

CANADIAN SUPPLEMENT TO MANAGEMENT'S DISCUSSION AND ANALYSIS

of Financial Condition and Results of Operations,
for the three and nine months ended July 31, 2008

This document supplements the Management's Discussion and Analysis for July 31, 2008 and has been prepared pursuant to Section 5.2 of National Instrument 51-102 – Continuous Disclosure Obligations



CANADIAN SUPPLEMENT TO INTERIM REPORT JULY 31, 2008 MANAGEMENT'S DISCUSSION AND ANALYSIS

[All tabular amounts in \$ millions, except where noted]

September 4, 2008

The interim unaudited financial statements of MDS Inc. (MDS or the Company) for the quarter ended July 31, 2008 are reported in United States (U.S.) dollars and prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP). As part of the Company's Canadian filing requirements, we are providing this supplement (Canadian Supplement) to our management's discussion and analysis (MD&A) that restates, based on financial information of MDS reconciled to Canadian generally accepted accounting principles (Canadian GAAP) those parts of our MD&A that would contain material differences if they were based on financial statements prepared in accordance with Canadian GAAP. The Canadian Supplement should be read in conjunction with our unaudited financial statements and MD&A included in our interim report for the three month period ended July 31, 2008 prepared in accordance with U.S. GAAP (Interim Report) and our 2007 annual MD&A and financial statements included in our annual report for the fiscal year ended October 31, 2007 (Annual Report). Note 22 of our interim financial statements explains and quantifies the material differences between U.S. GAAP and Canadian GAAP on the Company's financial condition and results of operations.

The following contains forward-looking statements and should be read in conjunction with the factors set forth in the "Caution regarding forward-looking statements" section of the 2007 annual MD&A, dated January 22, 2008 contained in the Financial Review portion of our Annual Report.

In addition to measures based on U.S. GAAP and Canadian GAAP, we use terms such as net revenue, adjusted earnings before interest, taxes, depreciation and amortization (adjusted EBITDA) and adjusted earnings per share (adjusted EPS). These terms are not defined by U.S. GAAP or Canadian GAAP and readers should refer to "Use of non-GAAP measures" in our 2007 annual MD&A.

Amounts are in \$ millions, except per share amounts and where otherwise noted.

Consolidated operating highlights

A summary of the impact of the differences between U.S. and Canadian GAAP appears below:

		Three months ended July 31,	
		2008	2007
Total revenues – U.S. GAAP	\$	321	\$ 333
Total revenues – Canadian GAAP	\$	331	\$ 321
Operating loss – U.S. GAAP	\$	(22)	\$ (4)
Operating income (loss) – Canadian GAAP	\$	(2)	\$ 13
Income (loss) from continuing operations – U.S. GAAP	\$	(10)	\$ 7
Income (loss) from continuing operations – Canadian GAAP	\$	(4)	\$ 8
Basic EPS - continuing operations – U.S. GAAP	\$	(0.08)	\$ 0.06
Basic EPS - continuing operations – Canadian GAAP	\$	(0.03)	\$ 0.07

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	Nine months ended July 31,	
	2008	2007
Total revenues – U.S. GAAP	\$ 993	\$ 883
Total revenues – Canadian GAAP	\$ 1,014	\$ 844
Operating loss – U.S. GAAP	\$ (20)	\$ (109)
Operating income (loss) – Canadian GAAP	\$ 32	\$ (64)
Income (loss) from continuing operations – U.S. GAAP	\$ 18	\$ (48)
Income (loss) from continuing operations – Canadian GAAP	\$ 24	\$ (51)
Basic EPS - continuing operations – U.S. GAAP	\$ 0.15	\$ (0.36)
Basic EPS - continuing operations – Canadian GAAP	\$ 0.20	\$ (0.37)

Consolidated operating highlights and adjusted EBITDA

	2008		2008		2007		2007	
	U.S.		CDN		U.S.		CDN	
	GAAP	Differences	GAAP		GAAP	Differences	GAAP	
Net revenues	\$ 298	\$ 10	\$ 308		\$ 308	\$ 12	\$ 296	
Total revenues	\$ 321	\$ 10	\$ 331		\$ 333	\$ 12	\$ 321	
Operating income (loss)	\$ (22)	\$ 20	\$ (2)		\$ (4)	\$ 17	\$ 13	
Adjusted EBITDA	\$ 41	\$ 11	\$ 52		\$ 49	\$ 7	\$ 56	

