

CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS OF MDS INC.

Purpose

The primary function of the audit committee (the “Audit Committee”) of the board of directors (the “Board”) of MDS Inc. (the “Corporation”) is to assist the Board in fulfilling its oversight responsibilities for the financial reporting process including responsibility for overseeing:

- the integrity of the Corporation’s financial statements and financial reporting process, including the system of internal control over financial reporting, the audit process and the processes for identifying, evaluating and managing the Corporation’s principal risks impacting financial reporting;
- compliance with legal and regulatory requirements, other than those otherwise assigned from time to time by the Board;
- financial oversight of Pension Plan management;
- the qualifications and independence of the independent auditor; and
- the Corporation’s internal audit function.

Consistent with these functions, the Audit Committee should encourage continuous improvement of, and should foster adherence to, the Corporation’s policies, procedures and practices.

Approval of Charter

This Charter and any future changes to this Charter require approval by the Board.

Structure and Composition

The Audit Committee shall consist of no fewer than three members from among the Board.

Each member of the Audit Committee shall: (i) be free from any relationship that, in the opinion of the Board, would reasonably be expected to interfere with the exercise of his or her independent judgment as a member of the Audit Committee; and (ii) meet the independence and financial literacy requirements of all applicable corporate, exchange and securities statutes, rules and regulations in Canada and the United States (the “Regulations”).

Each member of the Audit Committee shall be financially literate as contemplated by applicable regulations and as determined by the Board in its business judgment.

At least one member of the Audit Committee shall be an “audit committee financial expert” as such term is defined by the Regulations. The Board shall make determinations as to whether any particular member of the Audit Committee satisfies this requirement.

The members of the Audit Committee shall be appointed by the Board annually on the recommendation of the Nominating and Corporate Governance Committee or until successors are duly appointed.

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

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

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

- (a) resignation from the Audit Committee or the Board,
- (b) death,
- (c) disability, as determined by an independent physician retained by the Board; or
- (d) not being re-appointed pursuant to the annual appointment process described above.

Members of the Audit Committee shall not simultaneously serve on the audit committees of more than three public companies, including the Corporation, unless the Board determines that such simultaneous service would not impair the ability of such member to effectively serve on the Audit Committee.

Meetings

The Audit Committee shall meet at least quarterly and more frequently as circumstances dictate.

A majority of Audit Committee members is required for meeting quorum.

The Audit Committee shall meet separately at their quarterly meetings with management, the Internal Auditor and the independent auditor in separate committee sessions.

The Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, Vice President Tax and Treasury, Vice President Financial Planning and Analysis, Vice President Internal Audit and Risk and Corporate Secretary of the Corporation and representatives of the independent auditor shall normally attend meetings of the Audit Committee. The Audit Committee may request any officer or employee of the Corporation or the Corporation's outside counsel or independent auditor to attend a meeting of the Audit Committee or to meet or provide consultations to the Audit Committee or any member thereof. Others may also attend meetings as the Audit Committee may request.

Notice of all meetings of the Audit Committee shall be sent to all Audit Committee members and to those persons referred to in the preceding paragraph.

Chair

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

Resolutions

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

Responsibilities and Duties

(i) Minutes and Reporting to the Board

The Audit Committee shall prepare written minutes of all of its meetings. The Audit Committee shall make regular reports to the Board, but not less frequently than quarterly. In addition, after each meeting of the Audit Committee, the Chair of the Audit Committee or designate shall report to the Board on the significant matters addressed by the Audit Committee at such meeting and a copy of the minutes shall be made available to all members of the Board.

(ii) Selection, Evaluation and Oversight of Independent Auditor

With respect to the Corporation's independent auditor the Audit Committee shall:

- have the sole authority to recommend to the Board the appointment, retention or replacement of the independent auditor (subject, if applicable, to shareholder approval)
- be directly responsible for establishing the compensation of the independent auditor
- have the independent auditor report directly to the Audit Committee and otherwise be directly responsible for overseeing the work of the independent auditor
- have the authority to communicate directly with the independent auditor
- meet with the independent auditor prior to the annual audit to discuss the planning, scope and staffing of the audit and approve the selection of the coordinating partner having primary responsibility for the audit
- provide for the periodic rotation of the coordinating partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law
- at least on an annual basis, evaluate the qualifications, performance and independence of the independent auditor and the senior audit partners having primary responsibility for the audit
- obtain and review a report from the independent auditor at least annually regarding:
(i) the independent auditor's internal quality-control procedures, (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or raised by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the

firm, (iii) any steps taken to deal with any issues, (iv) all relationships between the independent auditor and the Corporation, and (v) the independence of the independent auditor as required by the Regulations

