

## **DIRECTORS' CIRCULAR**

relating to the Offer by

**MDS INC.**

to purchase all of the issued and outstanding Common Shares

of

**PHOENIX INTERNATIONAL LIFE SCIENCES INC.**

### **DIRECTORS' RECOMMENDATION**

**The Board of Directors of Phoenix International Life Sciences Inc. ("Phoenix") recommends that the holders of Phoenix Common Shares, *accept* the offer by MDS Inc. and *deposit* their Common Shares under the Offer.**

### **NOTICE TO UNITED STATES SHAREHOLDERS**

The tender offer referred to herein is made for the securities of a foreign issuer, and while the offer is subject to Canadian disclosure requirements, U.S. shareholders should be aware that these requirements are different from those of the United States. The financial information included herein has been prepared in accordance with generally accepted accounting principles in Canada and may not be comparable to financial information for United States companies. The enforcement by U.S. shareholders of civil liabilities under the United States federal securities laws may be affected adversely by the fact that Phoenix is located in a foreign country, and that most of its senior officers and all of its directors are residents of a foreign country.

**March 10, 2000**

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# **PHOENIX INTERNATIONAL LIFE SCIENCES INC.**

## **DIRECTORS' CIRCULAR**

This Director's Circular of the Board of Directors of Phoenix International Life Sciences Inc. ("Phoenix") is issued in connection with the offer announced by MDS Inc. (the "Offeror" or "MDS") on February 24, 2000, to purchase all of the issued and outstanding Common Shares of Phoenix (the "Common Shares") not already held by the Offeror or its affiliates, for a consideration equal to, at the election of each holder of Common Shares, for each Common Share, \$16.00 in cash or 0.4 common shares of the Offeror or any combination thereof (provided that the aggregate cash amount payable under the offer will be limited to \$12.00 per Common Share multiplied by the number of Common Shares outstanding and the aggregate number of common shares of MDS will be limited to 0.2 multiplied by the number of Common Shares outstanding) (the "Consideration"). The offer is subject to a number of conditions which are set forth in the accompanying offer and circular (collectively, the "Circular") of the Offeror dated March 10, 2000 (the "Offer").

Unless otherwise indicated herein, all dollar amounts set forth in this Circular are in Canadian dollars.

## **BACKGROUND TO THE OFFER**

In August 1999, Phoenix contacted representatives of certain companies which had expressed interest in a transaction with Phoenix. On October 21, 1999, MDS entered into a confidentiality agreement with Phoenix and, pursuant thereto, MDS received certain confidential information relating to Phoenix. Other interested parties were also provided with certain confidential information relating to Phoenix.

In January 2000, Phoenix's management was informed by MDS of its interest to acquire control of Phoenix, subject to further due diligence.

On January 24, 2000, the Board of Directors of Phoenix adopted a resolution with respect to the creation of a corporate governance committee of the Board of Directors of Phoenix (the "Committee") composed of three directors, namely Jean E. Douville, Claude Forget and Lucien Stéru and delegated to the Committee the general duties and responsibilities of corporate governance rules, including responsibility for the strategic planning of Phoenix.

On January 27, 2000, the Committee retained CIBC World Markets Inc. ("CIBC World Markets") as its financial advisor to assist Phoenix in generating and reviewing possible strategic alternatives designed to maximize value for all holders of Common Shares in response to any potential offer for control of Phoenix including the preparation of a Fairness Opinion as to whether any proposed transaction is fair from a financial point of view to the holders of Common Shares.

The Committee had several meetings with CIBC World Markets from January 27, 2000 to February 23, 2000 in order to discuss and review possible strategic alternatives including a proposed transaction with MDS.

Early in February 2000, CIBC World Markets began contacting several parties with a view to determining their interest in a transaction that would maximize shareholder value. Certain interested parties

signed confidentiality agreements with Phoenix, and, pursuant thereto, received certain confidential information relating to Phoenix.

On February 2, 2000, Phoenix entered into an additional confidentiality agreement with MDS and, pursuant thereto, additional information was provided to MDS.

On February 17, 2000, following discussions between the parties, representatives of Phoenix and MDS and their respective advisors met to discuss the terms of a proposed offer.

On February 22, 2000, representatives of Phoenix and MDS agreed on the terms of the proposed offer, subject to the approval of their respective board of directors. Later, on February 22, 2000, based on negotiations with MDS and the responses from other interested parties, the Committee adopted a resolution to recommend to the Board of Directors of Phoenix the approval of the terms of the proposed offer of MDS.

On February 23, 2000, the Board of Directors of Phoenix approved the terms of the proposed offer of MDS, based on the recommendation of the Committee and the verbal opinion of CIBC World Markets to the effect that the Consideration is fair from a financial point of view to the holders of Common Shares. Mr. Ian Lennox and Mr. Lucien Stéru, as senior officers of Phoenix, abstained from voting on the approval of the Offer. On the evening of February 23, Phoenix and MDS and their respective advisors concluded the terms of the Support Agreement and the Lock-Up Agreement (as defined below).