	2008		2008		2007		2007	
	U.S.		CDN		U.S.		CDN	
	GAAP	Differences	GAAP		GAAP	Differences	GAAP	
Net revenues	\$ 920	\$ 21	\$ 941		\$ 812	\$ 39	\$ 773	
Total revenues	\$ 993	\$ 21	\$ 1,014		\$ 883	\$ 39	\$ 844	
Operating income (loss)	\$ (20)	\$ 52	\$ 32		\$ (109)	\$ 45	\$ (64)	
Adjusted EBITDA	\$ 115	\$ 19	\$ 134		\$ 110	\$ 15	\$ 125	

The differences between U.S. GAAP and Canadian GAAP that have the most significant impact on the Company's financial condition and results of operations include accounting for: joint ventures, investment tax credits, research and development, stock-based compensation, embedded derivatives, pensions and in-process research and development (in-process R&D).

The primary difference between Canadian GAAP and U.S. GAAP that affects the consolidated revenues and operating margin is that under Canadian GAAP proportionate consolidation is used to report the results of our joint ventures within the MDS Analytical Technologies segment, whereas under U.S. GAAP we apply the method of equity accounting. For the third quarter of 2008, we reported \$10 million less revenue and \$20 million more operating loss under U.S. GAAP than we would have reported under Canadian GAAP (\$13 million less revenue and \$17 million less operating income for 2007). Under U.S. GAAP, the income from the joint ventures is included in equity earnings, which was \$14 million in the third quarter of 2008 (\$15 million in the third quarter of 2007). Under Canadian GAAP, this amount was included in operating income as part of the proportionate consolidation. As a result of this accounting difference, the calculation of adjusted EBITDA is different when utilizing U.S. GAAP as

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the equity earnings include depreciation and amortization of \$3 million for the third quarter of 2008 whilst the depreciation and amortization is added back to adjusted EBITDA when utilizing Canadian GAAP. Under U.S. GAAP the joint ventures' restructuring costs of \$2 million for the third quarter of 2008 are included in equity earnings whereas under Canadian GAAP these costs are in operating income. These costs are added back in the calculation of adjusted EBITDA under both U.S. and Canadian GAAP.

Other differences in operating income and 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 U.S. GAAP. In the third quarter of 2008, there were \$1 million (\$1 million in 2007) of ITCs which increased our operating loss under U.S. GAAP, compared to Canadian GAAP. Adjusted EBITDA was reduced by \$1 million (\$1 million in 2007) under U.S. GAAP, compared to Canadian GAAP.
- **Research and Development (R&D)** expenditures may be capitalized under Canadian GAAP if certain criteria are met; however these expenditures are expensed in the period they are incurred under U.S. GAAP. In the third quarter of 2008, the \$3 million (\$5 million in 2007) of R&D capitalized under Canadian GAAP resulted in a reduction of adjusted EBITDA by the same amount under U.S. GAAP, compared to Canadian GAAP. Our operating loss was higher by \$1 million (\$3 million in 2007) under U.S. GAAP due to \$2 million (\$2 million in 2007) of amortization under Canadian GAAP relating to previously capitalized R&D.
- Due to a difference in **valuation methods for stock-based compensation** under U.S. GAAP and Canadian GAAP, our operating loss was increased and adjusted EBITDA was lower by \$3 million for the third quarter of 2008 (our operating loss was reduced and adjusted EBITDA was higher by \$2 million in 2007) under U.S. GAAP, compared to Canadian GAAP.
- Due to a difference in the **identification of an embedded derivative** under U.S. GAAP and Canadian GAAP, our operating loss was increased and adjusted EBITDA was lower by \$1 million for the third quarter of 2008 (nil in 2007) under U.S. GAAP, compared to Canadian GAAP.

In 2008 year-to-date numbers, under U.S. GAAP, we include in-process R&D expense associated with an acquisition as an adjusting item for the calculation of adjusted EBITDA and adjusted EPS, however in-process R&D is not expensed under Canadian GAAP and therefore there is no adjustment. In the third quarter of 2008 and 2007 the adjusting items are the same under U.S. GAAP and Canadian GAAP.

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Earnings per Share

The adjusted EPS for U.S. GAAP and Canadian GAAP were as follows.

