



STATEMENT OF CORPORATE GOVERNANCE PRACTICES -

Excerpt from Management Information Circular dated June 24, 2011

We believe in the importance of a strong Board and sound corporate governance policies and practices to direct and manage the affairs of our Corporation. This statement provides details of the Corporation's corporate governance practices in compliance with the applicable disclosure requirements of National Instrument 58-101 *Disclosure of Corporate Governance Practices* ("NI 58-101").

In addition to the summary of the Corporation's corporate governance practices set out below, the full text of our Board of Directors Mandate, our Corporate Governance Guidelines and Director Expectations, and the mandate for each of the Audit Committee, the Corporate Governance and Nominating Committee and the Human Resources and Compensation Committee are available on our website at www.afexa.com under "Corporate" and "Governance".

Board of Directors

The Board of Directors is composed of eight Directors, all of whom will be proposed for election at the Meeting. The Board has determined that a majority of the proposed Directors are independent. On an annual basis the Corporate Governance and Nominating Committee reviews, by way of a questionnaire, each relationship that a Director has with the Corporation to determine Board member independence and additional independence requirements of Audit Committee members pursuant to the definition of independence (and related guidance) set out in NI 58-101 and National Instrument 52-110 *Audit Committees*. Independence is confirmed by the Board following Corporate Governance and Nominating Committee recommendation. Directors have a duty to report any conflicts of interest that could impact their independence. This process ensures that Directors are not only independent of management, but independent in character and judgment and free from any business or other relationship or circumstances which could affect the exercise of their independent judgment.

The Board insists that provisions of the *Business Corporations Act* (Alberta) (the "Act") be followed with respect to the disclosure of actual or potential material conflicts of interest that may exist in considering contracts and transactions. Except as provided in the Act, no Director with any such interest may vote on any resolution to approve the contract or transaction in question.

The Board, in consultation with the Corporate Governance and Nominating Committee, has determined that the following Directors proposed for fiscal 2012 have no material relationship with the Corporation and are therefore independent:

Maurice Edward Bilyea
Robert Bertram Church
John Douglas Gilpin
Anna Lisa King
John Arnold Rogers
David Thomas Weyant
William Baxter White

Jack Moffatt is considered to have a material relationship with the Corporation by virtue of his position as President and Chief Executive Officer of the Corporation and is therefore determined to be non-independent.

Mr. Rogers is the only proposed Director that is currently acting as a Director of other public companies. His other directorship positions in public companies are as follows: Marsulex Inc. (TSX:MLX), and Morneau Shepell Inc. (TSX:MSI).

The Board held ten meetings in fiscal 2011. At each regularly scheduled Board meeting, the Board holds executive sessions at which non-independent members and members of management are not in attendance. To facilitate communication, the Board relies on input from the Board Committees, which are all composed of independent Directors. Board Committees also hold executive sessions at which management is not in attendance. The following table demonstrates meeting attendance at Board and Committee meetings:

Meeting Attendance of Directors in Fiscal 2011

Director	Board Meetings Attended	Committee Meetings Attended ⁽³⁾
Maurice Bilyea	10 of 10	6 of 6
Robert Church	9 of 10	6 of 7
Douglas Gilpin	8 of 10 ⁽¹⁾	9 of 9
Jack Moffatt	8 of 10 ⁽²⁾	n/a
John Rogers	9 of 10	9 of 10
David Weyant	10 of 10	6 of 6
William White	10 of 10	10 of 10

Notes:

- (1) Mr. Gilpin provided a waiver of notice where he was not able to attend a meeting called on short notice.
- (2) Mr. Moffatt did not attend two meetings of the Board where only independent Directors participated.
- (3) Some Directors filled interim committee positions; some committee assignments were changed mid-year.

It should be noted that the summary of attendance of Directors at meetings of the Board and Committees of the Board is not strictly indicative of the contribution made by each Director and absence from a meeting may result from a variety of factors or causes, including illness, rescheduling of meetings or meetings held on short notice. Where meeting attendance was not possible, Directors provided comments in advance.

The table below shows the total number of Board and Committee meetings held during fiscal 2011.

Board / Committee Meetings	Number of Meetings held
Board of Directors	10
Audit Committee	4
Corporate Governance and Nominating Committee	6
Human Resources and Compensation Committee	4
Total meetings held in Fiscal 2011	24

The Board regularly meets independently of management and non-independent Directors or may excuse members of management and non-independent Directors from all or a portion of any meeting where a potential conflict of interest arises or where otherwise appropriate. The Board is also scheduled to meet without management and non-independent Directors after each Board meeting. In 2011 the Board met without management and non-independent directors at each Board meeting (total of nine independent sessions), with the exception of one conference call

meeting where an independent meeting was not considered necessary. Board Committees also meet regularly, independently of management and non-independent Directors.