On February 24, 2000, Phoenix issued a press release announcing the Offer.

## **Support Agreement**

Phoenix and MDS entered into the Support Agreement on February 23, 2000 (the "Support Agreement"). The following is a brief summary of the material terms of the Support Agreement.

Under the Support Agreement:

- (a) MDS and Phoenix agreed, on the terms and subject to the conditions set forth in the Support Agreement, to promptly publicly announce and as soon as possible thereafter and on or before March 10, 2000, mail the Circular and the Directors' Circular;
- (b) Phoenix represented to MDS that (i) the board of directors of Phoenix, after consultation with its legal and financial advisors, has determined that the Offer is fair to the holders of Common Shares and recommends that holders of Common Shares accept the Offer, and (ii) Phoenix has been advised by each of its directors and by Phoenix's Chief Executive Officer and Chief Financial Officer that they intend to tender all of their Common Shares to the Offer, including Common Shares issuable on the exercise of in-the-money stock options held by them;
- (c) Phoenix agreed that, conditional upon MDS taking up and paying for at least 51% of the outstanding Common Shares, MDS will be entitled to designate such number of directors to the Board of Directors of Phoenix and any committees thereof, as MDS may require and as will constitute a majority of Phoenix's directors;

- (d) Phoenix agreed that it will not, and will use its best efforts to ensure that its directors, officers, employees, representatives, agents and advisors do not, directly or indirectly: (a) solicit, initiate or engage in discussions or negotiations with any person, encourage submission of any inquiries, proposals or offers by, or take any other action intended or designed to facilitate the efforts of any person, other than MDS, relating to: (i) the possible acquisition of, or business combination with, Phoenix or any of its subsidiaries (whether by way of amalgamation, arrangement, consolidation, take-over bid, purchase of shares, purchase of assets, or otherwise), (ii) the possible acquisition of any material portion of its securities or assets or those of any of its subsidiaries, (iii) any take-over bid, stock exchange take-over bid or other purchase or acquisition of equity securities that, if consummated, would result in any person beneficially owning 10% or more of any class of equity securities of Phoenix, or (iv) any other transaction, the consummation of which would reasonably be expected to prevent or materially impede, interfere with or delay the consummation of the Offer (any of the foregoing being referred to as a "Competing Proposal"); or (b) provide any information with respect to Phoenix, or afford any access to the properties, books or records of Phoenix, to any person, other than MDS, that may wish to propose or pursue a Competing Proposal; provided, however, that in response to an unsolicited written *bona fide* Competing Proposal from an arm's length third party that the Board of Directors of Phoenix determines in good faith (after receiving advice from its financial advisors and outside legal counsel) that a failure to so respond would be inconsistent with its fiduciary obligations under applicable law and could reasonably be expected to result in a Superior Proposal (as defined below), Phoenix may furnish information with respect to Phoenix to the person making such Competing Proposal pursuant to a customary confidentiality agreement with such person and participate in discussions or negotiations regarding such Competing Proposal. The term "Superior Proposal" means any *bona fide* written Competing Proposal from an arm's length third party that has the following characteristics: (a) it is a proposal to acquire, directly or indirectly, not less than 66 2/3% of the outstanding Common Shares, or all or substantially all of the assets and liabilities of Phoenix and its subsidiaries; (b) the Board of Directors of Phoenix determines in good faith (after receiving an opinion of an independent nationally recognized financial advisor) that such proposal provides consideration to holders of Common Shares that is in excess of the consideration provided by the Offer (after taking into account any amendments to the Offer made by MDS); and (c) the transactions envisioned by such proposal, in the good faith judgment of the Board of Directors of Phoenix, based on the advice of an independent nationally recognized financial advisor and outside legal counsel, are readily financeable and are reasonably likely to be consummated without unreasonable delay compared to the Offer;
- (e) Phoenix agreed that it, its subsidiaries and their respective directors, officers, employees, representatives, agents and advisors would immediately cease any and all activities, discussions, or negotiations with any parties conducted prior to February 23, 2000 with respect to any Competing Proposal;
- (f) Phoenix agreed to immediately advise MDS verbally and in writing of any request for information which may relate to a Competing Proposal or any inquiry or proposal with respect to or that could lead to any Competing Proposal including, in each case, the material terms and conditions of such request, Competing Proposal, inquiry or action, the identity of the person making any such request, Competing Proposal or inquiry or with respect to which such action is taken, and whether or not Phoenix believes any Competing Proposal so reported is a Superior Proposal;

