



NEWS RELEASE

PALADIN ANNOUNCES SECOND QUARTER RESULTS

Montreal, Canada, July 31, 2003 – Paladin Labs Inc. (TSX: PLB), a leading Canadian specialty pharmaceutical company, today announced its financial results for the second quarter and the six-month period ended June 30, 2003. Paladin posted record revenues of \$6.5 million in the second quarter and strong gross margins. Net income was negatively impacted by a \$1.5 million write-down of the Company's investment in Anthra Pharmaceuticals, Inc.

Second Quarter Highlights:

- Revenues reached a record \$6.5 million
- Obtained Canadian license for Diacol[®] from InKine Pharmaceutical Company, Inc.
- Health Canada recommends Plan B[™] switch from prescription to non-prescription status
- Aldo R. Baumgartner, Ph.D., and Michael S. Cloutier appointed to Paladin Board of Directors

“We have made strong progress in executing on our plans of expanding our sales and marketing infrastructure,” said Jonathan Ross Goodman, President and CEO of Paladin Labs. “We look forward to achieving continued revenue growth by aggressively building our existing brands and acquiring new products for the Canadian market.”

Financial Results

Revenues for the second quarter increased 13% to \$6.5 million compared to \$5.7 million in the second quarter a year ago. For the six-month period ended June 30, 2003, revenues increased 4% to \$11.5 million compared to \$11.0 million in the corresponding period a year ago. Sales of the Company's key promoted products including, Androderm[®], Dostinex[®], Dalacin[®], Estring[®], and Plan B[™] grew by 65% for the quarter and over 40% for the six months compared to the corresponding periods in the prior year. The increase in revenues from these products was offset by a continued decline in Urispas[®] sales as a result of the product's genericization, and a decline in sales of Valtaxin[™] related to the manufacturing difficulties at Anthra Pharmaceuticals, Inc. Of note, Paladin has benefited from four months of increased sales activity from its expanded sales force of 48 representatives versus 14 representatives in the prior year.

Net income, excluding write-downs, was \$1.4 million or \$0.10 per share for the second quarter of 2003 and 2002. Net income, excluding write-downs, was \$2.1 million or \$0.14 per share for the first half of 2003 compared to net income of \$2.8 million or \$0.22 per share in the corresponding period last year.

Net loss for the second quarter was \$83,000 or \$0.01 per share. During the second quarter, the Company recorded a charge of \$1.5 million related to its investment in Anthra Pharmaceuticals. The Company did not record a tax benefit related to this charge. In addition, during the second quarter Paladin recorded a gain on disposal of \$226,000 related to the sale of its investment in Connetics Corporation. Net income for the six-month period ended June 30, 2003 was \$589,000 or \$0.04 per share. Net income for the six-months includes a gain on disposal of \$504,000 related to the

Company's assignment and sale of certain over-the-counter products and the sale of its investment in Connetics Corporation.

During June 2003, Anthra Pharmaceuticals advised Paladin that it had disposed of virtually all its assets and remains incapable of determining when it will be able to resume production of Valtaxin™. At this time, Paladin has determined that there has been an impairment in the carrying value of its investment in Anthra Pharmaceuticals and has recorded a write-down of \$1.5 million, representing the full amount of the carrying value of the investment.

Selling and marketing expense increased 73% to \$2.7 million in the second quarter compared to \$1.6 million in the same period a year ago. For the six-month period ended June 30, 2003, selling and marketing expense increased 80% to \$5.4 million compared to \$3.0 million for the six-month period ended June 30, 2002. This increase resulted from the expansion of the Company's sales and marketing infrastructure supporting Androderm®, Dalacin®, Dostinex®, Estring®, Muse®, Oesclim®, and Plan B™.

Gross profit, as a percentage of revenues, in the second quarter improved to 76% from 73% in the second quarter of 2002. For the six-month period ended June 30, 2003, gross profit, as a percentage of revenues, improved to 76% from 71% for the six-month period ended June 30, 2002. This increase resulted primarily from a higher proportion of revenues from products for which the Company earns a distribution fee and consequently does not incur costs of sales related to these products.