	Three months ended July 31,						
	2008 U.S. GAAP	Differ- ences	2008 CDN GAAP	2007 U.S. GAAP	Differ- ences	2007 CDN GAAP	
Basic earnings per share from continuing operations – as reported	\$ (0.08)	\$ 0.05	\$ (0.03)	\$ 0.06	\$ 0.01	\$ 0.07	
Adjusted for (after tax):							
Restructuring charges, net	0.06	-	0.06	0.01	-	0.01	
FDA-related customer settlements	-	-	-	-	-	-	
Asset impairment	0.06	-	0.06	-	-	-	
Valuation provisions	-	-	-	-	-	-	
Mark-to-market on interest rate swaps	-	-	-	0.01	-	0.01	
MAPLE settlement	-	-	-	-	-	-	
Loss on sale of business and long-term investments	0.02	-	0.02	-	-	-	
Acquisition integration	-	-	-	0.05	-	0.05	
Tax rate changes	-	-	-	-	-	-	
Adjusted EPS	\$ 0.06	\$ 0.05	\$ 0.11	\$ 0.13	\$ 0.01	\$ 0.14	

	Nine months ended July 31,						
	2008 U.S. GAAP	Differ- ences	2008 CDN GAAP	2007 U.S. GAAP	Differ- ences	2007 CDN GAAP	
Basic earnings per share from continuing operations – as reported	\$ 0.15	\$ 0.05	\$ 0.20	\$ (0.36)	\$ (0.01)	\$ (0.37)	
Adjusted for (after tax):							
Restructuring charges, net	0.07	-	0.07	0.24	-	0.24	
FDA-related customer settlements	(0.06)	-	(0.06)	0.30	-	0.30	
Asset impairment	0.06	-	0.06	-	-	-	
Valuation provisions	0.03	-	0.03	0.04	-	0.04	
Mark-to-market on interest rate swaps	(0.02)	-	(0.02)	0.01	-	0.01	
MAPLE settlement	-	-	-	(0.02)	-	(0.02)	
Loss on sale of business and long-term investments	0.02	-	0.02	0.02	-	0.02	
Acquisition integration	0.01	-	0.01	0.07	-	0.07	
Tax rate changes	(0.09)	-	(0.09)	-	-	-	
Adjusted EPS	\$ 0.17	\$ 0.05	\$ 0.22	\$ 0.30	\$ (0.01)	\$ 0.29	

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MDS Pharma Services

Selected Financial Highlights

	2008		Differences	2008		Three months ended July 31,						
	U.S.			CDN		2007		2007				
	GAAP			GAAP		U.S.	Differences	CDN				
Net revenues	\$	122	\$	-	\$	122	\$	118	\$	-	\$	118
Total revenues	\$	145	\$	-	\$	145	\$	143	\$	-	\$	143
Operating (loss)	\$	(31)	\$	1	\$	(30)	\$	(5)	\$	-	\$	(5)
Adjusted EBITDA	\$	(2)	\$	1	\$	(1)	\$	4	\$	-	\$	4

	2008		Differences	2008		Nine months ended July 31,						
	U.S.			CDN		2007		2007				
	GAAP			GAAP		U.S.	Differences	CDN				
Net revenues	\$	370	\$	-	\$	370	\$	354	\$	-	\$	354
Total revenues	\$	443	\$	-	\$	443	\$	425	\$	-	\$	425
Operating (loss)	\$	(32)	\$	1	\$	(31)	\$	(118)	\$	-	\$	(118)
Adjusted EBITDA	\$	3	\$	1	\$	4	\$	5	\$	3	\$	8

For MDS Pharma the main difference between U.S. GAAP and Canadian GAAP is the accounting for ITCs. Under Canadian GAAP, ITCs were recorded as a reduction in cost of revenues. Under U.S. GAAP, ITCs are included in income taxes and therefore, when compared to Canadian GAAP, MDS Pharma Services' operating loss is increased and adjusted EBITDA is decreased by \$1 million (nil in 2007) in the third quarter of 2008.

MDS Nordion

Selected Financial Highlights

	2008		Differences	2008		Three months ended July 31,						
	U.S.			CDN		2007		2007				
	GAAP			GAAP		U.S.	Differences	CDN				
Total revenues	\$	72	\$	-	\$	72	\$	76	\$	-	\$	76
Operating income	\$	20	\$	1	\$	21	\$	18	\$	1	\$	19
Adjusted EBITDA	\$	23	\$	1	\$	24	\$	22	\$	1	\$	23

	2008		Differences	2008		Nine months ended July 31,						
	U.S.			CDN		2007		2007				
	GAAP			GAAP		U.S.	Differences	CDN				
Total revenues	\$	212	\$	-	\$	212	\$	214	\$	(1)	\$	213
Operating income	\$	45	\$	5	\$	50	\$	55	\$	4	\$	59
Adjusted EBITDA	\$	58	\$	5	\$	63	\$	64	\$	1	\$	65

For MDS Nordion there was one material difference between U.S. GAAP and Canadian GAAP. Under U.S. GAAP, there was an embedded derivative associated with MDS Nordion's long term Russian Cobalt supply agreement. Under Canadian GAAP, the contract was not considered to contain an embedded derivative as the U.S.