- (g) Phoenix agreed that it would not enter into any agreement regarding a Superior Proposal (a "Proposed Agreement") pursuant to the proviso described in paragraph (d) above, without providing MDS with a copy of the Proposed Agreement, together with details in writing of such agreement, not less than three business days prior to the proposed date of execution of the Proposed Agreement by Phoenix and if MDS does not agree to and does not announce publicly an increase to the consideration under the Offer to an amount that is at least equal to that offered under the Proposed Agreement within those three business days, Phoenix would be entitled to enter into the Proposed Agreement;
- (h) Phoenix agreed that if (a) the Board of Directors of Phoenix withdraws, or changes, or resolves to withdraw or change, in a manner adverse to MDS, its recommendations in favour of the Offer, (b) the Board of Directors of Phoenix recommends to the holders of Common Shares a take-over bid or other transaction other than the Offer, (c) Phoenix enters into a Proposed Agreement or any third party or parties acting together acquire Common Shares so as to own in excess of 33 1/3% of the Common Shares outstanding, or (d) a Superior Proposal is made or announced prior to the Expiry Time (each of the foregoing being a "Fee Event"), Phoenix will pay forthwith to MDS a fee equal to \$16.5 million; and
- (i) Phoenix agreed that, prior to the time (the "Effective Time") of the appointment or election to the Board of Directors of Phoenix of persons designated by MDS who represent a majority of the directors of Phoenix, unless MDS otherwise agrees in writing, Phoenix and its subsidiaries would not take certain specified actions other than in the usual, ordinary and regular course of business and consistent with past practice.

The Support Agreement may be terminated by MDS at any time following the occurrence of a Fee Event. In addition, the Support Agreement may also be terminated in certain other circumstances prior to the Effective Time, including: (a) by mutual consent of MDS and Phoenix, (b) by either MDS or Phoenix after July 31, 2000 if MDS has not taken up and paid for the Common Shares pursuant to the Offer on or prior to such date, or (c) by MDS, if any condition to the Offer is not satisfied or waived at the Expiry Time (as the same may be extended) and MDS has not elected to waive such condition or extend the Offer.

### **Lock-Up Agreement**

MDS and Mr. Lucien Stéru (the "Selling Shareholder") entered into the Lock-Up Agreement on February 23, 2000 (the "Lock-Up Agreement"). The Selling Shareholder is Senior Vice-President, Corporate Development and a director of Phoenix. The following is a brief summary of the material terms of the Lock-Up Agreement.

Under the Lock-Up Agreement:

- (a) the Selling Shareholder agreed, on the terms and subject to the conditions set forth in the Lock-Up Agreement, to deposit under the Offer and not withdraw, all of the Common Shares held by him, being 3,048,629 Common Shares, and to exercise options to acquire an additional 84,268 Common Shares and to deposit under the Offer and not withdraw all of such additional Common Shares, as soon as practicable after the date of mailing of the Offer and, in any event, on or before the third business day thereafter;

- (b) the Selling Shareholder agreed that he will not, and will use his best efforts to ensure that his representatives, agents and advisors do not, directly or indirectly: (a) solicit or initiate discussions or negotiations with any person, encourage submission of any inquiries, proposals or offers by, or take any other action intended or designed to facilitate the efforts of any person, other than MDS, relating to a Competing Proposal; or (b) provide any information with respect to Phoenix, or afford any access to the properties, books or records of Phoenix, to any person, other than MDS, that may wish to pursue a Competing Proposal;
- (c) the Selling Shareholder agreed that he and his representatives, agents and advisors would immediately cease any and all activities, discussions, or negotiations with any parties conducted prior to February 23, 2000 with respect to any Competing Proposal;
- (d) the Selling Shareholder agreed to immediately advise MDS in writing of any Competing Proposal or any inquiry or proposal with respect to or that could lead to any Competing Proposal received by him including, in each case, the identity of the person making any such request, inquiry or proposal with respect to which such action is taken; and
- (e) the Selling Shareholder agreed that he would not enter into any agreement regarding a Superior Proposal (a "Proposed Agreement") without providing MDS with a copy of the Proposed Agreement, together with details in writing of such agreement, not less than three business days prior to the proposed date of execution of the Proposed Agreement by the Selling Shareholder and if MDS does not agree to and does not announce publicly an increase to the consideration under the Offer to an amount that is at least equal to that offered under the Proposed Agreement within those three business days, the Selling Shareholder would be entitled to enter into the Proposed Agreement.

The Lock-Up Agreement may be terminated in certain circumstances, including: (a) by mutual consent of MDS and the Selling Shareholder, (b) by either MDS or the Selling Shareholder after July 31, 2000 if MDS has not taken up and paid for the Common Shares pursuant to the Offer on or prior to such date, and (c) by MDS or the Selling Shareholder if the Support Agreement is terminated.

