



NEWS RELEASE

PALADIN REPORTS 2004 SECOND QUARTER RESULTS

- Company announces revised financial guidance for fiscal 2004 -

Montreal, Canada, July 29, 2004 – Paladin Labs Inc. (TSX: PLB), a leading Canadian specialty pharmaceutical company, today reported its financial results for the three and six-month periods ended June 30, 2004. The Company also announced revised financial guidance for fiscal 2004 as a result of the planned market launch of OXYTROL[®] in the fourth quarter of this year.

Second Quarter Highlights:

- Revenue totaled \$6.4 million, down slightly from a record \$6.5 million in Q2 2003
- Net income increased to \$681,000, up from a net loss of \$142,000 in Q2 2003
- Signed distribution agreement with Ovation Pharmaceuticals for Sabril[®] and Frisium[®], two central nervous system pharmaceutical products used to treat various epilepsy conditions
- Obtained Health Canada approval of OXYTROL[®], a transdermal patch for the treatment of overactive bladder
- Health Canada initiated regulatory amendment to allow Plan B[®] to be sold in Canada without a prescription

“We continue to make progress in expanding our product portfolio. To date in 2004, we have signed license or distribution agreements for four new products and filed two new drug submissions with Health Canada,” said Jonathan Ross Goodman, President & CEO of Paladin Labs. “Health Canada’s recent approval of OXYTROL[®] is a major development for us. We anticipate that OXYTROL[®] may become our largest product and we look forward to a fourth quarter launch.”

Financial Results

Revenue for the second quarter ended June 30, 2004, totalled \$6.4 million, down slightly from a record \$6.5 million in the second quarter of 2003. Revenue for the six months ended June 30, 2004 increased 4% to \$12.0 million, compared to \$11.5 million in the first six months of 2003. Revenue from the Company’s key promoted brands including, Androderm[®], Dalacin[®], Dostinex[®], Estring[®] and Plan B[®] increased by 13% in the first six months of 2004 compared to the same period a year ago.

Paladin’s 2004 second quarter earnings before interest, taxes, depreciation, and amortization (EBITDA(1)) decreased 4% to \$2.0 million, compared to EBITDA of \$2.1 million in the second quarter of 2003. To date in 2004, Paladin’s EBITDA increased 2% to \$3.3 million, compared to EBITDA of \$3.2 million in the first six months of 2003.

Net income for the second quarter was \$681,000 or \$0.05 per fully diluted share, compared to a net loss of \$142,000 or (\$0.01) per share in the second quarter a year ago. Net income for the six months ended June 30, 2004 was \$1.0 million or \$0.07 per fully diluted share, compared to net income of \$431,000 or \$0.03 per fully diluted share in the same period a year ago.

Gross profit, as a percentage of revenues, for the second quarter and six months ended June 30, 2004 totalled 74% and 75% respectively, compared to 76% for both the second quarter and six months ended June 30, 2003.

Selling and marketing expense for the second quarter decreased 34% to \$1.8 million from \$2.7 million in the second quarter of 2003. Selling and marketing expense for the first six months of 2004 decreased 40% to \$3.2 million from \$5.4 million in the first six months of 2003. Decreased selling and marketing expenses in 2004 have resulted primarily from reduced promotion on Androderm[®].

Research and development expense for the second quarter of 2004 increased to \$500,000 from \$145,000 in the second quarter a year ago. This increase resulted primarily from costs associated with new drug submissions for GlucaGen[®] and Histrelin Hydrogel Implant, which were filed with Health Canada subsequent to the end of the second quarter. In the first six months of 2004, research and development expenses increased to \$1.7 million from \$482,000 in the corresponding period a year ago. This increase resulted from the aforementioned new drug submissions, an increased number of research and development projects in 2004 and \$353,000 in license payments for unapproved products in the first quarter of 2004.

Amortization expense for the second quarter of 2004 increased to \$1.1 million from \$492,000 in the second quarter a year ago. For the six months ended June 30, 2004, amortization expense increased to \$1.9 million from \$935,000 in the corresponding period a year ago. Increased amortization expense resulted from the Company's decision to reduce the estimated useful life of the carrying value of the intellectual property associated with products that face a heightened risk of generic competition.

At June 30, 2004, Paladin's cash, cash equivalents and investments in marketable securities totalled \$38.5 million. From this strong cash position, Paladin continues to pursue product acquisition opportunities.

