This document is important and requires your immediate attention. If you are in doubt as to how to respond to the Paladin Offer, you should consult your investment dealer, stockbroker, lawyer or other professional advisor. Enquiries concerning the information in this document should be directed to Georgeson, the information agent retained by Afexa Life Sciences Inc., at the telephone number or email address listed on the back page of this Directors' Circular.

Afexa Life Sciences Inc.

DIRECTORS' CIRCULAR

RECOMMENDING

REJECTION

OF THE OFFER BY

PALADIN LABS INC.

TO PURCHASE ALL OF THE OUTSTANDING COMMON SHARES
(together with associated rights issued under the Existing Shareholder Rights Plan)

OF

AFEXA LIFE SCIENCES INC.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS

REJECT

THE PALADIN OFFER, TAKE NO ACTION AND NOT TENDER THEIR COMMON SHARES TO THE PALADIN OFFER

Notice to United States Shareholders:

The Paladin Offer to which this Directors' Circular relates is made for the securities of a Canadian issuer. The enforcement by investors of civil liabilities under the United States federal securities law may be affected adversely by the fact that the issuer is located in a foreign country and that its officers and directors are residents of a foreign country.

August 22, 2011

QUESTIONS AND ANSWERS ABOUT THE INADEQUATE PALADIN OFFER

Should I accept or reject the Paladin Offer?

Your Board of Directors **UNANIMOUSLY** recommends that Shareholders **REJECT** the Paladin Offer, **TAKE NO ACTION** and **NOT TENDER** their Common Shares.

Why should I reject the Paladin Offer?

The Board of Directors has unanimously rejected the Paladin Offer for the following reasons:

1. The Paladin Offer significantly undervalues Afexa's marquee product, COLD-FX®.

2. The Paladin Offer does not recognize the value of Afexa as a fully integrated company with the internal capability of research, development, sales, marketing and distribution. Afexa has launched new products and has a strong clinical pipeline.

3. Afexa's financial advisor, Scotia Capital, has provided a written opinion that the consideration offered under the Paladin Offer is inadequate, from a financial point of view, to Shareholders other than Paladin.

4. The Paladin Offer is opportunistic and coercive to Shareholders and is an attempt to acquire effective control of Afexa without paying adequate compensation.

5. The Board of Directors is aggressively pursuing other value-maximizing alternatives and superior proposals with the aim of delivering greater value for Shareholders and with a more certain outcome.

A summary of all of the reasons for the unanimous recommendation of the Board of Directors is included on pages 1 to 6 of this Directors' Circular.

How do I reject the Paladin Offer?

You do not need to do anything. **TAKE NO ACTION** and **DO NOT TENDER** your Common Shares.

Can I withdraw my Common Shares if I have already tendered?

YES. According to the Paladin Circular, you can withdraw your Common Shares:

(a) at any time before your Common Shares have been taken up by Paladin;

(b) if your Common Shares have not been paid for by Paladin within three business days after having been taken up by Paladin; or

(c) up until the tenth day following the day Paladin files a notice announcing that it has changed or varied the Paladin Offer unless, among other things, prior to filing such notice Paladin has taken up your Common Shares or the change in the Paladin Offer consists solely of an increase in the consideration offered and the Paladin Offer is not extended for more than ten days.

REJECT THE PALADIN OFFER, TAKE NO ACTION AND DO NOT TENDER YOUR COMMON SHARES

How do I withdraw my Common Shares?

We recommend you contact your broker or Georgeson, the information agent retained by Afexa, at the telephone number or the email address listed at the end of this Q&A for information on how to withdraw your Common Shares.

What is the Board of Directors doing in response to the Paladin Offer?

In response to the Paladin Offer, the Board of Directors appointed a Special Committee of independent directors. The Special Committee has been working, together with Afexa's management, financial and legal advisors and the Special Committee's legal advisor, to develop, review and evaluate a range of alternatives consistent with Afexa's focus on maximizing value to Shareholders. The alternatives include building upon existing value-enhancing initiatives, as well as engaging in discussion with third parties regarding strategic alternatives.

Are the directors and officers of Afexa planning to tender their Common Shares to the Paladin Offer?

All of the directors and officers of Afexa have indicated their intention to **NOT** tender their Common Shares to the Paladin Offer, which the Board of Directors views as being inadequate to Shareholders.

My broker advised me to tender my Common Shares. Should I?

NO. The Board of Directors has unanimously recommended that Shareholders **REJECT** the Paladin Offer, **TAKE NO ACTION** and **NOT TENDER** their Common Shares. A summary of all of the reasons for the unanimous recommendation of the Board of Directors is included on pages 1 to 6 of this Directors' Circular.

The media has referred to this as a "hostile" take-over bid. Is that true?

YES. In a friendly take-over, the two companies work together to come to an agreement that would enhance shareholder value. Paladin, however, initiated its offer without the support of Afexa. Given this, the Paladin Offer should be considered a hostile offer, and the Special Committee of independent directors has been working, together with its legal advisor and with Afexa's financial and legal advisors, to develop, review and evaluate a range of strategic alternatives consistent with Afexa's focus on maximizing value to Shareholders.

Will Paladin increase its Offer?

Afexa does not know if Paladin will increase the Paladin Offer. However, the Board of Directors believes that the Paladin Offer significantly undervalues Afexa.

Will there be a higher offer from another bidder?

Afexa has been solicited by, and has initiated contact with, a number of third parties who have expressed an interest in considering alternative transactions. Discussions are being pursued with these potential suitors in order to generate value-enhancing alternatives. Afexa has established a data room for the purpose of providing confidential information to such third parties. While it is impossible to predict whether any transactions will emerge from these efforts, the Board of Directors believes that Afexa and its assets are potentially very attractive to other parties in addition to Paladin.

Will I have protections if Paladin buys more than 50% of Afexa and I don't sell?

YES. In Canada, applicable corporate law contains protections for minority Shareholders, including the right, in certain circumstances, to dissent and demand payment of the fair value of their Common Shares.

REJECT THE PALADIN OFFER, TAKE NO ACTION AND DO NOT TENDER YOUR COMMON SHARES

Does Paladin have to buy a certain percentage of the Common Shares?

NO. There is no minimum tender condition in the Paladin Offer, meaning that the Paladin Offer is structured so that Paladin can take up and pay for whatever percentage of the Common Shares is tendered. As a result, Paladin could acquire effective control of Afexa without purchasing a majority of the Common Shares or having paid a premium for those Common Shares that are not purchased.

Do I have to decide now?

NO. You do not have to take any action at this time. The Paladin Offer is scheduled to expire on September 15, 2011 and is subject to a number of conditions that have yet to be satisfied. Given that the Special Committee of independent directors is considering a range of strategic alternatives consistent with Afexa's focus on maximizing value for the Shareholders, the Board of Directors recommends that you not take any action until closer to the expiry date of the Paladin Offer to ensure that you are able to consider all of the options available to you.

If you have already tendered Common Shares to the Paladin Offer and you decide to withdraw these Common Shares from the Paladin Offer, you must allow sufficient time to complete the withdrawal process prior to the expiry of the Paladin Offer. For more information on how to withdraw your Common Shares, you should contact your broker or Georgeson, the information agent retained by Afexa, at one of the numbers listed below.

Who do I ask if I have more questions?

Your Board of Directors recommends that you read the information contained in this Directors' Circular. Please contact Georgeson, the information agent retained by Afexa, with any questions or requests for assistance that you might have.

Georgeson

100 University Avenue
11th Floor, South Tower
Toronto, Ontario M5J 2Y1

North American Toll Free Number: 1-866-676-3005
Email: askus@georgeson.com

Please also visit our corporate website
and sign up to receive updates: www.Afexa.com/TakeNoActionUpdates

REJECT THE PALADIN OFFER, TAKE NO ACTION AND DO NOT TENDER YOUR COMMON SHARES

TABLE OF CONTENTS

QUESTIONS AND ANSWERS ABOUT THE INADEQUATE PALADIN OFFER i
CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS ii
REFERENCES TO CURRENCY ii
INFORMATION REGARDING PALADIN ii
SUMMARY iii
DIRECTORS' CIRCULAR 1
UNANIMOUS RECOMMENDATION OF THE BOARD OF DIRECTORS 1
ANALYSIS AND REASONS FOR REJECTING THE PALADIN OFFER 1
INTENTIONS WITH RESPECT TO THE PALADIN OFFER 6
BACKGROUND TO THE PALADIN OFFER AND RESPONSE OF AFEXA 6
OPINION OF FINANCIAL ADVISOR 9
AFEXA LIFE SCIENCES INC. 9
CAPITAL STRUCTURE 10
SHAREHOLDER RIGHTS PLANS OF AFEXA 10
OWNERSHIP OF SECURITIES OF AFEXA 11
PRINCIPAL HOLDERS OF SECURITIES OF AFEXA 12
TRADING IN SECURITIES OF AFEXA 12
ISSUANCES OF SECURITIES OF AFEXA 13
OWNERSHIP OF SECURITIES OF PALADIN BY DIRECTORS AND OFFICERS OF AFEXA 13
RELATIONSHIP BETWEEN PALADIN AND DIRECTORS, OFFICERS AND SHAREHOLDERS OF AFEXA 13
ARRANGEMENTS BETWEEN AFEXA AND ITS DIRECTORS AND OFFICERS 14
MATERIAL CHANGES IN THE AFFAIRS OF AFEXA 17
OTHER INFORMATION 17
ALTERNATIVES TO THE PALADIN OFFER 17
OTHER PERSONS RETAINED IN CONNECTION WITH THE PALADIN OFFER 18
STATUTORY RIGHTS 18
APPROVAL OF THE DIRECTORS' CIRCULAR 18
CONSENT OF SCOTIA CAPITAL INC. 19
CERTIFICATE 20
SCHEDULE A – GLOSSARY A-1
SCHEDULE B – OPINION OF SCOTIA CAPITAL B-1
SCHEDULE C – SUMMARY OF EXISTING AND NEW SHAREHOLDER RIGHTS PLANS C-1
SCHEDULE D – TRADING IN SECURITIES OF AFEXA D-1

REJECT THE PALADIN OFFER, TAKE NO ACTION AND DO NOT TENDER YOUR COMMON SHARES

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Directors' Circular, including the discussion of the reasons for the Board of Directors' unanimous recommendation that Shareholders reject the Paladin Offer and not tender their Common Shares, contains forward-looking information (as defined in the *Securities Act* (Alberta)) that are based on expectations, estimates and projections as of the date of this Directors' Circular. These forward-looking statements can often, but not always, be identified by the use of forward-looking terminology such as "plans", "predicts", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved.

Examples of such forward-looking statements in this Directors' Circular include, but are not limited to, expectations as to Afexa's expectations for growth, the future success of commercialized products, government and regulatory approvals and whether or not an alternative transaction superior to the Paladin Offer will emerge. Actual results and developments (including earnings and cash flow) are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this Directors' Circular.

Forward-looking statements contained in this Directors' Circular are based on a number of assumptions that may prove to be incorrect, including, but not limited to expectations related to future sales of commercialized products, the timing, duration and results of clinical trials, the timing and results of regulatory reviews, the safety and efficacy of Afexa's product candidates and the indications for which Afexa's product candidates might be developed; competitive conditions in the life sciences and technology industry; general economic conditions; changes in laws, rules and regulations applicable to Afexa; and whether or not an alternative transaction superior to the Paladin Offer may emerge.

In addition to being subject to a number of assumptions, forward-looking statements in this Directors' Circular involve known and unknown risks, uncertainties and other factors that may cause actual results and developments to be materially different from those expressed or implied by such forward-looking statements, including the risks identified in the filings by Afexa with the Canadian provincial securities regulatory authorities, including Afexa's annual information form for the fiscal year ended March 31, 2011.

The Board of Directors believes that the expectations reflected in the forward-looking statements contained in this Directors' Circular are reasonable as at the date hereof, but no assurance can be given that these expectations will prove to be correct. In addition, although Afexa and the Board of Directors have attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. Accordingly, you should not place undue reliance on any forward-looking statements contained in this Directors' Circular.

REFERENCES TO CURRENCY

All references to dollar amounts contained herein are to Canadian dollars, unless otherwise indicated.

INFORMATION REGARDING PALADIN

Certain information herein relating to Paladin and the Paladin Offer has been derived from the Paladin Circular and other public sources. Neither the Board of Directors nor Afexa assumes any responsibility for the accuracy or completeness of such information or for any failure by Paladin to disclose events that may have occurred or that may affect the significance or accuracy of any such information.

