

This document is important and requires your immediate attention. If you are in doubt as to how to respond to the Valeant 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**

**ACCEPTANCE**

**OF THE OFFER BY**

**1625907 ALBERTA LTD.,  
A WHOLLY-OWNED SUBSIDIARY OF**

**VALEANT PHARMACEUTICALS  
INTERNATIONAL, INC.**

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

**OF**

**AFEXA LIFE SCIENCES INC.**

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT  
SHAREHOLDERS**

**ACCEPT**

**THE VALEANT OFFER AND TENDER THEIR  
COMMON SHARES TO THE VALEANT OFFER**

**Notice to United States Shareholders:**

*The Valeant 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.*

September 6, 2011



## QUESTIONS AND ANSWERS ABOUT THE VALEANT OFFER

### What is Acquireco offering?

Acquireco, a wholly-owned subsidiary of Valeant, has offered to acquire all of the Common Shares of Afexa for \$0.71 per Common Share. The Valeant Offer is open for acceptance by Shareholders until 5:00 p.m. (Edmonton time) (the “**Expiry Time**”) on October 17, 2011 (the “**Expiry Date**”) and is conditional upon, among other things, acceptance by holders of at least 66 2/3% of the outstanding Common Shares on a fully-diluted basis. Full details concerning the conditions to the Valeant Offer are set out in the Valeant Circular.

### Should I accept or reject the Valeant Offer?

Your Board of Directors unanimously recommends that Shareholders accept the Valeant Offer and tender their Common Shares.

### Why should I accept the Valeant Offer?

The Board of Directors has unanimously accepted the Valeant Offer for the following reasons:

1. The Valeant Offer provides improved value to Shareholders and represents a significant premium over the consideration in the Paladin Offer.
2. Scotia Capital Inc. has delivered a written opinion stating that the consideration offered for the Common Shares under the Valeant Offer is fair, from a financial point of view, to Shareholders.
3. The Board of Directors has preserved the ability, until September 29, 2011, subject to certain conditions, to solicit and engage in discussions and negotiations with respect to potential competing Acquisition Proposals, or to engage in and maintain negotiations with respect to Acquisition Proposals. After September 29, 2011, the Board of Directors has the ability, in certain circumstances, to respond to unsolicited Superior Proposals.
4. The Board of Directors has been aggressively pursuing a variety of strategic alternatives and has determined that supporting the Valeant Offer on these terms is in the best interests of Afexa.
5. The Valeant Offer contains a 66 2/3% of the Common Shares Minimum Tender Condition.
6. All of the directors and officers of Afexa, and their associates and affiliates, have entered into Lock-Up Agreements with Acquireco.

A summary of all of the reasons for the unanimous recommendation of the Board of Directors is included on pages 1 to 2 of this Directors' Circular.

### How do I accept the Valeant Offer?

Acquireco has indicated that if you are a registered Shareholder, you can accept the Valeant Offer by, among other things, delivering to Acquireco's depository, Computershare Investor Services Inc., before the Expiry Date of the Valeant Offer: (a) the certificate(s) representing your Common Shares; (b) a letter of transmittal (printed on yellow paper) accompanying the Valeant Circular (or a manually signed photocopy thereof) properly completed and executed in accordance with the instructions set out in the letter of transmittal accompanying the Valeant Circular; and (c) all other documents required by the instructions set out in the letter of transmittal accompanying the Valeant Circular. In addition, Acquireco has indicated that if you cannot deliver all of the necessary documents to Acquireco's depository in time, you may be able to complete and deliver to Acquireco's depository the notice of guaranteed delivery (printed on pink paper) accompanying the Valeant Circular (or a manually signed photocopy

thereof), provided you are able to comply fully with its terms. See the Valeant Offer for additional instructions on accepting the Valeant Offer.

If your Common Shares are held with an investment dealer, stockbroker, bank, trust company, intermediary or other nominee, please contact such investment dealer, stockbroker, bank, trust company, intermediary or other nominee to instruct them to tender your Common Shares to the Valeant Offer.

**Can I withdraw my Common Shares if I have already tendered to the Paladin Offer?**

**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.

**How do I withdraw my Common Shares from the Paladin Offer?**

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 from the Paladin Offer.

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

**YES.** All of the directors and officers of Afexa, and their associates and affiliates, have indicated their intention to tender their Common Shares to the Valeant Offer and have signed Lock-Up Agreements with Acquireco under which they have agreed, subject to the terms thereof, to support the Valeant Offer and tender their Common Shares to the Valeant Offer.

**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  
11<sup>th</sup> Floor, South Tower  
Toronto, Ontario M5J 2Y1

North American Toll Free Number: 1-866-676-3005  
Email: [askus@georgeson.com](mailto:askus@georgeson.com)

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## **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Directors' Circular, including the discussion of the reasons for the Board of Directors' unanimous recommendation that Shareholders accept the Valeant Offer and 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 Valeant 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 as to the Valeant Offer, Afexa's ability during the 30 day "go-shop" period to find a superior proposal, the view of Afexa value, applicable government and regulatory approvals and other closing conditions, the expectations of Valeant's actions once the minimum conditions are met, changes in laws, rules and regulations applicable to Afexa, and whether or not an alternative transaction superior to the Valeant 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 lack of any superior or alternative transactions or the terms and conditions of any such transactions not being acceptable; the satisfaction or waiver of the conditions to the Valeant Offer; the extent to which holders of Common Shares determine to tender their Common Shares to the Valeant Offer or the Paladin Offer; the anticipated benefits of the Valeant Offer; and the method of funding and availability of potential alternative strategic transactions involving Afexa, including those transactions that may produce superior strategic value to Shareholders. In addition, a number of other risks are 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, ACQUIRECO AND VALEANT**

Information contained in this Directors' Circular regarding Acquireco and Valeant is based solely upon, and the Board of Directors has relied, without independent verification, exclusively upon the information contained in the Valeant Circular, provided to Afexa by Valeant, or that is otherwise publicly available. Information contained in this Directors' Circular concerning Paladin Labs Inc. is based solely upon, and the Board of Directors has relied,

without independent verification, exclusively upon information contained in the Paladin Circular, provided to Afexa by Paladin, or that is otherwise publicly available. Neither Afexa nor any of its directors or officers assumes any responsibility for the accuracy or completeness of such information or for any failure by Valeant, Acquireco or Paladin to disclose events or facts that may have occurred or may affect the significance or accuracy of any such information.

## 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 Valeant Offer:**

Acquireco, a wholly-owned subsidiary of Valeant, has offered to acquire all of the Common Shares of Afexa for \$0.71 per Common Share. The Valeant Offer is open for acceptance by Shareholders until 5:00 p.m. (Edmonton time) (the “**Expiry Time**”) on October 17, 2011 (the “**Expiry Date**”) and is conditional upon, among other things, acceptance by holders of at least 66 2/3% of the outstanding Common Shares on a fully-diluted basis. Full details concerning the conditions to the Valeant Offer are set out in the Valeant Circular.

### **Unanimous Recommendation of the Board of Directors:**

The Board of Directors unanimously recommends that Shareholders accept the Valeant Offer and tender their Common Shares to the Valeant Offer.

### **Reasons for Acceptance:**

The Board of Directors has carefully reviewed and considered the Valeant 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 accept the Valeant Offer and tender their Common Shares to the Valeant Offer.

- The Valeant Offer provides improved value to Shareholders and represents a significant premium over the consideration in the Paladin Offer.
- Scotia Capital Inc. has delivered a written opinion stating that the consideration offered for the Common Shares under the Valeant Offer is fair, from a financial point of view, to Shareholders.
- The Board of Directors has preserved the ability, until September 29, 2011, subject to certain conditions, to solicit and engage in discussions and negotiations with respect to potential competing Acquisition Proposals, or to engage in and maintain negotiations with respect to Acquisition Proposals. After September 29, 2011, the Board of Directors has the ability, in certain circumstances, to respond to unsolicited Superior Proposals.
- The Board of Directors has been aggressively pursuing a variety of strategic alternatives and has determined that supporting the Valeant Offer on these terms is in the best interests of Afexa.
- The Valeant Offer contains a 66 2/3% of the Common Shares Minimum Tender Condition.
- All of the directors and officers of Afexa, and their associates and affiliates, have entered into Lock-Up Agreements with Acquireco.

## 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 September 6, 2011, except as otherwise indicated.*

This Directors' Circular is issued by the Board of Directors of Afexa Life Sciences Inc. ("Afexa" or the "Company") in connection with the offer dated September 6, 2011 (the "Valeant Offer") by 1625907 Alberta Ltd. ("Acquireco"), a wholly-owned subsidiary of Valeant Pharmaceuticals International, Inc. ("Valeant"), to purchase all of the outstanding common shares of Afexa (the "Common Shares"), including Common Shares that may become issued and outstanding upon the exercise, exchange or conversion of any securities that are exercisable or exchangeable for or convertible into Common Shares, together with the associated rights outstanding under the Shareholder Rights Plans, for \$0.71 in cash per Common Share, upon the terms and subject to the conditions set forth in Valeant's Offer and accompanying take-over bid circular dated September 6, 2011 (the "Valeant Circular").

The Valeant Offer is being made pursuant to the terms and conditions of an acquisition support agreement dated August 30, 2011 between Afexa, Acquireco and Valeant (the "Acquisition Support Agreement"). The Valeant Offer is subject to the condition, among others, that at least 66 2/3% of the Common Shares, calculated on a fully-diluted basis, be tendered to the Valeant Offer (the "Minimum Tender Condition"). The Valeant Offer will be open for acceptance until 5:00 p.m. (Edmonton time) on October 17, 2011 (the "Expiry Time"), unless extended or withdrawn.

