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Corporate Governance Guidelines and Practices



The Board of Directors of MDS Inc. (“MDS”) is responsible for overseeing the effective management of the Company’s global business. In carrying out those responsibilities, the Board has the authority and duty to protect and enhance the Company’s assets in the interests of all stakeholders.

The Board recognizes that Board effectiveness is an interplay of structure, membership and process and individual Director effectiveness is an interplay of independence, competence and behaviour. The Board’s responsibility is an active one and the involvement and commitment of each Director, as evidenced by attendance, preparation and participation at meetings are essential ingredients in the over-all success of the Company.

This booklet summarizes certain guidelines and practices of MDS’ Board of Directors relating to matters of corporate governance. These guidelines are not meant to be static and shall be reviewed and evaluated on a regular basis and modified as determined by the Corporate Governance and Nominating Committee to meet the changing needs of the Company and regulatory requirements.

CORPORATE GOVERNANCE GUIDELINES AND PRACTICES

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1. Chair of the Board

The Board has separated the roles of Chair and CEO. Currently, the Company has an independent, Non-Executive Chair of the Board (“Chair”). The Chair is appointed by the independent Board on the recommendation of the Corporate Governance and Nominating Committee. The Chair's principal goals and objectives are established in consultation with the Committee and approved by the Board.

2. Lead Director

The Board has determined that at such time as the Chair is not an independent Director, that a Director who is independent shall serve as “Lead Director”. The Lead Director shall chair regular meetings of the independent Directors and shall assume other responsibilities, which the independent Directors may from time to time designate. The Lead Director shall be appointed by the independent Board on the recommendation of the Corporate Governance and Nominating Committee.

3. Director's Duty of Care

In carrying out the Board's specific duties and responsibilities as set out in its Charter, each Director shall act honestly and in good faith with a view to the best interests of the Company; and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

4. Board Composition

The Board believes and the Company's by-laws provide that a majority of the Directors should be independent of the Company. Independent means free from any relationship which could materially interfere with a Board member's ability to act in the best interests of the Company as determined by the Board or a Committee thereof, in accordance with applicable regulatory requirements. In addition, the Board believes that there should generally be no more than one or two non-independent Directors. The Canada Business Corporation's Act also currently provides that at least 25% of the Directors must be resident Canadians.

5. Board Size

The Articles of the Company provide for a minimum of three and a maximum of twenty Directors. The Board believes at this time given the size and scope of the Company's business that approximately ten to twelve Directors is the right number to provide the depth, breadth and diversity of expertise and experience required, while allowing for efficient operation and decision-making. The Board has the ability to increase or decrease its size, within the limits set out in its Articles. The Corporate Governance & Nominating Committee reviews the size and composition of the Board annually and makes recommendations to the Board when it believes a change would be in the best interests of the Company.

6. Board Meeting Agendas

The Chair and the CEO in consultation with the Corporate Secretary, develop the agenda for each Board meeting. Notice of the principal matters to be addressed at all Board meetings are distributed to Directors well in advance of each meeting, and all Board members are free to suggest additions to meeting topics. The Chair shall establish the agenda items for meetings of the independent Directors.

7. Board Meetings

Information and reports pertaining to Board meeting agenda items are generally circulated to the Directors a week in advance of the meeting. Materials are prepared to focus attention on critical issues to be considered by the Board. Reports may be presented during Board meetings by members of the Board, senior management and/or staff, or by invited outside advisors.

Directors are expected to attend all meetings of the Board and the Committees upon which they serve, to come to such meetings fully prepared, and to remain in attendance for the duration of the meeting. Where a Director's absence from a meeting is unavoidable, the Director should, as soon as practicable after the meeting, contact the Board Chair, the Committee Chair, the CEO, or the Corporate Secretary for a briefing on the substantive elements of the meeting.

8. Regular Attendance of Non-Directors at Board Meetings

The Board appreciates the value of having certain members of senior management attend each Board meeting to provide information and opinion to assist the Directors in their deliberations and to allow Directors to evaluate the calibre of the senior management team. The CEO shall seek the Chair's concurrence in the event of any proposed change to the management attendees at Board meetings. Management attendees shall not attend the portion of each meeting, which is reserved for in camera or executive sessions of the Board.

9. In Camera and Executive Sessions of Independent Directors

The Board shall meet in camera without management, other than the CEO, at the end of each regularly scheduled meeting. In addition, the independent Directors of the Board shall meet in executive sessions at the end of each regularly scheduled meeting of the Board and at such other times as determined by the Chair or, if there is a Lead Director, by the Lead Director.

10. Board Contacts with Senior Management

All of the Directors have open access to the Company's senior management. It is expected that Directors shall exercise judgement so that their contacts with senior management limit management's distraction from the Company's business operations. Written communications from Directors to members of senior management shall be copied to the Chair and to the CEO. The Board also encourages individual Directors to make themselves available for consultations with senior management outside Board meetings in order to provide specific advice, expertise or counsel on subjects where such Directors have special knowledge and experience.