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dollar currency used in the contract was considered to be a common usage currency. Under U.S. GAAP, a \$1 million (nil in 2007) loss was recorded in the third quarter of 2008 related to the mark-to-market of the embedded derivative and therefore operating income and adjusted EBITDA are lower under U.S. GAAP, compared to Canadian GAAP.

MDS Analytical Technologies

Selected Financial Highlights

	2008		2008		Three months ended July 31,		
	U.S. GAAP	Differences	CDN GAAP	2007 U.S. GAAP	Differences	2007 CDN GAAP	
Total revenues	\$ 104	\$ 10	\$ 114	\$ 114	\$ 13	\$ 127	
Operating income (loss)	\$ (9)	\$ 15	\$ 6	\$ (11)	\$ 21	\$ 10	
Adjusted EBITDA	\$ 21	\$ 6	\$ 27	\$ 27	\$ 9	\$ 36	

	2008		2008		Nine months ended July 31,		
	U.S. GAAP	Differences	CDN GAAP	2007 U.S. GAAP	Differences	2007 CDN GAAP	
Total revenues	\$ 338	\$ 21	\$ 359	\$ 244	\$ 33	\$ 277	
Operating income (loss)	\$ (18)	\$ 45	\$ 27	\$ (19)	\$ 49	\$ 30	
Adjusted EBITDA	\$ 65	\$ 14	\$ 79	\$ 54	\$ 17	\$ 71	

The mass spectrometer product family 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 U.S. GAAP, we equity account for the joint ventures and therefore the majority of the income related to the mass spectrometer product family is reflected in equity earnings, which represents our share of the net income of the joint ventures. We include equity earnings in our calculation of adjusted EBITDA, however, under U.S. GAAP, these earnings are not included in operating income. Under Canadian GAAP, the joint ventures are proportionately consolidated and therefore the earnings associated with the joint ventures are included in operating income.

As a result of the difference in accounting for joint ventures, for the third quarter of 2008, we reported \$10 million less revenue and \$14 million less operating income under U.S. GAAP than we would have reported under Canadian GAAP (\$13 million less and \$15 million less, respectively for 2007). Under U.S. GAAP, the income from the joint ventures is included in equity earnings, which were \$14 million in the third quarter of 2008 (\$15 million in 2007). Under Canadian GAAP this amount was reflected in operating income as part of the proportionate consolidation. As a result of this accounting difference, the calculation of adjusted EBITDA is different when utilizing U.S. GAAP as the equity earnings include depreciation and amortization of \$3 million for the third quarter of 2008 while the depreciation and amortization is added back to adjusted EBITDA when utilizing Canadian GAAP.

For MDS Analytical Technologies, the other main difference between U.S. GAAP and Canadian GAAP is in accounting for research and development expenditures. In the third quarter of 2008, the \$3 million (\$5 million in 2007) of R&D capitalized under Canadian GAAP, resulted in a reduction of adjusted EBITDA by the same amount under U.S. GAAP, compared to Canadian GAAP. Operating loss was increased by \$1 million (3 in 2007) under U.S. GAAP due to \$2 million (\$2 million in 2007) of amortization under Canadian GAAP that related to previously capitalized R&D.

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[All tabular amounts in \$ millions, except where noted]

MDS Corporate and other

Selected Financial Highlights

	2008		2008		Three months ended July 31,		
	U.S. GAAP	Differences	CDN GAAP	2007 U.S. GAAP	Differences	2007 CDN GAAP	
Operating income (loss)	\$ (2)	\$ 3	\$ 1	\$ (6)	\$ (4)	\$ (10)	
Adjusted EBITDA	\$ (1)	\$ 3	\$ 2	\$ (4)	\$ (3)	\$ (7)	

	2008		2008		Nine months ended July 31,		
	U.S. GAAP	Differences	CDN GAAP	2007 U.S. GAAP	Differences	2007 CDN GAAP	
Operating income (loss)	\$ (15)	\$ 1	\$ (14)	\$ (27)	\$ (6)	\$ (33)	
Adjusted EBITDA	\$ (11)	\$ (1)	\$ (12)	\$ (11)	\$ (8)	\$ (19)	

The primary difference between U.S. GAAP and Canadian GAAP for Corporate and other is due to the difference in valuation methods used for stock-based compensation. Under U.S. GAAP, compared to Canadian GAAP, the operating loss is increased and adjusted EBITDA is decreased by \$3 million in the third quarter of 2008 (operating loss was reduced and adjusted EBITDA was higher by \$2 million in 2007) related to one of our stock-based compensation programs.

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