For a more complete description of the terms and conditions of the Valeant Offer, the method of acceptance of the Valeant Offer and other information relating to the Valeant Offer, Acquireco and Valeant, reference should be made to the Valeant Circular, the letter of transmittal and the notice of guaranteed delivery that accompany the Valeant Circular.

### BOARD OF DIRECTORS' RECOMMENDATION

**THE BOARD OF DIRECTORS OF AFEAXA UNANIMOUSLY RECOMMENDS THAT  
SHAREHOLDERS ACCEPT THE VALEANT OFFER AND  
TENDER THEIR COMMON SHARES TO THE VALEANT OFFER.**

**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.**

### ANALYSIS AND REASONS FOR ACCEPTING THE VALEANT OFFER

The Board of Directors carefully reviewed and considered the Valeant Offer and the recommendations of the special committee of independent directors (the "Special Committee") appointed by the Board of Directors in connection with the Valeant 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 Valeant Offer is in the best interests of Afexa and Afexa's Shareholders, the Board of Directors identified the following factors as being the most relevant.

- The Valeant Offer provides improved value to Shareholders and represents a significant premium over the consideration in the Paladin Offer.** The Valeant Offer represents a premium of approximately 30% to the 30-trading day volume weighted average closing price of the Common Shares on the TSX for the 30 trading days ended August 29, 2011, a premium of 49% over the closing price on August 9, 2011, the last trading day prior to the announcement of the Paladin Offer and a 29% premium to the \$0.55 cash consideration under the Paladin Bid or a 49% premium to the share consideration alternative of 0.013 of a

Paladin common share, based on the last trading day's closing price of a Paladin common share before the announcement of the execution of the Acquisition Support Agreement.

2. **Scotia Capital Inc. has delivered a written opinion stating that the consideration offered for the Common Shares under the Valeant Offer is fair, from a financial point of view, to Shareholders.**
3. **The Board of Directors has been aggressively pursuing a variety of strategic alternatives and has determined that supporting the Valeant Offer on these terms is in the best interests of Afexa.** Since first becoming aware that Paladin intended to make a bid for the Common Shares, the Board of Directors and the Special Committee, with the assistance of their financial and legal advisors, have pursued a variety of strategic alternatives, with a view to the best interests of Afexa and its Shareholders. The Special Committee and the Board of Directors carefully considered the outcome of the process, and the likelihood of any offers emerging from other bidders exceeding the value of the Valeant Offer and the Board of Directors has unanimously determined, upon the recommendation of the Special Committee, and after consultation with their financial and legal advisors, that the consideration to be offered for Common Shares pursuant to the Offer is fair to all Shareholders, that it would be in the best interests of Afexa to support and facilitate the Valeant Offer and enter into the Acquisition Support Agreement and recommend that Shareholders tender their Common Shares to the Valeant Offer.
4. **The Board of Directors has preserved the ability, until September 29, 2011, subject to certain conditions, to solicit and engage in discussions and negotiations with respect to potential competing Acquisition Proposals, or to engage in and maintain negotiations with respect to Acquisition Proposals. After September 29, 2011, the Board of Directors has the ability, in certain circumstances, to respond to unsolicited Superior Proposals.** The Acquisition Support Agreement contains a "go-shop" provision pursuant to which Afexa has the right to solicit and engage in discussions and negotiations with respect to potential competing Acquisition Proposals through the go-shop period, which ends on September 29, 2011. After the go-shop period and in accordance with the Board's fiduciary duties, the Board of Directors has the ability to consider and respond, in the circumstances described in the Acquisition Support Agreement, to unsolicited proposals from "Qualified Bidders" (as that term is further described under "Arrangements Relating to the Valeant Offer – Acquisition Support Agreement – Covenants Regarding Solicitation and Non-Solicitation"), that are or would reasonably be expected to be "Superior Proposals" that would be more favourable to Shareholders than the Valeant Offer, as may be amended by Valeant's "right to match" under the Acquisition Support Agreement. The terms of the Acquisition Support Agreement, including the termination payment payable to Valeant in connection with the termination of the Acquisition Support Agreement (in certain specified circumstances) are, in the opinion of the Board of Directors, reasonable in the circumstances and not preclusive of other proposals.
5. **The Valeant Offer contains a 66 2/3% of the Common Shares Minimum Tender Condition.** Unlike the Paladin Offer, the Valeant Offer has a minimum tender condition to ensure that if the Valeant Offer is accepted by a specified majority of Shareholders it will acquire the full company. If Acquireco takes up and pays for at least 66 2/3% of the Common Shares pursuant to the Valeant Offer, Acquireco will proceed with a transaction to acquire the remaining Common Shares not tendered under the Valeant Offer. Under the Acquisition Support Agreement, the minimum tender condition of 66 2/3% cannot be waived, decreased or increased without Afexa's consent.
6. **All of the directors and officers of Afexa, and their associates and affiliates, have entered into Lock-Up Agreements with Acquireco.** All of the directors and officers of Afexa, and their associates and affiliates, who collectively hold 7,056,512 Common Shares and 3,080,980 Options that are in the money, representing an aggregate of approximately 9.30% of the outstanding Common Shares (calculated on a fully-diluted basis), have entered into Lock-Up Agreements pursuant to which they have agreed to deposit their Common Shares, subject to the terms and conditions of such agreements, to the Valeant Offer.

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 Valeant 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 Valeant Offer carefully and should come to their own decision as to whether to accept the Valeant Offer.

### **INTENTIONS WITH RESPECT TO THE VALEANT OFFER**

Pursuant to the Lock-Up Agreements, each director and officer of Afexa who owns Common Shares or Options has agreed to accept the Valeant Offer and tender their respective Common Shares to the Valeant Offer as described under "Arrangements Relating to the Valeant Offer – Lock-Up Agreements". The Lock-Up Agreements may only be terminated in limited circumstances as described under "Arrangements Relating to the Valeant Offer – Lock-Up Agreements".

### **BACKGROUND TO THE VALEANT OFFER**

On August 23, 2011, the Board of Directors issued and later mailed to Shareholders its formal directors' circular unanimously recommending that Shareholders reject the Paladin Offer (the "Paladin Rejection Circular"). The detailed reasons for the rejection, as well as the detailed background to the Paladin Offer and the response of the Special Committee and the Board of Directors thereto, is set out in the Paladin Rejection Circular and summarized in Afexa's related news release dated August 23, 2011, copies of which are available on Afexa's website at [www.afexa.com](http://www.afexa.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

As noted in the Paladin Rejection Circular, since July 16, 2011, the Board of Directors, and upon its appointment, the Special Committee, together with Afexa's financial advisor, Scotia Capital Inc., Afexa's legal advisor, Fraser Milner Casgrain LLP and the Special Committee's legal advisor, Osler, Hoskin & Harcourt LLP, spent a considerable amount of time and effort exploring and discussing alternative value enhancing transactions that would be in the best interests of Afexa and its Shareholders.

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. Valeant and Afexa entered into a confidentiality agreement on August 16, 2011.

A meeting of the representatives of Valeant and Afexa took place on August 17, 2011, at which Valeant received a management presentation. On August 23, 2011, Afexa received a proposal from Valeant.

On August 24, 26 and 27, 2011, the Special Committee held various meetings with its legal advisors and on August 24, 2011, additionally with Afexa's financial and legal advisors to consider the Valeant proposal and to authorize further discussions and negotiations with Valeant.

Between August 26 and 30, 2011, Afexa and Valeant, together with their legal and financial advisors, negotiated a support agreement that set out the terms of the proposed transaction, including representations, warranties, conditions and transaction protection measures.

On August 29, 2011, the Special Committee met to consider the Valeant Offer, the draft support agreement and receive the financial advice of Scotia Capital Inc. and the legal advice of Afexa's legal counsel and legal

counsel to the Special Committee and to consider other factors relevant to the proposed transaction. Scotia Capital Inc. provided the Special Committee with its oral opinion (subsequently confirmed in writing to the Board of Directors) that, as of the date and subject to the assumptions, qualifications and limitations set forth therein, the consideration offered for the Common Shares under the Valeant Offer was fair, from a financial point of view, to Shareholders. After further discussion, the Special Committee concluded that the Valeant Offer is in the best interests of Afexa and its Shareholders. Subject to the satisfactory resolution of issues that remained outstanding at the time of the meeting, the Special Committee unanimously resolved to recommend to the Board of Directors that it support the Valeant Offer and recommend to Shareholders that they accept the Valeant Offer and deposit their Common Shares under the Valeant Offer.

Later that day, the Board of Directors met with Afexa's legal and financial advisors and the Special Committee's legal advisor to consider the Valeant Offer, the draft support agreement and to receive the report and recommendations of the Special Committee and to receive the financial advice of Scotia Capital Inc. and to consider other factors relevant to the proposed transaction. Scotia Capital Inc. made a presentation to the Board of Directors in respect of the proposed transaction and provided the Board of Directors with its oral opinion (subsequently confirmed in writing) that, based upon certain assumptions, qualifications and limitations set forth therein, the consideration offered for the Common Shares under the Valeant Offer was fair, from a financial point of view, to Shareholders. After further discussion, the Board of Directors unanimously determined, upon the recommendation of the Special Committee, and after consultation with their financial and legal advisors, that the consideration to be offered for Common Shares pursuant to the Valeant Offer is fair to all Shareholders, that it would be in the best interests of Afexa to support and facilitate the Valeant Offer and enter into the support agreement and recommend that Shareholders tender their Common Shares to the Offer.

The legal counsel for the respective parties continued to negotiate the terms of the support agreement during the evening of August 29, 2011 and into the morning of August 30, 2011. The Acquisition Support Agreement was signed by the parties on August 30, 2011. The directors and officers of Afexa who own Common Shares or Options also entered into Lock-Up Agreements with Acquireco effective August 30, 2011.

