕



Higher or Lower



Generally lower



Generally Neutral

* Adjusted EBITDA is a non-GAAP measure that MDS discloses with its financial results

US GAAP Primer – Joint Venture Accounting



DESCRIPTION AND ANALYSIS

1. Key Accounting Differences

- Under *US GAAP*, for joint ventures (JVs) where a company does not have a majority or controlling interest, the financial statements are not consolidated and equity accounting is applied.
- Where a company has a majority financial interest or management control, the company fully consolidates the financial statements of the joint venture.
- Under *Canadian GAAP*, JVs are consolidated based on the proportion of ownership. For example if there is 50% ownership in a JV, 50% of the JV's income statement (revenues, cost of sales, SG&A, etc.) and 50% of the JV's balance sheet are consolidated into the consolidated financial statements.

2. Key Presentation and Disclosure Differences

- Under *US GAAP* for JVs that are not consolidated, but where the company has the ability to exert significant influence, the initial investment is recorded at cost. The portion of net income from the JV is shown on the income statement as equity earnings. Under *US GAAP* equity earnings are not included in operating income.
- Under *Canadian GAAP* the proportional consolidation results in the majority of net income from the JVs appearing in operating income.

IMPACT ON MDS

- MDS has two JVs: AB/Sciex and Perkin Elmer/Sciex with 50% ownership in each. Under *US GAAP*, these JVs will not be consolidated and therefore MDS will record 50% of the net income from the JVs as equity income. MDS will, however, include 100% of its sales to the JVs as revenue, with the associated cost of sales and balance sheet items. Currently, MDS generates the majority of its income associated with the JVs from the JVs net income and not from the sales to the JVs.
- The difference in accounting for JVs will not result in a change to net income, however some significant impacts include reductions of revenue, operating income, adjusted EBITDA (which will include equity earnings in its calculation) and cash balance.
- Under *Canadian GAAP* our proportionate 50% share of the JV's income statement and balance sheet were consolidated into the MDS Consolidated financial statements.

FINANCIAL STATEMENT IMPACT

Balance Sheet	Income Statement	Cash Flows	Disclosures
X	X	X	X

BUSINESS SEGMENT IMPACT

MDS Inc.	Pharma Services	Nordion	Analytical Technologies
X			X

US GAAP Primer – Research & Development



DESCRIPTION AND ANALYSIS

1. Key Accounting Differences

- Under *US GAAP*, research and development (R&D) is expensed in the period that it is incurred. As well, assets, such as machinery, equipment, patents, and the fair value of R&D acquired in a business combination, are expensed in the period of acquisition unless the asset or acquired R&D has an alternate future use.
- Under *Canadian GAAP*, R&D is capitalized if the development activities meet certain criteria, including reasonable assurance regarding future benefit. These capitalized costs are then amortized on a straight line basis when the new product development is complete and commercial production commences.

2. Key Presentation and Disclosure Differences

- Under *US GAAP*, R&D spending is reported on a separate line in the income statement or in the notes to the financial statements.
- Under *Canadian GAAP* the amounts capitalized, amortized and expensed in the period are disclosed in the notes to the financial statements.

IMPACT ON MDS

- The Analytical Technologies segment has a number of product and software development programs that qualified for capitalization under Canadian GAAP which under US GAAP will be expensed in the period.
- From 2005 to 2007, MDS had capitalized more R&D than it had amortized and the conversion from Canadian to US GAAP will result in a reduction to net income related to R&D. As well, the amortization of R&D expense was reported in depreciation and amortization, and therefore, adjusted EBITDA calculated under US GAAP will be reduced by the full amount of the R&D that was previously capitalized under Canadian GAAP.

FINANCIAL STATEMENT IMPACT

Balance Sheet	Income Statement	Cash Flows	Disclosures
X	X	X	X

BUSINESS SEGMENT IMPACT

MDS Inc.	Pharma Services	Nordion	Analytical Technologies
X	X	X	X

US GAAP Primer – Investment Tax Credits



DESCRIPTION AND ANALYSIS

1. Key Accounting Differences

- Under US GAAP, investment tax credits (ITCs) that are not refundable are treated as a reduction to income tax expense.
- Under Canadian GAAP, non-refundable ITCs are treated as a reduction of the expense that they are associated with.