### **RECOMMENDATION OF THE BOARD OF DIRECTORS**

The Board of Directors recommends that the holders of Common Shares (the "holders of Common Shares") accept the Offer and *deposit* their Common Shares under the Offer by completing and returning the letter of transmittal that accompanies the Offer. Mr. Ian Lennox and Mr. Lucien Stéru, as senior officers of Phoenix, abstained from voting on the approval of the Offer.

The Board of Directors does not make any recommendation as to whether holders of Common Shares should elect to receive cash or MDS common shares. Holders of Common Shares who are in doubt as to how to respond to the Offer shall consult their investment dealer, lawyer, financial advisor, tax advisor, or other professional advisor.

## **REASONS FOR THE RESPONSE**

At a meeting held on February 23, 2000, the Board of Directors of Phoenix, upon the recommendation of the Committee, and having received the benefit of advice from its financial and legal advisors, reached the decision to recommend acceptance of the Offer. In reaching its decision, the Board of Directors gave careful consideration to a number of factors, including the following:

- (i) the unanimous determination by the Committee that the Offer is fair, from a financial point of view, to the holders of Common Shares;
- (ii) the terms and conditions of the Offer and the Support Agreement, along with the other information included in the Circular;
- (iii) the responses received from other interested parties;
- (iv) the fact that the Consideration offered pursuant to the Offer was arrived at through an arm's length negotiation between the Offeror and Phoenix;
- (v) the Fairness Opinion delivered by CIBC World Markets, to the effect that the Consideration under the Offer is fair, from a financial point of view, to the holders of Common Shares; and
- (vi) the proposed Consideration represents a premium of 27% over the closing price of the Common Shares on the TSE, on February 23, 2000, the day preceding the announcement of the Offer and 36% over the average closing price of the Common Shares on the TSE during the 20-day period preceding the day before the announcement of the Offer.

The foregoing discussion of the factors considered by the Board of Directors is not intended to be exhaustive. In view of the wide variety of factors considered in connection with its evaluation of the Offer, the Board of Directors did not find it practicable to, and did not, quantify or otherwise attempt to assign relative weights to specific factors in reaching its determinations. In addition, individual members of the Board of Directors may have given different weights to different factors.

## **SUMMARY OF THE FAIRNESS OPINION**

On January 27, 2000, the Committee retained the services of CIBC World Markets as its financial advisor to assist Phoenix in generating and reviewing possible strategic alternatives designed to maximize value for all holders of Common Shares in response to any potential offer for control of Phoenix including the preparation of a Fairness Opinion as to whether any proposed transaction is fair from a financial point of view to the holders of Common Shares.

CIBC World Markets is one of Canada's largest investing banking firms with operations in all facets of Corporate and Government finance, mergers and acquisitions, equity and fixed income sales and trading and investment research. CIBC World Markets provides services to companies in the healthcare industry through its research analysts and through investment banking professionals based in Canada and the United States. CIBC World Markets has participated in a sizable number of transactions involving companies in the healthcare industry and has extensive experience in preparing fairness opinions.

CIBC World Markets acts as a trader and dealer, both as principal and agent, in all major financial markets in Canada and the United States. As a result, CIBC World Markets may have had and, in the future, may have positions in the securities of Phoenix or MDS. CIBC World Markets is not an insider, associate or affiliate of either Phoenix or MDS. Neither CIBC World Markets nor any of its affiliates is an advisor to MDS in respect of the Offer. CIBC World Markets has not provided any financial advice, services or lead-managed any equity or debt financing involving Phoenix or MDS during the past two years. However, in April 1999, CIBC World Markets acted as co-lead manager in an offering of MDS common shares . As an investment dealer, CIBC World Markets conducts research on securities. In the ordinary course of its business, CIBC World Markets may be expected to provide research support and investment advice to its clients on investment matters, including the Offer. In the future, CIBC World Markets may, from time to time, provide investment banking services to Phoenix or MDS. CIBC World Markets is a wholly owned subsidiary of a Canadian chartered bank who is currently a lender to MDS but is not a lender to Phoenix.

The form and content of the Fairness Opinion have been approved for release.

CIBC World Markets is receiving a success fee contingent on the success of the Offer for its services as financial advisor to Phoenix.

In addition, CIBC World Markets is to be reimbursed for its reasonable out of pocket expenses incurred in connection with its services and is to be indemnified by Phoenix in certain circumstances. The fees payable to CIBC World Markets are not contingent in whole or in part on the conclusions reached in the Fairness Opinion.

In preparing the Fairness Opinion and with the approval of the Committee, CIBC World Markets relied on the completeness, accuracy and fair presentation of the financial and other information obtained by it from public sources, senior management of Phoenix and their respective consultants and advisors. CIBC World Markets received letters of representations dated on the date hereof, from senior officers of Phoenix attesting to the accuracy and completeness of the information provided to CIBC World Markets and that they are not aware of any facts not disclosed to CIBC World Markets which would reasonably be expected to affect materially the Fairness Opinion.