#### **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 including the consideration of alternative transactions. 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 is a continuing portion of a prior letter agreement between Afexa and Scotia Capital entered into in 2007.

On August 29, 2011, Scotia Capital delivered an oral fairness opinion (subsequently confirmed in writing) to the Special Committee, and subsequently 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 that date, the consideration offered for the Common Shares pursuant to the Valeant Offer was fair, from a financial point of view, to Shareholders other than Valeant.

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 Valeant Offer to Shareholders, 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.

## ARRANGEMENTS RELATING TO THE VALEANT OFFER

Except as described below or as otherwise described or referred to in this Directors' Circular, to the knowledge of the directors and officers of Afexa, there are no agreements, commitments or understandings made, or proposed to be made, between Valeant or Acquireco and, either: (i) any of the directors or officers of Afexa, including any agreement, commitment or understanding pursuant to which a payment or other benefit is proposed to be made or given by way of compensation for loss of office or as to any such person remaining in or retiring from office if the Valeant Offer is successful; or (ii) any Shareholders relating to the Valeant Offer. In this section, "Acquiring Parties" means Valeant and Acquireco.

### **Acquisition Support Agreement**

On August 30, 2011, Valeant, Acquireco and Afexa entered into the Acquisition Support Agreement, which sets out, among other things, the terms and conditions upon which Afexa agreed to recommend that Shareholders accept the Valeant Offer. The following is a summary of certain provisions of the Acquisition Support Agreement. It does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all the provisions of the Acquisition Support Agreement. The Acquisition Support Agreement has been filed by Afexa with the applicable Canadian securities regulatory authorities and is available at [www.sedar.com](http://www.sedar.com).

#### *The Valeant Offer and Support for the Valeant Offer*

Valeant and Acquireco agreed to make the Valeant Offer on the terms and subject to the conditions set forth in the Acquisition Support Agreement. Afexa has confirmed in the Acquisition Support Agreement that the Board of Directors has, following consultation with its financial and legal advisors and on receipt of unanimous recommendation of the Special Committee, unanimously determined that the Valeant Offer is in the best interests of Afexa and its Shareholders and accordingly, unanimously recommends that Shareholders accept the Valeant Offer. In addition, all of Afexa's directors and officers, and their associates and affiliates who own Common Shares or Options have entered into the Lock-Up Agreements, pursuant to which they have agreed to support the Valeant Offer.

#### *Conditions*

The Acquisition Support Agreement provides that the Valeant Offer is subject to certain conditions including, among other things, the Minimum Tender Condition. Acquireco may, under the terms of the Acquisition Support Agreement, modify or waive any term or condition of the Valeant Offer, in whole or in part at any time and from time to time, provided that Acquireco may not, without the prior written consent of Afexa, increase or decrease the Minimum Tender Condition, decrease the consideration per Common Share under the Valeant Offer, decrease the number of Common Shares in respect of which the Offer is made, change the form of consideration payable under the Offer (other than to add additional consideration) or add any condition to the Valeant Offer other than as specifically provided for in the Acquisition Support Agreement or otherwise vary the Valeant Offer (or any terms or conditions thereof) in a manner which is adverse in any way to the Shareholders.

#### *Covenants Regarding Solicitation and Non-Solicitation*

The Acquisition Support Agreement allows Afexa and its subsidiaries and their respective representatives, during the period (the "Solicitation Period") beginning on the date of the Acquisition Support Agreement and continuing until 11:59 p.m. (Edmonton time) on September 29, 2011, being the 30th day following the date of the Acquisition Support Agreement (the "Solicitation Period End Date"), acting under the direction of the Special Committee, to, directly or indirectly, engage in, enter into or maintain discussions or negotiations with respect to Acquisition Proposals (as defined below) or otherwise cooperate with or assist or participate in, or in any manner facilitate any such inquiries, proposals, discussions or negotiations, or initiate, solicit, encourage and take any other action designed to facilitate Acquisition Proposals, including by way of providing access to non-public information pursuant to (but only pursuant to) one or more confidentiality agreements that are customary in such situations and that are no less favourable in the aggregate to Afexa than the confidentiality and standstill provisions contained in

the confidentiality agreement between Afexa and Valeant and provided that Afexa shall promptly provide to the Acquiring Parties any non-public information concerning Afexa or its subsidiaries that is provided to any person given such access which was not previously provided to the Acquiring Parties.

The Acquisition Support Agreement defines an “Acquisition Proposal” to mean, other than the Valeant Offer and the transactions contemplated by the Acquisition Support Agreement, any offer, proposal, expression of interest, inquiry or announcement from any Person (other than Acquireco, Valeant and their respective affiliates) made after the date of the Acquisition Support Agreement (including any modification after the date of the Acquisition Support Agreement of any offer or proposal made prior to the date of the Acquisition Support Agreement) relating to:

- (a) any acquisition, sale or other disposition, direct or indirect, whether in a single transaction or a series of related transactions, of (i) the assets of Afexa and/or one or more of its subsidiaries that, individually or in the aggregate, constitute 20% or more of the fair market value of the consolidated assets of Afexa and its subsidiaries; or (ii) voting or equity securities, which together with other voting or equity securities beneficially owned by such Person or any Persons acting jointly or in concert with such Person, would be equal to 20% or more of any voting or equity securities of Afexa or any of its subsidiaries whose assets, individually or in the aggregate, constitute 20% or more of the fair market value of the consolidated assets of Afexa and its subsidiaries;
- (b) any take-over bid, tender offer or exchange offer for any class of voting or equity securities of Afexa;
- (c) any plan of arrangement, merger, amalgamation, consolidation, share exchange, business combination, joint venture, reorganization, recapitalization, liquidation, dissolution or other similar transaction involving Afexa or any of its subsidiaries whose assets, individually or in the aggregate, constitute 20% or more of the fair market value of the consolidated assets of Afexa and its subsidiaries; or
- (d) any public announcement of an intention to do any of the foregoing.

Subject to the terms of the Acquisition Support Agreement, Afexa has agreed, from and after the Solicitation Period End Date until the earlier of the Expiry Time or the date, if any, on which the Acquisition Support Agreement is terminated pursuant to its terms, that it shall not and shall cause its representatives to not, directly or indirectly through another Person (i) solicit, assist, initiate, invite, or knowingly encourage or facilitate (including by way of furnishing information regarding Afexa, permitting any visit or affording access to any facilities or properties, assets, books, records or other non-public information of Afexa, or entering into any form of agreement, arrangement or understanding) any inquiries, proposals or offers or other efforts or attempts that constitute or may reasonably be expected to lead to an Acquisition Proposal; or (ii) participate in any discussions or negotiations or otherwise cooperate in any way with, or assist or participate in, facilitate or encourage any effort or attempt by any other Person regarding any Acquisition Proposal or that would reasonably be expected to lead to an Acquisition Proposal.

Subject to the following paragraph, Afexa has agreed that, on the Solicitation Period End Date, it and its subsidiaries shall immediately (i) cease and cause to be terminated any solicitation, encouragement, discussion or negotiation with any Person (other than the Acquiring Parties and their respective affiliates) conducted prior to such date by Afexa or its subsidiaries or any of their respective representatives with respect to any Acquisition Proposal, and (ii) cease to provide to any Person or any of its officers, representatives, employees, advisors, or agents (other than the Acquiring Parties) with access to any information concerning Afexa and its subsidiaries and shall promptly request the return or destruction of all information provided to any third party that has entered into a confidentiality agreement with Afexa regarding any potential Acquisition Proposal and shall use commercially reasonable efforts to ensure that such requests are honoured.

The Acquisition Support Agreement provides that, notwithstanding the foregoing restrictions, if (i) Afexa receives an Acquisition Proposal from any Person at any time after the Solicitation Period End Date and prior to the Expiry Time; (ii) such Person (A) did not submit an Acquisition Proposal or engage in meaningful discussions, or negotiations, with Afexa or its representatives relating to an Acquisition Proposal at any time during the period from July 15, 2011 until the Solicitation Period End Date and was not provided access to non-public information relating to Afexa or its subsidiaries during such period, and (B) was not solicited by Afexa, its subsidiaries or their representatives at any time after July 15, 2011 (including during the period from the date of the Acquisition Support Agreement until the Solicitation Period End Date) (a Person which meets the criteria under (A) and (B) herein is hereinafter referred to as a "Qualified Bidder"); and (iii) such Acquisition Proposal did not result from a breach by Afexa, its subsidiaries or their representatives of the non-solicitation provisions under the Acquisition Support Agreement, then, subject to Afexa's compliance with the provisions of the Acquisition Support Agreement, Afexa and its representatives may (X) contact such Person solely to clarify the terms and conditions of such Acquisition Proposal, (Y) furnish information to such Person with respect to it and its subsidiaries (subject to compliance with the Acquisition Support Agreement), and (Z) participate in any discussions or negotiations regarding such Acquisition Proposal; provided that, prior to taking any action described in (X), (Y) or (Z) above, the Special Committee has determined in good faith after consultation with its financial advisors and outside legal counsel, that the failure to take such action would be inconsistent with its fiduciary duties and that such Acquisition Proposal constitutes or is reasonably expected to result in a Superior Proposal.