REJECT THE PALADIN OFFER, TAKE NO ACTION AND DO NOT TENDER YOUR COMMON SHARES

SUMMARY

The information set out below is intended to be a summary only and is qualified in its entirety by the more detailed information appearing elsewhere in this Directors' Circular. All capitalized terms in the summary have the meanings ascribed to such terms in the Glossary attached as Schedule A to this Directors' Circular and elsewhere in this Directors' Circular.

The Paladin Offer:

Paladin has offered to purchase all of the outstanding Common Shares and any associated rights issued under the Existing Shareholder Rights Plan, other than Common Shares already owned by Paladin and its affiliates, for either $0.55 in cash for each Common Share or 0.013 common shares of Paladin for each Common Share.

As the Paladin Offer is open until 8:00 p.m. (Toronto time) on September 15, 2011, there is no need for Shareholders to take any action with respect to the Paladin Offer at this time. Shareholders who have tendered Common Shares to the Paladin Offer and who wish to obtain advice or assistance in withdrawing their Common Shares are urged to contact their broker or Georgeson, the information agent retained by Afexa, at the telephone number or the email address on the back page of this Directors' Circular.

The Paladin Offer is not a "Permitted Bid" as defined in either the Existing Shareholder Rights Plan or the New Shareholder Rights Plan.

Unanimous Recommendation of the Board of Directors:

The Board of Directors unanimously recommends that Shareholders **REJECT** the Paladin Offer, **TAKE NO ACTION** and **NOT TENDER** their Common Shares to the Paladin Offer.

Reasons for Rejection:

The Board of Directors has carefully reviewed and considered the Paladin Offer, with the benefit of advice from Afexa's financial and legal advisors, the Special Committee and the legal advisor to the Special Committee. The following is a summary of the principal reasons for the unanimous recommendation of the Board of Directors to Shareholders that they **REJECT** the Paladin Offer, **TAKE NO ACTION** and **NOT TENDER** their Common Shares to the Paladin Offer.

- The Paladin Offer significantly undervalues Afexa's marquee product, COLD-FX®.
- The Paladin Offer does not recognize the value of Afexa as a fully integrated company with the internal capability of research, development, sales, marketing and distribution. Afexa has launched new products and has a strong clinical pipeline.
- Afexa's financial advisor, Scotia Capital, has provided a written opinion that the consideration offered under the Paladin Offer is inadequate, from a financial point of view, to Shareholders other than Paladin.
- The Paladin Offer is opportunistic and coercive to Shareholders and is an attempt to acquire effective control of Afexa without paying adequate compensation.
- The Board of Directors is aggressively pursuing other value-maximizing alternatives and superior proposals with the aim of delivering greater value for Shareholders and with a more certain outcome.

REJECT THE PALADIN OFFER, TAKE NO ACTION AND DO NOT TENDER YOUR COMMON SHARES

Scotia Capital Inc., the financial advisor to Afexa, has provided a written opinion to the Board of Directors that, as of the date of such opinion, the consideration offered pursuant to the Paladin Offer is inadequate, from a financial point of view, to Shareholders other than Paladin.

Alternatives to the Paladin Offer:

In response to the Paladin Offer, the Special Committee has been working, together with Afexa's management, financial and legal advisors and the Special Committee's legal advisor, to develop, review and evaluate a range of alternatives consistent with Afexa's focus on maximizing value to Shareholders. The alternatives include building upon existing value-enhancing initiatives, as well as engaging in discussion with third parties regarding strategic alternatives.

The Special Committee intends to thoroughly pursue discussions with interested third parties, although there can be no assurances that such discussions will lead to an alternative transaction superior to the Paladin Offer. Tendering Common Shares to the Paladin Offer before the Special Committee, Afexa and their advisors have had an opportunity to fully explore all available alternatives to the Paladin Offer may preclude the possibility of a financially superior alternative transaction emerging.

Rejection of the Paladin Offer by Directors and Officers:

All of the directors and officers of Afexa have informed Afexa that they will reject the Paladin Offer, take no action and not tender their Common Shares to the Paladin Offer.

REJECT THE PALADIN OFFER, TAKE NO ACTION AND DO NOT TENDER YOUR COMMON SHARES

DIRECTORS' CIRCULAR

Capitalized words and terms in this Directors' Circular have the same meanings as set forth in the Glossary attached as Schedule A to this Directors' Circular and elsewhere in this Directors' Circular. The information contained in this Directors' Circular is given as of August 22, 2011, except as otherwise indicated.

This Directors' Circular is issued by the board of directors (the "Board of Directors" or the "Board") of Afexa Life Sciences Inc. ("Afexa") in connection with the unsolicited offer (the "Paladin Offer") made by Paladin Labs Inc. ("Paladin") to acquire all of the outstanding common shares (the "Common Shares") of Afexa and any associated rights issued under the Existing Shareholder Rights Plan, other than Common Shares already owned by Paladin and its affiliates, for either $0.55 in cash for each Common Share or 0.013 common shares of Paladin for each Common Share, and further upon the terms and subject to the conditions set forth in the offer of Paladin to purchase and accompanying circular (collectively the "Paladin Circular") dated August 10, 2011.

The Paladin Offer is currently scheduled to expire at 8:00 p.m. (Toronto time) on September 15, 2011, unless extended or withdrawn.

UNANIMOUS RECOMMENDATION OF THE BOARD OF DIRECTORS

THE BOARD OF DIRECTORS HAS UNANIMOUSLY CONCLUDED THAT THE PALADIN OFFER IS INADEQUATE TO SHAREHOLDERS. THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS REJECT THE PALADIN OFFER, TAKE NO ACTION AND NOT TENDER THEIR COMMON SHARES.

ANALYSIS AND REASONS FOR REJECTING THE PALADIN OFFER

The Board of Directors carefully reviewed and considered the Paladin Offer and the recommendations of the special committee of independent directors (the "Special Committee") appointed by the Board of Directors in connection with the Paladin Offer. In making its recommendation to the Board of Directors, the Special Committee received the benefit of advice from the Special Committee's legal advisor and Afexa's financial and legal advisors. In concluding that the Paladin Offer is inadequate and not in the best interests of Afexa or Afexa's Shareholders, the Board of Directors identified the following factors as being the most relevant.

1. The Paladin Offer significantly undervalues Afexa's marquee product, COLD-FX®.

- The Paladin Offer does not adequately compensate Afexa Shareholders for the COLD-FX® business, which has outsold Tylenol and Advil cold and flu products in Canada over each of the last four years.

- During conversations with Paladin, they have indicated that they intended to give little to no value to any component of the business other than Afexa's Canadian COLD-FX® business. The Board believes the Paladin Offer significantly undervalues Afexa's Canadian COLD-FX® business and gives no value to COLD-FX®'s new formulations and planned entry into new markets including China, Japan, Hong Kong and the United States.

- The globalization of COLD-FX® has tremendous growth potential and significant progress has been made in targeted geographic markets in Asia, starting in Hong Kong. Afexa has partnered with a sales and marketing firm in Hong Kong and has seen attractive progress to date. Afexa is

REJECT THE PALADIN OFFER, TAKE NO ACTION AND DO NOT TENDER YOUR COMMON SHARES

also pursuing regulatory approval in China in order to capitalize on the sizeable market opportunity that is highly receptive to the use of natural health products.

2. The Paladin Offer does not recognize the value of Afexa as a fully integrated company with the internal capability of research, development, sales, marketing and distribution. Afexa has launched new products and has a strong clinical pipeline.

- The Board believes the Paladin Offer does not consider the significant value in Afexa's other businesses, including the future value to be obtained, and the growth potential from, the expansion of commercialized products. Nor does it consider future growth potential from product discovery research.

- Afexa has a national platform to grow existing products and launch innovative new natural preventative products into the Canadian marketplace.

- Afexa has launched COLDSORE-FX® into the Canadian marketplace and has a number of exciting product candidates in its pipeline. The Board of Directors believes these and other products are a key component to Afexa's future growth. The success of these products will be driven by Afexa's national sales, marketing and distribution platform.

Key Commercialized Products in Canada
COLD-FX®, COLDSORE-FX® and IMMUNITY-FX®

Afexa Life Sciences Inc.

WE'RE A LOT MORE THAN COLD-FX®

	Product		Summary Considerations
National Distribution	COLD-FX		• COLD-FX® received an NPN from Health Canada as a natural health product indicated to help reduce the frequency, severity and duration of cold and flu symptoms by boosting the immune system • COLD-FX® has generated greater retail sales than Tylenol or Advil adult cold and flu products during each of the last four years • COLD-FX® is the #1 cold and flu product in Canada for the fifth straight year for the 52 weeks ending July 2, 2011 and Canada's # 1 Pharmacist Recommended Natural Cold Remedy
	COLDSORE-FX		• COLDSORE-FX® was granted an NPN from Health Canada as a natural health product indicated to shorten the healing time and relieve the pain associated with cold sores • COLDSORE-FX® is a proprietary ointment standardized to contain 3% Propolis ACF, which has been clinically proven to shorten the healing time and relieve the pain associated with cold sores
	IMMUNITY-FX Live Healthy		• IMMUNITY-FX® has been granted an Exemption Number (EN) from Health Canada and an NPN application is pending • Strengthens natural defenses, improves overall health and wellness and helps maintain health and wellness even during periods of stress • Contains a patented, clinically proven ingredient, CVT-E002™, and an extract derived from the Reishi mushroom
Limited Distribution	REMEMBER-FX		• REMEMBER-FX® is indicated to help temporarily restore mental alertness when experiencing fatigue • Contains a proprietary clinically proven ingredient HT1001™ • Shown to promote nerve cell growth in-vitro • Increases the uptake of choline into nerve terminals, which may increase the synthesis of acetylcholine (Ach), an important neurotransmitter associated with memory and cognition • Shown to improve memory function in healthy adults and in adults with schizophrenia
	CELL-FX		• CELL-FX® has an NPN from Health Canada indicated to help relieve symptoms of bone and joint pain and help in the formation of connective tissue • Rich in chondroitin sulphate, a naturally-occurring critical building block of cartilage • Replenishes chondroitin sulphate content in the cartilage to healthy levels and stimulates synthesis of other critical cartilage building blocks, such as collagen and proteoglycan

REJECT THE PALADIN OFFER, TAKE NO ACTION AND DO NOT TENDER YOUR COMMON SHARES

- In the U.S., a National Cancer Institute approved and sponsored trial on AFX-2 showed positive results in reducing the incidence and severity of acute respiratory infection among chronic lymphocytic leukemia reduction (CLL) patients. Based on the success of that trial, Afexa has received U.S. Food and Drug Administration ("FDA") clearance for an Investigational New Drug application ("IND") for another AFX-2 trial on CLL patients which may qualify for orphan drug status for fast track approval.

- The product candidate Dilexaponan™ (LIP-01) has demonstrated promising results based on pilot clinical study investigating its effects on cholesterol management and indicate the potential of Dilexaponan™ to aid in the management of risk factors associated with cardiovascular disease and to provide patients with additional safe and effective options for modulating LDL and HDL cholesterol levels. This open label and proof of concept study, awaiting final peer review, demonstrated efficacy and safety through optimum dosing range for Dilexaponan™ in 39 patients with elevated total cholesterol levels. Based on these results, a subsequent clinical study to further explore Dilexaponan™ in this population is planned to initiate by the end of this fiscal year.

- The product candidate pipeline (the "Serial Developer") business has over 230 patents issued and outstanding and over 110 trademarks on its marketed product globally. Leveraging Afexa's proprietary ChemBioPrint technology, Afexa has a number of products in various pre-clinical and clinical development stages which are targeting therapies with large market potential such as: cold and flu pediatrics, cholesterol management, glucose management, hypertension, supportive care for cancer patients, toll-like receptors, therapeutics for herpes, HIV, hepatitis C and vaccine adjuvant.

3. Afexa's financial advisor, Scotia Capital, has provided a written opinion that the consideration offered under the Paladin Offer is inadequate, from a financial point of view, to Shareholders other than Paladin.

- Scotia Capital Inc. has delivered a written opinion that the consideration to be offered under the Paladin Offer to holders of Common Shares other than Paladin and its associations, affiliates and joint actors is inadequate from a financial point of view. The opinion is attached as Schedule B to this Directors' Circular and should be reviewed and considered in its entirety in conjunction with the review of this Directors' Circular.

