



Afexa Life Sciences Inc.



August 22, 2011

Dear Fellow Afexa Life Sciences Inc. Shareholder:

On August 10, 2011, Paladin Labs Inc. ("Paladin") announced that it was commencing an unsolicited tender offer to acquire all of the outstanding common shares of Afexa Life Sciences Inc. ("Afexa") for either cash consideration of Cdn.\$0.55 per common share of Afexa (each a "Common Share") or 0.013 of a Paladin share for each Common Share (the "Paladin Offer"). By now, you have likely received materials from Paladin asking you to tender your Common Shares to the Paladin Offer.

Your Board of Directors has carefully reviewed and considered the Paladin Offer. Based on this review, the Board has voted unanimously to recommend that you **REJECT** the Paladin Offer, **TAKE NO ACTION** and **NOT TENDER** your Common Shares to the Paladin Offer.

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

- **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.
  - The Paladin Offer gives little to no value to COLD-FX®'s new formulations and planned entry into new markets including China, Japan, Hong Kong and the United States.

- **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 has a national platform to grow existing products and launch innovative new natural preventative products into the Canadian marketplace.
  - Afexa has the national capability to manage all aspects of product commercialization from product supply, marketing, sales and distribution.
  - Afexa has launched COLDSORE-FX® into the Canadian marketplace and has a clinical pipeline of new product candidates for cholesterol reduction, supportive care for chronic lymphocytic leukemia, blood glucose management, and seasonal allergy reduction.
- **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.**
  - Paladin launched its bid for Afexa's Common Shares when they were trading at their lowest price of the year.
  - 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 "any and all" structure would allow Paladin to "sweep" any tendered Common Shares and strengthen its influence over Afexa without properly compensating all Shareholders.
  - 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.

- **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.**
  - All of Afexa's directors and officers intend to reject the Paladin Offer.

The reasons for the Board's recommendation are detailed in the Directors' Circular. We strongly encourage you to read the Directors' Circular carefully and in its entirety.

**The Board of Directors cautions Shareholders that tendering to the Paladin Offer before the Special Committee of the Board of Directors and its 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.**

We are confident that you will conclude, as we have, that the Paladin Offer is financially inadequate, fails to recognize the full value of Afexa, and is a coercive and opportunistic attempt by Paladin to acquire Afexa or an effective control position in Afexa without offering adequate consideration to Shareholders.

**For the above reasons, we urge you to REJECT the Paladin Offer and NOT TENDER your Common Shares to the Paladin Offer. If you have already tendered any of your Common Shares, you should withdraw them immediately.**

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 email address listed on the back of this letter. Georgeson is also available to respond to other enquiries regarding the information in the attached Directors' Circular.

On behalf of the Board of Directors of Afexa, we thank you for your continued support.

Sincerely,



William B. White  
Chair of the Board



John Douglas (Jack) Moffatt  
Director, President and Chief Executive Officer

Shareholders requiring advice or assistance concerning the Paladin Offer are urged to contact:

# Georgeson

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Please also visit our corporate website  
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