For purposes of the Acquisition Support Agreement, a "Superior Proposal" means a *bona fide* written Acquisition Proposal that: (a) did not result from a breach of the non-solicitation provisions of the Acquisition Support Agreement; (b) relates to the acquisition of all of the outstanding Common Shares (on a fully-diluted basis) or to the acquisition of, or a plan of arrangement, merger, business combination or similar transaction involving, all or substantially all of the consolidated assets of Afexa and its subsidiaries; (c) is reasonably likely to be completed without undue delay, taking into account all financial, legal, regulatory and other aspects of such Acquisition Proposal and the Person making such Acquisition Proposal; (d) is not subject to any due diligence and/or access condition that would allow greater access to the books, records or personnel of Afexa or its subsidiaries than was made available to the Acquiring Parties prior to the date of the Acquisition Support Agreement; (e) is not subject to any financing condition and which the Board of Directors has determined in good faith is either fully funded or is subject to adequate arrangements which have been made to ensure that the required funds will be available to effect payment in full for all of the Common Shares or assets, as applicable, to be acquired pursuant thereto; (f) in respect of which the Board of Directors determines, in its good faith judgment, after receiving the advice of its outside legal and financial advisors, that (i) failure to recommend such Acquisition Proposal to the holders of Common Shares would be inconsistent with its fiduciary duties under applicable Law; and (ii) having regard to all of its terms and conditions, such Acquisition Proposal, would, if consummated in accordance with its terms, result in a transaction more favourable to the holders of Common Shares from a financial point of view than the Valeant Offer.

Afexa has also agreed that:

- (a) from and after the date of the Acquisition Support Agreement, it will as soon as possible (and in any event within twenty-four (24) hours) provide to the Acquireco the names of all parties with whom Afexa or its Representatives have signed confidentiality agreements after the date of the Acquisition Support Agreement in relation to Acquisition Proposals, together with copies of any Acquisition Proposals submitted by such parties;
- (b) from and after the Solicitation Period End Date, it will as soon as possible (and in any event, within twenty-four (24) hours) notify the Acquiring Parties, at first orally and thereafter in writing, of any Acquisition Proposal (including, for greater certainty, amendments to Acquisition Proposals received prior to the Solicitation Period End Date) received by Afexa after the Solicitation Period End Date, any inquiry received by Afexa after the Solicitation Period End Date that would reasonably be expected to lead to an Acquisition Proposal, or any request received by Afexa after the Solicitation Period End Date for non-public information relating to Afexa or any of its subsidiaries in connection with an Acquisition Proposal or for access to the properties, books or records of Afexa or any of its subsidiaries by any Person that informs Afexa that it is considering

making an Acquisition Proposal, including a copy of any such Acquisition Proposal, inquiry or request for information, the identity of the Person making the proposal, inquiry or request, and offer to provide such other details of the Acquisition Proposal as the Acquiring Parties may reasonably request; and

- (c) it will keep the Acquiring Parties reasonably informed of the status and details (including material amendments) of any such Acquisition Proposal, inquiry or request for information.

Afexa has further agreed that, except as expressly permitted by the Acquisition Support Agreement, neither the Board of Directors nor any committee thereof shall, (i) withdraw, modify, qualify or change in a manner adverse to the Acquiring Parties, or publicly propose to withdraw, modify, qualify or change in a manner adverse to the Acquiring Parties, the approval, recommendation or declaration of advisability of the Board of Directors of the Valeant Offer or the transactions contemplated by the Acquisition Support Agreement; (ii) approve, endorse or recommend or publicly propose to approve, endorse or recommend any Acquisition Proposal other than the Valeant Offer; (iii) enter into any letter of intent, memorandum of understanding, agreement in principle, acquisition agreement, merger agreement or similar agreement or understanding (an "Acquisition Agreement") with respect to any Acquisition Proposal; or (iv) enter into any agreement, arrangement or understanding requiring Afexa to abandon, terminate or fail to consummate the Valeant Offer or providing for the payment of any break, termination or other fees or expenses to any Person in the event that Afexa or any of its subsidiaries completes the transactions contemplated by the Acquisition Support Agreement, or any other transaction with the Acquiring Parties or any of their respective affiliates.

#### *Superior Proposal and Acquireco Opportunity to Match*

Notwithstanding the restrictions described in the immediately preceding paragraph, in the event an Acquisition Proposal that, based on a determination of the Board of Directors supported by the Special Committee after consultation with its financial advisors and legal counsel, is a Superior Proposal, is received (i) after the date hereof and on or prior to the Solicitation Period End Date from any Person and such Person has submitted a binding Acquisition Proposal on or prior to the Solicitation Period End Date; or (ii) following the Solicitation Period End Date from a Qualified Bidder, then the Board of Directors may, prior to the Expiry Time, withdraw or modify, qualify or change its approval or recommendation of the Valeant Offer in a manner adverse to the Acquiring Parties and/or approve or recommend such Superior Proposal or enter into an Acquisition Agreement with respect to such Superior Proposal but only if:

- (a) Afexa has given written notice to the Acquiring Parties that it has received such Superior Proposal and that the Board of Directors has determined that it intends to enter into an Acquisition Agreement with respect to such Acquisition Proposal and withdraw, modify, qualify or change in a manner adverse to the Acquiring Parties its approval or recommendation of the Valeant Offer, in each case promptly following the making of such determination, together with the identity of the Person making the Superior Proposal, a copy of the Acquisition Proposal, a summary of the material terms of any proposed Acquisition Agreement or other agreement relating to such Superior Proposal (together with a copy of such agreement and any ancillary agreements) to be executed with the Person making such Superior Proposal and a summary of the value and financial terms that the Board of Directors has, after consultation with its financial advisors and outside legal counsel, determined should be ascribed to any non-cash consideration offered under such Superior Proposal;
- (b) a period of five business days (such period being the "Notice Period") shall have elapsed from the date the Acquiring Parties received the notice referred to in paragraph (a) above together with the summary of material terms, copies of agreements and summary of value and financial terms, and during the Notice Period, (i) Afexa shall provide the Acquiring Parties with such other information regarding such Superior Proposal as the Acquiring Parties may reasonably request and (ii) the Acquiring Parties shall have the right, but not the obligation, to propose to amend the terms of the Acquisition Support Agreement and the Valeant Offer;

- (c) Afexa and its representatives have negotiated in good faith with the Acquiring Parties during the Notice Period so that the Acquiring Parties may propose any amendments to the Acquisition Support Agreement and the Valeant Offer that cause such Acquisition Proposal to no longer constitute a Superior Proposal; and
- (d) such Acquisition Proposal did not result from a breach of the non-solicitation restrictions contained in the Acquisition Support Agreement by Afexa or its subsidiaries or their representatives.

The Acquisition Support Agreement provides that the Board of Directors will review in good faith any offer made by the Acquiring Parties to amend the terms of the Acquisition Support Agreement and the Valeant Offer in order to determine, as part of exercising its fiduciary duties, and in consultation with its financial advisors and outside legal counsel, whether any such amendments proposed by the Acquiring Parties would, upon acceptance, result in the Acquisition Proposal previously constituting a Superior Proposal ceasing to be a Superior Proposal (and whether it will withdraw, modify, qualify or change its recommendation in favour of the Acquiring Parties). If the Board of Directors determines that the Acquisition Proposal would cease to be a Superior Proposal as a result of the amendments proposed by the Acquiring Parties, Afexa must accept the offer by the Acquiring Parties to amend the terms of the Acquisition Support Agreement and the Valeant Offer. If the Board of Directors continues to believe in good faith, after consultation with its financial advisors and outside legal counsel, that the Acquisition Proposal remains a Superior Proposal and therefore rejects the Acquiring Parties' offer to amend the Acquisition Support Agreement and the Valeant Offer, if any, then Afexa may, subject to compliance with the other provisions of the Acquisition Support Agreement, including payment of the Termination Fee described below, terminate the Acquisition Support Agreement to enter into an Acquisition Agreement in respect of such Superior Proposal.

The Acquisition Support Agreement requires the Board of Directors to promptly reaffirm its recommendation in favour of the Acquiring Parties by press release after: (i) any Acquisition Proposal that the Board of Directors determines not to be a Superior Proposal is publicly announced or made; or (ii) the Board of Directors, following a proposal by the Acquiring Parties to amend the terms of the Acquisition Support Agreement and the Valeant Offer, makes the determination that an Acquisition Proposal which previously constituted a Superior Proposal has ceased to be a Superior Proposal.

#### *Termination*

The Acquisition Support Agreement may be terminated prior to the time that Acquireco first takes up Common Shares validly deposited under the Valeant Offer in accordance with the Acquisition Support Agreement (the "Effective Time") or such other time as may be expressly stipulated in any of the following paragraphs:

- (a) by mutual consent of Valeant and Afexa;
- (b) by Valeant if:
  - (i) Afexa is in default of any of its non-solicitation covenants or obligations in the Acquisition Support Agreement;
  - (ii) Afexa has materially breached any other covenant or obligation under the Acquisition Support Agreement; or
  - (iii) any representation or warranty of Afexa:
    - A. that is qualified by reference to a Material Adverse Effect shall be untrue or incorrect in any respect;
    - B. that is qualified by reference to materiality shall be untrue or incorrect in any respect; or

C. that is not qualified by reference to a Material Adverse Effect or materiality shall be untrue or incorrect in any material respect,

subject to applicable cure periods in respect of any such breach or failure;