Product Developments

During the quarter, Health Canada announced that it is moving forward with a proposal to amend regulations, which if approved, would allow Plan B[®] (levonorgestrel) to be sold in Canada without a physician prescription. This amendment would make Plan B[®] available on a "behind-the-counter" basis. "Behind-the-counter" status requires professional intervention from the pharmacist at the point-of-sale.

Paladin entered into an exclusive Canadian distribution agreement with Ovation Pharmaceuticals, Inc. for Sabril[®] (vigabatrin) and Frisium[®] (clobazam), two central nervous system pharmaceutical products used to treat various epilepsy conditions. Both brands are currently available in Canada. Under the terms of the agreement, Paladin will assume responsibility for customer service, logistics, credit and collection, and pharmacovigilance support in return for a modest distribution fee. The responsibility of marketing and promotion of these brands in Canada will remain with Ovation.

Health Canada approved OXYTROL[®] for the treatment for overactive bladder with symptoms of urge urinary incontinence, urgency, and frequency. According to the Canadian Continence Foundation, approximately 2.9 million Canadians suffer from overactive bladder and, according to IMS Canada, the total Canadian market for the treatment of overactive bladder exceeded \$46 million in 2003. Paladin expects to launch OXYTROL[®] in Canada during the fourth quarter of 2004.

On July 21, 2004, Paladin announced that it has filed, on behalf of Novo Nordisk Canada Inc., a new drug submission for GlucaGen[®] (recombinant glucagon for injection) with the Biologics and Genetic Therapies Directorate of Health Canada. GlucaGen[®] is chemically identical to human glucagon, a naturally occurring peptide that selectively converts liver glycogen to glucose, relaxes smooth muscle, and increases the strength of cardiac contractions. Glucagon is indicated for emergency treatment of hypoglycemia in insulin-dependent diabetics. According to IMS Canada, in 2003, the annual market for glucagon was \$4.1 million, and grew by 28% over the previous year.

On July 22, 2004, Paladin announced that it has filed a new drug submission for Histrelin Hydrogel Implant with the Therapeutic Products Directorate of Health Canada. Histrelin Hydrogel Implant is a unique, once-yearly luteinizing hormone-releasing hormone (LHRH) implant indicated for the treatment of prostate cancer, the most prevalent form of cancer afflicting Canadian men. According to IMS Canada, in 2003, the total LHRH agonist market for the treatment of prostate cancer was \$108 million, and had a compound annual growth rate of 15% since 1998.

Financial Guidance

Paladin is revising its financial guidance for 2004 due to the acquisition of OXYTROL[®] and the pending market launch of the product in the fourth quarter of this year, which will result in a significant increase in selling and marketing expenses during the period. As a result, Paladin is revising its 2004 EBITDA target to be between \$6.4 million and \$7 million, from \$9.0 million, and its 2004 net income target to be between \$1.9 million and \$2.1 million, from \$3.6 million. Paladin maintains its guidance for \$26.5 million in revenue for fiscal 2004. This revised financial forecast excludes the impact of acquisitions that may be made by the Company between now and the end of 2004.

(1) EBITDA does not have any standardized meaning prescribed by generally accepted accounting principles (GAAP) and therefore may not be comparable to similar measures presented by other public issuers. EBITDA performance and guidance is presented herein because Paladin management believes that, in addition to net income, EBITDA is a useful supplemental measure of the Company's performance.

Conference Call Notice

Paladin will host a conference call to discuss its second quarter results on Thursday, July 29, 2004, at 10:00 a.m. EST. The dial-in number for the conference call is 1-877-211-7911 or 416-405-9310 (reference # 3084031). 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, Canada, is a 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 Company's 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
	2004	2003
	\$	\$
	(unaudited)	
ASSETS		
Current		
Cash and cash equivalents	5,080	1,991
Short-term marketable securities	30,801	42,556
Accounts receivable	4,755	248
Inventories	3,066	—
Other current assets	551	2,541
Investment tax credits receivable	169	256
Future income tax assets	1,969	1,969
Total current assets	46,391	49,561
Long-term marketable securities	2,617	—
Property, plant and equipment	102	132
Intangible assets	11,638	12,359
Deferred charges	3,543	2,781
Investments	1,877	1,877
Future income tax credits recoverable	659	659
Future income tax assets	1,170	1,601
	67,997	68,970
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	3,424	4,546
Accounts payable to related parties	908	170
Income taxes payable	126	85
Balance of license agreements payable	2,674	4,537
Deferred credit	19	300
Total current liabilities	7,151	9,638
Shareholders' equity		
Capital stock	57,713	57,440
Contributed surplus	87	87
Other paid-in capital	459	243
Retained earnings	2,587	1,562
Total shareholders' equity	60,846	59,332
	67,997	68,970