In fiscal 2011, Jack Moffatt served as Chairman and CEO and as a non-independent member of the Board. The Board had in place an independent Lead Director, Douglas Gilpin, to ensure the Board was able to function independently of management. In late March of 2011 the Board determined that, in the interest of good governance practices, it was time to separate the dual role of Chairman and CEO and effective April 1, 2011 the Board appointed an independent Chairman, William White. The position of Lead Director was then determined no longer necessary.

It is the responsibility of the Chairman to provide leadership to the Board and to set the tone for the Board and its members to foster ethical and responsible decision-making and to ensure Directors are kept informed of appropriate corporate matters. Specific responsibilities of the Chairman are set out in a formal position description.

Board Mandate

The Board has a written mandate that lists its specific duties and responsibilities. A copy of the Board of Directors Mandate is attached as Schedule A.

Chief Executive Officer

The primary responsibility of the CEO is to provide strategic direction that includes the development and implementation of vision, plans, and budgets for profitable growth of the Corporation and succession planning for the executive and senior leadership teams. He oversees the human resources, financial and operations of the Corporation. A written position description formally sets out his responsibilities under the headings of Leadership, Corporate Strategies and Objectives, Succession Planning and Performance Evaluation, Risk Management and Communications and Reporting.

Orientation and Continuing Education

The Corporate Governance and Nominating Committee selects nominees for the Board of Directors who are experienced in business management, have an understanding of corporate governance and, in most instances, who have special expertise in an area of strategic interest to the Corporation. The Board was not required to take any measures to orient new Directors in F2011. One new Director was appointed as of the date of this Management Information Circular. A formal orientation program will be customized to meet her needs, and will include, but will not be limited to:

- a company overview with meetings with the CEO, CFO, controller and other senior finance leaders;
- a meeting with the Director, Risk Management and Compliance to gain a high-level understanding of internal control over financial reporting;
- a review of the company's Code of Conduct and Afexa's antifraud, compliance policies and whistleblower process; and
- meetings with all Executive Leadership Team members to understand the overall risk profile for Afexa's industry and to understand its competitive position.

A complete orientation binder will also be provided which includes all Board and committee mandates, meeting schedules and other documents necessary for a Director to fully understand the workings of the Board and the business of the Corporation.

As part of continuing education, Directors are briefed regularly on strategic issues affecting the Corporation and these briefings include reviews of the competitive environment and geographical initiatives. These briefings are provided by the Executive Leadership Team. Directors are also provided with detailed background materials and policies specifically relating to the role of the Board, its Committees and governance guidelines and director expectations.

Upon recommendation of the Corporate Governance and Nominating Committee, the Board of Directors approved a formal continuing education program available to all Board members. This voluntary program allows any member of the Board of Directors to enroll, upon approval, in a formal program for director education at the expense of the Corporation. Two directors enrolled in such an accreditation program in fiscal 2011. All Board members have joined the Institute of Corporate Directors and some have completed education programs through the Institute, or otherwise. All Directors receive information on a regular basis as part of the regular Board agenda package

regarding the evolving state of corporate governance practices in Canada, topics relevant to the business of the Corporation, as well as other matters that may be of current interest and relevance. Experts from time to time, make in-house presentations to the Board on subjects relevant to Director's duties and responsibilities. The Senior Director Board Affairs and Investor Relations advises the Directors of educational sessions and seminars that may be of interest to them. As an example, several Directors and Management representatives participated in continuing education programs tailored for Executive Compensation Committees and the Chair of the Audit Committee attended a seminar for audit committee members.

Ethical Business Conduct

The Corporation adopted an updated code of conduct in fiscal 2011 – *Living our Values: Afexa Code of Conduct* (the "Code"). This document is reviewed annually by the Board of Directors and the Board has delegated compliance oversight to the Audit Committee and the Corporate Governance and Nominating Committee.

External Reporting System: The Corporation uses a third party whistleblower service to allow confidential reporting by employees of Code matters. The Chair of the Audit Committee receives quarterly reports from the third party service provider summarizing the nature and quantity of reports received for the quarter. As part of the process, should a report be received, the Chair of the Audit Committee will receive a copy of such report. No such reports were received in fiscal 2011.

Internal Reporting System: Internal reports can be made to immediate supervisors, any member of the executive leadership team, or the Audit Committee Chair. Also, if confidentiality is requested, the complaint may be made through the third party whistleblower service.

The Board believes that providing a procedure for employees and officers to raise concerns about ethical conduct on an anonymous and confidential basis fosters a culture of ethical conduct within the Corporation. Through the Corporate Governance and Nominating Committee, Directors and Officers annually certify they have complied with the Code.