- (c) by Valeant if the Board of Directors or any committee thereof withdraws, amends or modifies in any manner adverse to Acquireco, or the Board of Directors fails to publicly recommend or reaffirm its approval of the Valeant Offer and recommendation that Shareholders tender all of the Common Shares under the Valeant Offer within three business days of (i) the public announcement of any Acquisition Proposal that the Board of Directors has determined is not a Superior Proposal or (b) the written request by Acquireco that the Board of Directors make such a recommendation or reaffirmation, or the Board of Directors shall have recommended that the Shareholders deposit their Common Shares under, vote in favour of or otherwise accept an Acquisition Proposal;
- (d) by Afexa if any representation or warranty of the Acquiring Parties under the Acquisition Support Agreement is untrue or incorrect in any material respect and such failure of a representation or warranty to be so true and correct would prevent or materially delay consummation of the transactions contemplated by the Acquisition Support Agreement, subject to applicable cure periods in respect of any such breach or failure;
- (e) by Afexa in order to accept, approve, recommend or enter into a binding written agreement (other than a permitted confidentiality agreement) with respect to a Superior Proposal, the whole in accordance with and without any breach of the non-solicitation provisions under the Acquisition Support Agreement;
- (f) by either Afexa or Valeant if the Expiry Date does not occur on or prior to the date that is 150 days after the date of the Valeant Offer (subject to extension pursuant to the provisions of the Acquisition Support Agreement to a date that is no later than 270 days from the date of the Acquisition Support Agreement in the event the Valeant Offer is delayed by an injunction or order made by a court or regulatory authority of competent jurisdiction), provided that the failure of the Expiry Date to so occur is not the result of the breach of a representation, warranty or covenant by the Party terminating this Agreement and provided further that Afexa may only terminate the Acquisition Support Agreement pursuant to this right of termination if Acquireco has not waived the unsatisfied conditions and publicly announced its intention to take up and pay for Common Shares that have been deposited pursuant to the Valeant Offer;
- (g) by either Afexa or Valeant if the Valeant Offer terminates, expires or is withdrawn at the Expiry Time without Acquireco taking up and paying for any of the Common Shares as a result of the failure of any condition to the Valeant Offer to be satisfied or waived, unless the failure of such condition shall be due to the failure of the party seeking to exercise this right of termination to perform the obligations required to be performed by it under the Acquisition Support Agreement;  
or
- (h) by either Afexa or Valeant if any applicable law makes the making or completion of the Valeant Offer or the transactions contemplated by the Acquisition Support Agreement illegal or otherwise prohibited.

#### *Termination Fees*

Acquireco shall be entitled to receive a cash termination payment from Afexa in an amount equal to \$3,750,000 upon the occurrence of any of the following events, which shall be paid by Afexa within the time specified in respect of any such events:

- (a) the Acquisition Support Agreement is terminated in the circumstances set out in paragraphs (b) or (c) under “Termination” above (provided that, in the case of subparagraphs (b)(iii)(B) and (b)(iii)(C) the failure of such representation or warranty to be true or correct has either individually or in the aggregate with any other such representations being untrue or incorrect caused or reasonably would be expected to cause a Material Adverse Effect), in which case the Termination Fee shall be paid to Acquireco within three business days after the Acquisition Support Agreement is terminated;
- (b) Afexa proposes to terminate the Acquisition Support Agreement pursuant to paragraph (e) under “Termination above (acceptance of Superior Proposal), in which case the Termination Fee shall be paid to Acquireco concurrently with the earliest of accepting, recommending or approving or entering into of any definitive agreement relating to, a Superior Proposal; or
- (c) if prior to the Expiry Time, an Acquisition Proposal is publicly announced or any Person has publicly announced an intention to make an Acquisition Proposal, and such Acquisition Proposal has not expired, been withdrawn or been publicly abandoned, and (A) the Valeant Offer is not completed as a result of the Minimum Tender Condition not having been met, and (B) an Acquisition Proposal is consummated within nine months of the termination of the Acquisition Support Agreement, in which case the Termination Fee shall be paid to Acquireco concurrently with the consummation of such Acquisition Proposal.

#### *Representations and Warranties*

The Acquisition Support Agreement contains customary representations and warranties of Afexa relating to matters that include, among other things, organization and qualification, authority relative to the Acquisition Support Agreement, no violations, capitalization, ownership of subsidiaries, reporting status and securities law matters, financial statements, internal controls and financial reporting, books and records, minute books, consents and approvals, no undisclosed liabilities, absence of certain changes, litigation, taxes, assets and property, material contracts, permits, environmental matters, compliance with laws, employment matters, related party transactions, restrictions on business activities, brokers, insurance, intellectual property, customers, suppliers and relationships, no cultural activities, no disagreements with auditors, data and information, bankruptcy and insolvency matters, transaction expenses, governmental authorization, corrupt practices legislation, and tests and preclinical and clinical studies.

The Acquisition Support Agreement also contains customary representations and warranties of the Acquiring Parties relating to matters that include, among other things, authority relative to the Acquisition Support Agreement, organization, governmental authorization, no violations, ownership of shares, residency, foreign investment legislation, sufficient funds, litigation, other agreements, no agreement with Shareholders, no collateral benefit, and securities authority waivers.

#### *Conduct of Business by Afexa*

Afexa has agreed in the Acquisition Support Agreement that, during the period from the date of the Acquisition Support Agreement until the earlier of the Effective Time and the time that the Acquisition Support Agreement is terminated in accordance with its terms, except as otherwise expressly contemplated or permitted by the Acquisition Support Agreement or to the extent otherwise expressly consented to by Acquireco or Valeant in writing (which consent shall not be unreasonably withheld or delayed), Afexa shall, and shall cause each of its subsidiaries to, conduct its business in the ordinary course of business consistent with past practice, and use commercially reasonable efforts to maintain and preserve their business organization, assets, employees, goodwill and business relationships.

### *Board Representation*

Following the Effective Date, provided that Acquireco has taken-up and paid for such number of Common Shares equal to or in excess of 66 2/3% of the outstanding Common Shares on a fully-diluted basis and from time to time thereafter, Acquireco shall be entitled to designate a number of directors of the Board of Directors, and any members of committees thereof, determined on a *pro rata* basis based on the proportion of the Common Shares on a fully-diluted basis then held or controlled by Acquireco, such number of directors or members of committees rounded up to the nearest whole number, and Afexa will not frustrate the attempts of Acquireco to do so and covenants to co-operate with Acquireco, subject to applicable Law, to enable the designees of Acquireco to be elected or appointed to the Board of Directors, and any committees thereof and to constitute the applicable percentage of directors or members of committees, including, without limitation, at the request of Acquireco, by using its reasonable commercial efforts to increase the size of the Board of Directors and reasonable commercial efforts to secure the resignations of such directors as Acquireco may request.

### *Directors' and Officers' Insurance*

The Acquiring Parties have agreed that, subject to certain limitations with respect to the maximum cost of annual premiums, for the period from the Effective Time until six years after the Effective Time, Acquireco will cause Afexa or any successor to Afexa to maintain Afexa's current directors' and officers' insurance policy or an equivalent policy, on a "trailing" or "run-off" basis, subject in either case to terms and conditions no less advantageous to the directors and officers of Afexa and its subsidiaries than those contained in the policy in effect on the date of the Acquisition Support Agreement, for all present and former directors and officers of Afexa and its subsidiaries, covering claims made prior to or within six years after the Effective Time. Afexa may, in the alternative, prior to the Effective Time purchase, either as an extension to the current insurance policies of Afexa and its subsidiaries or as a new policy, pre-paid non-cancellable run off directors' and officers' liability insurance for a period of up to six years from the Effective Time providing such coverage for all present and former directors and officers of Afexa and its subsidiaries on terms comparable to those contained in the current insurance policies of Afexa and its subsidiaries and at a cost that does not exceed market rates for such pre-paid non-cancellable run off directors' and officers' liability insurance for companies of similar size and profile.

The Acquiring Parties and Afexa have agreed that all rights to indemnification and exculpation from liabilities and rights to advancement of expenses relating thereto existing in favour of each present and former director, officer and employee of Afexa and its subsidiaries (each, an "Indemnified Party") as provided in the articles of incorporation or by-laws or constating documents of Afexa or any of its subsidiaries or by contracts or agreements between the Indemnified Parties and Afexa or any of its subsidiaries shall survive the Effective Time and shall continue in full force and effect and without modification, and Acquireco and Valeant shall cause Afexa (or its successors), and any of its subsidiaries (including any successors thereto), to honour such rights of indemnification, exculpation and rights to advancement of expenses with respect to acts or omissions of the Indemnified Parties occurring prior to the Effective Time.

### *Shareholder Rights Plans*

Afexa and the Board of Directors have agreed to (i) take all action necessary to waive the application of the Shareholder Rights Plans to the Valeant Offer and the transactions contemplated in the Acquisition Support Agreement immediately prior to the Expiry Time or earlier if so requested in writing by Acquireco and to ensure that the Shareholder Rights Plans do not interfere with or impede the success of the Valeant Offer or the transactions contemplated in the Acquisition Support Agreement, and (ii) take no action to waive the application of the Shareholder Rights Plans to any Acquisition Proposal other than the transactions contemplated in the Acquisition Support Agreement.