STATEMENTS OF INCOME AND RETAINED EARNINGS

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

[unaudited]

	Three-month period ended		Six-month period ended	
	2004	June 30 2003	2004	June 30 2003
	\$	\$	\$	\$
		(restated – see note 3)		(restated – see note 3)
Revenues	6,397	6,453	11,994	11,518
Cost of sales	1,634	1,533	2,952	2,770
Gross profit	4,763	4,920	9,042	8,748
Selling and marketing	1,784	2,719	3,217	5,373
General and administrative	764	609	1,469	1,257
Research and development	500	145	1,678	482
Amortization	1,110	493	1,901	935
Interest income, net	(270)	(365)	(599)	(701)
Other income	—	(27)	—	(381)
Income before under noted items	875	1,346	1,376	1,783
Gain on disposal of license	—	(226)	—	(504)
Write-down of long-term investments	—	1,497	—	1,497
Income before income taxes	875	75	1,376	790
Provision for income taxes				
Current	25	30	50	60
Future	169	187	301	299
	194	217	351	359
Net income (loss)	681	(142)	1,025	431
Earnings per share				
Basic	0.05	(0.01)	0.07	0.03
Diluted	0.05	(0.01)	0.07	0.03
Weighted average number of shares outstanding				
Basic	14,829,954	14,784,725	14,916,400	14,782,677
Diluted	14,935,709	14,800,111	14,908,438	14,791,495

STATEMENTS OF CASH FLOWS

[In thousands of Canadian dollars]

[unaudited]

	Three-month period ended		Six-month period ended	
	2004	June 30 2003	2004	June 30 2003
	\$	\$	\$	\$
		(restated – see note 3)		(restated – see note 3)
Operating activities				
Net income (loss)	681	(142)	1,025	431
Add items not affecting cash				
Amortization	1,125	509	1,933	964
Stock based compensation expense	82	59	218	158
Future income taxes	75	173	150	227
Write-down of long-term investment	—	1,497	—	1,497
Imputed interest on balance of sale	—	14	—	27
Gain on disposal of license	—	(226)	—	(504)
	1,963	1,884	3,326	2,800
Net change in non-cash balances relating to operations	(1,411)	52	(5,222)	(138)
Cash flows from (used in) operating activities	552	1,936	(1,896)	2,662
Investing activities				
Additions to pharmaceutical product licenses and rights and intellectual property and deferred charges	(519)	(569)	(1,942)	(1,087)
Investment in other companies	—	(1,434)	—	(1,434)
Acquisition of property, plant and equipment	(2)	(24)	(2)	(49)
Purchases of short-term marketable securities	(14,016)	(26,416)	(16,769)	(30,836)
Maturities of short-term marketable securities	20,092	18,564	28,524	30,478
Purchases of long-term marketable securities	(1,902)	(1,253)	(3,698)	(1,253)
Maturities of long-term marketable securities	1,081	—	1,081	—
Proceeds from disposal of assets	—	529	—	869
Cash flows from (used in) investing activities	4,734	(10,603)	7,194	(3,312)
Financing activities				
Common shares issued for cash	217	31	254	41
Account payable related to the acquisition of intellectual property	(1,039)	—	(2,483)	—
Repayment of share purchase loan	20	20	20	20
Cash flows from (used in) financing activities	(802)	51	(2,209)	61
Net change in cash and cash equivalents during the period				
	4,484	(8,616)	3,089	(589)
Cash and cash equivalents, beginning of period	596	10,047	1,991	2,020
Cash and cash equivalents, end of period	5,080	1,431	5,080	1,431
Cash and cash equivalents	5,080	1,431		
Short-term marketable securities	30,801	43,950		
Long-term marketable securities	2,617	1,253		
	38,498	46,634		