4. The Paladin Offer is opportunistic and coercive to Shareholders and is an attempt to acquire effective control of Afexa without paying adequate compensation.

- **Paladin launched its bid for Afexa's Common Shares when they were trading at their lowest price of the year.** The volume weighted average price ("VWAP") since the beginning of the year to the date of Paladin's announcement of their approximately 15% Common Share ownership in Afexa is approximately $0.50. Based on the VWAP price of $0.50 the Paladin Offer provides only a minimal premium to Shareholders for a transaction where Paladin plans to take control of Afexa.

- **The Board believes that an offer should not be structured in a manner that is coercive or applies unfair pressure on Shareholders to accept the offer.** The Paladin Offer contains no minimum tender condition and Paladin is not obligated to take Afexa private following the Paladin Offer. Accordingly, there can be no certainty as to the number of Common Shares that Paladin will acquire and whether Paladin will ever undertake a transaction to acquire all of the Common Shares. The fact that the Paladin Offer is not subject to any minimum tender condition may

pressure Shareholders to tender, even if they are not satisfied with the price offered under the Paladin Offer.

- **The "any and all" structure would allow Paladin to "sweep" any tendered Common Shares and strengthen its influence over Afexa without properly compensating all Shareholders.** If the Paladin Offer is completed, the value of the Common Shares that are not tendered may be reduced due to the possibility that any future alternative change of control transaction may be blocked by Paladin's control block or as a result of changes implemented by Paladin upon their purchase of less than a majority of the Common Shares, but enough Common Shares to acquire effective control. If Paladin had confidence that its offer price would be acceptable to the majority of Shareholders, it could have set a minimum condition to ensure it could acquire the full company and not leave a minority group. Instead Paladin is attempting to gain at least a blocking position or sufficient shareholdings to gain effective control of the Board of Directors and Afexa.

- **The Paladin Offer has been made during the summer holiday season to hinder the process of quickly accessing staff, directors, advisors and potential competing bidders on a timely basis.** According to the Paladin Circular, Paladin made the determination in April 2010 to begin acquiring Common Shares. While Paladin has spent a considerable amount of time assessing the performance of Afexa and accumulating Common Shares, Paladin is requiring that within 36 days from the announcement of the Paladin Offer: (a) the Board of Directors review and consider the Paladin Offer; (b) the Board of Directors consider alternatives to the Paladin Offer to maximize Shareholder value; (c) Shareholders determine whether to tender their Common Shares to the Paladin Offer; and (d) third parties assess the value of Afexa and its assets and negotiate and agree to a superior competing bid or alternative transaction.

- **Even if Shareholders elect to receive Paladin common shares to maintain an interest in Afexa's business, Shareholders may not receive any of the benefits of the longer term growth strategy if Paladin abandons the prospects for development.** To the knowledge of Afexa, Paladin's portfolio of pharmaceutical products consists largely of products that have been acquired, in-licensed or that Paladin has marketing rights to. Paladin has limited experience in conducting the research and development in areas such as cholesterol and other lipid management as well as diabetes, hypertension, obesity and cancers or in commercializing proprietary natural medicines such as COLD-FX®.

- **The Paladin Offer is not a Permitted Bid under either the Existing Shareholder Rights Plan or the New Shareholder Rights Plan meaning the Paladin Offer does not treat Shareholders fairly or provide adequate time to the Board of Directors to explore other strategic alternatives.**

    - The Shareholders present in person or by proxy voted by ballot 98.5% in favour of the Existing Shareholder Rights Plan at the March 18, 2010 shareholder meeting. The purpose of both of the Shareholder Rights Plans is to provide the Board of Directors and Shareholders with sufficient time to properly consider any take-over bid made for Afexa and to allow enough time for competing bids and alternative proposals to emerge. The Existing Shareholder Rights Plan and the New Shareholder Rights Plan also seek to ensure that all Shareholders are treated fairly in any transaction involving a change of control of Afexa and that all Shareholders have an equal opportunity to participate in the benefits of a take-over bid. The Shareholder Rights Plans encourage potential acquirers to negotiate the terms of any offer for Common Shares with the Board of Directors or, alternatively, to make a "Permitted Bid" without the approval of the Board of Directors.

REJECT THE PALADIN OFFER, TAKE NO ACTION AND DO NOT TENDER YOUR COMMON SHARES

- To be a Permitted Bid, a take-over bid must, among other things, be open for at least 60 days and be accepted by the holders of more than 50% of the Common Shares (other than those Common Shares held by any Shareholder or group of Shareholders making a take-over bid). The Paladin Offer is open for acceptance for only 36 days. In addition, there is no minimum acceptance level for tenders under the Paladin Offer.

- A Permitted Bid would not only ensure that the Board of Directors had more time to explore, develop and pursue alternatives for Afexa's unique business and assets that could maximize Shareholder value, but would also allow Shareholders sufficient time to consider all appropriate alternatives and not feel compelled to accept a bid for fear that other Shareholders would tender and they would remain as minority Shareholders in an entity with a new controlling Shareholder and the absence of any take-over bid premium.

5. The Board of Directors is aggressively pursuing other value-maximizing alternatives and superior proposals with the aim of delivering greater value for Shareholders and with a more certain outcome may emerge.

- The Board of Directors is aggressively pursuing other value maximizing alternatives in order to identify the best opportunity for Shareholders. Shortly after Paladin's announcement that it held approximately 15% of the Common Shares, the Board of Directors, and after its appointment, the Special Committee, together with Afexa's management, financial and legal advisors and the Special Committee's legal advisor, have been working to pursue alternative transactions that would greatly enhance shareholder value. Afexa has been solicited by, and has initiated contact with, a number of third parties who have expressed an interest in considering alternative transactions.

- Numerous parties have signed confidentiality agreements and are reviewing selected confidential information and discussing Afexa's business prospects with management and its financial advisors. The confidentiality agreements are in customary form and are designed to create a fair and equal process for all participants while protecting the proprietary assets of the business.

- As of the date of this Directors' Circular, it is premature to predict whether any transaction will emerge from these efforts and discussions; however, the Afexa Board believes that Afexa and its assets are very attractive to other parties in addition to Paladin and tendering Common Shares to the Paladin Offer before Afexa and its financial advisors have had an opportunity to fully explore all available alternatives to the Paladin Offer may preclude the possibility of financially superior alternative transactions emerging.

- **All of Afexa's directors and officers intend to reject the Paladin Offer.** The directors and officers of Afexa have indicated to Afexa that they do not intend to tender any of their Common Shares to the Paladin Offer. The directors and officers of Afexa hold an aggregate of 7,048,281 Common Shares, representing 6.83% of the issued and outstanding Common Shares.

Conclusions and Recommendations

For the reasons outlined above, the Board of Directors believes that the Paladin Offer fails to provide full value for the Common Shares and is an attempt by Paladin to acquire Afexa or an effective control position in Afexa without offering adequate consideration to Afexa's Shareholders.

The Board of Directors unanimously recommends that Shareholders REJECT the Paladin Offer, TAKE NO ACTION and NOT TENDER their Common Shares to the Paladin Offer.

REJECT THE PALADIN OFFER, TAKE NO ACTION AND DO NOT TENDER YOUR COMMON SHARES

Shareholders who have tendered Common Shares to the Paladin Offer and who wish to obtain advice or assistance in withdrawing their Common Shares are urged to contact their broker or Georgeson at the telephone number or email address listed on the back page of this Directors' Circular.

The foregoing summary of the information and factors considered by the Board of Directors includes the material information, factors and analysis considered by the Board of Directors in reaching its conclusion and recommendation. The members of the Board of Directors evaluated the various factors summarized above in light of their own knowledge of the business, financial condition and prospects of Afexa, and based upon the advice of Afexa's financial and legal advisors and the Special Committee's legal advisor. In view of the numerous factors considered in connection with their evaluation of the Paladin Offer, the Board of Directors did not find it practicable to, and did not, quantify or otherwise attempt to assign relative weight to specific factors in reaching its conclusion and recommendation. In addition, individual members of the Board of Directors may have given different weight to different factors. The conclusion and unanimous recommendation of the Board of Directors was made after considering all of the information and factors involved. Shareholders should consider the terms of the Paladin Offer carefully and should come to their own decision as to whether to accept the Paladin Offer.

INTENTIONS WITH RESPECT TO THE PALADIN OFFER

Each of the directors and officers of Afexa has indicated that he or she has not, and does not intend to, accept the Paladin Offer. To the knowledge of the directors and officers of Afexa, after reasonable enquiry, no insider of Afexa, no associate or affiliate of any director, officer or other insider of Afexa and no associate or affiliate or any person or company acting jointly or in concert with Afexa has accepted or indicated an intention to accept the Paladin Offer.

BACKGROUND TO THE PALADIN OFFER AND RESPONSE OF AFEXA

During the week of July 11, 2011, Mark Beaudet, Paladin's Vice-President, Marketing and Sales, attempted to reach William White, Chairman of the Board of Afexa, through voicemail and email, regarding a potential business opportunity between Afexa and Paladin.

July 15, Michael Obert, Chief Legal Officer and Senior Vice President, Corporate Development, wrote a letter to Mark Beaudet, thanking him for his interest, but explaining that the Board was in the midst of a strategic planning process and that it was not an appropriate time to have such discussions.

That afternoon at 1:38 p.m. (Edmonton time) William White received a reply by way of an offer letter (the "Offer Letter") from Jonathan Goodman, President and CEO of Paladin. The Offer Letter included a deadline of noon (Montreal time) on Sunday, July 17, 2011 for a response and agreement to meet on Monday, July 18. The Offer Letter proposed $0.55 per Common Share for a minimum of 66 2/3% of the Common Shares.

After the Offer Letter was received, Paladin issued a news release advising that it had acquired Common Shares through market purchases on the Toronto Stock Exchange that give Paladin beneficial ownership of a total of 15,421,300 Common Shares or approximately 14.94% of Afexa's total issued and outstanding Common Shares. The 5,374,500 Common Shares acquired July 15 were purchased for prices between $0.36 and $0.55.

On the afternoon of Saturday, July 16, the Board met via telephone conference call. Included on the call were Afexa's management, Afexa's legal counsel, Fraser Milner Casgrain LLP, and Afexa's financial advisors, Scotia Capital Inc. The Board received advice from Afexa's legal and financial advisors and considered the Offer Letter. The Board authorized William White to respond to arrange a meeting with Paladin.

Later that evening, a letter from William White was sent to Jonathan Goodman, agreeing to a meeting with Paladin.

REJECT THE PALADIN OFFER, TAKE NO ACTION AND DO NOT TENDER YOUR COMMON SHARES

A reply from Jonathan Goodman was received early in the morning on July 17 and arrangements were made for a morning meeting in Edmonton on Tuesday, July 19.

Arising from the discussions at the board meeting, management of Afexa were instructed to begin preparations to allow Afexa to conduct a market canvass for superior proposals if Paladin were to proceed with a formal offer, including by updating and populating an electronic due diligence site, gathering names for a list of potential strategic or financial bidders for Afexa and preparing financial forecasts and a management presentation. Further telephone conference calls were held over the course of the weekend with management of Afexa, William White, independent members of the Board and legal and financial advisors.

On July 19, William White, Michael Obert, Jonathan Goodman and Mark Beaudet met in Edmonton.

On July 22, Afexa and Paladin entered into an exclusivity and standstill agreement with an expiry date of midnight (Edmonton time) on August 5, 2011. Paladin was unwilling to sign a confidentiality agreement that would have allowed for more disclosure of the sources of value in Afexa's sales growth and science development plans.

Also on July 22, Paladin presented to Afexa a letter of intent, intended to be binding, to (i) acquire COLDSORE-FX®, IMMUNITY-FX®, CELL-FX®, MEMORY-FX®, REMEMBER-FX® for the Canadian, South African, Mexico and Central and South American markets and (ii) enter into an exclusive license and distribution agreement for the registration, manufacture, marketing, promotion, sale and distribution of any and all existing products currently under development by Afexa as outlined in a schedule, which was left blank. No price or license milestone payment amounts were provided. At that time, the Afexa representatives made it clear that they were prepared to discuss a license arrangement, not a sale transaction, and further they would not be in a position to recommend any transaction until they obtained advice on value from Afexa's financial advisors, a process they anticipated would take at least three weeks due to the complexity of considering the various components of the business of Afexa.

