



NEWS RELEASE

PALADIN REPORTS 2005 SECOND QUARTER RESULTS

- Paladin increases 2005 revenue guidance -

Montreal, Canada, July 28, 2005 – 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, 2005. The Company also announced increased revenue guidance for fiscal 2005 as a result of stronger than expected sales with key promoted brands.

Second Quarter Highlights:

- Revenue totaled \$7.9 million, an increase of 23% over the same period last year
- Sales of key promoted brands, including Dostinex[®], Estring[®], Oxytrol[®] and Plan B[®], grew 60% compared to the corresponding period a year ago
- National direct-to-consumer marketing campaign launched to support Plan B[®] as a non-prescription product
- Exclusive Canadian marketing and supply agreement for Trelstar[®] signed with Watson Pharmaceuticals, Inc.
- Subsequent to the second quarter, Paladin entered into a Canadian marketing and supply agreement with Verus Pharmaceuticals, Inc., to market Twinject[™]

“Paladin achieved record-breaking prescription volumes in the quarter on all four of our key promoted brands, including Dostinex[®], Estring[®], Oxytrol[®] and Plan B[®]. This strong performance in our business coupled with our strategic direction to internally develop new, late-stage innovative products is positioning Paladin for accelerated growth in the future. I look forward to providing an update to you as Paladin continues its search for innovative, promotion-sensitive brands to bring to Canada,” said Jonathan Ross Goodman, President & CEO of Paladin Labs.

Financial Results

Revenue for the second quarter ended June 30, 2005 increased 23% to \$7.9 million, compared to \$6.4 million in the second quarter of 2004. Revenue for the six months ended June 30, 2005 increased 20% to \$14.4 million, compared to \$12.0 million in the first six months of 2004. Revenue from the Company’s key promoted brands including, Dostinex[®], Estring[®], Oxytrol[®] and Plan B[®] increased by 50% in the first six months of 2005 compared to the same period a year ago and 60% in the second quarter of 2005 compared to the second quarter last year.

Paladin’s earnings before interest, taxes, depreciation, and amortization (EBITDA¹) remained healthy at \$2.0 million for both the second quarter of 2005 and the second quarter of 2004. For the first half of 2005, Paladin’s EBITDA increased 18% to \$3.9 million, compared to EBITDA of \$3.3 million in the first six months of 2004.

Net income for the second quarter was \$585,000 or \$0.04 per fully diluted share, compared to net income of \$681,000 or \$0.05 per fully diluted share in the second quarter a year ago. Net income remained steady at \$0.07 per fully diluted share for both the six months ended June 30, 2005 and June 30, 2004.

Gross profit, as a percentage of revenues, for the second quarter and six months ended June 30, 2005 totalled 73% and 74% respectively, compared to 74% and 75% for both the second quarter and six months ended June 30, 2004, respectively.

Selling and marketing expense for the second quarter of 2005 increased to \$3.1 million from \$1.8 million in the second quarter of 2004. Selling and marketing expense for the first six months of 2005 increased to \$5.2 million from \$3.2 million in the first six months of 2004. This increase was primarily attributable to increased promotion activities associated with the launch of Oxytrol[®] and the re-launch of Plan B[®] as a non-prescription product.

At June 30, 2005, Paladin's cash, cash equivalents and investments in marketable securities totalled \$44.0 million. From this strong cash position, Paladin continues to pursue product acquisition opportunities.

Product Developments

Paladin announced that Plan B[®], a safe and effective "morning-after pill," is now available at Canadian pharmacies without a prescription. The decision by Health Canada is supported by 70 percent of Canadians and every leading medical organization in the country. Plan B[®] is 95 percent effective in preventing unintended pregnancy if taken within 24 hours of unprotected sex. "There has been a tremendous response in sales to our strong media plan of Plan B[®] since Health Canada's decision. Sales have increased 37% in the second quarter of 2005 compared to the first quarter of 2005 and 60% compared to the second quarter of 2004," said Mark Beaudet, Vice-President of Marketing and Sales of Paladin Labs.

The Company signed an exclusive Canadian marketing and supply agreement for Trelstar[®] with Watson Pharmaceuticals, Inc. Trelstar[®] is an injectable, luteinizing hormone-releasing hormone (LHRH) agonist indicated for the palliative treatment of advanced prostate cancer and for the treatment of endometriosis and is approved for sale in Canada. Paladin expects to launch Trelstar[®] in the first quarter of 2006. According to IMS Canada, the Canadian market for LHRH agonists for prostate cancer and endometriosis was over \$125 million in 2004. Trelstar[®] compliments our established urology franchise with Oxytrol[®] and Vantas[™] (Histrelin Hydrogel Implant), a unique, once-yearly LHRH agonist implant for the treatment of prostate cancer.

Paladin received a Notice of Non Compliance on June 16, 2005 by the Therapeutic Products Directorate (TPD) of Health Canada that its New Drug Submission (NDS) for Vantas[™] (Histrelin Hydrogel Implant) would not be approved at this time. The Company will submit a response to Health Canada's issues by September 15, 2005 and expects to obtain regulatory approval for Vantas[™] during the first half of 2006.

Subsequent to the second quarter, the Company entered into a Canadian marketing and supply agreement with Verus Pharmaceuticals, Inc., to market Twinject[™] (epinephrine). Twinject[™] is a novel epinephrine auto-injector indicated for the emergency treatment of severe allergic reactions (anaphylaxis). Twinject[™] comes in two dosages for self-administration - a 0.3 mg used for adults and a 0.15 mg used for children. According to IMS Canada, the anaphylaxis market was \$25 million in 2004 and grew at a compounded annual growth rate of 22% since 2001.

