



Afexa Life Sciences Inc.

## EXECUTIVE SUMMARY

Paladin Labs has launched an unsolicited offer to acquire all of the outstanding common shares of the Company for either cash consideration of Cdn \$0.55 per common share or 0.013 of a Paladin share for each common share.

**The Board of Directors of Afexa recommends to Shareholders to REJECT the Paladin Offer, TAKE NO ACTION and NOT TENDER shares.**

## **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 intend to give little or no value to any component of our business, other than our Canadian COLD-FX business. The Board believes the Paladin Offer gives no value to COLD-FX's new formulations and planned entry into new markets including the 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.

## **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 and 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®

|                       | Product   | Summary Considerations  |
|-----------------------|---|---|
| National Distribution |    | <ul style="list-style-type: none"> <li>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</li> <li>COLD-FX® has generated greater retail sales than Tylenol or Advil adult cold and flu products during each of the last four years</li> <li>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</li> </ul> |
|                       |    | <ul style="list-style-type: none"> <li>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</li> <li>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</li> </ul>  |
|                       |    | <ul style="list-style-type: none"> <li>IMMUNITY-FX® has been granted an Exemption Number (EN) from Health Canada and an NPN application is pending</li> <li>Strengthens natural defenses, improves overall health and wellness and helps maintain health and wellness even during periods of stress</li> <li>Contains a patented, clinically proven ingredient, CVT-E002™, and an extract derived from the Reishi mushroom</li> </ul>   |
| Limited Distribution  |    | <ul style="list-style-type: none"> <li>REMEMBER-FX® is indicated to help temporarily restore mental alertness when experiencing fatigue</li> <li>Contains a proprietary clinically proven ingredient HT1001™</li> <li>Shown to promote nerve cell growth in-vitro</li> <li>Increases the uptake of choline into nerve terminals, which may increase the synthesis of acetylcholine (ACh), an important neurotransmitter associated with memory and cognition</li> <li>Shown to improve memory function in healthy adults and in adults with schizophrenia</li> </ul>            |
|                       |  | <ul style="list-style-type: none"> <li>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</li> <li>Rich in chondroitin sulphate, a naturally-occurring critical building block of cartilage</li> <li>Replenishes chondroitin sulphate content in the cartilage to healthy levels and stimulates synthesis of other critical cartilage building blocks, such as collagen and proteoglycan</li> </ul>  |

- The product candidate pipeline (the “Serial Developer”) business has over 230 patents issued and outstanding and over 110 trademarks on its marked product globally. Afexa has a number of products in various pre-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.

**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 Offer is opportunistic as the bid was launched when our shares were trading at their lowest price of the year. If you look at the volume weighted average price since the beginning of the year to July 15th, it is approximately \$0.50. Therefore, the Paladin offer provides only a minimal premium to Shareholders for a transaction where Paladin plans to take control of Afexa.
- The Offer is structured in a manner that is coercive and applies unfair pressure on Shareholders to accept the offer. The Paladin Offer contains no minimum tender condition, which provides no certainty of outcome and may pressure Shareholders to tender, even if they are not satisfied with the price offered.
- The “any and all” structure of the Offer allows Paladin to sweep any tendered shares and strengthen its influence over Afexa without properly compensating all Shareholders. If Paladin had the confidence that its offer price would be acceptable to the full majority of Shareholders, it could have set a minimum condition to ensure it could acquire the full company. Instead, they are simply attempting to gain at least a blocking position to gain effective control.
- Even if Shareholders elect to tender their shares in order to maintain an interest in Afexa’s business, Shareholders may not receive any of the benefits of our longer term growth strategy if Paladin abandons the prospect for development. We believe Paladin has limited experience in conducting the research and development in the areas Afexa is exploring or in commercializing proprietary natural medicines such as COLD-FX. Even if Shareholders elect to tender their shares in order to maintain an interest in Afexa’s business, Shareholders may not receive any of the benefits of our longer term growth strategy if Paladin abandons the prospect for development. We believe Paladin has limited experience in conducting the research and development in the areas Afexa is exploring or in commercializing proprietary natural medicines such as COLD-FX.

**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.**

- The Board is aggressively pursuing other value maximizing alternatives in order to identify the best opportunity for Shareholder. Afexa has been solicited by, and has initiated contact with, a number of third parties who have expressed an interest in considering alternative transactions.
- At this time, it is premature to predict whether any transaction will emerge; however, the Board believes Afexa and its assets are very attractive to other parties.
- Tendering shares to the Paladin Offer before the Board has had the opportunity to fully explore all our alternatives may preclude the possibility of a financially superior result.

## **SHAREHOLDERS: YOUR CHOICE IS CLEAR.**

- The Paladin offer is financially inadequate, plain and simple. If Paladin themselves were confident that their offer would be acceptable to the majority of Shareholders, they would have set up a minimum tender condition to ensure it would acquire the entire Company.
- The Paladin offer fails to recognize the strength and value of Afexa and the considerable potential that could result from our dedication to research, product development and commercialization.
- The Paladin Offer is nothing more than an opportunistic and coercive attempt to takeover Afexa without adequate compensation to all shareholders.

**The Board of Directors of Afexa urges Shareholders to REJECT the Paladin Offer, TAKE NO ACTION and NOT TENDER shares.**