On July 27, Allan Cleiren, Michael Obert, Jonathan Goodman and Mark Beaudet met in Montreal. On July 29, 2011, Afexa presented an alternate letter of intent not containing an asset purchase component and relating to an exclusive license (or, as applicable, sublicense) and right to market, promote, distribute and sell COLD-FX®, COLDSORE-FX®, IMMUNITY-FX®, CELL-FX®, MEMORY-FX® and REMEMBER-FX® in Canada and South Africa. The upfront fee, licensing fee and royalty rate were left blank.

From August 2 to August 3, Allan Cleiren, Michael Obert, Jonathan Goodman and Mark Beaudet had discussions in Edmonton. On August 5, Afexa provided a further letter of intent based on discussions between the parties to date. However, there was no discussion of numbers with respect to the upfront fee, licensing fee or royalty rate. On August 7, 2011, Michael Obert inquired as to when Paladin expected to be in a position to provide comments and a call was set for Tuesday, August 9, 2011. On that call, Paladin advised that it would be launching its hostile take-over bid the next morning but did not disclose terms of the bid.

Throughout the period from July 16 to August 10, 2011, the Board of Directors and Scotia Capital, with input from the management of Afexa, worked to identify other financial and strategic parties that would potentially be interested in acquiring Afexa, but for a majority of that period was not permitted, by the terms of the exclusivity and standstill agreement with Paladin, to seek alternative transactions in exchange for Paladin's agreement to not take certain steps such as making a take-over bid.

On August 9, 2011, the Board of Directors, at a regularly scheduled meeting, met and appointed the Special Committee of directors independent of management to consider, analyze and negotiate the Paladin Offer and any alternatives thereto, to consider whether the Paladin Offer is or any alternative is in the best interests of Afexa and its Shareholders, and to make recommendations to the Board of Directors in respect of the matters that the Special Committee considers to be relevant in response to the Paladin Offer. The Special Committee is comprised of William White, John Rogers, Maurice (Ted) Bilyea and Douglas Gilpin. The Special Committee was authorized to

engage its own financial, legal and other advisors to assist it. Also at the August 9, 2011 meeting, the President and Chief Executive Officer of Afexa presented to the Board of Directors proposals regarding retention arrangements for certain key employees of Afexa, including officers, and the treatment of the stock option plan for employees of Afexa, including officers, in the event of a change of control transaction. These proposals were designed to facilitate retention of the key employees, to address their concerns at this time of uncertainty in light of the Offer Letter and to maintain stability at Afexa. In the context created by the Offer Letter, it was imperative for Afexa to retain its people in order to maintain the Afexa business and the Board of Directors approved the retention arrangements, subject to the Board of Director's review of formal documentation, which occurred at a later meeting.

On August 10, 2011, Paladin issued a press release indicating their intention to make an offer to acquire all of the outstanding Common Shares and filed the Paladin Circular and related materials with the Canadian Securities Administrators. On August 10, 2011, Paladin mailed the Paladin Circular to Shareholders.

On August 11, 2011, the Special Committee retained Osler, Hoskin & Harcourt LLP as its legal advisor.

The Special Committee met on August 12, 2011 with Afexa's financial and legal advisors and the Special Committee's legal counsel to discuss various matters arising from the Paladin Offer and reviewed a new shareholder rights plan (the "New Shareholder Rights Plan"). Following the Special Committee meeting, the Board of Directors met with the Special Committee, the Special Committee's legal advisor and Afexa's counsel to receive the recommendation of the Special Committee to adopt the New Shareholder Rights Plan. At that meeting, the Board passed a resolution adopting the New Shareholder Rights Plan, subject to TSX regulatory approval and deferred the Separation Time under each of the New Shareholder Rights Plan and the Existing Shareholder Rights Plan until September 9, 2011.

The Special Committee met again with its legal advisor on both August 15 and August 17, 2011 to discuss various matters in connection with the Paladin Offer.

The Board of Directors discussed various matters related to the Paladin Offer and the certain updates regarding discussions with financial and strategic parties at its regularly scheduled meeting on August 18, 2011.

The Special Committee met again on August 19, 2011 with its legal advisor and Afexa's legal and financial advisors to receive an update from the financial advisor on discussions with interested third parties, to consider other alternative transactions and to consider various matters related to the directors' response to the Paladin Offer.

In August, 2011, Scotia Capital contacted, on a confidential basis, in excess of 70 financial and strategic parties that were approved by the Board of Directors, to gauge their interest in participating in a sales process. These parties included all of the strategic and financial parties that were believed to be logical acquirors of Afexa or alternatively, strategic partners for Afexa in delivering better Shareholder value than a sale of Afexa. Confidentiality agreements were signed with a number of parties and these parties were subsequently provided with a confidential information memorandum regarding Afexa.

On August 22, 2011, the Special Committee met with its legal advisor. At that meeting, the Special Committee considered the draft copy of the opinion of Scotia Capital. The Special Committee then considered its position and, based upon the opinion of Scotia Capital to be delivered at the later Board of Directors meeting, the advice of the advisors and for a number of reasons more fully described under "Analysis and Reasons for Rejecting the Paladin Offer" in this Directors' Circular, determined to advise the Board of Directors that in its view the Paladin Offer is not in the best interests of Afexa or its Shareholders, and unanimously resolved to recommend that the Board of Directors recommend to Shareholders that they reject the Paladin Offer.

On August 22, 2011, following the Special Committee meeting, the Board of Directors met with Afexa's financial and legal advisors, the Special Committee and the Special Committee's legal advisor to receive the recommendation of the Special Committee. At that meeting, the Board of Directors received a presentation from

Scotia Capital and Scotia Capital rendered to the Board of Directors an oral opinion, which was confirmed by delivery of a written opinion dated August 22, 2011, to the effect that, as of such date and based upon and subject to the assumptions, qualifications and limitations stated in their opinion, the consideration offered pursuant to the Paladin Offer is inadequate, from a financial point of view, to Shareholders other than the Paladin. A copy of the opinion of Scotia Capital is attached as Schedule B to this Directors' Circular. At that meeting, based upon the recommendation of the Special Committee, the opinion of Scotia Capital, the advice of its advisors and for a number of reasons more fully described under "Analysis and Reasons for Rejecting the Paladin Offer" in this Directors' Circular, the Board concluded that the Paladin Offer is inadequate and not in the best interests of Afexa or its Shareholders and unanimously resolved to recommend to the Shareholders that they reject the Paladin Offer, take no action and not tender their Common Shares thereto and approved the sending of this Directors' Circular.

OPINION OF FINANCIAL ADVISOR

On July 15, 2011, Scotia Capital was re-engaged to render certain financial advisory services to Afexa in connection with the Board of Directors' and, after its formation, the Special Committee's, analysis and consideration of, and response to, the Paladin Offer. Afexa will pay Scotia Capital reasonable and customary compensation for its services and will reimburse Scotia Capital for its reasonable out-of-pocket expenses. Afexa has agreed to indemnify Scotia Capital against certain liabilities arising out of or in connection with their engagement. In addition, Afexa has agreed to pay a fee to Scotia Capital, contingent upon the consummation of certain transactions. Such fee was a continuing portion of a prior letter agreement between Afexa and Scotia Capital entered into in 2007.

Scotia Capital has delivered a written opinion addressed to the Board of Directors, concluding that, on the basis of the assumptions, limitations and qualifications set forth in the opinion delivered by Scotia Capital, as of the date thereof, the consideration offered pursuant to the Paladin Offer is inadequate, from a financial point of view, to Shareholders, other than Paladin.

The full text of the written opinion of Scotia Capital is attached as Schedule B to this Directors' Circular. You are urged to read the opinion carefully and in its entirety for a description of the procedures followed, matters considered and limitations on the review undertaken. The opinion addresses only the adequacy of the consideration offered pursuant to the Paladin Offer to Shareholders, other than the Paladin and its respective associates, affiliates and joint actors, from a financial point of view. The descriptions and opinions do not constitute a recommendation to Shareholders as to whether they should tender their Common Shares.

AFEXA LIFE SCIENCES INC.

Afexa is a life sciences and technology company founded in 1992 and headquartered in Edmonton, Alberta, Canada. Afexa has developed, commercialized and patented a proprietary technology, known as ChemBioPrint®, which is used in the discovery and biological standardization of natural products that deliver consistent, verifiable and provable health benefits. Using the ChemBioPrint product discovery and standardization platform, Afexa's scientists are able to identify precisely the chemical profile and biological activity of natural products. The process involves a combination of chemical and biological fingerprinting to ensure that the creation and scientific substantiation of Afexa's natural health products are safe, effective and consistent. Afexa is committed to using a pharmaceutical model (involving rigorous drug discovery and testing methods) to develop natural medicines for health maintenance and disease prevention. Afexa has devoted significant resources to scientific research and product innovation, which are key factors in enabling Afexa to secure the trust of consumers, trade professionals, healthcare practitioners and government.

Afexa's lead commercial product, COLD-FX®, is designed to aid in the prevention and relief of colds and flu by strengthening the immune system. COLD-FX® continues to be the number one selling cold and flu remedy in Canada (source: The Nielsen Company MarketTrack National all channel dollar sales for the categories of Cold Remedies and Supplements and Products ("Point of Sale Data"), 52 weeks ended July 2, 2011).

REJECT THE PALADIN OFFER, TAKE NO ACTION AND DO NOT TENDER YOUR COMMON SHARES

Further information regarding the business of Afexa, its operations and its products can be found in Afexa's annual information form for the fiscal year ended March 31, 2011, which is available on SEDAR at www.sedar.com.

CAPITAL STRUCTURE

Afexa is authorized to issue an unlimited number of Common Shares and an unlimited number of preferred shares ("Preferred Shares"), issuable in series. As at August 22, 2011 there were 103,171,926 Common Shares and no Preferred Shares issued and outstanding. As of August 22, 2011, to the knowledge of the directors and officers of Afexa, no person or company beneficially owned, directly or indirectly, or exercised control or direction over 10 per cent or more of the outstanding Common Shares, other than Paladin, who owns 15,421,300 Common Shares, or 14.94% of the issued and outstanding Common Shares. The Common Shares are listed and posted for trading on the Toronto Stock Exchange (the "TSX") under the symbol "FXA". On August 9, 2011, the last trading day of the Common Shares prior to the public announcement by Paladin of its intention to make the Paladin Offer, the closing price of the Common Shares on the TSX was $0.475.

SHAREHOLDER RIGHTS PLANS OF AFEXA

On January 25, 2010, Afexa publicly announced that it had adopted the Existing Shareholder Rights Plan and on March 18, 2010 the Shareholders ratified the adoption of the Existing Shareholder Rights Plan by 98.5% of the votes cast by ballot at the meeting. The purpose of the Existing Shareholder Rights Plan is to provide the Board of Directors and Shareholders with sufficient time to properly consider any take-over bid made for Afexa and to allow enough time for competing bids and alternative proposals to emerge. The Existing Shareholder Rights Plan also seeks to ensure that all Shareholders are treated fairly in any transaction involving a change of control of Afexa and that all Shareholders have an equal opportunity to participate in the benefits of a take-over bid. The Existing Shareholder Rights Plan encourages potential acquirers to negotiate the terms of any offer for Common Shares with the Board of Directors or, alternatively, to make a Permitted Bid (as defined in the Existing Shareholder Rights Plan) without the approval of the Board of Directors. A Permitted Bid must be made by way of a take-over bid circular prepared in compliance with applicable securities laws and, in addition to certain other conditions such as the tender of at least 50% of the Common Shares, must remain open for 60 days. A summary of the Existing Shareholder Rights Plan is set out in Schedule C of this Directors' Circular. That summary only includes the material terms and conditions of the Existing Shareholder Rights Plan. The summary is qualified by and is subject to the full terms and conditions of the Existing Shareholder Rights Plan.

On August 14, 2011, Afexa publicly announced that it had adopted the New Shareholder Rights Plan. The New Shareholder Rights Plan is substantially similar to the Existing Shareholder Rights Plan, except that the rights issued under the New Shareholder Rights Plan become exercisable if a person acquires 15% or more of the Common Shares, rather than 20% as provided in the Existing Shareholder Rights Plan. The New Shareholder Rights Plan preserves Afexa's ability to obtain the best value for all Shareholders by allowing other strategic alternatives to be fully explored by the Board of Directors before any one acquiror has substantial control or a blocking position in the Common Shares. The New Shareholder Rights Plan does not replace or amend the Existing Shareholder Rights Plan which will remain in full force and effect.

