

## **CHARTER OF THE CORPORATE GOVERNANCE & NOMINATING COMMITTEE OF THE BOARD OF DIRECTORS OF MDS INC.**

### **Purpose**

The primary function of the corporate governance & nominating committee (the "Committee") of the board of directors (the "Board") of MDS Inc. (the "Corporation") is to assist the Board of Directors in carrying out its responsibilities in matters of corporate governance.

### **Approval of Charter**

This Committee charter requires approval by the Board.

Future changes to this charter require approval by the Board based on the recommendation of the Committee.

### **Structure and Composition**

The Committee shall consist of no fewer than three members from among the Board, all of whom shall meet the independence requirements of applicable law and the listing standards of the Toronto Stock Exchange and the New York Stock Exchange.

The members of the Committee shall be appointed by the Board annually or until successors are duly appointed.

The Board shall normally designate the Chair of the Committee. In the event that a Board designation is not made, the members of the Committee shall elect a Chair by majority vote of the full Committee.

In the event that the Chair of the Committee does not attend a meeting of the Committee, the members of the Committee shall elect a temporary Chair for such meeting by majority vote of the members in attendance at the meeting.

Once appointed, Committee members shall cease to be a member of the Committee only upon:

- (i) resignation from the Board;
- (ii) death;
- (iii) disability, as determined by an independent physician retained by the Board;
- (iv) not being re-appointed pursuant to the annual appointment process described above; or
- (v) at the discretion of the Board, upon recommendation of the Committee.

### **Meetings**

The Committee shall meet at least twice annually and more frequently as circumstances dictate.

A majority of Committee members is required for meeting quorum.

The Committee may request any officer or employee of the Corporation or the Corporation's outside counsel to attend a meeting of the Committee or to meet or provide consultations to the Committee or any member thereof.

The Corporate Secretary of the Corporation shall normally attend meetings of the Committee. Others may also attend meetings as the Committee may request.

Notice of all meetings of the Committee shall be sent to Committee members.

### **Chair**

The Chair of the Committee shall have the duties and responsibilities set forth in Appendix "A".

### **Resolutions**

Resolutions of the Committee passed at a meeting shall require approval by a simple majority of members voting on such resolution.

Any decision or determination of the Committee reduced to writing and signed by all of the members of the Committee shall be fully as effective as if it had been made at a meeting duly called and held

### **Responsibilities and Duties**

#### ***i) Minutes and Reporting to the Board***

The Committee shall prepare written minutes of all of its meetings. In addition, the Chair of the Committee or designate shall report to the Board of Directors after each meeting the significant matters addressed by the Committee at such meeting and a copy of the minutes shall be made available to all members of the Board.

#### ***ii) Corporate Governance***

The Committee is responsible for all matters relating to the governance of the Corporation and for reporting and making recommendations to the Board of Directors regarding such matters. Without limiting the generality of the foregoing, the Committee shall:

- develop and recommend to the Board of Directors, corporate governance guidelines and practices applicable to the Corporation;
- annually review the corporate governance guidelines and practices of the Corporation and, if appropriate, recommend changes to such guidelines and practices to the Board of Directors or management.
- monitor the appropriateness of the Corporation's governance systems with regard to external governance standards and with emphasis on "continuous improvement".
- review proposed annual corporate governance disclosure before submission to the Board of Directors.

- review annually the effectiveness of the Board of Directors, the Board Chair, Committee Chairs and Committees.
- review annually with the Board Chair the process for the review of effectiveness of individual directors.
- review any shareholder proposal received by the Corporation and recommend to the Board of Directors the Corporation's response.
- review annually the Bid Response Plan process.

**iii)        *Nominating***

The Committee is responsible for all matters relating to director recruitment, director orientation and continuing education, and for the regular evaluation of the Board of Directors. Without limiting the generality of the foregoing, the Committee shall:

- in consultation with the Board and CEO, review the makeup and needs of the Board of Directors, identifying and recommending candidates for Board membership.
- in consultation with the CEO, recommend the criteria for Board membership; such criteria should cover, among other things, diversity, experience, skill set and the ability to act on behalf of shareholders.
- in consultation with the Board and CEO and, on an ongoing basis, maintain a database of potential candidates.
- utilize such outside agencies or third parties at the cost of the Corporation, as the Committee deems necessary to assist in identifying potential candidates.
- review and make recommendations from time to time on the Guidelines for Selection, Term, Retirement and Evaluation of Directors.
- recommend to the Board the annual nominees to the Board for presentation to the shareholders.
- recommend to the Board on an annual basis the composition of the Standing Committees of the Board

**iv)        *Director Compensation***

The Committee shall:

- review and recommend to the Board the form and adequacy of compensation for independent directors.

**v) *Review of Charter and Self Assessment***

The Committee shall:

- review and reassess annually the adequacy of this Charter.
- review annually the Committee's own performance.

**vi) *Corporate Knowledge and Other Activities***

The Committee shall carry out such other activities consistent with this Charter, the Corporation's by-laws and governing law, that the Committee or the Board deem necessary or appropriate.

Authority to make minor technical amendments to this Committee Charter is delegated to the Corporate Secretary of the Corporation, who shall report any amendments to the Board of Directors at its next meeting.

**Other Advisors**

The Committee shall have the authority to consider and, if appropriate, approve the engagement of outside advisors by any Director at the Corporation's expense.

The essence of the Committee's responsibilities is to monitor and review the activities described in this Charter to gain reasonable assurance (but not to ensure) that such activities are being conducted properly and effectively by the Corporation.



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APPENDIX "A"

**POSITION DESCRIPTION**

**CHAIR OF CORPORATE GOVERNANCE & NOMINATING COMMITTEE**

In addition to the duties and responsibilities set out in the Board of Directors Charter and the Charter of the Corporate Governance & Nominating Committee, the chair (the "Chair") of the Corporate Governance & Nominating Committee (the "Committee") of MDS Inc. (the "Company") has the duties and responsibilities described below. The Committee Chair will:

1. Provide overall leadership to enhance the effectiveness of the Committee, including:
  - a. Recommend and oversee the appropriate structure, composition, membership and activities delegated to the Committee;
  - b. Chair all meetings of the Committee and manage agenda items so appropriate consideration can be given to agenda items;
  - c. Encourage Committee members to ask questions and express viewpoints during meetings;
  - d. Schedule and set the agenda for Committee meetings with input from other Committee members, the Chair of the Board of Directors and management as appropriate;
  - e. Facilitate the timely, accurate and proper flow of information to and from the Committee;
  - f. Arrange for management, internal personnel, external advisors and others to attend and present at Committee meetings as appropriate;
  - g. Arrange sufficient time during Committee meetings to fully discuss agenda items;
  - h. Carry out the responsibilities and duties of the Committee, as outlined in its Charter and review the Charter and duties and responsibilities with Committee members on a regular basis; and
  - i. Participate with the Chair of the Board in evaluation of individual directors.
2. Foster ethical and responsible decision-making by the Committee and its individual members.
3. Provide for in-camera sessions at all scheduled meetings of the Committee.
4. Following each meeting of the Committee, report to the Board of Directors on the activities, findings and any recommendations of the Committee.
5. Carry out such other duties as may reasonably be requested by the Board of Directors.