11. Board and Committee Compensation

The compensation program for members of the Board of Directors and standing committees is reviewed and agreed to on an annual basis by the Corporate Governance & Nominating Committee, with the assistance of outside consultants. Overall

compensation is established based on a comparator peer group of companies as determined from time to time by the Committee.

12. Delegation to Standing Committees of the Board

In carrying out its duties, the Board has established and delegated certain responsibilities to separate Standing Committees of the Board. The current Standing Committees of the Board are Audit; Human Resources & Compensation; Corporate Governance & Nominating; and Environment, Health & Safety. Each of the Committees operates under a separate and distinct Charter approved by the Board, which describes both the structure of the Committee and its duties and responsibilities. Membership on each Standing Committee is to be comprised entirely of independent Board members. In addition, the Board may establish and delegate, from time to time, certain responsibilities to ad hoc committees of the Board and establish compensation to be paid to such committee members.

13. Appointment and Rotation of Committee Members

Committee membership is approved by the Board in consultation with the Chair and the CEO and upon recommendation of the Corporate Governance & Nominating Committee. Members of the Committees of the Board shall be appointed from among the independent members of the Board. The Board favours a periodic rotation in Committee Chair and membership in a way, which recognizes and balances the need for renewal of ideas, as well as continuity and maintenance of functional expertise.

14. Committee Meetings

The schedule of meetings of each Committee shall be determined by its Chair in consultation with its members and based upon an annual work plan designed to discharge the responsibilities of each Committee as set out in its Charter. The Chair of the Committee shall develop the agenda for each Committee meeting through consultation as appropriate with members of management, staff and the Committee. Each Committee shall report to the Board on the results of each Committee meeting. Minutes shall be prepared for all Committee meetings and copies provided to all Board members.

15. Board Review of “Independence” of Directors

Directors shall notify the Chair of the Corporate Governance & Nominating Committee of their employment affiliations, including both director and committee memberships, in other organizations, in order to enable the Committee to assess their independence and/or the continued appropriateness of their membership.

The Committee shall review on an annual basis any relationships between Directors and the Company, which might be construed in any way to compromise the designation of any Director as being independent of the Company. The objective of such review shall be to determine the existence of any material relationships, to ensure that the composition of the Board remains such that the majority of the Directors are independent and that where any such relationships exist, to determine whether or not such relationships compromise the Director's ability to serve the Company.

16. Criteria for Board Membership

The Corporate Governance & Nominating Committee shall review each year the composition and general and specific criteria applicable to candidates to be considered for nomination to the Board. The objective of this review shall be to maintain the composition of the Board in a way, which provides the best mix of skills and experience to guide the long term strategy and ongoing business operations of the Company. This review shall also take into account the desirability of maintaining a reasonable diversity of personal characteristics such as age, gender, geographic origin, etc. among the Directors while at the same time maintaining common characteristics such as personal integrity, good judgment, high ethics and standards, outstanding ability in their individual fields of expertise and a willingness to devote necessary time to Board matters.

The Company does not have a policy limiting the number of other public company boards of directors upon which a director may participate. However, the Company does recognize the substantial time commitments attendant to Board membership and expects that the members of its Board be fully committed to devoting all such time as is necessary to fulfill their Board responsibilities, both in terms of preparation for, and attendance and participation at meetings. In this context, the Corporate Governance & Nominating Committee shall consider from time to time the number of other Boards on which an individual director participates.

17. Selection of New Director Candidates

The Board is responsible for identifying suitable candidates to be recommended for election to the Board by the shareholders. The Corporate Governance & Nominating Committee has been given the responsibility in consultation with the Chair and CEO of gathering the names of potential nominees, screening their qualifications against the current skill and experience needs of the Board and making recommendations in this regard to the full Board. All Directors are encouraged to identify potential candidates and to provide their names to the Board Chair or Chair of the Corporate Governance & Nominating Committee. In addition, independent search firms shall be engaged as appropriate to assist in identifying potential candidates. An invitation to stand as a nominee for election to the Board shall normally be made to a candidate by the Board through the Chair or the Chair's delegate.

18. New Director Orientation and Continuing Education

New Directors shall be provided with a comprehensive orientation and education program which shall include written information about the duties and obligations of Directors, the business of the Company, material policies including Privacy and Confidentiality and the Global Business Practice Standards, meetings and discussion with senior corporate and operational management and other Directors, and tours of the Company's principal operations. When first appointed to a Board Committee, Directors shall be offered appropriate information and orientation to prepare them to participate effectively in the work of the Board or any Committee to which they are appointed. Continuing education shall include holding meetings at various operating offices, meeting with local management, regular receipt of articles, reports and other papers regarding the life sciences market, presentations from outside consultants and specialists related to industry trends, markets, opportunities in such markets and governmental and regulatory changes impacting the Company or its various businesses.