At June 30, 2003, Paladin's cash, cash equivalents and investments in both short-term and long-term marketable securities totalled \$46.6 million, compared to \$44.6 million as at June 30, 2002. From this strong cash position, Paladin is pursuing acquisitions of innovative products for the Canadian market that meet its disciplined investment criteria.

Product Developments

During the second quarter, Paladin announced that Health Canada has recommended the switch from prescription to non-prescription status for Plan B™, the Company's emergency contraceptive pill. Health Canada is now soliciting feedback from stakeholders to initiate the process required to change the regulations that will allow Plan B™ to be sold without a prescription across Canada. Plan B™ is currently available by prescription only.

Also during the second quarter, Paladin and InKine Pharmaceutical Company, Inc. announced that they had entered into a Canadian licensing agreement for Diacol®, the first patented sodium phosphate purgative in a tablet format. Diacol®, which is marketed in the U.S. under the name Visicol®, is used to cleanse the bowel prior to a colonoscopy. As consideration for the license, Paladin paid an undisclosed up-front license fee, with additional royalties due to InKine based on future net sales of Diacol®.

Corporate Developments

Paladin announced the appointments of Aldo R. Baumgartner, Ph.D., and Michael S. Cloutier to its Board of Directors. Prior to joining Paladin's Board, Dr. Baumgartner was President and CEO of Wyeth Canada Inc. and Mr. Cloutier was President of Pharmacia Canada Inc.

Subsequent to the end of the quarter, Paladin announced the appointment of Mr. Mark Nawacki, CA, MBA, to the position of Vice President, Business Development, effective September 1, 2003. Prior to joining Paladin, Mr. Nawacki held senior leadership positions in business development and finance with Pharmacia Canada. As Vice President, Business Development,

Mr. Nawacki will play a lead role in identifying and pursuing acquisition opportunities for new products to support Paladin's continued growth within the Canadian specialty pharmaceutical market.

2003 Financial Guidance

The Company is revising its revenue target from \$26 million to \$23 million for 2003. This reduction is due to slower than forecasted growth in the androgen replacement market and the delays in the OTC switch for Plan B™. Paladin is revising its financial guidance for net income in 2003 from \$2 million to \$1 million, as a result of its write-down of its investment in Anthra Pharmaceuticals. This forecast excludes the impact of acquisitions that may be made by the Company between now and the end of 2003.

Conference Call Notice

Paladin will host a conference call to discuss its second quarter results on Thursday, July 31, 2003, at 10 a.m. EST. The dial-in number for the conference call is **1-800-387-6216 or 416-405-9328 (reference # 1461639)**. The call will be audio-cast live and archived for 90 days at www.financialdisclosure.ca and www.paladinlabs.com.

About Paladin Labs

Paladin Labs Inc., headquartered in Montreal, Quebec, is a leading specialty pharmaceutical company focused on acquiring or in-licensing innovative pharmaceutical products for the Canadian market. With this strategy, a focused national sales team and proven marketing expertise, Paladin has evolved into one of Canada's leading specialty pharmaceutical companies. Paladin's shares trade on the Toronto Stock Exchange under the symbol *PLB*. For more information about Paladin, please visit the Paladin Web Site at www.paladinlabs.com.

This news release may contain forward-looking statements or predictions. These statements represent our judgement as of this date and are subject to risks and uncertainties that could cause actual results or events to differ materially from those expressed in such forward-looking statements. Potential risks and uncertainties include, without limitation, those associated with product development, clinical trials, future revenues and profitability, and obtaining marketing approval and other factors that are discussed in the Management Discussion and Analysis published in the Company's annual report.