**Based upon and subject to all considerations discussed in the Fairness Opinion, which should be read in its entirety, CIBC World Markets is of the opinion that, as of the date hereof, the Consideration provided by the Offer is fair, from a financial point of view, to the holders of Common Shares.**

The Fairness Opinion is attached to this Circular and forms part of it.

#### **DIRECTORS AND SENIOR OFFICERS OF PHOENIX AND OWNERSHIP OF COMMON SHARES**

The following table sets forth the names and positions with Phoenix of all directors and senior officers of Phoenix and the number of securities of Phoenix beneficially owned directly or indirectly, or over which control or direction is exercised, directly or indirectly, by each director and senior officer of Phoenix and, to the knowledge of the directors of Phoenix after reasonable inquiry, their respective associates:

<u>Name</u>	<u>Position Held</u>	<u>Common Shares Held</u>	<u>Options to Acquire Common Shares</u>
<b>Directors:</b>			
Claude E. Forget	Chairman of the Board, Director	15,900	40,000
R. Ian Lennox	Chief Executive Officer, Director	0	500,000
Lucien Stéru	Senior Vice President, Corporate Development, Director	3,048,629	84,268
Jean E. Douville	Director	5,500	25,000
David Goldman	Director	1,000	25,000
Roger A. Korman	Director	1,000	25,000
Robert Raich	Director	6,000	30,000
Bertram A. Spilker	Director	1,000	25,000
<b>Senior Officers:</b>			
Nigel K. Brown	Senior Vice President, Discovery and Preclinical	0	70,000
George Engelberg	Senior Vice President, and Chief Information Officer	0	59,743
Stéphane Huguet	President and Chief Operating Officer	0	275,391
David Moszkowski	Senior Vice President and CFO	0	100,000
Suzanne Peeters	Senior Vice President, Analytical Services	0	84,023
Susan C. Thornton	President and Chief Operating Officer, Global Clinical Research	0	157,601
Judy Zilber	Senior Vice President, Business Development	225,000	18,427

As at March 9, 2000, the directors and senior officers of Phoenix as well as their respective associates, as a group, beneficially owned, directly or indirectly, 3,304,029 Common Shares, representing approximately 11.66% of the issued and outstanding Common Shares. Information as to Common Shares beneficially owned by each director and senior officer and its associates, or over which each exercised control or direction, being information not within the knowledge of Phoenix, has been furnished by such directors and senior officers individually.

On October 24, 1994, Phoenix established a Key Employee Share Option Plan for directors, senior officers, key employees of Phoenix and its subsidiaries (the "Plan") and as at March 9, 2000, 1,534,453 options are issued pursuant to such Plan. An additional 1,338,196 options are also issued to employees of Phoenix under an Employee Share Option Plan.

## ISSUANCE OF SECURITIES OF PHOENIX

There have been no Common Shares or securities convertible into Common Shares issued to the directors and senior officers of Phoenix during the two-year period preceding the Offer except as set forth below:

### Grant of Options

<u>Name</u>	<u>Number of Common Shares subject to options granted</u>	<u>Date of Grant</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
Nigel Brown	4,096	14/12/1999	\$7.95	19/10/2009
Nigel Brown	40,904	14/12/1999	\$7.95	19/10/2009
Jean Douville	25,000	14/12/1999	\$10.01	19/12/2009
George Engelberg	4,093	06/10/1998	\$8.54	06/10/2008
George Engelberg	15,000	04/08/1999	\$9.10	04/08/2009
George Engelberg	5,650	14/12/1999	\$7.95	19/10/2009
Claude Forget	10,000	14/12/1999	\$10.01	14/12/2009
Stéphane Huguet	9,944	06/10/1998	\$8.54	06/10/2008
Stéphane Huguet	15,447	14/12/1999	\$7.95	19/10/2009
Roger Korman	25,000	14/12/1999	\$10.01	14/12/2009
Ian Lennox	500,000	14/12/1999	\$7.95	19/10/2009
David Moszkowski	50,000	16/11/1998	\$12.67	06/10/2008
David Moszkowski	7,458	14/12/1999	\$7.95	19/10/2009
David Moszkowski	42,542	14/12/1999	\$7.95	19/10/2009
Suzanne Peeters	3,825	06/10/1998	\$8.54	06/10/2008
Suzanne Peeters	5,198	14/12/1999	\$7.95	19/10/2009
Lucien Stéru	21,768	06/10/1998	\$8.54	06/10/2008
Susan Thornton	125,000	14/07/1998	\$11.35	14/07/2008
Susan Thornton	10,746	06/10/1998	\$8.54	06/10/2008
Susan Thornton	21,855	14/12/1999	\$7.95	19/10/2009
Judy Zilber	8,089	06/10/1998	\$8.54	06/10/2008
Judy Zilber	10,338	14/12/1999	\$7.95	19/10/2009