Living our Values: Afexa Code of Conduct may be found on the Corporation's website at www.afexa.com under "Governance" in the Investor Relations Section of the website. The Afexa Code of Conduct is also available on SEDAR at www.sedar.com. Copies may be obtained without charge by contacting Jane Tulloch, Senior Director Board Affairs and Investor Relations at 9604 20th Avenue, Edmonton, Alberta T6N 1G1 or through email at JTulloch@afexa.com. The Corporate Governance and Nominating Committee, in consultation with the Board, reviews the process for administering the Code every year. To date the Corporation has not been required to file a material change report relating to a departure from the Code.

Nomination of New Board Candidates – Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee, which is comprised entirely of independent Directors, is responsible for, among other things, assisting the Board in developing and recommending the Corporation's corporate governance practices, including public disclosure practices and adherence to regulations, evaluating Board performance, nominating new Directors based on the Board of Directors' overall skill-set and competencies, reviewing the Board size and composition, and developing and annually reviewing the standards the Board applies pursuant to the *Corporate Governance Guidelines and Director Expectations*, which is available on our corporate website at www.afexa.com under "Corporate".

In fiscal 2011, the Corporate Governance and Nominating Committee was actively involved in the process of recruiting additional Directors and one new Director was recommended to the Board for appointment on June 22, 2011 – Ms. Anna Lisa King. Her appointment became effective June 24, 2011. When searching for new Directors, the recruitment process is carried out in a manner consistent with the Board-approved recruitment process *Board Recruitment Process – Qualification & Selection Criteria for Directors*. Through a full board competency inventory analysis, the Committee considers the qualities and skills that the Board, as a whole, should have and assesses the competencies and skills of the current members of the Board. Based on the talent already represented on the Board, the Corporate Governance and Nominating Committee identifies any gaps in skill set of the Board that should be considered when recruiting new Directors, based on the opportunities and risks facing the Corporation. The written process covers areas such as: general qualifications, legal requirements, desired business background experience, independence, attributes and recruitment principles. Potential candidates are screened to ensure that they possess the requisite qualities. Recruitment takes into consideration future needs of the Board. The Corporate Governance and Nominating Committee maintains an evergreen list of potential Directors whose skills complement the Board and

whom the Committee may recommend when a need arises. The Corporate Governance and Nominating Committee members proposed for 2012 are John Rogers (Chairman), David Weyant and Robert Church. All proposed members are independent.

Human Resources and Compensation Committee

The Human Resources and Compensation Committee is responsible for, among other things, overseeing overall corporate policy with respect to compensation.

The Committee annually reviews and recommends the form and amount of Director compensation and submits such to the Board, ensuring that such compensation realistically reflects the risks associated with the position of Director. The Committee is also responsible for recommending the form and amount of the CEO compensation and for reviewing recommendations of levels of salary, bonus, benefits and incentives, stock option plans and/or other equity participation plans provided to officers and Directors.

The responsibilities, powers and operations of the Human Resources and Compensation Committee include:

- making recommendations to the Board with respect to incentive compensation and equity based plans, and significant changes to pension and other benefit plans for the Board and CEO;
- engaging outside compensation, legal and accounting advisors as it determines necessary to carry out its duties and to approve those fees and other retention terms as it relates to such evaluation. In past years, the HRCC has engaged Mercer (Canada) Limited ("Mercer") to provide support to the HRCC in determining compensation for the Corporation's officers. In the most recent fiscal year, the Corporation has continued to participate in Mercer compensation surveys. Fees paid to Mercer for services performed for the fiscal year ended March 31, 2011 were \$1,020;
- recommending for Board approval such matters as adopting, administering, approving and ratifying awards under incentive compensation and stock plans, including amendments to the awards made under any such plans, and review and monitor awards under such plans;
- annually reviewing and recommending the compensation for Directors;
- reviewing executive compensation disclosure before being made public by the Corporation;
- reviewing with the Chief Executive Officer and commenting upon recommendations for:
 - the compensation plans for senior executive officers of the Corporation;
 - the appointment of senior executive officers prior to consideration by the Board;
 - employment contracts for senior executive officers and any other individual financial arrangements; and
 - termination settlements for senior executive officers.

The Human Resources and Compensation Committee consists of a minimum of three Directors appointed annually by the Board. The proposed members of the Committee for fiscal 2012 are William White (Chair), Maurice (Ted) Bilyea and J. Douglas Gilpin. All proposed members are independent. In order to remain current, members of the Human Resources and Compensation Committee have attended continuing education seminars regarding proposed amendments to Form 51-102F6 *Statement of Executive Compensation* of National Instrument 51-102 *Continuous Disclosure Obligations*.