- review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former independent auditor
- obtain confirmation from management that the Corporation has not hired employees or former employees of the independent auditor who have participated in any capacity in the audit of the Corporation for the immediately previous 12 month period
- pre-approve all auditing services and permitted non-audit services (including fees and terms thereof) to be performed for the Corporation or its subsidiaries by the independent auditor

(iii) Internal Audit

With respect to the Corporation's lead of internal audit (the "Internal Auditor"), the Audit Committee shall:

- have the authority to approve the appointment and termination of the Internal Auditor
- have the Internal Auditor report directly on a functional basis to the Audit Committee (although the Internal Auditor may report administratively to the CEO or the CFO)
- have the authority to communicate directly with the Internal Auditor
- meet with the Internal Auditor to discuss the planning, scope and staffing of the internal audit plan
- approve the internal audit mandate and annual plan, including the responsibilities, budget, compensation and staffing of the Corporation's internal audit function, through inquiry with the Corporation's independent auditor, management and the Corporation's internal auditing department

(iv) Financial Reporting of Quarterly Financial Results

With respect to the Corporation's reporting of unaudited quarterly financial results, the Audit Committee shall:

- prior to their public release and filing with securities regulatory agencies, review and discuss with management, the internal auditor and the independent auditor:
 - earnings press release
 - financial statements and notes thereto
 - management's discussion and analysis

The review of the Corporation's unaudited quarterly financial results shall include:

- critical accounting policies and practices
- significant financial reporting issues and judgments (e.g. estimates and reserves) made in the preparation of the Corporation's financial statements, including any significant changes in the Corporation's selection or application of accounting principles
- the extent to which changes or improvements in financial or accounting practices, as approved by the Audit Committee, have been implemented
- results of the independent auditor's review
- any written communications between the independent auditor and management (e.g. management letters, schedule of unadjusted differences)
- any significant disagreements among management and the independent auditor in connection with the preparation of financial statements
- adequacy of internal controls over financial reporting and any major issues as to the adequacy of the Corporation's internal controls and any special steps adopted in light of material control deficiencies
- management certifications of reports filed by the Corporation pursuant to applicable regulations
- the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Corporation's financial statements
- the Corporation's use of "pro forma" or "adjusted" non-GAAP information
- the Corporation's use of forward-looking financial guidance
- any correspondence with, or published reports by, regulators or governmental agencies which raise material issues regarding the Corporation's financial statements or accounting policies
- approve the unaudited quarterly financial statements of the Corporation

(v) *Financial Reporting of Year-End Financial Results*

With respect to the Corporation's annual audit, the Audit Committee shall:

- prior to their public release and filing with securities regulatory agencies, review and discuss with management, the internal auditors and the independent auditor the:
 - earnings press release
 - financial statements and notes thereto

- management's discussion and analysis
- results of the independent auditor's audit

The review of the Corporation's audited financial results shall include:

- all matters described above under "Financial Reporting of Quarterly Financial Results"
 - results of the independent auditor's audit
 - discussions with the independent auditor on the matters required to be discussed by Statement on Auditing Standards No. 61, including significant adjustments, management judgments and accounting estimates, significant new accounting policies, any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information, and any significant disagreements with management
 - a report from the independent auditor describing (i) all critical accounting policies and practices to be used, (ii) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor and (iii) other material communications between the independent auditor and management, such as the annual management letter or schedule of unadjusted differences
- recommend to the Board whether the audited consolidated financial statements of the Corporation should be approved by the Board

(vi) *Financial Oversight of Pension Plan Management*

With respect to the Corporation's management of Pension Plans, the Audit Committee shall fulfill duties related to financial oversight of pension plan management including funding, asset management, and reporting.

The review of the Corporation's Pension Plan's shall include:

- External Auditor reports and financial statements of the plans, including compliance with pension reporting regulations
- Actuarial valuations and contribution and funding policies
- Plan solvency and compliance with pension legislation
- Review of the investment fund strategy and performance and investment manager selection

(vii) Regulatory Filings and Guidance

The Audit Committee shall:

- consider the effectiveness of the procedures that are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, other than management's discussion and analysis and annual and interim earnings press releases, and shall periodically assess the adequacy of those procedures
- issue any reports required of the Audit Committee to be included in the Corporation's annual proxy statement
- prior to their public release or filing with securities regulatory agencies, review and recommend to the Board the approval of the following documents:
 - Annual Information Form
 - Annual Report on Form 40-F
 - prospectuses
- review financial information and review and approve annual earnings guidance provided by the Corporation to analysts and rating agencies or which the Corporation or any of its officers or employees intends to publicly disclose by way of press release (other than press releases referred to under "Financial Reporting of Quarterly Financial Results" and under "Financial Reporting of Year-End Financial Results") or otherwise (which review may be done generally (i.e., discussion of the types of information to be provided or disclosed and type of presentations to be made); the Audit Committee need not discuss in advance each instance in which the Corporation may provide or disclose earnings guidance)

(viii) Related Party Transactions and Off-Balance Sheet Structure

The Audit Committee shall:

- review all proposed related-party transactions including those between the Corporation and its officers or directors and, if deemed appropriate, recommend approval of any particular transaction to the Board
- review all material off-balance sheet structures which the Corporation is a party to

(ix) Internal Controls, Risk Management and Legal Matters

The Audit Committee shall:

- consider the effectiveness of the Corporation's internal controls over financial reporting
- discuss with management the Corporation's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the

Corporation's risk assessment and risk management policies including the use of derivative financial instruments. Areas to be considered in this respect include:

- insurance coverage
- foreign currency exposure
- interest rate exposure
- review with management at least annually reports demonstrating compliance with risk assessment and with risk management policies
- review quarterly with management, and if necessary, the Corporation's counsel, any legal matter which could reasonably be expected to have a material impact on the Corporation's financial statements or accounting policies
- review the yearly report prepared by management, and attested to by the Corporation's independent auditor, assessing the effectiveness of the Corporation's internal control over financial reporting and stating management's responsibility for establishing and maintaining adequate internal control over financial reporting prior to its inclusion in the Corporation's annual filings under applicable securities laws
- review quarterly with the Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, Internal Auditor and Independent Auditor, periodically, the following:
 - all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Corporation's ability to record, process, summarize and report financial information; and
 - any fraud, whether or not material, that involves management or other employees who have a significant role in the Corporation's internal control over financial reporting
- review and approve the Corporation's disclosure policy

(x) Capital Structure, Investment and Cash Management Policies, Disclosure Policy

The Audit Committee shall:

- review and approve any changes to the Corporation's capital structure
- review and approve the Corporation's treasury management policies
- review and approve the Corporation's disclosure policy

(xi) "Whistle Blower" and Related Procedures

The Audit Committee shall oversee the establishment of procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal controls,

auditing matters or fraud, and for the confidential and/or anonymous submission by employees of the Corporation of concerns regarding questionable accounting auditing matters, internal control failures or fraud, which procedures shall include the requirement to advise the Audit Committee of all such complaints received.

(xii) Review of Charter and Self Assessment

The Audit Committee shall:

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

(xiii) Other Activities

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

Resources and Authority

The Audit Committee shall have the authority to retain independent legal, accounting or other advisors, including consulting with the national office of the independent auditor, as it determines necessary to carry out its duties. The Corporation shall provide for appropriate funding, as determined by the Audit Committee, for payment of compensation to the independent auditor for the purpose of rendering or issuing an audit report or performing other audit, review or attest services and to any advisors employed by the Audit Committee and for ordinary administrative expenses of the Audit Committee.

The Audit Committee shall have the authority to conduct any investigation necessary and appropriate to fulfilling its duties and in connection therewith, to inspect all books and records of the Corporation and its subsidiaries and to discuss such books and records and any matters relating to the financial position, risk management and internal controls of the Corporation and its subsidiaries with the officers of the Corporation and with the independent auditor.

Limitations on Committee's Duties

It is recognized that members of the Audit Committee are not full-time employees of the Corporation and do not represent themselves to be accountants or auditors by profession. Each member of the Audit Committee shall be entitled to rely on (i) the integrity of those persons and organizations within and outside the Corporation from whom such member receives information, and (ii) the accuracy of the financial and other information provided to the Audit Committee by such persons or organizations absent actual knowledge to the contrary.

While the Audit Committee has the responsibilities and power set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Corporation's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of either management and/or the independent auditor.

In discharging its duties, each member of the Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this Charter, including designating any member of the Committee as an “audit committee financial expert” is intended, or should be determined to impose on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all members of the Board are subject.

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.



POSITION DESCRIPTION
CHAIR OF THE AUDIT COMMITTEE

In addition to the duties and responsibilities set out in the Board of Directors Charter and the Charter of the Audit Committee, the chair (the "Chair") of the Audit 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; and
 - 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 an annual basis;
2. Foster ethical and responsible decision-making by the Committee and its individual members.
3. Provide for in-camera sessions at the quarterly meetings of the Committee and at such times as required.
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.