### *Treatment of Outstanding Options*

Acquireco and Afexa have agreed that:

- (a) between the date of the Acquisition Support Agreement and the date Acquireco first takes up Common Shares pursuant to the Valeant Offer (the "Take-Up Date"), each holder of vested outstanding options to purchase Common Shares ("Options") granted under or otherwise subject to Afexa's Stock Option Plan shall be entitled to exercise such Options, in accordance with their terms, and thereby acquire Common Shares;
- (b) between the date of the Acquisition Support Agreement and the Take-Up Date, subject to the terms of Afexa's Option Retention Plan and Stock Option Plan and the receipt of any necessary approvals and to applicable securities laws, Afexa shall take such actions as may be necessary or desirable, including amending the terms of the Option Retention Plan to provide that all unvested Options having an exercise price higher than or equal to the price per Common Share under the Valeant Offer shall be surrendered or cancelled;
- (c) all unvested Options having an exercise price lower than the price per Common Share under the Valeant Offer shall be accelerated in accordance with the terms of the Stock Option Plan and the Board of Directors shall consent to such acceleration, in each case solely for the purpose of tendering the underlying Common Shares to the Valeant Offer;
- (d) all Options tendered to Afexa for exercise, surrender or cancellation, conditional upon Acquireco taking up the Common Shares under the Valeant Offer (a "Conditional Option Exercise"), shall be deemed to have been exercised or surrendered immediately prior to the take-up of the Common Shares by Acquireco;
- (e) Acquireco shall accept as validly tendered under the Offer all of the Common Shares to be issued pursuant to the Conditional Option Exercise, provided that the holders of such Options confirm to Afexa and Acquireco that such Common Shares are tendered pursuant to the Valeant Offer and provided that such holders have irrevocably agreed to surrender any of their remaining Options to Afexa for cancellation effective on the Take-Up Date;
- (f) Afexa shall resolve prior to the Effective Time that all Options remaining and not exercised at the Effective Time shall be terminated for no consideration, which termination shall not require the consent of any holders of Options;
- (g) Afexa will use commercially reasonable efforts to allow all outstanding Options to be either exercised, terminated, surrendered, cancelled or to expire prior to Take-Up Date, provided that, except as provided in paragraphs (a) to (f) above, Afexa shall not pay any amount to the holders of Options having an exercise price equal to or in excess of the price per Common Share under the Valeant Offer without the prior approval of Acquireco, and Afexa shall not grant any additional Options or other rights to purchase or acquire Common Shares, or make any amendments to outstanding Options without the prior written consent of Acquireco;
- (h) between the date of the Acquisition Support Agreement and the Take-Up Date, subject to the terms of Afexa's RSU Plan and DSU Plan and the receipt of necessary approvals and to applicable securities laws, Afexa shall take such actions as may be necessary or desirable, including amending Afexa's RSU Plan and DSU Plan, to provide that all RSUs and DSUs vest and, in accordance with the terms of the RSU Plan and the DSU Plan, respectively, are settled in cash no later than the Effective Time; and
- (i) except to the extent specifically contemplated in the Acquisition Support Agreement, Afexa may not amend its Stock Option Plan, RSU Plan, DSU Plan, Bonus Retention Plan or Option Retention Plan, or make any additional grants or modify any existing grants under any of such plans, without the prior approval of Acquireco, which shall not be unreasonably withheld or delayed.

## **Lock-Up Agreements**

Effective on August 30, 2011, Acquireco entered into lock-up agreements (each a “Lock-Up Agreement” and collectively, the “Lock-Up Agreements”) with all of the directors and officers of Afexa, and their associates and affiliates who own Common Shares or Options (each a “Locked-Up Shareholder” and collectively, the “Locked-Up Shareholders”). Each Lock-Up Agreement sets forth, among other things, the terms and conditions upon which each Locked-Up Shareholder has agreed, among other things, to deposit under the Valeant Offer all of the Common Shares beneficially owned by such Locked-Up Shareholder. The following is a summary of the principal terms of the Lock-Up Agreements. This summary is qualified in its entirety by the full text of the Lock-Up Agreements filed with the applicable Canadian securities regulatory authorities which are available at [www.sedar.com](http://www.sedar.com).

Each Lock-Up Agreement is terminated automatically if the Acquisition Support Agreement is terminated. In addition each Lock-Up Agreement shall terminate by mutual consent of the parties or by the Locked-Up Shareholder if the Locked-Up Shareholder’s Common Shares have not been taken up and paid for by Acquireco by the date that is 150 days after the date of the Valeant Offer (subject to extension pursuant to the provisions of the Acquisition Support Agreement to a date that is no later than 270 days from the date of the Acquisition Support Agreement in the event the Valeant Offer is delayed by an injunction or order made by a court or regulatory authority of competent jurisdiction).

The Locked-Up Shareholders collectively hold 7,056,512 Common Shares and 3,080,980 Options that are in the money representing an aggregate of approximately 9.30% of the outstanding Common Shares (calculated on a fully diluted basis). The Locked-Up Shareholders have agreed not to withdraw such Common Shares from the Valeant Offer unless the Lock-Up Agreements are terminated in accordance with their terms.

## **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<sup>®</sup>, 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<sup>®</sup>, is designed to aid in the prevention and relief of colds and flu by strengthening the immune system. COLD-FX<sup>®</sup> 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).

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](http://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 September 6, 2011 there were 103,171,926 Common Shares and no Preferred Shares issued and outstanding. As of September 6, 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 29, 2011, the last trading day of the Common Shares prior to the public announcement of the execution of the Acquisition Support Agreement, the closing price of the Common Shares on the TSX was \$0.58.

### **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.

For Afexa’s covenants with respect to the Shareholders Rights Plans in the Acquisition Support Agreement please see “Arrangements Relating to the Valeant Offer – Acquisition Support Agreement – Shareholder Rights Plans”.

### **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 September 6, 2011.

<b>Name and Position</b>	<b>Number and Percentage of Common Shares Beneficially Owned or Controlled<sup>(2)</sup></b>	<b>Number and Percentage of Options to Acquire Common Shares<sup>(3)</sup></b>	<b>Number and Percentage of RSUs<sup>(4)</sup></b>	<b>Number and Percentage of DSUs<sup>(5)</sup></b>
Maurice (Ted) Bilyea Director	49,000 0.05%	--	--	169,015 25.44%
Robert Church Director	138,245 <sup>(6)</sup> 0.13%	--	--	56,232 8.46%
Allan Cleiren Chief Financial Office and Senior Vice President Operations	71,451 <sup>(7)</sup> 0.07%	720,000 10.72%	--	--
Douglas Gilpin Director	--	--	--	121,410 18.27%
Annalisa King Director	6,000 <sup>(8)</sup> 0.006%	--	--	--
Lei Ling Vice President, Product Development	132,800 0.13%	105,000 1.56%	--	--
G. Warren Michaels Vice President, Communications	69,851 0.07%	105,000 1.56%	150,000 9.77%	--
Jack Moffatt President and Chief Executive Officer and a Director	197,437 0.19%	1,000,000 14.89%	960,775 62.57%	--
Michael Obert Chief Legal Officer and Senior Vice President Corporate Development	25,852 0.03%	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%
Jacqueline Shan Chief Scientific Officer	6,122,674 <sup>(9)</sup> 5.93%	424,664 6.32%	424,664 27.66%	--
Sharla Sutherland Vice President, Scientific & Regulatory Affairs	13,202 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%

<b>Name and Position</b>	<b>Number and Percentage of Common Shares Beneficially Owned or Controlled<sup>(2)</sup></b>	<b>Number and Percentage of Options to Acquire Common Shares<sup>(3)</sup></b>	<b>Number and Percentage of RSUs<sup>(4)</sup></b>	<b>Number and Percentage of DSUs<sup>(5)</sup></b>
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 September 6, 2011, there were 103,171,926 Common Shares outstanding.
- (3) As of September 6, 2011, there were options to acquire up to 6,707,914 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 September 6, 2011, there were 1,535,439 RSUs 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 September 6, 2011, there were 664,391 DSUs 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.
- (9) Includes 134,099 Common Shares held by the RRSP of Yuejiun Eugene Yang, the spouse of Jacqueline Shan.

### PRINCIPAL HOLDERS OF SECURITIES OF AFEAXA

To the knowledge of the directors and officers of Afexa, after reasonable inquiry, as at September 6, 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 AFEAXA

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.

### ISSUANCES OF SECURITIES OF AFEAXA

No Common Shares, or 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.

<b>Name</b>	<b>Nature of Issue</b>	<b>Date of Issue</b>	<b>Number of Common Shares / Options</b>	<b>Issue / Exercise Price per Common Share (\$)</b>
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

<b>Name</b>	<b>Nature of Issue</b>	<b>Date of Issue</b>	<b>Number of Common Shares / Options</b>	<b>Issue / Exercise Price per Common Share (\$)</b>
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 VALEANT OR ACQUIRECO BY DIRECTORS AND OFFICERS OF AFEA**

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 Valeant or Acquireco.

#### **RELATIONSHIP BETWEEN VALEANT AND ACQUIRECO AND DIRECTORS, OFFICERS AND SHAREHOLDERS OF AFEA**

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 the Valeant Offer is successful) has been made or is proposed to be made between Valeant or Acquireco and any of the directors or officers of Afexa. None of the directors or officers of Afexa is a director or officer of Valeant or Acquireco 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 Valeant or Acquireco is a party.

Under the terms of the Acquisition Support Agreement, upon the request of Acquireco, Afexa will use its commercially reasonable efforts to assist Valeant or Acquireco in obtaining lock-up agreements, substantially similar to the Lock-up Agreements, from Shareholders holding more than 1,000,000 Common Shares.

Except as disclosed herein, 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 Valeant or Acquireco and any Shareholder relating to the Valeant Offer other than the Lock-up Agreements.

#### **ARRANGEMENTS BETWEEN AFEA 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 Valeant 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.

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.

Under the terms of an amended and restated contract of employment between Jack Moffatt and Afexa, under which he will no longer be an officer, but will act in an advisory capacity, and which is effective from October 1, 2011 to September 30, 2012, there is no change of control clause.

## Afexa’s Stock Option Plan

As of September 6, 2011, the employees and officers of Afexa held options (the “Options”) granted under the stock option plan of Afexa (the “Stock Option Plan”) to purchase up to 6,707,914 Common Shares in the aggregate, 2,335,921 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 \$0.67 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, 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. 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, 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 Relating to the Valeant Offer - Acquisition Support Agreement – Treatment of Outstanding Options”, all unvested Options having an exercise price equal to or higher than \$0.71 shall be surrendered or cancelled and all unvested Options having an exercise price lower than \$0.71 will vest and thereafter be exercisable solely in order to tender or exchange the Common Shares received by such Optionee upon such exercise to the Valeant 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 Valeant Offer are satisfied and Acquireco takes up and pays for the Common Shares and then upon the termination of 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 and pursuant to the Acquisition Support Agreement, all settlements will be in cash.

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 and pursuant to the Acquisition Support Agreement, all settlements will be in cash.