2. Key Presentation and Disclosure Differences

- Under US GAAP, if material, non-refundable ITCs that are accounted for as a reduction to income tax expense are disclosed in the Income Tax note to the financial statements.
- Under Canadian GAAP, if material, non-refundable ITCs related to R&D are disclosed in the R&D note to the financial statements.

IMPACT ON MDS

- The MDS segments have a number of research and development programs that qualify for ITCs. Under Canadian GAAP, these reduced R&D expense for Analytical Technologies and Nordion. Non-refundable ITCs earned for work performed for non-Canadian customers reduced cost of sales for Pharma under Canadian GAAP.
- Under US GAAP the adjusted EBITDA for the segments will be reduced by the amount of non-refundable ITCs recorded in the period due to the reclassification of non-refundable ITCs to income tax.

FINANCIAL STATEMENT IMPACT

Balance Sheet	Income Statement	Cash Flows	Disclosures
	X		X

BUSINESS SEGMENT IMPACT

MDS Inc.	Pharma Services	Nordion	Analytical Technologies
X	X	X	X

US GAAP Primer – Stock-Based Compensation



DESCRIPTION AND ANALYSIS

1. Key Accounting Differences

- Under US GAAP, compensation awards that are settled in cash and based on stock price (or market based) hurdles must be revalued at the end of each accounting period using a complex valuation model.
- Under Canadian GAAP, compensation awards that are settled in cash and based on stock price hurdles are valued based on the stock price, which is marked to market at the end of each accounting period.

2. Key Presentation and Disclosure Differences

- None

IMPACT ON MDS

- The MDS medium term incentive plan (MTIP) is a cash settled award that is payable if MDS shares reach certain values on the Toronto Stock Exchange within three years. Under US GAAP, the MTIP awards are valued at the end of each accounting period using a statistical model to determine the value of these awards primarily on the stock price and its volatility.
- Under Canadian GAAP, the MTIP is expensed based on the value of the MDS stock price and is marked to market based on the change in stock price for the period.
- Under both US and Canadian GAAP, the amounts are accrued on a straight-line basis based on the average expected time to settlement and adjusted for forfeitures.

FINANCIAL STATEMENT IMPACT

Balance Sheet	Income Statement	Cash Flows	Disclosures
X	X	X	X

BUSINESS SEGMENT IMPACT

MDS Inc.	Pharma Services	Nordion	Analytical Technologies
X	X	X	X

US GAAP Primer – Hedges and Derivatives



DESCRIPTION AND ANALYSIS

1. Key Accounting Differences

- Guidance on the accounting for hedges, including specific criteria related to the effectiveness of hedges was implemented first under US GAAP. As of 2005, US and Canadian GAAP became harmonized in this area.
- While US and Canadian GAAP are substantially harmonized for the accounting of embedded derivatives, there are differences related to the determination of whether a contract currency would be considered a normal contracting currency.

2. Key Presentation and Disclosure Differences

- None

IMPACT ON MDS

- There were certain hedges that MDS entered into prior to 2005 that had no hedge designation under US GAAP. Under US GAAP, non-designated hedges are reported at fair value in each period. Under Canadian GAAP, these hedge gains were reported when the contracts matured.
- The impact of the above difference is a reduction in net income and adjusted EBITDA in the years 2005 to 2007.
- Nordion entered into a US dollar contract with a Russian supplier for Cobalt. This contract was determined to include a US dollar foreign exchange embedded derivative. With the decline in the US dollar, a gain was reported in other income in 2007. This contract was not considered to contain an embedded derivative under Canadian GAAP.

FINANCIAL STATEMENT IMPACT

Balance Sheet	Income Statement	Cash Flows	Disclosures
X	X		X

BUSINESS SEGMENT IMPACT

MDS Inc.	Pharma Services	Nordion	Analytical Technologies
X	X	X	X

Other GAAP Differences



- Other GAAP differences that affect the MDS financial statements include:
 - Pension accounting
 - Certain aspects of accounting for acquisitions and divestitures

- Other presentation differences in our US GAAP financial statements include:
 - Separating product and service revenue and cost of sales on the Income Statement.
 - Reclassifying transactional foreign exchange gains and losses to “other income” from “SG&A”.
 - Classification of the equity associated with unexercised stock options to “additional paid in capital” from “common shares”.