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BALANCE SHEET

[In thousands of Canadian dollars]

	June 30	December 31
	2003	2002
	\$	\$
	(unaudited)	
ASSETS		
Current		
Cash and cash equivalents	1,431	2,020
Short-term marketable securities	43,950	36,572
Accounts receivable and other assets	2,621	2,586
Inventories	—	21
Income tax credits receivable	254	325
Future income tax assets	1,221	1,221
Total current assets	49,477	42,745
Long-term marketable securities	1,253	7,020
Property plant and equipment	92	72
Intangible assets	12,162	12,703
Deferred charges	2,148	1,515
Investments, at cost	2,403	2,771
Future income tax credits receivable	470	470
Future income tax assets	669	1,359
	68,674	68,655
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	3,464	3,658
Income taxes payable	107	109
Balance of sale payable	624	597
Deferred credit	650	1,113
Total current liabilities	4,845	5,477
Shareholders' equity		
Capital stock	57,396	57,334
Contributed surplus	87	87
Other paid-in capital	23	23
Retained earnings	6,323	5,734
Total shareholders' equity	63,829	63,178
	68,674	68,655

STATEMENTS OF INCOME

[In thousands of Canadian dollars except for share and per share amounts]

	Three-month period ended		Six-month period ended	
	2003	2002	2003	2002
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues	6,453	5,687	11,518	11,030
Cost of sales	1,533	1,539	2,770	3,148
Gross profit	4,920	4,148	8,748	7,882
Selling and marketing	2,719	1,570	5,373	2,989
General and administrative	550	529	1,099	1,174
Research and development	145	206	482	589
Amortization	493	423	935	846
Interest income, net	(365)	(268)	(701)	(345)
Other income	(27)	—	(381)	(695)
Gain on disposal of assets	(226)	—	(504)	—
Income before under noted items	1,631	1,688	2,445	3,324
Write down of long-term investment	(1,497)	—	(1,497)	—
Income before income taxes	134	1,688	948	3,324
Provision for income taxes				
Current	30	39	60	60
Future	187	209	299	423
	217	248	359	483
Net income	(83)	1,440	589	2,841
Earnings per share				
Basic	(0.01)	0.10	0.04	0.22
Diluted	(0.01)	0.10	0.04	0.21
Weighted average number of shares outstanding				
Basic	14,784,725	13,820,655	14,782,677	13,188,718
Diluted	14,800,111	14,085,539	14,791,495	13,460,467

STATEMENTS OF CASH FLOWS

[In thousands of Canadian dollars]

	Three-month period ended June 30		Six-month period ended June 30	
	2003	2002	2003	2002
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Operating activities				
Net income	(83)	1,440	589	2,841
Add items not affecting cash				
Amortization	509	429	964	856
Write-down of long-term investment	1,497	—	1,497	—
Future income taxes	173	175	227	(212)
Imputed interest on balance of sale	14	13	27	26
Gain on disposal of assets	(226)	—	(504)	—
	1,884	2057	2,800	3,511
Net change in non-cash balances relating to operations	52	(291)	(138)	78
Cash flows from operating activities	1,936	1,766	2,662	3,589
Investing activities				
Additions to pharmaceutical product licenses and rights and deferred charges	(569)	(663)	(1,087)	(2,752)
Accounts payable related to the acquisition of intellectual property	—	—	—	1,179
Investment in other companies	(1,434)	—	(1,434)	—
Acquisition of property plant and equipment	(24)	(5)	(49)	(16)
Purchases of short-term marketable securities	(26,416)	(26,095)	(30,836)	(44,940)
Maturities of short-term marketable securities	18,564	18,489	30,478	26,049
Purchases of long-term marketable securities	(1,253)	—	(1,253)	—
Proceeds from disposal of assets	529	—	869	—
Cash flows used in from investing activities	(10,603)	(8,274)	(3,312)	(20,480)
Financing activities				
Common shares issued for cash	31	112	41	203
Issuance of special warrants	—	—	—	20,952
Share issue costs, net of tax	—	—	—	(1,057)
Repayment of share purchase loan	20	20	20	20
Cash flows from financing activities	51	132	61	20,118
Net change in cash and cash equivalents during the period	(8,616)	(6,376)	(589)	3,227
Cash and cash equivalents, beginning of period	10,047	11,581	2,020	1,978
Cash and cash equivalents, end of period	1,431	5,205	1,431	5,205
Cash and cash equivalents	1,431	5,205		
Short-term marketable securities	43,950	39,362		
Long-term marketable securities	1,253	—		
	46,634	44,567		