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 Valeant Offer are satisfied and Acquireco takes up and pays for the Common Shares, a change of control as defined in the Restricted Share Unit Plan will have been deemed to have occurred. 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 from Paladin on July 15, 2011, 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 (the "Bonus Retention Plan"). If the conditions in the Valeant Offer are satisfied and Acquireco 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.

In addition, in connection with the Board's determination that unvested Options under the Stock Option Plan shall not vest in respect of the Paladin Offer, 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 a take-over bid or an unsolicited transaction. All employees with unvested Options, including officers, are eligible for these payments (the "Option Retention Plan"). 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. However, employees will not be eligible for such payments in connection with the Valeant Offer, as all unvested Options having an exercise price lower than \$0.71 will vest in accordance with the terms of the Stock Option Plan and the Common Shares issued on the exercise of the Options must be tendered to the Valeant Offer in accordance with the terms of the Stock Option Plan. In addition, all unvested Options having an exercise price equal to or higher than \$0.71 will be surrendered or cancelled. For further information, please see "Arrangements Relating to the Valeant Offer - Acquisition Support Agreement – Treatment of Outstanding Options".

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.

#### **Interests of Directors, Officers and Others in Material Transactions**

As of September 6, 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 AFEAXA**

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 the Valeant Offer.

#### **ALTERNATIVES TO THE VALEANT OFFER**

Except as set forth in this Directors' Circular, there are no transactions, Board of Directors' resolutions, signed 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 Valeant Offer that could have one or more of the effects specified in the preceding paragraph and as further provided under "Arrangements Relating to the Valeant Offer – Acquisition Support Agreement – Covenants Regarding Solicitation and Non-Solicitation". 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 principle relating thereto has been reached or as otherwise may be required by law.

#### **OTHER PERSONS RETAINED IN CONNECTION WITH THE VALEANT OFFER**

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

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 Valeant 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 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.

**CONSENT OF SCOTIA CAPITAL INC.**

We hereby consent to the references to the opinion dated August 30, 2011 of our firm in the cover letter to the circular of the Board of Directors of Afexa Life Sciences Inc. dated September 6, 2011 (the "Directors' Circular"), to references to the foregoing opinion in the Directors' Circular under the captions "Questions and Answers About the Valeant Offer, "Summary", "Analysis and Reasons for Accepting the Valeant Offer", "Background to the Valeant Offer" and "Opinion of Financial Advisor" and to the inclusion of the foregoing opinion in the Directors' Circular.

Dated the 6 day of September, 2011.

**SCOTIA CAPITAL INC.**

By:

*Scotia Capital Inc.*

**CERTIFICATE**

DATED: September 6, 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**  
**Chair of the Board**



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

## 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).

“Acquireco” means 1625907 Alberta Ltd., a corporation existing under the ABCA.

“Acquisition Support Agreement” means the acquisition support agreement dated August 30, 2011 among Afexa, Acquireco and Valeant.

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

“affiliate” has the meaning ascribed thereto in the *Securities Act* (Alberta).

“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 and the Valeant Offer.

“Governmental Entity” means any applicable: (a) multinational, federal, provincial, state, regional, municipal, local or other government, governmental or public department, central bank, court, minister, tribunal, arbitral body, commission, commissioner, board, bureau or agency, domestic or foreign; (b) subdivision, agent, commission, board or authority of any of the foregoing; (c) quasi-governmental or private body, including any tribunal, commission, regulatory agency or self-regulatory organization, exercising any regulatory, expropriation or taxing authority under or for the account of any of the foregoing; or (d) stock exchange.

“Lock-Up Agreement” means each of the lock-up agreements between Acquireco and all of the directors and officers of Afexa who own Common Shares or Options, and their respective associates and affiliates, and “Lock-Up Agreements” means all such agreements, collectively.

“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.

“Paladin Rejection Circular” means the directors’ circular of the Board of Directors, dated August 22, 2011 unanimously recommending that Shareholders reject the Paladin Offer.

“Person” includes an individual, partnership, association, body corporate, trustee, executor, administrator, legal representative, government (including any Governmental Entity) or any other entity, whether or not having legal status.

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

“Shareholder Rights Plans” means the New Shareholder Rights Plan and the Existing Shareholder Rights Plan.

“Shareholders” means the holders of the Common Shares.

“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.

“Valeant” means Valeant Pharmaceuticals International, Inc., a corporation existing under the CBCA.

“Valeant Circular” means the offer to purchase and accompanying take-over bid circular dated September 6, 2011 of Valeant and Acquireco relating to the Valeant Offer.

“Valeant Offer” means the offer made by Acquireco to acquire all of the outstanding Common Shares and any associated rights issued under the Shareholder Rights Plans for \$0.71 in cash for each Common Share.

**SCHEDULE B**  
**OPINION OF SCOTIA CAPITAL**

**Scotia Capital Inc.**  
Scotia Plaza  
40 King Street West  
Box 4085, Station "A"  
Toronto, Ontario  
Canada M5W 2X6



August 30, 2011

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

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

We understand that Afexa Life Science Inc. (the “Company”) is considering a transaction whereby Valeant Pharmaceuticals International, Inc. (the “Acquirer”), will acquire all of the outstanding common shares (the “Shares”) of the Company by way of a take-over bid (the “Transaction”). Pursuant to the terms of the agreement to be entered into by the Company and the Acquirer (the “Agreement”), holders of the Shares will receive C\$0.71 in cash per Share (the “Consideration”). The terms of the Agreement relating to the proposed transaction are to be more fully described in a disclosure document, which will be mailed to the shareholders of the Company (the “Disclosure Document”).

**Background and Engagement of Scotia Capital**

Scotia Capital was retained by the Board of Directors of the Company on July 15, 2011 pursuant to an engagement letter (the “Engagement Agreement”) to perform such financial advisory and investment banking services for the Company as are customary in transactions of this type including assisting the Company in analyzing strategic alternatives and, if requested, structuring, negotiating and effecting a Transaction (as defined in the Engagement Agreement). The Special Committee and the Board of Directors has requested that Scotia Capital provide its opinion (the “Opinion”) as to the fairness, from a financial point of view, of the Consideration to be received by the holders of the Shares (other than the Acquirer and its affiliates) (the “Company Shareholders”). The terms of the Engagement Agreement provide that Scotia Capital is to be paid a fee for its services as financial advisor, including fees that are contingent on the completion of such transaction(s). In addition, Scotia Capital is to be reimbursed for its reasonable out-of-pocket expenses and to be indemnified in certain circumstances.

The Special Committee and the Board of Directors has not instructed Scotia Capital to prepare, and Scotia Capital has not prepared, a formal valuation of the Company or any of its securities or assets, and the Opinion should not be construed as such. Scotia Capital has, however, conducted such analyses as it considered necessary in the circumstances to prepare and deliver the Opinion.

Subject to the terms of the Engagement Agreement, Scotia Capital consents to the inclusion of the Opinion in its entirety and a summary thereof in the Disclosure Document and to the filing of the Opinion, as necessary, with the securities commissions, stock exchanges and other similar regulatory authorities in Canada.

## **Overview of Afexa Life Sciences Inc.**

The Company is a life sciences and technology corporation headquartered in Canada and engaged primarily in the research, development and commercialization of natural medicines for health maintenance and disease prevention. The Company's lead product is COLD-FX® and the Company has developed, patented and commercialized a proprietary technology, known as ChemBioPrint® ("CBP"), which it employs to discover and two-dimensionally (chemically and biologically) standardize natural health products.

## **Credentials of Scotia Capital**

Scotia Capital represents the global corporate and investment banking and capital markets business of Scotiabank Group ("Scotiabank"), one of North America's premier financial institutions. In Canada, Scotia Capital is one of the country's largest investment banking firms with operations in all facets of corporate and government finance, mergers and acquisitions, equity and fixed income sales and trading and investment research. Scotia Capital has participated in a significant number of transactions involving private and public companies and has extensive experience in preparing fairness opinions.

The Opinion expressed herein represents the opinion of Scotia Capital as a firm. The form and content of the Opinion have been approved for release by a committee of directors and other professionals of Scotia Capital, all of whom are experienced in merger, acquisition, divestiture, fairness opinion and valuation matters.

## **Relationships of Scotia Capital**

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 the Company, Acquirer or any of their respective associates or affiliates. Scotia Capital has in the past provided and may in the future provide, traditional banking, financial advisory and investment banking services to Afexa.

Scotia Capital acts as a trader and dealer, both as principal and agent, in the financial markets in Canada, the United States and elsewhere and, as such, it and Scotiabank, may have had and may have positions in the securities of the Company, or its affiliates from time to time and may have executed or may execute transactions on behalf of such companies or clients for which it receives compensation. As an investment dealer, Scotia Capital conducts research on securities and may, in the ordinary course of business, provide research reports and investment advice to its clients on investment matters, including with respect to the Company or any of its affiliates, or with respect to the Transaction.

## **Scope of Review**

In preparing the Opinion, Scotia Capital has reviewed, considered and relied upon, without attempting to verify independently the completeness or accuracy thereof, among other things:

- (a) a draft acquisition support agreement (the "Support Agreement") dated August 29, 2011 between the Acquirer, the Company and 1625907 Alberta Ltd.;
- (b) annual reports of the Company for the fiscal years ended March 31, 2011, March 31, 2010 and September 30, 2009;
- (c) the Notice of Annual Meeting of Shareholders and the Management Information Circular of the Company for the fiscal years ended March 31, 2011, March 31, 2010 and September 30, 2009;
- (d) annual information forms of the Company for the fiscal years ended March 31, 2011, March 31, 2010 and September 30, 2009;
- (e) unaudited quarterly reports of the Company for the three-month period ended June 30, 2011;

- (f) the Company's financial projections for the fiscal years ended March 31, 2012 to March 31, 2021;
- (g) a confidential information memorandum (the "CIM") prepared by the Company in connection with the process leading to the announcement of the Transaction;
- (h) various detailed internal Company management reports;
- (i) discussions with senior management of the Company;
- (j) discussions with the Company's legal counsel;
- (k) discussions with other potential interested parties;
- (l) public information relating to the business, operations, financial performance and stock trading history of the Company and other selected public companies considered by us to be relevant;
- (m) public information with respect to other transactions of a comparable nature considered by us to be relevant;
- (n) representations contained in separate certificates addressed to Scotia Capital, as of the date hereof, from senior officers of the Company as to the completeness, accuracy and fair presentation of the information upon which the Opinion is based; and
- (o) such other corporate, industry and financial market information, investigations and analyses as Scotia Capital considered necessary or appropriate in the circumstances.