Board Committees

The Board has three formal Committees: the Audit Committee, the Corporate Governance and Nominating Committee and the Human Resource and Compensation Committee. For more information regarding the Audit Committee and its role and responsibilities, refer to "Audit Committee Information" in the Corporation's most recent Annual Information Form filed on SEDAR www.sedar.com, as well as the Audit Committee Mandate attached to the Annual Information Form.

All three Committees have written mandates as well as written mandates for the Committee Chairs. From time to time, various sub-committees of the Board will be formed. All Committees have the right to engage outside advisors, at the Corporation's expense.

Annual Assessments

The Board as a whole completes an annual self-evaluation under the direction of the Corporate Governance and Nominating Committee. The results of the evaluation are analyzed and reviewed by the members of the Corporate Governance and Nominating Committee and the Board, who consider whether any changes to the Board's processes, composition or committee structure are appropriate. On occasion the Directors provide a peer review questionnaire which consists of both an evaluation of each Director, as well as a self evaluation. A peer review component of the Board analysis was not conducted in 2011 but is expected to be part of the 2012 analysis.

In addition, each Board Committee annually evaluates its effectiveness in carrying out the duties specified in its mandate. The results are reviewed by the members of each committee who consider whether any changes to its structure or mandate may be appropriate. This process is scheduled to take place in the fall of 2011.



Afexa Life Sciences Inc.

BOARD OF DIRECTORS – MANDATE	Previously approved document	June 2010
	Board Approval:	June 2011

Perspective

The Board of Directors are charged by statute with the fundamental obligation to manage, or supervise the management of, the business affairs of the Company. Directors are required to assume responsibility for overall stewardship of the Company, rather than being actively involved in its daily operations. They are entitled, in the exercise of their business judgment, to delegate to management the powers to manage the business and affairs of the corporation although the main decision-making powers in the Company belong to the Board. The Board must be dedicated to ensuring that the corporation achieves its objectives and grows value responsibly, in a profitable and sustainable manner.

Duties of Directors

In carrying out their mandate, Directors are subject to two overriding duties:

- (i) *Fiduciary duty or duty of loyalty*: to act honestly and in good faith with a view to the best interest of the corporation; and
- (ii) *Duty of care*: to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Responsibilities

In fulfilling its responsibilities, the Board is, among other matters, responsible for the following:

- Selecting, appointing, evaluating and, if necessary, terminating the Chief Executive Officer (“CEO”);
- On an annual basis formally re-appoint the Officers and Directors, including the CEO, following the annual meeting of shareholders
- On an ongoing basis, satisfying itself as to the integrity of the CEO and other executive officers and that the CEO and the other senior management create a culture of integrity throughout the Corporation;
- Monitoring and evaluating the performance of the CEO and the other senior management against the approved corporate goals and objectives;
- Adopting processes for succession planning, the periodic review of succession plans for the CEO and other senior management, and the appointment and monitoring of the compensation of the CEO and other senior management;
- Adopting a strategic planning process;
- Participating with management in developing and approving an annual business plan and a multi-year strategic plan that takes into account, among other things, the opportunities and risks of the business;
- Approving, on an annual basis, the corporate goals and objectives;
- Reviewing and approving material transactions not in the ordinary course of business;

- Reviewing, with management, the Corporation's financial plans;
 - Reviewing operating and financial performance results relative to established corporate goals and objectives;
 - Ensuring that it understands the principal risks of the Corporation's business, and that appropriate systems to manage these risks are implemented;
 - Ensuring that the materials and information provided by the Corporation to the Board and its committees are sufficient in their scope and content and in their timing to allow the Board and its committees to satisfy their duties and obligations;
 - Reviewing and approving the Corporation's annual and interim financial statements and related management's discussion and analysis, annual information form, annual report, and management proxy circular;
 - Approving material acquisitions and divestitures;
 - Overseeing the integrity of the Corporation's internal control and management information systems;
 - Approving any securities issuances and repurchases by the Corporation;
 - Declaring dividends, if and when appropriate;
 - Approving the nomination of directors and removal of directors;
 - Confirming that processes are in place intended to address and comply with applicable legal, regulatory, corporate, securities, and other compliance matters;
 - Approving the charters of the Board committees and approving the appointment of directors to Board committees and the appointment of the chairs of those committees;
 - Assessing its own effectiveness in fulfilling the above and other Board responsibilities, including monitoring effectiveness of individual directors;
 - Adopting a communications policy for the Corporation (including ensuring the timeliness and integrity of communications to shareholders and establishing suitable mechanisms to receive shareholder views); and
 - Developing the Corporation's approach to corporate governance, including developing a set of corporate governance principles and guidelines that are specifically applicable to the Corporation.
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