19. Assessing Corporate Governance Practices and the Board's Performance

The Corporate Governance & Nominating Committee, with the assistance of the Chair and Corporate Secretary, is responsible for conducting annual assessments of the effectiveness of the Company's governance practices and conducting a self-assessment of the overall performance of the Board and its Committees and reporting on the same to

the Board. In addition, the Chair of the Board and the Chair of the Corporate Governance & Nominating Committee shall review on an annual basis the performance of individual members of the Board, and the Chair of the Board in consultation with the Chairs of the Committees, the performance of Members of each Committee. In addition, the Chair of the Board and Chair of the Corporate Governance & Nominating Committee shall meet annually with each of the Board members to review and discuss his or her performance as well as observations on current Board's effectiveness and suggestions to improve both individual and over-all Board effectiveness. In addition, the Chair of the Board establishes goals and objectives for the year which are approved by the Board and performance against such goals and objectives are reviewed at the end of the year by the Committee and the Board. The objective of these reviews is to contribute to a process of continuous improvement in the governance practices and in the Chair's, Board's and Committees' execution of their respective responsibilities. It is expected that the result of such reviews shall be to identify any areas where the Directors believe the governance practices can be improved or where the Directors and/or management believe that the Chair, the Board collectively, or a member of the Board, could make a greater contribution to the Company. Items identified through this process as requiring improvement shall become an accountability of senior management and/or the Chair, Board, Board member or Committee and regular monitoring and progress reports provided to the Corporate Governance and Nominating Committee.

20. Term Limits for Directors and Retirement Age

Subject to both annual performance review and election by the shareholders, Directors should anticipate serving on the Board for an initial period of three (3) years. The maximum service term shall be 15 years. The maximum term for the Chair of the Board and Chairs of each of the Standing Committees shall be five (5) years, plus, at the option of the Board, up to one additional five (5) year period. The normal retirement age for Board members shall be seventy (70), provided, the Corporate Governance & Nominating Committee shall, in unique circumstances, have the discretion to invite a Board member to serve beyond the age of seventy (70).

21. Equity Ownership by Directors

The Board has determined that equity ownership in the Company by Directors, the CEO and the CEO's direct reports (collectively "Executive Officers") should be encouraged as

one way of aligning the interests of Directors and Executive Officers with those of its shareholders. The Board has adopted a policy requiring Directors to own equity (including shares and/or deferred share units (DSUs)) of the Company with a value of not less than five times the Director's annual retainer. Directors are given three years from their election to accumulate such ownership position. For the purpose of determining the value of the equity investment of a Director in the Company at any time, the value of the DSUs or Common shares held by a Director is based upon the higher of the acquisition cost of the DSUs or Common shares and the market value of the Common shares held, or Common shares represented by DSUs held under the Plan. The Executive Officers are required to own equity (including shares and/or DSUs) with a value of not less than, in the case of the CEO, four times base salary and his direct reports two times base salary. Each is given five years to accumulate the required level of ownership and progress is monitored by the Corporate Governance & Nominating Committee on a periodic basis.

22. Director Resignations

Each Director of the Company shall offer the Chair of the Board and Chair of the Corporate Governance & Nominating Committee for consideration immediate notice of his or her resignation in any of the following circumstances:

- (a) the failure to meet the independence requirements;
- (b) the failure to meet the share ownership requirements within the prescribed time;
- (c) the failure to receive a greater number of votes "for" than votes "withheld" cast by shareholders at a meeting called in respect of the election of directors where the number of nominees for Director equals the number of directors to be elected;
- (d) a breach by a Director of the Global Business Practice Standards;
- (e) a material change in the employment of the Director;
- (f) the acceptance by a Director of a directorship in a company or other organization in which there could be a material conflict of interest with the Company;
- (g) the failure to attend in person or by telephone at least 75% of the regularly scheduled meetings of the Board and Committee of which the Director is a member;
- (h) a Director becoming aware of personal circumstances that may compromise the integrity of the Director's contribution to the Board or may adversely impact the reputation of the Company;
- (i) upon a Director attaining the age of seventy (70); or

- (j) upon a Director no longer satisfying the relevant statutory qualifications of Section 105 of the Canada Business Corporations Act.

Upon receipt of a resignation, the Chair of the Corporate Governance Committee shall call a meeting of the Committee to consider the resignation and make a recommendation to the Board to accept or reject the resignation at the Board's next regularly scheduled meeting. Among the factors to be considered by the Committee shall be: the stated reasons, if any, as to why votes were withheld for such Director, any appropriate alternatives for curing any underlying cause of the withheld votes; the tenure and qualifications of the Director; the Director's past and expected future contribution to the Company; the over-all composition of the Board; by-law or statutory requirements; and such other factors as the Committee deems relevant.