A summary of the New Shareholder Rights Plan is set out in Schedule C of this Directors' Circular. That summary only includes the material terms and conditions of the New Shareholder Rights Plan. The summary is qualified by and is subject to the full terms and conditions of the New Shareholder Rights Plan.

Paladin has made the Paladin Offer conditional on the Existing Shareholder Rights Plan or its effect being terminated.

REJECT THE PALADIN OFFER, TAKE NO ACTION AND DO NOT TENDER YOUR COMMON SHARES

OWNERSHIP OF SECURITIES OF AFEXA

The following table sets forth the names and positions of each director and officer of Afexa and the number and percentage of Common Shares, options, restricted share units ("RSUs") and deferred share units ("DSUs") of Afexa beneficially owned, or over which control or direction is exercised by each such person and, where known after reasonable enquiry, by each associate and affiliate of any insider of Afexa, each associate and affiliate of Afexa, any insider of Afexa other than a director or officer of Afexa and each person acting jointly or in concert with Afexa as of August 22, 2011.

Name and Position	Number and Percentage of Common Shares Beneficially Owned or Controlled[2]	Number and Percentage of Options to Acquire Common Shares[3]	Number and Percentage of RSUs[4]	Number and Percentage of DSUs[5]
Maurice (Ted) Bilyea Director	49,000 0.05%	--	--	169,015 25.44%
Robert Church Director	140,245[6] 0.14%	--	--	56,232 8.46%
Allan Cleiren Chief Financial Office and Senior Vice President Operations	69,433[7] 0.07%	720,000 10.72%	--	--
Douglas Gilpin Director	--	--	--	121,410 18.27%
Annalisa King Director	6,000[8] 0.006%	--	--	--
Lei Ling Vice President, Product Development	132,116 0.13%	105,000 1.56%	--	--
G. Warren Michaels Vice President, Communications	68,167 0.07%	105,000 1.56%	150,000 9.77%	--
Jack Moffatt President and Chief Executive Officer and a Director	195,102 0.19%	1,000,000 14.89%	960,775 62.57%	--
Michael Obert Chief Legal Officer and Senior Vice President Corporate Development	24,563 0.02%	680,000 10.12%	--	--
Tracey Ramsay Chief Marketing Officer and Senior Vice President Sales	--	640,000 9.53%	--	--
John Rogers Director	100,000 0.10%	--	--	134,237 20.20%

REJECT THE PALADIN OFFER, TAKE NO ACTION AND DO NOT TENDER YOUR COMMON SHARES

Name and Position	Number and Percentage of Common Shares Beneficially Owned or Controlled[2]	Number and Percentage of Options to Acquire Common Shares[3]	Number and Percentage of RSUs[4]	Number and Percentage of DSUs[5]
Jacqueline Shan Chief Scientific Officer	6,121,117 5.93%	424,664 6.32%	424,664 27.66%	--
Sharla Sutherland Vice President, Scientific & Regulatory Affairs	12,538 0.01%	130,000 1.94%	--	--
David Weyant Director	130,000 0.13%	--	--	152,341 22.93%
William White Chairman of the Board	--	--	--	31,154 4.70%
Paladin Labs Inc.	15,421,300 14.95%	--	--	--

(1) The information as to securities beneficially owned, directly or indirectly, or over which control or direction is exercised, not being within the knowledge of Afexa, has been furnished by the respective directors and officers.
(2) As of August 22, 2011, there were 103,171,926 Common Shares outstanding.
(3) As of August 22, 2011, there were options to acquire up to 6,716,664 Common Shares outstanding. For more information regarding Afexa's Stock Option Plan, see "Arrangements between Afexa and its Directors and Officers – Afexa's Stock Option Plan".
(4) As of August 22, 2011, there were RSUs to acquire up to 1,535,439 Common Shares outstanding. For more information regarding Afexa's Restricted Share Unit Plan, see "Arrangements between Afexa and its Directors and Officers – Afexa's Restricted Share Unit Plan".
(5) As of August 22, 2011, there were DSUs to acquire up to 664,391 Common Shares outstanding. For more information regarding Afexa's Deferred Share Unit Plan, see "Arrangements between Afexa and its Directors and Officers – Afexa's Deferred Share Unit Plan".
(6) Includes 10,245 Common Shares held by the RRSP of Gina Church, the spouse of Robert Church.
(7) Includes 11,000 Common Shares held by Nancy Cleiren, the spouse of Allan Cleiren.
(8) Includes 6,000 Common Shares held by the Tim King, the spouse of Annalisa King.

PRINCIPAL HOLDERS OF SECURITIES OF AFEXA

To the knowledge of the directors and officers of Afexa, after reasonable inquiry, as at August 22, 2011, no person owned, directly or indirectly, or exercised control or direction over 10% or more of any class of securities of Afexa, other than Paladin, and no person acting jointly or in concert with Afexa owned any securities of Afexa.

TRADING IN SECURITIES OF AFEXA

Except as set out in Schedule D hereto, during the six months preceding the date hereof, no director or officer of Afexa and, to the knowledge of the directors and officers of Afexa after reasonable enquiry, other than Paladin, no insider of Afexa, no associate or affiliate of any director, officer or other insider of Afexa and no associate or affiliate or any person or company acting jointly or in concert with Afexa has traded any securities or rights to acquire securities of Afexa.

REJECT THE PALADIN OFFER, TAKE NO ACTION AND DO NOT TENDER YOUR COMMON SHARES

ISSUANCES OF SECURITIES OF AFEXA

No Common Shares, securities convertible into Common Shares have been issued to the current directors, officers or other insiders of Afexa during the two years preceding the date hereof, other than as indicated below.

Name	Nature of Issue	Date of Issue	Number of Common Shares / Options	Issue / Exercise Price per Common Share ($)
Allan Cleiren	Grant of Options	March 17, 2010	40,000	$0.64
	Grant of Options	February 15, 2011	40,000	$0.51
Lei Ling	Grant of Options	March 17, 2010	35,000	$0.64
	Grant of Options	February 15, 2011	35,000	$0.51
G. Warren Michaels	Grant of Options	March 17, 2010	35,000	$0.64
	Grant of Options	February 15, 2011	35,000	$0.51
Michael Obert	Grant of Options	February 17, 2010	600,000	$0.76
	Grant of Options	March 17, 2010	40,000	$0.64
	Grant of Options	February 15, 2011	40,000	$0.51
Tracey Ramsay	Grant of Options	February 15, 2011	600,000	$0.51
	Grant of Options	February 15, 2011	40,000	$0.51
Jacqueline Shan	Grant of Options	February 17, 2010	98,684	$0.76
	Grant of Options	February 15, 2011	150,980	$0.51
Sharla Sutherland	Grant of Options	March 17, 2010	35,000	$0.64
	Grant of Options	February 15, 2011	35,000	$0.51

OWNERSHIP OF SECURITIES OF PALADIN BY DIRECTORS AND OFFICERS OF AFEXA

None of Afexa, the directors and officers of Afexa and, to the knowledge of the directors and officers of Afexa after reasonable enquiry, no insider of Afexa, no associate or affiliate of any director, officer or other insider of Afexa and no associate or affiliate or any person or company acting jointly or in concert with Afexa beneficially owns, directly or indirectly, or exercises control or direction over, any securities of Paladin.

RELATIONSHIP BETWEEN PALADIN AND DIRECTORS, OFFICERS AND SHAREHOLDERS OF AFEXA

No agreement, commitment or understanding (including pursuant to which any payment or other benefit is to be made or given by way of compensation for loss of office or remaining or retiring from office if either of the Paladin Offer is successful) has been made or is proposed to be made between Paladin and any of the directors or officers of Afexa. None of the directors or officers of Afexa is a director or officer of Paladin or any subsidiary thereof. None of the directors and officers of Afexa and, to the knowledge of the directors and officers of Afexa after reasonable enquiry, none of their respective associates, has any interest in any material contract to which Paladin is a party.

REJECT THE PALADIN OFFER, TAKE NO ACTION AND DO NOT TENDER YOUR COMMON SHARES

To the knowledge of the directors and officers of Afexa, no agreement, commitment or understanding has been made or is proposed to be made between Paladin and any Shareholder relating to the Paladin Offer.

ARRANGEMENTS BETWEEN AFEXA AND ITS DIRECTORS AND OFFICERS

Except as set forth below, no agreement, commitment or understanding (including pursuant to which any payment or other benefit is to be made or given by way of compensation for loss of office or remaining in or retiring from office if the Paladin Offer is successful) has been made or is proposed to be made between Afexa and any of its directors or officers.

Existing Employment Agreements with Officers

Afexa has an employment agreement (the "Moffatt Agreement") dated October 1, 2009 with Jack Moffatt. Upon a "Change of Control" as defined in the Moffatt Agreement, Jack Moffatt's employment is deemed to be terminated and he is entitled to a severance amount calculated by multiplying $2,400,000 by the number of days between the termination date and the expiry date of his contract of September 30, 2011 and dividing that number by 730. Pursuant to the Moffatt Agreement, a "Change of Control" means any of the following:

(i) a merger or amalgamation of Afexa with any other corporation, excluding mergers or amalgamations with subsidiary or affiliated corporations;

(ii) the acquisition of all or a majority of the Common Shares of Afexa by a person or persons other than the current owners of the Common Shares of Afexa, which shall include the disposition of a majority of the Common Shares of Afexa through a public or private offering; or

(iii) the sale or other disposition of all or a majority of the assets of Afexa.

In the event that the conditions in the Paladin Offer are satisfied and Paladin takes up and pays for the Common Shares, and Paladin thereby owns a majority of the issued and outstanding Common Shares, the Paladin Offer will result in a "Change of Control" as defined in the Moffatt Agreement. Upon termination on a Change of Control, Mr. Moffatt is also entitled to: (i) if he would otherwise have been entitled to a short term incentive payment, he will be entitled to a pro-rata payment from April 1, 2011 to the date of termination; (ii) all his restricted share units which have not yet vested shall vest and become vested restricted share units and he will be entitled to a payout in respect of the pro-rated portion of such vested restricted share units obtained by multiplying the number of restricted share units that become vested restricted share units by a fraction, the numerator of which equals the number of days Mr. Moffatt was actively employed between the grant date of the restricted share units and the date of termination, and the denominator of which equals the total number of days between the grant date of such restricted share units and their original vesting date; and (iii) any vested restricted share units (not including those in (ii)) will become payable.

Afexa's Stock Option Plan

As of August 22, 2011, the directors and officers of Afexa held options (the "Options") granted under the stock option plan of Afexa (the "Stock Option Plan") to purchase up to 6,716,664 Common Shares in the aggregate, 2,141,921 of which were vested and exercisable as of that date, with exercise prices ranging from $0.40 to $4.04 per Common Share and an aggregate weighted average exercise price of $0.61 per Common Share. The unvested Options have exercise prices ranging from $0.40 to $4.04 per Common Share and an aggregate weighted average exercise price of $0.58 per Common Share.

Under the terms of the Stock Option Plan, if a take-over bid that is not exempt from the take-over bid requirements of the *Securities Act* (Alberta) is made for the Common Shares, or a transaction which has not been

negotiated and approved by the Board is made with respect to Afexa (an "Unsolicited Transaction"), unless the Board of Directors otherwise determine, each optionee (an "Optionee") has the right to immediately exercise all unexercised Options held by such Optionee, whether vested or not at such time, solely in order to tender or exchange the Common Shares received by such Optionee upon such exercise to the take-over bid or Unsolicited Transaction. The Paladin Offer is an Unsolicited Transaction. If such Common Shares are not so tendered or exchanged or are not taken up and paid for or exchanged under the take-over bid or Unsolicited Transaction, any Common Shares so acquired by the Optionee are deemed to be cancelled and returned to Afexa and the Options and the consideration paid by the holder to exercise such Options will be returned to the Optionee. As further discussed in "Arrangements between Afexa and its Directors and Officers – Personnel Retention Programs", the Board of Directors has determined that unvested Options shall not vest as a result of the Paladin Offer.

Afexa's Deferred Share Unit Plan

The Deferred Share Unit Plan ("DSU Plan") for the Board of Directors provides for DSUs, a phantom unit granted to a director and that is represented by a bookkeeping entry on the books of Afexa, the value of which on any particular date is equal to the fair market value of a Common Share of Afexa. A DSU gives the director a right to settlement of that DSU (i.e. a right of redemption and payout) after the director ceases to be a director (and is not an employee) of Afexa or an affiliate. In the event that the conditions in the Paladin Offer are satisfied and Paladin takes up and pays for the Common Shares and assuming that Paladin then replaces the current directors, each of the current directors will have a "Termination Date" as provided in the DSU Plan and will be eligible for a right of settlement in respect of such director's DSUs.