Corporate Developments

Paladin announced that it has received regulatory approval from the Toronto Stock Exchange to carry out a normal course issuer bid effective February 22, 2005. Paladin has been authorized to purchase up to 630,000 of its common shares, or approximately 10% of its public float of 6,300,990 common shares, in the twelve-month period following the bid's effective date. To date, Paladin has purchased 107,500 shares for a total amount of \$482,000.

2005 Revenue Guidance

Paladin is revising upwards its previously announced revenue guidance for fiscal 2005 from \$25 million to \$26 million generated in revenues to \$29 million to \$30 million generated in revenues, due to better than expected performance of its key promoted products. This forecast excludes the impact of acquisitions and/or new product launches that may be made by the Company between now and the end of 2005.

(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 28, 2005, at 10:00 a.m. EST. The dial-in number for the conference call is 1-888-509-0081 or 416-695-5275. The call will be audio-cast live and archived for 90 days at 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. For additional information on risks and uncertainties related to the forward-looking statements, investors should consult the Company's ongoing quarterly filings, annual reports and Annual Information Form and other filings found on SEDAR at www.sedar.com.

For more information, please contact:

Samira Sakhia

Chief Financial Officer

Paladin Labs Inc.

Tel: (514) 340-5067

email: info@paladin-labs.com

BALANCE SHEET

[In thousands of Canadian dollars]

	June 30	December 31
	2005	2004
	\$	\$
	(unaudited)	
ASSETS		
Current		
Cash and cash equivalents	5,992	1,507
Short-term marketable securities	36,651	36,039
Accounts receivable	5,796	5,878
Inventories	2,347	2,718
Other current assets	442	735
Future income tax assets	1,054	600
Total current assets	52,282	47,477
Long-term marketable securities	1,483	4,578
Property, plant and equipment	65	77
Intangible assets	9,961	11,065
Deferred charges	4,107	4,176
Investments	1,433	1,433
Future income tax credits recoverable	450	439
Future income tax assets	682	1,715
	70,463	70,960
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	4,870	4,723
Accounts payable to related parties	717	1,754
Income taxes payable	386	229
Balance of license agreements payable	464	1,062
Total current liabilities	6,437	7,768
Shareholders' equity		
Capital stock	57,464	57,837
Other paid-in capital	741	554
Retained earnings	5,821	4,801
Total shareholders' equity	64,026	63,192
	70,463	70,960

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	
	2005	June 30 2004	2005	June 30 2004
	\$	\$	\$	\$
Revenues	7,862	6,397	14,374	11,994
Cost of sales	2,153	1,634	3,802	2,952
Gross profit	5,709	4,763	10,572	9,042
Selling and marketing	3,058	1,784	5,185	3,217
General and administrative	820	764	1,661	1,469
Research and development	282	500	613	1,678
Amortization of intangible assets and deferred charges	1,096	1,110	2,182	1,901
Interest income, net	(325)	(270)	(627)	(599)
Other Income	(110)	—	(110)	—
Income before income taxes	888	875	1,668	1,376
Provision for income taxes				
Current	—	25	—	50
Future	303	169	584	301
	303	194	584	351
Net income	585	681	1,084	1,025
Retained earnings, beginning of period	5,300	1,906	4,801	1,562
Purchase of common shares	(64)	—	(64)	—
Retained earnings, end of period	5,821	2,587	5,821	2,587
Earnings per share				
Basic	0.04	0.05	0.07	0.07
Diluted	0.04	0.05	0.07	0.07
Weighted average number of shares outstanding				
Basic	14,846,483	14,829,954	14,852,728	14,916,400
Diluted	14,856,774	14,935,709	14,862,999	14,908,438

STATEMENTS OF CASH FLOWS

[In thousands of Canadian dollars]

[unaudited]

	Three-month period ended		Six-month period ended	
	2005	June 30 2004	2005	June 30 2004
	\$	\$		
Operating activities				
Net income	585	681	1,084	1,025
Add items not affecting cash				
Amortization	1,111	1,125	2,212	1,933
Stock based compensation expense	125	82	192	218
Future income taxes	302	75	567	150
Unrealized foreign exchange (gain) loss	(1)	—	(18)	—
	2,122	1,963	4,037	3,326
Net change in non-cash balances relating to operations	(142)	(1,411)	33	(5,222)
Cash flows from (used in) operating activities	1,980	552	4,070	(1,896)
Investing activities				
Additions to pharmaceutical product licenses, rights, intellectual property and deferred charges	(807)	(519)	(1,009)	(1,942)
Acquisition of property, plant and equipment	(12)	(2)	(19)	(2)
Purchases of short-term marketable securities	(18,722)	(14,016)	(19,918)	(16,769)
Maturities of short-term marketable securities	21,112	21,173	24,384	29,605
Purchases of long-term marketable securities	(1,483)	(1,902)	(1,983)	(3,698)
Cash flows from investing activities	88	4,734	1,455	7,194
Financing activities				
Common shares issued for cash	12	217	25	254
Accounts payable related to the acquisition of intellectual property and deferred charges	(234)	(1,039)	(598)	(2,483)
Repurchase of shares	(482)	—	(482)	—
Repayment of share purchase loan	20	20	20	20
Cash flows used in financing activities	(684)	(802)	(1,035)	(2,209)
Effect of exchange rate change on cash and cash equivalents	3	—	(5)	—
Net change in cash and cash equivalents during the period	1,387	4,484	4,485	3,089
Cash and cash equivalents, beginning of period	4,605	596	1,507	1,991
Cash and cash equivalents, end of period	5,992	5,080	5,992	5,080
Cash and cash equivalents	5,992	5,080		
Short-term marketable securities	36,651	30,801		
Long-term marketable securities	1,483	2,617		
	44,126	38,498		