## Issue of Common Shares

<u>Name of Holder</u>	<u>Number of Common Shares Acquired<sup>(1)</sup></u>	<u>Date</u>	<u>Price per Share</u>
Claude E. Forget	1,000	20/01/2000	\$10.00
Jean E. Douville	1,000	20/01/2000	\$10.00
David Goldman	1,000	20/01/2000	\$10.00
Roger A. Korman	1,000	20/01/2000	\$10.00
Robert Raich	1,000	20/01/2000	\$10.00
Bertram A. Spilker	1,000	20/01/2000	\$10.00

(1) Common Shares issued in payment of directors' remuneration

## AGREEMENTS RELATING TO OPTION PLANS

Phoenix has 1,534,453 options outstanding pursuant to the Plan and such options shall be deemed to have vested immediately prior to the date of closing of the Offer.

In addition Phoenix has 1,338,196 options outstanding granted to employees of Phoenix and it is expected that the portion of such options which are in their first year of vesting shall be deemed to have vested immediately prior to the date of closing of the Offer and the remaining portion shall be cancelled by Phoenix.

## PRINCIPAL HOLDERS OF SECURITIES OF PHOENIX

As of March 9, 2000, Phoenix had 28,344,802 Common Shares issued and outstanding. To the knowledge of the directors and senior officers of Phoenix, no person or company, directly or indirectly, holds more than 10% of the outstanding Common Shares, except as set forth below:

<u>Name</u>	<u>Class of Securities Held</u>	<u>Percentage of Common Shares</u>
Van Berkom & Associates Inc.	3,385,995 Common Shares	11.9%
Mr. Lucien Stéru	3,048,629 Common Shares	10.8%

Mr. Lucien Stéru has agreed under the Lock-Up Agreement made on February 23, 2000 to tender and deposit all of his Common Shares under the Offer as soon as practicable after March 10, 2000 and, in any event, on or before the third business day thereafter and to not withdraw same, subject to certain conditions provided in the Lock-Up Agreement. A summary of the material terms of Lock-Up Agreement is provided under "Background of the Offer".

## ACCEPTANCE OF THE OFFER BY THE MAJORITY OF SENIOR OFFICERS OF PHOENIX

Each of the directors and the majority of the senior officers of Phoenix have confirmed their intention to deposit their Common Shares under the Offer and accept the Offer in respect of all of the Common Shares currently owned or beneficially owned by them.

## RECENT TRADING IN PHOENIX SECURITIES

During the six-month period preceding the date hereof, none of Phoenix, the directors or senior officers of Phoenix nor, to the knowledge of the directors of Phoenix after reasonable inquiry, their respective associates, nor any person or company acting jointly or in concert with Phoenix, traded any Common Shares except as set forth below:

<u>Name of Holder</u>	<u>Number of Common Shares Acquired</u>	<u>Number of Common Shares Sold</u>	<u>Date</u>	<u>Price per Share</u>
Lucien Stéru	-	26,000	25/11/1999	\$7.55
Lucien Stéru	-	74,000	03/12/1999	\$8.60
Judy Zilber	-	70,338	03/02/2000	\$7.76 (US)
Judy Zilber	25,000 (1)	-	15/02/2000	\$5.00

(1) Common Shares issued pursuant to the exercise of options

## OWNERSHIP OF THE SECURITIES OF THE OFFEROR

To the knowledge of the directors and senior officers of Phoenix, after reasonable enquiry, no director or senior executive of Phoenix or any of their associates or any person who or which exercises control or direction over more than 10% of the voting rights attached to Common Shares, as at March 9, 2000, held securities of the Offeror.

## AGREEMENTS BETWEEN THE OFFEROR AND THE DIRECTORS AND SENIOR OFFICERS OF PHOENIX

Except for the Lock-Up Agreement mentioned under “Background to the Offer”, no agreement has been entered into or proposed by the Offeror to any of the directors or senior officers of Phoenix and no payment or other benefit has been proposed or paid by the Offeror as an indemnity to such directors or senior officers for the loss or maintenance of a position or for their resignation if the Offer is successful.

None of the directors and senior officers of Phoenix are directors or senior officers of the Offeror or any of its affiliates.

## **AGREEMENTS BETWEEN PHOENIX AND ITS DIRECTORS AND SENIOR EMPLOYEES**

Except as described below, there are no arrangements or agreements made or proposed to be made between Phoenix and any of its directors or senior officers pursuant to which a payment or other benefit is to be made or given by way of compensation for loss of office or as to their remaining in or retiring from office if the Offer is successful.