Instead of making a cash payment, Afexa may also, in its sole discretion, and so long as there is a public market for the Common Shares, elect to make the redemption payment in the form of Common Shares purchased on the open market by an independent broker, using the cash (after deduction of applicable withholding taxes) that would otherwise have been payable to the director. No such determination has been made.

DSUs may be adjusted if there is a subdivision, consolidation, stock dividend, capital reorganization, reclassification, exchange, or other change with respect to the Common Shares; or a consolidation, amalgamation, arrangement or other form of business combination of Afexa with another person, or a sale, lease, or exchange of all or substantially all of Afexa's property or other distribution of Afexa's assets to Shareholders, other than the payment of dividends in respect of Common Shares In such a case, the DSU account of each director and the DSUs outstanding under the DSU Plan shall be adjusted in such manner, if any, as Afexa may in its discretion deem appropriate to preserve, proportionally, the interests of directors under the DSU Plan.

Afexa's Restricted Share Unit Plan

Afexa has a Restricted Share Unit Plan (the "RSU Plan") designed to provide a long-term incentive to align the interests of eligible officers and employees (sometimes referred to in this section as "eligible participants"), who are designated by the Human Resources and Compensation Committee of the board (the "HRCC"), with those of the Shareholders, to associate a portion of such eligible participant's compensation with the returns achieved by Shareholders over the longer term, and to attract and retain officers and employees with the knowledge, experience and expertise required by Afexa. An RSU is a phantom unit granted to an eligible participant that is represented by a bookkeeping entry on the books of Afexa, the value of which on any particular date is equal to the fair market value of a Common Share of Afexa. Each RSU granted to an eligible participant gives him or her the right to receive a cash payment with respect to each such restricted share unit when such unit vests.

Once RSUs become vested, they shall be redeemed or settled as soon as practicable, and in any event before December 31 of the third calendar year following the Service Year in respect of which the RSU was granted. The eligible participant will receive a lump-sum cash payment equal to the fair market value of each vested RSU (determined as the weighted-average of the closing price of the Common Shares on the TSX for the five day period immediately preceding the applicable payout date), less applicable withholding taxes. Instead of making a cash

payment, Afexa may, in its sole discretion, and so long as there is a public market for the Common Shares, elect to make the payout in the form of Common Shares purchased on the open market by an independent broker, using the cash (after deduction of applicable withholding taxes) that would otherwise have been payable to the eligible participant. No such determination has been made.

The following summarizes how an eligible participant's termination affects his or her RSUs, subject to the discretion of the HRCC or the Board in certain instances. If an eligible participant is constructively dismissed or terminated without cause within 24 months of a change of control (as defined in the Restricted Share Unit Plan), all of the eligible participant's RSUs will become vested RSUs and must be paid out as soon as possible, based on the fair market value of the Common Shares on the date immediately prior to the effective date of the change of control. In all other situations, when an eligible participant is terminated, all unvested RSUs will be forfeited and cancelled, but any vested RSUs will remain payable and shall be paid out as soon as practicable and in any event before their expiry date.

If there is a change of control (as defined in the Restricted Share Unit Plan), or if the Board determines that a change of control is expected to occur, Afexa may: elect to settle outstanding RSUs, vested or unvested, on eight business days' written notice; Afexa or its successor may provide new or replacement RSUs, payable on a proportionate basis if the Common Shares have been changed or exchanged or on some other basis as Afexa may deem appropriate; or Afexa may make such other adjustments to the terms of the Restricted Share Unit Plan as Afexa may deem appropriate. In the event that the conditions in the Paladin Offer are satisfied and Paladin takes up and pays for the Common Shares, a change of control as defined in the Restricted Share Unit Plan may have been deemed to have occurred as the required percentage of Common Shares for Paladin to hold after it takes up and pays for the Common Shares in order for a change of control to have occurred is 35% of the issued and outstanding Common Shares. In the event a change of control or proposed or expected change of control is not completed, the HRCC or the Board may revoke any action referred to above, and the RSUs will continue to vest as they otherwise would have.

RSUs may be also adjusted if there is a subdivision, consolidation, stock dividend, capital reorganization, reclassification, exchange, or other change with respect to the Common Shares; or a consolidation, amalgamation, merger, spin-off, sale, lease, or exchange of all or substantially all of Afexa's property or other distribution of Afexa's assets to Shareholders, other than the payment of dividends in respect of Common Shares. In such a case, the RSU account of each eligible participant and the RSUs outstanding under the Restricted Share Unit Plan shall be adjusted in such manner, if any, as Afexa may in its discretion deem appropriate to preserve, proportionally, the interests of eligible participants under the Restricted Share Unit Plan.

Personnel Retention Programs

Since receiving the Offer Letter, Afexa has been evaluating various matters relevant to its personnel retention programs in the context of a change of control to ensure that its ability to achieve the best outcome for Shareholders, Afexa and any potential third party acquiror would not be damaged by the loss of key employees during the period of extreme uncertainty caused by the Paladin Offer. Afexa recognizes the importance of retaining current key employees, including Afexa's officers, without distraction to assist in the response to the Paladin Offer, the consideration of potential alternatives and the execution of the business of Afexa.

On August 9, 2011, the Board of Directors determined that it is in the best interests of Afexa to put in place retention bonuses for certain key employees, including each of Afexa's officers, in the amount of three months' salary, payable on the earlier of a change of control or the end of the current fiscal year on March 31, 2012.

In addition, in connection with the Board's determination that unvested Options under the Stock Option Plan shall not vest, the Board of Directors determined that it is in the best interests of Afexa to pay certain other amounts equal to the tax adjusted cash value of the difference between the exercise price and the price offered per Common Share on the change of control transaction in respect of unvested Options to balance the financial incentive

which is provided in the Stock Option Plan that unvested Options are only exercisable if those Options are tendered to an Unsolicited Transaction. All employees with unvested Options, including officers, are eligible for these payments. Upon a change of control, eligible employees, including officers, must notify Afexa whether the employee wishes to retain the unvested Options, receive the cash value referred to above or receive a combination of both.

In either case, if the conditions in the Paladin Offer are satisfied and Paladin takes up and pays for Common Shares and as a result holds 20% or more of the issued and outstanding Common Shares, absent evidence to the contrary, a change in control will be deemed to have occurred. The Board of Directors has determined that, in the aggregate, the incremental costs of the personnel retention programs are not and would not be a material cost to Afexa or a deterrent to Afexa being able to pursue and potentially realize upon other strategic alternatives. The Board of Directors will continue to monitor developments and may, depending on the circumstances, authorize additional arrangements if they determine that doing so would be in the best interests of Afexa.

Interests of Directors, Officers and Others in Material Transactions

As of August 22, 2011, no director or officer of Afexa, and no associate of any of such persons, has had any material interest, direct or indirect, in any transaction or in any proposed transaction which has materially affected or would materially affect Afexa or any of its subsidiaries, except as disclosed herein.

MATERIAL CHANGES IN THE AFFAIRS OF AFEXA

Except as otherwise described or referred to in this Directors' Circular or as otherwise publicly disclosed, no other information is known to the directors or officers of Afexa that indicates any material change in the affairs or prospects of Afexa since August 19, 2011, the date of the last publicized interim financial report of Afexa.

OTHER INFORMATION

Except as disclosed in this Directors' Circular, there is no information that is known to the directors and officers of Afexa that would reasonably be expected to affect the decision of the Shareholders to accept or reject either of the Paladin Offer.

ALTERNATIVES TO THE PALADIN OFFER

Except as set forth in this Directors' Circular, there are no transactions, Board of Directors' resolutions, agreements in principle or signed contracts that relate to or would result in: (a) an extraordinary transaction such as a merger, reorganization or liquidation involving Afexa or any of its subsidiaries; (b) the purchase, sale, license or transfer of a material amount of assets of Afexa or any of its subsidiaries; (c) an issuer bid, other tender offer for or other acquisition of Common Shares by Afexa, any of its subsidiaries or any other person; or (d) any material change in the present capitalization or indebtedness of Afexa.

Notwithstanding the foregoing, the Board of Directors may engage in negotiations in response to the Paladin Offer that could have one or more of the effects specified in the preceding paragraph. The Board of Directors has determined that disclosure with respect to the parties to status of any negotiations, and the possible terms of, any transactions or proposals of the type referred to in the preceding paragraph might jeopardize any discussions or negotiations that Afexa may conduct. Accordingly, Afexa does not intend to disclose the possible terms of any such transaction or proposal until an agreement in principal relating thereto has been reached or as otherwise may be required by law.

REJECT THE PALADIN OFFER, TAKE NO ACTION AND DO NOT TENDER YOUR COMMON SHARES

OTHER PERSONS RETAINED IN CONNECTION WITH THE PALADIN OFFER

In addition to legal and financial advisors described above, Afexa has retained the persons described below in connection with the Paladin Offer.

Afexa has retained Georgeson Shareholder Communications Canada Inc. ("Georgeson") to assist it in connection with Afexa's communications with Afexa Shareholders with respect to the Paladin Offer. Georgeson will receive reasonable and customary compensation for its services and reimbursement for its reasonable out-of-pocket expenses. Afexa has agreed to indemnify Georgeson against certain liabilities arising out of or in connection with the engagement.

Afexa has also retained Smithcom Limited ("Smithcom") as its public relations advisor, including in connection with the Paladin Offer and certain related matters. Smithcom will receive reasonable and customary compensation for its services and will be reimbursed for its reasonable out-of-pocket expenses. Afexa has agreed to indemnify Smithcom against certain liabilities arising out of or in connection with the engagement.

Except as set forth above, neither Afexa nor any person acting on its behalf has employed, retained or agreed to compensate any person making solicitations or recommendations to Shareholders in connection with the Paladin Offer.

STATUTORY RIGHTS

Securities legislation in the provinces and territories of Canada provides securityholders of Afexa with, in addition to any other rights they may have at law, one or more rights of rescission, price revision or to damages, if there is a misrepresentation in a circular or a notice that is required to be delivered to the those securityholders. However, such rights must be exercised within prescribed time limits. Securityholders should refer to the applicable provisions of the securities legislation of their province or territory for particulars of those rights or consult with a lawyer.

APPROVAL OF THE DIRECTORS' CIRCULAR

The contents of this Directors' Circular have been approved by the directors of Afexa and the delivery of this Directors' Circular has been authorized by the Board of Directors.

REJECT THE PALADIN OFFER, TAKE NO ACTION AND DO NOT TENDER YOUR COMMON SHARES

CONSENT OF SCOTIA CAPITAL INC.

We hereby consent to the references to the opinion dated August 22, 2011 of our firm in the cover letter to the circular of the Board of Directors of Afexa Life Sciences Inc. dated August 22, 2011 (the "Directors' Circular"), to references to the foregoing opinion in the Directors' Circular under the captions "Questions and Answers About the Inadequate Offer From Paladin", "Summary", "Analysis and Reasons for Rejecting the Paladin Offer", "Background to the Paladin Offer and Response of Afexa" and "Opinion of Financial Advisor" and to the inclusion of the foregoing opinion in the Directors' Circular.

Dated the 22nd day of August, 2011.

SCOTIA CAPITAL INC.

By:

REJECT THE PALADIN OFFER, TAKE NO ACTION AND DO NOT TENDER YOUR COMMON SHARES

CERTIFICATE

DATED: August 22, 2011

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 the light of the circumstances in which it was made.

On behalf of the Board of Directors

William B. White	**John Douglas (Jack) Moffatt**
Chair of the Board	**Director, President and Chief Executive Officer**

REJECT THE PALADIN OFFER, TAKE NO ACTION AND DO NOT TENDER YOUR COMMON SHARES

SCHEDULE A

GLOSSARY

Unless the context otherwise requires or where otherwise provided, the following words and terms shall have the meanings set forth below when used in this Directors' Circular.

"ABCA" means the *Business Corporations Act* (Alberta).

"Afexa" means Afexa Life Sciences Inc., a corporation existing under the ABCA.

"associate" has the meaning ascribed thereto in the *Securities Act* (Alberta).

"Board" or "Board of Directors" means the board of directors of Afexa.

"CBCA" means the *Canada Business Corporations Act*.