Scotia Capital has not, to the best of its knowledge, been denied access by the Company to any information requested by Scotia Capital.

### **Prior Valuations**

The Company has represented to Scotia Capital that, to the best of its knowledge, there have been no prior valuations (as defined for the purposes of Multilateral Instrument 61-101 of the Ontario Securities Commission and the Autorité des marchés financiers of Quebec) of the Company or any of its material assets or subsidiaries prepared within the past twenty-four (24) months.

### **Assumptions and Limitations**

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

Scotia Capital has, subject to the exercise of its professional judgment, relied, without independent verification, upon the completeness, accuracy and fair presentation of all of the financial and other information, data, advice, opinions and representations obtained by it from public sources, or that was provided to us, by the Company, and its associates and affiliates and advisors (collectively, the "Information"), and we have assumed that this Information did not omit to state any material fact or any fact necessary to be stated to make that information not misleading. The Opinion is conditional upon the completeness, accuracy and fair presentation of such Information. With respect to the Company's financial projections provided to Scotia Capital by management of the Company and used in the analysis supporting the Opinion, we have assumed that they have been reasonably prepared on bases reflecting the best currently available estimates and judgments of management of the Company as to the matters covered thereby, and in rendering the Opinion we express no view as to the reasonableness of such forecasts or budgets or the assumptions on which they are based.

Senior management of the Company has represented to Scotia Capital in certificates delivered as at the date hereof, among other things, that to the best of their knowledge (a) the Company has no information or knowledge of any facts public or otherwise not specifically provided to Scotia Capital relating to the Company or any of its

subsidiaries or affiliates which would reasonably be expected to affect materially the Opinion; (b) with the exception of forecasts, projections or estimates referred to in (d), below, the written Information provided to Scotia Capital by or on behalf of the Company in respect of the Company and its subsidiaries or affiliates, in connection with the Transaction is or, in the case of historical information or data, was, at the date of preparation, true and accurate in all material respects, and no additional material, data or information would be required to make the data provided to Scotia Capital by the Company not misleading in light of circumstances in which it was prepared; (c) to the extent that any of the Information identified in (b), above, is historical, there have been no changes in material facts or new material facts since the respective dates thereof which have not been disclosed to Scotia Capital or updated by more current Information that has been disclosed; and (d) any portions of the Information provided to Scotia Capital which constitute forecasts, projections or estimates were prepared using the assumptions identified therein, which, in the reasonable opinion of the Company, are (or were at the time of preparation) reasonable in the circumstances.

The Opinion is rendered on the basis of the securities markets, economic, financial and general business conditions prevailing as at the date hereof and the conditions and prospects, financial and otherwise, of the Company and its subsidiaries and affiliates, as they were reflected in the Information. In its analyses and in preparing the Opinion, Scotia Capital made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, which Scotia Capital believes to be reasonable and appropriate in the exercise of its professional judgment, many of which are beyond the control of Scotia Capital or any party involved in the Transaction.

For the purposes of rendering the Opinion, Scotia Capital has also assumed that the representations and warranties of each party contained in the Agreement are true and correct in all material respects and that each party will perform all of the covenants and agreements required to be performed by it under the Transaction and that the Company will be entitled to fully enforce its rights under the Agreement and receive the benefits therefrom in accordance with the terms thereof.

The Opinion has been provided for the sole use and benefit of the Special Committee and the Board of Directors of the Company in connection with, and for the purpose of, its consideration of the Transaction and may not be relied upon by any other person. Our opinion does not constitute a recommendation to any shareholder of the Company as to how such shareholder should vote or act with respect to the Transaction. The Opinion is given as of the date hereof, and Scotia Capital disclaims any undertaking or obligation to advise any person of any change in any fact or matter affecting the Opinion which may come or be brought to the attention of Scotia Capital after the date hereof. Without limiting the foregoing, in the event that there is any material change in any fact or matter affecting the Opinion after the date hereof, Scotia Capital reserves the right to change, modify or withdraw the Opinion.

Our opinion does not address the relative merits of the Transaction as compared to other business strategies or transactions that might be available with respect to the Company or the Company's underlying business decision to effect the Transaction. At your direction, we have not been asked to, nor do we, offer any opinion as to the material terms (other than the Consideration) of the Agreement or the form of the Transaction.

#### **Conclusion**

Based upon and subject to the foregoing, Scotia Capital is of the opinion that, as of the date hereof, the Consideration to be received by the Company Shareholders pursuant to the Transaction is fair from a financial point of view to such Company Shareholders.

Yours very truly,

A handwritten signature in cursive script that reads "Scotia Capital Inc." in dark ink.

**SCOTIA CAPITAL INC.**

## SCHEDULE C

### SUMMARY OF 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](http://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](http://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:

- (a) the bid must be made to all the holders of Common Shares as registered on the books of Afexa other than the offeror; and
- (b) 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 60<sup>th</sup> 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 (i) 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; and (ii) a waiver by the Board of Directors of a particular take-over bid will cause the New Shareholder Rights Plan to be waived with respect to any take-over bid made by way of take-over bid circular but only where such take-over bid satisfies the definition of Competing Permitted Bid other than the requirements set out in

paragraph (a) of the definition of Competing Permitted Bid. 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**

<u>Name</u>	<u>Date of Trade</u>	<u>Number of Common Shares</u>	<u>Price per Common Share \$</u>	<u>Nature of Transactions</u>
Allan Cleiren	April 5, 2011	1,013.078479	\$0.51	Purchases under Employee Share Purchase Plan
	April 5, 2011	253.274522	\$0.51	
	April 21, 2011	270.931706	\$0.48	
	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	
	August 18, 2011	226.613941	\$0.57	
	August 18, 2011	906.438222	\$0.57	
	September 6, 2011	176.943882	\$0.73	
	September 6, 2011	707.761831	\$0.73	

Name	Date of Trade	Number of Common Shares	Price per Common Share \$	Nature of Transactions
Lei Ling	April 5, 2011	142.980399	\$0.51	Purchases under Employee Share Purchase Plan
	April 5, 2011	285.941190	\$0.51	
	April 21, 2011	305.899433	\$0.48	
	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	
	August 18, 2011	127.929772	\$0.57	
	August 18, 2011	255.841999	\$0.57	
September 6, 2011	199.765629	\$0.73		
September 6, 2011	99.889664	\$0.73		

Name	Date of Trade	Number of Common Shares	Price per Common Share \$	Nature of Transactions
G. Warren	April 5, 2011	285.941190	\$0.51	Purchases under Employee Share Purchase Plan
Michaels	April 5, 2011	142.980399	\$0.51	
	April 21, 2011	152.960205	\$0.48	
	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	
	August 18, 2011	127.929772	\$0.57	
	August 18, 2011	255.841999	\$0.57	
	September 6, 2011	199.765629	\$0.73	
	September 6, 2011	99.889664	\$0.73	

Name	Date of Trade	Number of Common Shares	Price per Common Share \$	Nature of Transactions
Jack Moffatt	April 5, 2011	980.392203	\$0.51	Purchases under Employee Share Purchase Plan
	April 5, 2011	490.196102	\$0.51	
	April 21, 2011	1,048.822028	\$0.48	
	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	
	August 18, 2011	877.192620	\$0.57	
	August 18, 2011	438.596310	\$0.57	
	September 6, 2011	684.926385	\$0.73	
	September 6, 2011	342.463193	\$0.73	

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 Employee Share Purchase Plan
	April 5, 2011	539.215712	\$0.51	
	April 21, 2011	288.426058	\$0.48	
	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	
	August 18, 2011	241.227970	\$0.57	
	August 18, 2011	482.455941	\$0.57	
	September 6, 2011	188.354756	\$0.73	
	September 6, 2011	376.709512	\$0.73	

Name	Date of Trade	Number of Common Shares	Price per Common Share \$	Nature of Transactions
Jacqueline Shan	April 5, 2011	314.549035	\$0.51	Purchases under Employee Share Purchase Plan
	April 5, 2011	629.078461	\$0.51	
	April 21, 2011	336.483083	\$0.48	
	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	
	August 18, 2011	281.438480	\$0.57	
	August 18, 2011	562.859416	\$0.57	
	September 6, 2011	439.489864	\$0.73	
	September 6, 2011	219.751781	\$0.73	

Name	Date of Trade	Number of Common Shares	Price per Common Share \$	Nature of Transactions
Sharla Sutherland	April 5, 2011	138.882360	\$0.51	Purchases under Employee Share Purchase Plan
	April 5, 2011	277.784327	\$0.51	
	April 21, 2011	148.576128	\$0.48	
	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	359.536480	\$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	
	August 18, 2011	248.543757	\$0.57	
	August 18, 2011	124.263107	\$0.57	
September 6, 2011	97.026672	\$0.73		
September 6, 2011	194.067042	\$0.73		

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

**Georgeson**

100 University Avenue  
11<sup>th</sup> Floor, South Tower  
Toronto, Ontario M5J 2Y1

North American Toll Free Number: 1-866-676-3005  
Email: [askus@georgeson.com](mailto:askus@georgeson.com)