With respect to (c) above, the Qualified Independent Directors shall consider the Committee's recommendation no later than 90 days following the shareholders' meeting at which the election occurred. Following a decision of the Qualified Independent Directors, the Company shall promptly disclose the decision publicly in a document furnished or filed with any relevant regulatory authority and, if applicable, the reasons for rejecting the tendered resignation.

For the purposes hereof, the term "Qualified Independent Director" means all directors who are both independent and who are not required to offer their resignation in accordance with these Guidelines and Practices. If there are fewer than three independent directors or fewer than 25% resident Canadians then serving on the Board who are not required to offer their resignation in accordance herewith, then the Qualified Independent Directors shall mean all of the independent directors and each independent director who is required to offer his or her resignation in accordance with these practices shall excuse himself or herself from the deliberations and voting with respect to his or her individual offer to resign.

23. Evaluation of the CEO

The Human Resource & Compensation Committee shall conduct an annual review of the performance of the CEO as measured against objectives established mutually in the prior year by the Committee and the CEO. The evaluation shall also be used by the Committee in its deliberations concerning the CEO's annual compensation, which shall be reviewed and approved by the Board.

24. Management Development and Succession Planning

The Board expects that management development should be an ongoing process and that a report should be prepared on such activity annually and provided to the Human Resource & Compensation Committee. The Committee shall review annually the succession plans for senior management of the Company, including the CEO, and shall report thereon to the Board. The Board shall review such plans annually and provide input thereon to the Committee.

25. Board Communication with Stakeholders

The Board believes that it is the function of management to speak for the Company in its communications with the investment community, the media, customers, suppliers, employees, governments and the general public. It is understood that the Chair or other individual Directors may from time to time be requested by management to assist with such communications. If communications from stakeholders are made to the Chair or to other individual independent Directors, management shall be informed. The Board, either collectively or through the Chair or through the Audit Committee, approves the content of the Company's material communications to shareholders and the investing public, including the annual and interim Financial Statements and corresponding Press Releases, the annual and interim Management's Discussion and Analysis, the Proxy Circular, the Annual Information Form and any prospectuses which may be issued.

26. Corporate Strategy

The Board believes that management has over-all responsibility for the development of the Company's long-term corporate strategy, while the role of the Board is to review, question and validate, and ultimately to approve the strategy proposed by management and to monitor progress against such strategy. A dedicated meeting of the Board shall be held annually to specifically address long-term corporate strategy development and management shall report to the Board on a regular basis any events both internal or external which might impact such strategy.

27. Shareholder Communication with the Board

Shareholders and other interested parties may communicate directly with the Board or the independent Directors. All communications should be in writing and should be

directed to either the Company's Chair at MDS Inc., 2700 Matheson Blvd., Suite 300, West Tower, Mississauga, ON L4W 4V9 or to the Corporate Secretary at MDS Inc., 2700 Matheson Blvd., Suite 300, West Tower, Mississauga, ON L4W 4V9 or by e-mail to peter.brent@mdsinc.com.

Matters relating to the Corporation's accounting, internal accounting controls or auditing matters shall be referred to the Chair of the Audit Committee. Matters relating to Board or executive compensation shall be referred to the Chairs of the Corporate Governance & Nominating and the Human Resources & Compensation Committees respectively. Other matters shall be referred to the Board Chair.

To further facilitate communication between the Company's shareholders and the Board, all Directors standing for re-election and all new Director nominees are expected to attend the annual meeting of shareholders. At the request of the Chair, each of the Chairs of the standing Committees shall answer questions at the Annual Meeting that relate to their area of expertise.

28. Individual Directors Engaging Outside Advisors

The Charters of both the Board and each of the Committees provide the Board or Committee with the right to engage outside advisors at the expense of the Company. Any Board or Committee member wishing to engage an outside advisor should discuss such engagement with the Chair, the CEO and, if applicable, the Chair of the relevant Committee.

29. Reissuance, Repricing and Backdating of Stock Options

The Company's Stock Option Plan specifically provides that existing stock options may not be repriced or cancelled and reissued without the prior approval of the shareholders of the Company. The Plan also prohibits participation by independent Board members. In addition, backdating of options is strictly prohibited.

30. Board Interlocks

Board members shall report to the Chair of the Corporate Governance & Nominating Committee any board interlocks with other members of the Board and the Company

shall disclose to the shareholders in its Annual Proxy Circular any such interlocks. In addition, the Board shall determine from time to time, on the recommendation of the Corporate Governance & Nominating Committee the acceptability of Board interlocks between individual members of the Board.

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