"Common Shares" means the common shares of Afexa.

"directors" means the members of the Board of Directors being, as of the date of this Directors' Circular, William White, Maurice (Ted) Bilyea, Robert Church, Douglas Gilpin, Annalisa King, Jack Moffatt, John Rogers and David Weyant.

"Existing Shareholder Rights Plan" means the shareholder rights plan adopted by the Board of Directors on January 25, 2010.

"Georgeson" means Georgeson Shareholder Communications Canada Inc., the information agent retained by Afexa in connection with the Paladin Offer.

"New Shareholder Rights Plan" means the shareholder rights plan adopted by the Board of Directors on August 12, 2011.

"officer" has the meaning ascribed thereto in the *Securities Act* (Alberta).

"Paladin" means Paladin Labs Inc., a corporation existing under the CBCA.

"Paladin Circular" means the offer to purchase and accompanying take-over bid circular dated August 10, 2011 of Paladin relating to the Paladin Offer.

"Paladin Offer" means the offer made by Paladin to acquire all of the outstanding Common Shares and any associated rights issued under the Existing Shareholder Rights Plan, other than Common Shares already owned by Paladin and its affiliates, for either $0.55 in cash for each Common Share or 0.013 common shares of Paladin for each Common Share.

"Scotia Capital" means Scotia Capital Inc., the financial advisor retained Afexa in connection with the Paladin Offer to provide advice to the Board of Directors and the Special Committee.

"Shareholders" means the holders of the Common Shares.

"Smithcom" means Smithcom Limited, the public relations advisor retained by Afexa, including in connection with the Paladin Offer.

"Special Committee" means the special committee of independent directors appointed by the Board of Directors in connection with the Paladin Offer.

"Stock Option Plan" means the stock option plan of Afexa.

"TSX" means the Toronto Stock Exchange.

SCHEDULE B

OPINION OF SCOTIA CAPITAL

Scotia Capital Inc.
Scotia Plaza
40 King Street West
Box 4085, Station "A"
Toronto, Ontario
Canada M5W 2X5

August 22, 2011

The Special Committee of the Board of Directors and
The Board of Directors of Afexa Life Sciences Inc.
9604 20th Avenue
Edmonton, Alberta T6N 1G1

Dear Members of the Special Committee of the Board and Members of the Board:

We understand that Paladin Labs Inc. ("Paladin" or the "Offeror") has commenced an offer to purchase all of the issued and outstanding common shares of Afexa Life Sciences Inc. ("Afexa"), on the basis of either $0.55 per share in cash or 0.013 of a common share of Paladin, as applicable, upon the terms and subject to the conditions set forth in the Offer to Purchase (the "Offer to Purchase") contained in the take-over bid circular (the "Circular") of the Offeror dated August 10, 2011, and the related Letter of Transmittal and Notice of Guaranteed Delivery (together with the Offer to Purchase and the Circular, the "Offer Documents"). The terms and conditions of the Offer are more fully set forth in the Offer Documents.

You have asked for our opinion as to whether the consideration offered pursuant to the Offer is adequate, from a financial point of view, to the holders of the common shares, other than Paladin.

Scotia Capital Inc. ("Scotia Capital") has acted as financial advisor to Afexa in connection with the Offer and will receive a fee for its services. Neither Scotia Capital nor any of its affiliates, is an insider, associate or affiliate (as those terms are defined in the *Securities Act* (Ontario)) of Afexa or Paladin or any of their respective associates or affiliates. Subject to the following, there are no understandings, agreements or commitments between Scotia Capital and Afexa, Paladin or any of their respective associates or affiliates with respect to any future business dealings. Scotia Capital may in the future provide, traditional banking, financial advisory and investment banking services to Afexa and the Offeror. In the ordinary course of business, Scotia Capital, its successors and affiliates may hold or trade, for their own accounts and the accounts of their customers, securities of Afexa and the Offeror or their respective affiliates and, accordingly, may at any time hold a long or short position in such securities.

In arriving at our opinion, we have, among other things: (i) reviewed certain publicly available business and historical financial information relating to Afexa and the Offeror; (ii) reviewed certain internal financial information and other data relating to the business and financial prospects of Afexa that were provided to us by Afexa and not publicly available, including financial forecasts and estimates prepared by management of Afexa; (iii) conducted discussions with members of the senior management of Afexa concerning the business and financial prospects of Afexa; (iv) reviewed publicly available financial and stock market data with respect to certain other companies we believe to be generally relevant; (v) compared the financial terms of the Offer with the publicly

available financial terms of certain other transactions we believe to be generally relevant; (vi) reviewed current and historical market prices of the common shares of Afexa and common shares of the Offeror; (vii) reviewed the Offer Documents; (viii) reviewed a draft of the Directors' Circular of Afexa, dated August 22, 2011, relating to the Offer; (x) taken into consideration that Afexa has been recently solicited by, and has initiated contact with, a number of parties who have expressed an interest in exploring alternative transactions; and (xi) conducted such other financial studies, analyses and investigations, and considered such other information, as we deemed necessary or appropriate.

In connection with our review, with your consent, we have not assumed any responsibility for independent verification of any of the information reviewed by us for the purpose of this opinion and have, with your consent, relied on such information being complete and accurate in all material respects or, in the case of forecasts, projections and estimates of Afexa, relied on such information having been prepared using the assumptions identified therein, which assumptions were at the time of preparation reasonable in the circumstances. In addition, with your consent, we have not made any independent evaluation or appraisal of any of the assets or liabilities (contingent or otherwise) of Afexa or its subsidiaries, nor have we been furnished with any such evaluation or appraisal. We have not prepared a formal valuation of Afexa and have not been engaged to review any legal, tax or accounting aspects of the Offer. With respect to the financial forecasts and estimates, we have assumed, at your direction, that they have been reasonably prepared on a basis reflecting the best currently available estimates and judgments of Afexa as to the future performance of Afexa.

Senior officers of Afexa have represented to us in a certificate dated as of the date hereof, among other things, that (i) the information and data, other than forecasts, projections and estimates (the "Information") provided to us by or on behalf of Afexa in respect of Afexa and its subsidiaries or affiliates in connection with the Offers was, at the date such Information was prepared, complete, true and correct in all material respects, and no additional material, data or information would be required to make the Information not misleading in light of the circumstances under which such Information was provided and that (ii) since the dates on which the Information was provided to us, except as disclosed to us, there have been no changes in material facts or new material facts.

Our opinion is necessarily based on financial, monetary, economic, market and other conditions as in effect on, and the information made available to us as of, the date hereof. Events occurring after the date hereof may affect this opinion and the assumptions used in preparing it. We do not assume any obligation to update, revise or reaffirm this opinion and we expressly disclaim any such obligation. Additionally, we do not express any opinion as to the prices at which the common shares of Afexa will trade at any time.

Our opinion is solely for the use and benefit of the Special Committee and the Board of Directors of Afexa, and may not be relied upon by any other person, or for any other purpose or published without the prior written consent of Scotia Capital, provided that this opinion may be included in the Directors' Circular of Afexa responding to the Offer. Our opinion does not constitute a recommendation as to whether or not any holder of common shares should tender to the Offer.

Based upon and subject to the foregoing and such other matters as we consider relevant, it is our opinion that, as of the date hereof, the consideration offered pursuant to the Offer is inadequate, from a financial point of view, to the holders of common shares, other than Paladin.

Very truly yours,

Scotia Capital Inc.

Scotia Capital Inc.

SCHEDULE C

SUMMARY OF EXISTING AND NEW SHAREHOLDER RIGHTS PLANS

Afexa Life Sciences Inc. ("Afexa") adopted the shareholder rights plan (the "Existing Shareholder Rights Plan") summarized herein on January 25, 2010. The Existing Shareholder Rights Plan was approved by 98.5% of the Shareholders represented by proxy or in attendance at the meeting on March 18, 2010. On August 12, 2011 Afexa adopted an additional shareholder right plan (the "New Shareholder Rights Plan"), also summarized herein. The purpose of both the Existing and New Shareholder Rights Plans is to:

(i) provide the board of directors of Afexa (the "Board of Directors") and holders (the "Shareholders") of the common shares (the "Common Shares") of Afexa with sufficient time to properly consider any take-over bid made for Afexa and allow enough time for competing bids and alternative proposals to emerge;

(ii) ensure that all Shareholders are treated fairly in any transaction involving a change of control of Afexa; and

(iii) ensure that all Shareholders have an equal opportunity to participate in the benefits of a take-over bid.

The Existing and New Shareholder Rights Plans encourage potential acquirers to negotiate the terms of any offer for Common Shares with the Board of Directors or, alternatively, to make a Permitted Bid (as defined in the both the Existing an New Shareholder Rights Plans) without the approval of the Board of Directors.

The summaries of the Existing and New Shareholder Rights Plans set out herein only includes the material terms and conditions of the Existing and New Shareholder Rights Plans. The summary is qualified by and is subject to the full terms and conditions of the Existing and New Shareholder Rights Plans. The full text of the Existing Shareholder Rights Plan is contained in an agreement (the "Existing Agreement") dated as of January 25, 2010 between Afexa and Computershare Trust Company of Canada, as rights agent and is available on SEDAR at www.sedar.com. The full text of the New Shareholder Rights Plan is contained in an agreement (the "New Agreement") dated as of August 12, 2011 between Afexa and Computershare Trust Company of Canada, as rights agent and is available on SEDAR at www.sedar.com.

Existing Shareholder Rights Plan

Issuance of Rights

The Existing Shareholder Rights Plan provides that one right (a "Right") would be issued in respect of each of the outstanding Common Shares to Shareholders as of the effective date of the Existing Agreement, as well as in respect of each Common Share issued after the effective date of the Existing Agreement and prior to the Separation Time (as defined below).

Trading of Rights

Notwithstanding the effectiveness of the Existing Shareholder Rights Plan, the Rights are not exercisable until the Separation Time and certificates representing the Rights have not been sent to the Shareholders. Certificates for the Common Shares issued after the effective date of the Existing Shareholder Rights Plan contain a notation incorporating the Existing Shareholder Rights Plan by reference. Until the Separation Time, or earlier termination or expiry of the Rights, the Rights are evidenced by and transferred with the associated Common Shares and the surrender for transfer of any certificate representing Common Shares will also constitute the surrender for transfer of the Rights associated with those Common Shares. After the Separation Time, the Rights will become exercisable and begin to trade separately from the associated Common Shares. The initial "Exercise Price" under

each Right in order to acquire a Common Share is four times the Market Price at the Separation Time. Market Price is defined as the average of the daily closing prices per share of such securities on each of the 20 consecutive trading days through and including the trading day immediately preceding the Separation Time.

Separation of Rights

The Rights will become exercisable and begin to trade separately from the associated Common Shares at the "Separation Time" which is generally the close of business on the tenth trading day after the earliest to occur of:

(a) a public announcement that a person or a group of affiliated or associated persons has acquired beneficial ownership of 20% or more of the outstanding Common Shares (becoming an "Acquiring Person") other than as a result of (i) a reduction in the number of Common Shares outstanding, (ii) a "Permitted Bid" or "Competing Permitted Bid" (as defined below), (iii) acquisitions of Common Shares in respect of which the Board of Directors has waived the application of the Existing Agreement, (iv) other specified exempt acquisitions in which the Shareholders participate on a *pro rata* basis, or (v) an acquisition by a person of Common Shares upon the exercise, conversion or exchange of a security convertible, exercisable or exchangeable into a Voting Share received by a person pursuant to (ii), (iii) or (iv);

(b) the date of commencement of, or the first public announcement of an intention of any person (other than Afexa or any of its subsidiaries) to commence, a take-over bid (other than a Permitted Bid or a Competing Permitted Bid) where the Common Shares subject to the bid owned by that person (including affiliates, associates and others acting jointly or in concert therewith) would constitute 20% or more of the outstanding Common Shares; and

(c) the date upon which a Permitted Bid or Competing Permitted Bid ceases to be such.

As soon as practicable following the Separation Time, separate certificates evidencing rights ("Rights Certificates") will be mailed to the holders of record of the Common Shares as of the Separation Time and the Rights Certificates alone will evidence the Rights.

