



## NEWS RELEASE

### **PALADIN REPORTS RECORD REVENUE FOR THIRD QUARTER**

#### **- Sales of key promoted brands grew 80% during third quarter -**

**Montreal, Canada, October 27, 2005** – Paladin Labs Inc. (TSX: PLB), a leading Canadian specialty pharmaceutical company, today reported its financial results for the three and nine-month periods ended September 30, 2005. The Company achieved record revenue for the third quarter and first nine months of 2005 and is well positioned to achieve its 10<sup>th</sup> consecutive year of record revenues in 2005.

#### **Third Quarter 2005 Highlights**

- Revenue totaled a record \$9.2 million, a 16% increase compared to Q3 2004
- Sales of key promoted brands, including Dostinex<sup>®</sup>, Estring<sup>®</sup>, Oxytrol<sup>®</sup>, Plan B<sup>®</sup> and Twinject<sup>™</sup> grew 80% compared to the corresponding period a year ago
- Launched Twinject<sup>™</sup> in Canada
- Acquired Canadian license for Pennsaid<sup>®</sup>
- Established Licensing Advisory Board (LAB)
- Subsequent to the third quarter, Paladin entered into a Canadian license and distribution agreement with Duramed Pharmaceuticals, Inc., a wholly-owned subsidiary of Barr Pharmaceuticals, Inc. for Seasonale<sup>®</sup>
- Subsequent to the third quarter, appointed Mr. Michael Freeman, Vice-President of Government Affairs

“This quarter’s record revenues was the result of strong performance of our key promoted brands which increased 80% compared to the corresponding period a year ago. In the last twelve months, I am pleased to report Paladin has launched Twinject<sup>™</sup>, Oxytrol<sup>®</sup> and the re-launch of Plan B<sup>®</sup> as a non-prescription product. In 2006, Paladin will be launching more products, including Trelstar<sup>®</sup> and Vantas<sup>™</sup>, two products for the treatment of prostate cancer. In addition, we continue to strengthen our product pipeline for long term growth with the addition of Seasonale<sup>®</sup>,” said Jonathan Ross Goodman, President & CEO of Paladin Labs.

#### **Financial Results**

Revenue for the three months ended September 30, 2005 increased 16% to \$9.2 million compared to \$7.9 million in the third quarter of 2004. Revenue for the nine months ended September 30, 2005 increased 18% to \$23.6 million compared to \$19.9 million in the corresponding period a year ago. Revenue from the Company’s key promoted brands including, Dostinex<sup>®</sup>, Estring<sup>®</sup>, Oxytrol<sup>®</sup>, Plan B<sup>®</sup> and Twinject<sup>™</sup> increased by 61% in the first nine months of 2005 compared to the same period a year ago and 80% in the third quarter of 2005 compared to the third quarter last year.

Paladin’s earnings before interest, taxes, depreciation, and amortization (EBITDA<sup>1</sup>) remained steady at \$2.6 million for the third quarter of 2005 and the third quarter of 2004. For the nine months ended September 30, 2005, EBITDA increased to \$6.5 million compared to EBITDA of \$5.9 million in the first nine months of 2004.

Net income for the third quarter was \$808,000 or \$0.05 per fully diluted share compared to net income of \$1.0 million or \$0.07 per fully diluted share in the third quarter a year ago. Net income for the nine

months ended September 30, 2005 was \$1.9 million or \$0.13 per fully diluted share, compared to net income of \$2.1 million or \$0.14 per fully diluted share in the same period a year ago.

Gross profit, as a percentage of revenues, for the third quarter and nine months ended September 30, 2005 totalled 74% compared to 72% and 74% respectively for the third quarter and nine months ended September 30, 2004.

Selling and marketing expense for the third quarter of 2005 increased to \$3.3 million compared to \$1.9 million in the third quarter of 2004. Selling and marketing expense for the first nine months of 2005 increased to \$8.4 million from \$5.1 million in the first nine months of 2004. Increased selling and marketing expenses in 2005 have resulted primarily from increased promotion activities behind the launch of Twinject™, Oxytrol® and the re-launch of Plan B® as a non-prescription product.

At September 30, 2005, Paladin's cash, cash equivalents and investments in marketable securities totalled \$39.2 million. From this strong cash position, Paladin continues to pursue product acquisition opportunities.

### **Product Developments**

Paladin announced the Canadian launch of Twinject™ (epinephrine) following the Canadian marketing and supply agreement with Verus Pharmaceuticals, Inc. 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.