Pursuant to the Employment Agreement entered into between Ian Lennox and Phoenix effective August 31, 1999, Ian Lennox shall be entitled to receive a bonus if, during the term of his employment, he realizes for the holders of Common Shares an increase in the value of their Common Shares by way of a sale, a take-over bid, amalgamation, plan of arrangement or other transaction whereby there is a "Change of Control" (as defined in the agreement). The additional bonus shall be equal to 2% of the increase in the value of the Common Shares. For purposes of calculation, the value of the Common Shares was determined by the Board of Directors to be equal to the amount obtained by multiplying \$9.00 per Common Share by 29.5 million Common Shares and options issued and outstanding to acquire Common Shares. For example, on the basis of a value of \$16 per Common Share, Phoenix would pay to Mr. Lennox a bonus equal to \$4.13 million.

## **INTEREST IN MATERIAL CONTRACTS**

To the knowledge of the directors and senior officers of Phoenix, after reasonable enquiry, except for the Support Agreement and the Lock-Up Agreement mentioned under "Background to the Offer", no director or senior officer of Phoenix, none of their respective associates nor any person or company who or which beneficially owns, directly or indirectly, or who or which exercises control or direction over more than 10% of the voting rights attached to the Common Shares, has any interest in any material contract to which the Offeror or one of its affiliates is a party.

## **RESPONSE OF OFFEREE**

No negotiations are currently being undertaken by Phoenix or under way in response to the Offer that relate to or would result in, other than as publicly disclosed by Phoenix: (a) an extraordinary transaction such as a merger or reorganization involving Phoenix or any subsidiary of Phoenix; (b) a purchase, sale or transfer of a material amount of assets by Phoenix or any subsidiary of Phoenix; (c) an issuer bid or tender offer for or other acquisition of securities by or of Phoenix; or (d) any material change in the present capitalization or dividend policy of Phoenix.

## **MATERIAL CHANGES IN THE AFFAIRS OF PHOENIX**

None of the directors or senior officers of Phoenix is aware of any information which would indicate the occurrence of a material change in the affairs of Phoenix since November 30, 1999, the date of the last published interim financial statements of Phoenix.

There is no other information not disclosed in the foregoing but known to the directors which would reasonably be expected to change the decision of the holders of Common Shares as to their acceptance or rejection of the Offer.

## **STATUTORY RIGHTS**

Securities legislation in certain of the provinces and territories of Canada provides holders of Common Shares, in addition to any other rights they may have, with rights of rescission or damages, or both, if there is a misrepresentation in a circular or notice that is required to be delivered to such security holders. However, such rights must be exercised within prescribed time limits. Holders of Common Shares should refer to the applicable provisions of the securities legislation of their province or territory for the particulars of those rights or consult with a legal counsel.

## **APPROVAL OF THE DIRECTORS' CIRCULAR**

The contents of the present Directors' Circular and the delivery thereof have been approved and authorized by the Board of Directors of Phoenix.

## **CONSENT OF FINANCIAL ADVISOR**

To the Board of Directors of  
Phoenix International Life Sciences Inc.

We hereby consent to the inclusion of our written opinion dated March 10, 2000 in the Directors' Circular of the Board of Directors of Phoenix International Life Sciences Inc. dated March 10, 2000 and to the reference to our written opinion under various headings of this Directors' Circular.

Montreal, Quebec  
March 10, 2000

(signed) CIBC WORLD MARKETS INC.

## CERTIFICATE

The present Directors' Circular does not contain any misrepresentation likely to affect the value or market price of the securities subject to the Offer within the meaning of the *Securities Act* (Quebec). The foregoing contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

March 10, 2000

On behalf of the Board of Directors

(signed) Claude E. Forget  
Director

(signed) Jean E. Douville  
Director



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H3A 3J2  
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March 10, 2000

**The Board of Directors**

Phoenix International Life Sciences Inc.  
2350 Cohen Street  
Saint-Laurent, Quebec  
H4R 2N6

Dear Sirs:

We understand that MDS Inc. ("MDS"), has made an offer (the "Offer") to purchase all of the issued and outstanding common shares (the "Phoenix Shares") of Phoenix International Life Sciences Inc. ("Phoenix"). Under the Offer, Phoenix shareholders can elect consideration of either \$16.00 cash or 0.4 common shares of MDS for each common share of Phoenix (the "Consideration"). The maximum aggregate cash component of the Consideration is limited to \$12.00 multiplied by the total number of Phoenix shares issued and outstanding and the maximum share consideration is limited to 0.2 multiplied by the total number of Phoenix shares issued and outstanding. The terms and conditions of the Offer are set out in an Offer to Purchase and Circular dated March 10, 2000 (the "Offering Circular").

We also understand that Mr. Lucien Steru has entered into an agreement pursuant to which he has agreed to deposit the Phoenix Shares which he beneficially owns or has options to acquire under the Offer, which represent in the aggregate approximately 11% of the issued and outstanding Phoenix Shares (approximately 10% on a fully-diluted basis).