When Rights Become Exercisable

After the Separation Time, each Right entitles the holder thereof to purchase one Common Share at the Exercise Price. Following a transaction which results in a person becoming an Acquiring Person (a "Flip-in-Event"), the Rights entitle the holder thereof (other than a holder who is an Acquiring Person) to receive, upon exercise, such number of Common Shares which have an aggregate market value (as of the date of the Flip-In Event) equal to twice the then Exercise Price of the Rights. In such event, however, any Rights beneficially owned by an Acquiring Person (including affiliates, associates and others acting jointly or in concert therewith), or a transferee or any such person, will be void. A Flip-in-Event does not include acquisitions approved by the Board of Directors or acquisitions pursuant to a Permitted Bid or Competing Permitted Bid.

Permitted Bids

The Existing Shareholder Rights Plan includes a "Permitted Bid" concept whereby a take-over bid will not trigger a separation of the Rights (and will not cause the Rights to become exercisable) if the bid meets certain conditions. A "Permitted Bid" is defined as an offer to acquire Common Shares or securities that are eligible to be converted into Common Shares for cash or securities made by means of a take-over bid circular where the Common Shares (including Common Shares that may be acquired upon conversion of securities convertible into Common Shares) subject to the offer, together with Common Shares beneficially owned by the offeror at the date of the offer (including its affiliates, associates and others acting jointly or in concert therewith), constitute 20% or more of the outstanding Common Shares and that also complies with the following additional provisions:

(d) the bid must be made to all the holders of Common Shares as registered on the books of Afexa other than the offeror; and

(e) the bid must contain the following irrevocable and unqualified conditions:

(i) no Common Shares will be taken up or paid for prior to the close of business on the 60th day following the date of the bid and then only if more than 50% of the Common Shares held by Independent Shareholders (as defined below) have been deposited or tendered to the bid and not withdrawn;

(ii) Common Shares may be deposited pursuant to the bid, unless it is withdrawn, at any time prior to the date Common Shares are first taken up or paid for under the bid:

(iii) Common Shares deposited pursuant to the bid may be withdrawn until taken up or paid for; and

(iv) if the deposit condition referred to in (b)(i) above is satisfied, the offeror will extend the bid for deposit of Common Shares for at least ten business days from the date such extension is publicly announced.

"Independent Shareholders" is defined as holders of Common Shares other than (i) an Acquiring Person, (ii) any offeror making a take-over bid, (iii) any affiliate or associate of an Acquiring Person or offeror, (iv) persons acting jointly or in concert with an Acquiring Person or offeror, and (v) the trustee of employee benefit, stock purchase or certain other plans or trusts for employees of Afexa or its wholly-owned subsidiaries unless the beneficiaries of such plans or trusts direct the voting or tendering to a take-over bid of the Common Shares.

Competing Permitted Bids

A "Competing Permitted Bid" is a take-over bid made after a Permitted Bid has been made and prior to expiry of such Permitted Bid that satisfies all of the provisions of a Permitted Bid, except that it must remain open for acceptance until at least the later of (i) 35 days after the date of the bid and (ii) 60 days after the earliest date on which another Permitted Bid then in existence was made, and only if at that date more than 50% of the Common Shares owned by Independent Shareholders have been deposited to the Competing Permitted Bid and not withdrawn.

Redemption and Waiver

Under the Existing Shareholder Rights Plan, the Board of Directors can (i) waive the application of the Existing Shareholder Rights Plan to enable a particular take-over bid to proceed, in which case the Existing Shareholder Rights Plan will be deemed to have been waived with respect to any other take-over bid made prior to the expiry of any bid subject to such waiver, or (ii) redeem all but not less than all the Rights at a redemption price of $0.0001 per Right at any time prior to a Flip-in-Event. Rights are deemed to have been redeemed if a bidder successfully completes a Permitted Bid or a bid in respect of which the Board of Directors has waived the application of the Existing Shareholder Rights Plan.

Protection Against Dilution

The Exercise Price, the number and nature of securities which may be purchased upon the exercise of Rights and the number of Rights outstanding are subject to adjustment from time to time to prevent dilution in the event of stock dividends, subdivisions, consolidations, reclassifications or other changes in the outstanding Common Shares, *pro rata* distributions to holders of Common Shares and other circumstances where adjustments are required to appropriately protect the interests of the holders of Rights.

New Shareholder Rights Plan

The following is a summary of the principal terms of the New Shareholder Rights Plan. The terms of the New Shareholder Rights Plan are substantially the same as those contained in the above summary regarding the Existing Shareholder Rights Plan, except that the rights issued under the New Shareholder Rights Plan as described above under "Separation of Rights" become exercisable if a person acquires 15% or more of the Common Shares. As is the case in the Existing Shareholder Rights Plan, a Permitted Bid must be made by way of a take-over bid

circular prepared in compliance with applicable securities laws and, in addition to certain other conditions such as the tender of at least 50% of the Common Shares referred to above, must remain open for 60 days. In the event a take-over bid does not meet the Permitted Bid requirements of the New Shareholder Rights Plan, the rights issued under the plan will entitle Shareholders, other than any Shareholder or Shareholders involved in the take-over bid, to purchase additional Common Shares of Afexa at a significant discount to the market price of the Common Shares at that time.

SCHEDULE D

TRADING IN SECURITIES OF AFEXA

Name	Date of Trade	Number of Common Shares	Price per Common Share $	Nature of Transactions
Allan Cleiren	April 5, 2011	1,013.078479	$0.51	Purchases under
	April 5, 2011	253.274522	$0.51	Employee Share
	April 21, 2011	270.931706	$0.48	Purchase Plan
	April 21, 2011	1,083.789754	$0.48	
	May 5, 2011	1,110.506728	$0.47	
	May 5, 2011	277.632055	$0.47	
	May 19, 2011	302.015169	$0.43	
	May 19, 2011	1,208.037297	$0.43	
	June 6, 2011	1,291.658973	$0.40	
	June 6, 2011	322.920993	$0.40	
	June 21, 2011	339.478424	$0.38	
	June 21, 2011	1,357.887416	$0.38	
	July 11, 2011	1,311.228299	$0.39	
	July 11, 2011	327.813419	$0.39	
	July 22, 2011	230.658481	$0.56	
	July 22, 2011	922.616068	$0.56	
	August 5, 2011	258.337437	$0.50	
	August 5, 2011	1,033.329748	$0.50	
Lei Ling	April 5, 2011	142.980399	$0.51	Purchases under
	April 5, 2011	285.941190	$0.51	Employee Share
	April 21, 2011	305.899433	$0.48	Purchase Plan
	April 21, 2011	152.960205	$0.48	
	May 5, 2011	313.440293	$0.47	
	May 5, 2011	156.730893	$0.47	
	May 19, 2011	170.495828	$0.43	
	May 19, 2011	340.968276	$0.43	
	June 6, 2011	364.570476	$0.40	
	June 6, 2011	182.297738	$0.40	
	June 21, 2011	191.644861	$0.38	
	June 21, 2011	383.263441	$0.38	
	July 11, 2011	185.059646	$0.39	
	July 11, 2011	370.093915	$0.39	
	July 22, 2011	260.408193	$0.56	
	July 22, 2011	130.213025	$0.56	
	August 5, 2011	145.838553	$0.50	
	August 5, 2011	291.657106	$0.50	

Name	Date of Trade	Number of Common Shares	Price per Common Share $	Nature of Transactions
G. Warren Michaels	April 5, 2011	285.941190	$0.51	Purchases under
	April 5, 2011	142.980399	$0.51	Employee Share
	April 21, 2011	152.960205	$0.48	Purchase Plan
	April 21, 2011	305.899433	$0.48	
	May 5, 2011	313.440293	$0.47	
	May 5, 2011	156.730893	$0.47	
	May 19, 2011	170.495828	$0.43	
	May 19, 2011	340.968276	$0.43	
	June 6, 2011	182.297738	$0.40	
	June 6, 2011	364.570476	$0.40	
	June 21, 2011	383.263441	$0.38	
	June 21, 2011	191.644861	$0.38	
	July 11, 2011	370.093915	$0.39	
	July 11, 2011	185.059646	$0.39	
	July 22, 2011	130.213025	$0.56	
	July 22, 2011	260.408193	$0.56	
	August 5, 2011	145.838553	$0.50	
	August 5, 2011	291.657106	$0.50	
Jack Moffatt	April 5, 2011	980.392203	$0.51	Purchases under
	April 5, 2011	490.196102	$0.51	Employee Share
	April 21, 2011	1,048.822028	$0.48	Purchase Plan
	April 21, 2011	524.411014	$0.48	
	May 5, 2011	537.338499	$0.47	
	May 5, 2011	1,074.676997	$0.47	
	May 19, 2011	1,169.060809	$0.43	
	May 19, 2011	584.530405	$0.43	
	June 6, 2011	1,249.984491	$0.40	
	June 6, 2011	624.992245	$0.40	
	June 21, 2011	657.038059	$0.38	
	June 21, 2011	1,314.076118	$0.38	
	July 11, 2011	634.461213	$0.39	
	July 11, 2011	1,268.992425	$0.39	
	July 22, 2011	892.848499	$0.56	
	July 22, 2011	446.424249	$0.56	
	August 5, 2011	499.995039	$0.50	
	August 5, 2011	999.990078	$0.50	

Name	Date of Trade	Number of Common Shares	Price per Common Share $	Nature of Transactions
Michael Obert	April 5, 2011	269.607856	$0.51	Purchases under
	April 5, 2011	539.215712	$0.51	Employee Share
	April 21, 2011	288.426058	$0.48	Purchase Plan
	April 21, 2011	576.852115	$0.48	
	May 5, 2011	591.072348	$0.47	
	May 5, 2011	295.536174	$0.47	
	May 19, 2011	321.491723	$0.43	
	May 19, 2011	642.983445	$0.43	
	June 6, 2011	687.491470	$0.40	
	June 6, 2011	343.745735	$0.40	
	June 21, 2011	722.741865	$0.38	
	June 21, 2011	361.370932	$0.38	
	July 11, 2011	348.953667	$0.39	
	July 11, 2011	697.907334	$0.39	
	July 22, 2011	491.066674	$0.56	
	July 22, 2011	245.533337	$0.56	
	August 5, 2011	274.997272	$0.50	
	August 5, 2011	549.994543	$0.50	
Jacqueline Shan	April 5, 2011	314.549035	$0.51	Purchases under
	April 5, 2011	629.078461	$0.51	Employee Share
	April 21, 2011	336.483083	$0.48	Purchase Plan
	April 21, 2011	672.987142	$0.48	
	May 5, 2011	344.799368	$0.47	
	May 5, 2011	689.577242	$0.47	
	May 19, 2011	750.139559	$0.43	
	May 19, 2011	375.081470	$0.43	
	June 6, 2011	802.065048	$0.40	
	June 6, 2011	401.045024	$0.40	
	June 21, 2011	843.190082	$0.38	
	June 21, 2011	421.608182	$0.38	
	July 11, 2011	407.121071	$0.39	
	July 11, 2011	814.216763	$0.39	
	July 22, 2011	286.461512	$0.56	
	July 22, 2011	572.905168	$0.56	
	August 5, 2011	320.836817	$0.50	
	August 5, 2011	641.653634	$0.50	
Sharla Sutherland	April 5, 2011	138.882360	$0.51	Purchases under
	April 5, 2011	277.784327	$0.51	Employee Share
	April 21, 2011	148.576128	$0.48	Purchase Plan
	April 21, 2011	297.173233	$0.48	
	May 5, 2011	304.498980	$0.47	
	May 5, 2011	152.238743	$0.47	
	May 19, 2011	165.609154	$0.43	
	May 19, 2011	331.241690	$0.43	
	June 6, 2011	354.070606	$0.40	
	June 6, 2011	177.072803	$0.40	
	June 21, 2011	186.152023	$0.38	
	June 21, 2011	372.330327	$0.38	
	July 11, 2011	179.755551	$0.39	
	July 11, 2011	259.536480	$0.39	
	July 22, 2011	126.480918	$0.56	
	July 22, 2011	252.979694	$0.56	
	August 5, 2011	283.337189	$0.50	
	August 5, 2011	141.658595	$0.50	

QUESTIONS OR REQUESTS FOR INFORMATION CONCERNING THE INFORMATION IN THIS DIRECTORS' CIRCULAR SHOULD BE DIRECTED TO THE INFORMATION AGENT:

Georgeson

100 University Avenue
11th Floor, South Tower
Toronto, Ontario M5J 2Y1

North American Toll Free Number: 1-866-676-3005
Email: askus@georgeson.com

Please also visit our corporate website
and sign up to receive updates: www.Afexa.com/TakeNoActionUpdates