The Company announced the acquisition of the Canadian license for Pennsaid® through the acquisition of Dimethaid Health Care Ltd. (DHCL), a subsidiary of Nuvo Research Inc. (TSX: DMX), formerly Dimethaid Research Inc. Pennsaid® is a lotion approved by Health Canada for the treatment of symptoms of knee osteoarthritis.

Subsequent to the third quarter, Paladin announced a license and distribution agreement with Duramed Pharmaceuticals, Inc. a wholly-owned subsidiary of Barr Pharmaceuticals, Inc. granting Paladin an exclusive Canadian license for Seasonale® extended-cycle oral contraceptive.

### **Corporate Developments**

During the quarter, Paladin furthered its core capabilities in the sourcing and assessment of licensing and development candidates through the establishment of its Licensing Advisory Board (LAB). Appointed to the LAB are the following Canadian key thought leaders: (1) Dr. Neil Fleshner MD, MPH, FRCSC, Head of the Division of Urology at the University Health Network in Toronto (incorporating Princess Margaret Hospital) and Associate Professor at the University of Toronto, (2) Dr. Robert L. Reid MD, Professor, Department of Obstetrics and Gynecology and Chief, Division of Reproductive Endocrinology at Queen's University in Kingston, Ontario, and (3) Dr. Luc Valiquette MD, FRCSC, Full Clinical Professor in the Department of Surgery at the Université de Montréal and Chief of Urology Department at the CHUM. "We are thrilled to have the opportunity to actively collaborate with Drs. Fleshner, Reid and Valiquette in building an exciting and rich product portfolio and pipeline for Paladin," said Mark Nawacki, Paladin's Vice President of Business Development. "The LAB will be a critical component of our business development process and will ensure that Paladin is at the leading edge of scientific and clinical evaluation of acquisition and licensing candidates. Given the critical importance of the LAB function, we look forward to announcing further appointments and expanding our collaborations with an even broader group of clinical experts in therapeutic areas of strategic interest to Paladin." Further information about the LAB, together with members' biographies, will be available shortly on the Paladin web site.

Subsequent to the quarter, Paladin appointed Mr. Michael Freeman as Vice-President, Government Affairs. Mr. Freeman joined Paladin in 2000 as Group Product Director, Urology. He was promoted to Director of Marketing in November 2003, and has played an active role in the recent launches of Oxytrol<sup>®</sup> and Twinject<sup>™</sup>, as well as the re-launch of Plan B<sup>®</sup> as a non-prescription product. Before joining Paladin, Mr. Freeman held the position of Group Product Director at Johnson & Johnson Consumer (Canada), and was responsible for the Wound Care and Dental franchises. Mr. Freeman holds an M.B.A. degree from Queen's University, as well as an LL.B. from the University of Western Ontario. Prior to pursuing his M.B.A. studies, Mr. Freeman practiced law in Ottawa.

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 maintaining revenue guidance for fiscal 2005 of \$29 million to \$30 million. 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 financial performance.

### **Conference Call Notice**

Paladin will host a conference call to discuss its third quarter results today at 10:00 a.m. EST. The dial-in number for the conference call is 1-888-789-0150 or 416-695-6120. The call will be audio-cast live and archived for 90 days at [www.paladinlabs.com](http://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](http://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 section of the Company's Annual Report and Annual Information Form.*

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## CONSOLIDATED BALANCE SHEET

[In thousands of Canadian dollars]

	September 30 2005 \$	December 31 2004 \$
	(unaudited)	
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	2,353	1,507
Short-term marketable securities	36,863	36,039
Accounts receivable	6,650	5,878
Inventories	2,613	2,718
Income tax credits receivable	827	—
Other current assets	686	735
Future income tax assets	1,124	600
<b>Total current assets</b>	<b>51,116</b>	<b>47,477</b>
Long-term marketable securities	—	4,578
Property, plant and equipment	55	77
Intangible assets	11,396	11,065
Deferred charges	3,943	4,176
Investments	1,434	1,433
Future income tax credits recoverable	457	439
Future income tax assets	5,214	1,715
	<b>73,615</b>	<b>70,960</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	6,251	4,723
Accounts payable to related parties	838	1,754
Income taxes payable	450	229
Balance of license agreements payable	464	1,062
Balance of sale payable	227	—
<b>Total current liabilities</b>	<b>8,230</b>	<b>7,768</b>
<b>Long-Term</b>		
Balance of sale payable	470	—
<b>Shareholders' equity</b>		
Capital stock	57,482	57,837
Other paid-in capital	804	554
Retained earnings	6,629	4,801
<b>Total shareholders' equity</b>	<b>64,915</b>	<b>63,192</b>
	<b>73,615</b>	<b>70,960</b>