The Board of Directors of Phoenix (the "Board") retained CIBC World Markets Inc. ("CIBC World Markets") on January 27, 2000 to provide financial advice to the Board and its Corporate Governance Committee in connection with various strategies which might be employed by the Company in response to a potential offer for control of the Company by a third party.

As part of its engagement, CIBC World Markets was asked to consider, evaluate, develop and negotiate alternatives that would provide Phoenix shareholders with maximum value. In connection with the Offer, the Board and its Corporate Governance Committee have asked for our opinion (the "Opinion") as to the fairness, from a financial point of view, of the Consideration provided by the Offer to the shareholders of Phoenix. We will be paid a fee for our services as financial advisor to Phoenix, including fees that are contingent on a change of control or certain other events.

CIBC World Markets has consented to the inclusion of the Opinion in the Director's Circular to be sent to Phoenix shareholders.

***Credentials of CIBC World Markets***

CIBC World Markets is one of Canada's largest investment banking firms with operations in all facets of corporate and government finance, mergers and acquisitions, equity and fixed income sales and trading and investment research. The Opinion expressed herein is the opinion of CIBC World Markets and the form and content herein have been approved for release by a committee of its managing directors, each of whom is experienced in merger, acquisition, divestiture and valuation matters.

***Scope of Review***

In connection with rendering our Opinion, we have reviewed and relied upon, or carried out, among other things, the following:

- i) The Offering Circular;
- ii) The Directors' Circular dated March 10, 2000;
- iii) The Support Agreement between MDS and Phoenix dated February 23, 2000;
- iv) Annual Reports to Shareholders of Phoenix for each of the three years ended August 31, 1997, 1998 and 1999;
- v) Quarterly Report to Shareholders of Phoenix for the quarter November 30, 1999;
- vi) Annual Reports to Shareholders of MDS for each of the three years ended October 31, 1997, 1998 and 1999;
- vii) Certain internal financial analyses and forecasts for Phoenix prepared by management;
- viii) Discussions with management of Phoenix regarding analysis of past and expectations of future performance, current business operations and financial condition of Phoenix;
- ix) Discussions with management of MDS regarding analysis of past and expectations of future performance, current business operations and financial condition of MDS;
- x) Discussions with management of both Phoenix and MDS regarding the strategic rationale for and the potential benefits of the proposed transaction;
- xi) Review of the reported price and trading activity of Phoenix and MDS shares;
- xii) Certain financial and stock market information of Phoenix and MDS with similar information for certain other companies, the securities for which are also publicly traded;
- xiii) Review of the financial terms of certain recent business combinations in the contract research sector specifically and other industries generally; and
- xiv) Such other information, financial studies, analyses and investigations and financial, economic and market criteria that we have deemed relevant.

***Assumptions and Limitations***

Our Opinion is subject to the assumptions, explanations and limitations set forth below.

We have relied upon, and have assumed the completeness, accuracy and fair presentation of all financial and other information, data, advice, opinions and representations obtained by us from public sources and provided to us by Phoenix and its advisors or otherwise pursuant to our engagement, and our Opinion is conditional upon such completeness, accuracy and fair presentation. We have not attempted to verify independently the accuracy or completeness of any such information, data, advice, opinions and representations. Senior management of Phoenix has represented to us, in a certificate delivered as at the date hereof, amongst other things, that the information, opinions and other materials (the "Information") provided to us by or on behalf of Phoenix are complete and correct at the date the Information was provided to us and that since the date of the Information, there has been no material change, financial or otherwise, in the position of Phoenix, or in its assets, liabilities (contingent or otherwise), business or operations and there has been no change of any material fact which is of a nature as to render the Information untrue or misleading in any material respect.

Our Opinion is rendered on the basis of securities markets, economic and general business and financial conditions prevailing as at the date hereof and the conditions and prospects, financial and otherwise, of Phoenix as they are reflected in the information and documents reviewed by us and as they were represented to us in our discussions with management of Phoenix. In our analyses and in connection with the preparation of our Opinion, we made numerous assumptions with respect to industry performance, general business, market and economic conditions and other matters, many of which are beyond the control of any party involved in the Offer.

We understand that the Offer is not subject to the formal valuation requirements under Ontario Securities Commission Policy Statement 9.1 or Quebec Securities Commission Policy Statement No. Q-27. Accordingly, we were not engaged to prepare and have not prepared a valuation of Phoenix or any of its material assets or liabilities and our Opinion should not be construed as such.

***Opinion***

Based upon and subject to the foregoing and such other matters as we considered relevant, it is our opinion as of the date hereof that the Consideration provided by the Offer is fair, from a financial point of view, to the shareholders of Phoenix.

Yours very truly,

(signed) CIBC WORLD MARKETS INC.