## CONSOLIDATED STATEMENTS OF INCOME

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

[unaudited]

	Three-month period ended September 30		Nine-month period ended September 30	
	2005 \$	2004 \$	2005 \$	2004 \$
Revenues	9,196	7,938	23,570	19,932
Cost of sales	2,357	2,259	6,159	5,211
<b>Gross profit</b>	<b>6,839</b>	<b>5,679</b>	<b>17,411</b>	<b>14,721</b>
Selling and marketing	3,262	1,898	8,447	5,115
General and administrative	808	655	2,469	2,124
Research and development	666	774	1,279	2,452
Amortization of intangible assets and deferred charges	1,273	1,109	3,455	3,010
Interest income, net	(339)	(267)	(966)	(866)
Other Income	(37)	—	(147)	—
<b>Income before income taxes</b>	<b>1,206</b>	<b>1,510</b>	<b>2,874</b>	<b>2,886</b>
Provision for income taxes				
Current	—	25	—	75
Future	398	447	982	748
	398	472	982	823
<b>Net income</b>	<b>808</b>	<b>1,038</b>	<b>1,892</b>	<b>2,063</b>
<b>Earnings per share</b>				
Basic	0.05	0.07	0.13	0.14
Diluted	0.05	0.07	0.13	0.14
<b>Weighted average number of shares outstanding</b>				
Basic	14,757,260	14,851,775	14,820,555	14,828,278
Diluted	14,835,682	14,909,415	14,851,610	14,908,868

## CONSOLIDATED STATEMENTS OF CASH FLOWS

[In thousands of Canadian dollars]

[unaudited]

	Three-month period ended September 30		Nine-month period ended September 30	
	2005 \$	2004 \$	2005 \$	2004 \$
<b>Operating activities</b>				
Net income	808	1,038	1,892	2,063
Add items not affecting cash				
Amortization	1,416	1,124	3,628	3,057
Stock based compensation expense	66	62	258	280
Future income taxes	861	408	1,429	558
Unrealized foreign exchange loss (gain)	2	—	(15)	—
	<b>3,153</b>	<b>2,632</b>	<b>7,192</b>	<b>5,958</b>
Net change in non-cash balances relating to operations	(127)	(139)	(94)	(5,360)
Cash flows from operating activities	<b>3,026</b>	<b>2,493</b>	<b>7,098</b>	<b>598</b>
<b>Investing activities</b>				
Additions to pharmaceutical product licenses, rights, intellectual property and deferred charges	(202)	(519)	(1,211)	(2,460)
Acquisition of property, plant and equipment	(5)	(2)	(23)	(4)
Purchases of short-term marketable securities	(9,632)	(7,895)	(29,550)	(24,664)
Maturities of short-term marketable securities	10,903	7,748	35,287	36,272
Purchases of long-term marketable securities	—	(1,468)	(1,983)	(4,086)
Business acquisition	(7,748)	—	(7,748)	—
Cash flows (used in) from investing activities	<b>(6,684)</b>	<b>(2,136)</b>	<b>(5,228)</b>	<b>5,058</b>
<b>Financing activities</b>				
Common shares issued for cash	18	14	42	267
Accounts payable related to the acquisition of intellectual property and deferred charges	—	(1,039)	(598)	(3,522)
Repurchase of shares	—	—	(482)	—
Repayment of share purchase loan	—	—	20	20
Cash flows from (used in) financing activities	<b>18</b>	<b>(1,025)</b>	<b>(1,018)</b>	<b>(3,235)</b>
Effect of exchange rate change on cash and cash equivalents	1	—	(6)	—
<b>Net change in cash and cash equivalents during the period</b>	<b>(3,639)</b>	<b>(668)</b>	<b>846</b>	<b>2,421</b>
Cash and cash equivalents, beginning of period	5,992	5,080	1,507	1,991
<b>Cash and cash equivalents, end of period</b>	<b>2,353</b>	<b>4,412</b>	<b>2,353</b>	<b>4,412</b>
Cash and cash equivalents	2,353	4,412		
Short-term marketable securities	36,863	30,948		
Long-term marketable securities	—	4,086		
	<b>39,216</b>	<b>39,446</b>		