

PALADIN LABS INC.
CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007



Management Discussion and Analysis:

All numbers are in thousands of Canadian dollars except for share and per share amounts

This management's discussion and analysis provides our overview of the Company's operations, performance and financial condition for the quarter ended September 30, 2007 and compares these unaudited quarterly results to those of the quarter ended September 30, 2006. It is intended to complement and supplement financial information included in the interim and annual consolidated financial statements, related notes, other financial information found elsewhere in our annual report and in our annual information form or other documents filed on SEDAR at www.sedar.com. As a result, it should be read in conjunction with such financial information. This management's discussion and analysis is current as at October 31, 2007 and 14,878,369 shares and 975,403 options were issued and outstanding as at this date. Reference to "Paladin" or the "Company" includes Paladin Labs Inc. and all its subsidiaries.

Forward-Looking Statements

This document contains forward-looking statements, which reflect the Company's current expectations regarding future events. The forward-looking statements involve risk and uncertainties, including the difficulty in predicting product approvals, acceptance and demand for new pharmaceutical products, the impact of competitive products and pricing, new product development and launch, availability of raw materials, the regulatory environment, fluctuations in operating results and other risks. Many risks are inherent in the pharmaceutical industry; others are more specific to Paladin. For additional information on risks and uncertainties relating to these forward-looking statements, investors should consult the Company's ongoing quarterly filings, annual reports and annual information form and other filings found on SEDAR.

Overview

Paladin is a specialty pharmaceutical company focused on developing, acquiring, in-licensing, marketing, and distributing innovative pharmaceutical products.

Third quarter highlights:

- Revenues reached \$16,935, an increase of 33% over the same period last year
- Net income was \$828, a decrease of 57% over the same period last year
- Cash flows from operations reached \$5,634, a 30% increase over the same period last year
- EBITDA¹ was \$5,074, an increase of 7% over the same period last year
- Approval by Health Canada of SeasonaleTM, the first and only extended-cycle oral contraceptive available in Canada
- Licensed and launched TriduralTM, Labopharm's once daily tramadol for patients with moderate pain who require treatment for several days or more
- Expanded an exclusive Canadian distribution agreement with Shire Human Genetic Therapies, Inc. (LSE: SHP, NASDAQ: SHPGY, TSX: SHQ) to include the distribution of ElapraseTM (idursulfase) for Hunter syndrome.
- Entered into an exclusive license and distribution agreement with Glide Pharmaceutical Technologies Limited (Glide PharmaTM) to develop and market Glide Pharma's innovative Glide SDITM (Solid Dose Injector) needle-free drug delivery products in Canada.

Paladin's annual and quarterly operating results are primarily affected by the level of acceptance of Paladin's products by physicians and their patients, and the timing and number of product launches. The level of patient and physician acceptance of Paladin's products, the acceptance of provincial government reimbursement on such products, market access, as well as the availability of similar therapies, impact Paladin's revenues by driving the level and timing of prescriptions for its products. Each new product launch requires significant promotional investment during the first three to five years from launch.

¹ EBITDA – Non-GAAP financial measures

The term EBITDA (earnings before interest, taxes, depreciation and amortization) does not have any standardized meaning under Canadian Generally Accepted Accounting Principles ("GAAP") and therefore may not be comparable to similar measures presented by other companies. The Company defines EBITDA as earnings before interest expense, taxes, amortization, and unusual items; such as write-downs and gains (losses) on intellectual property and investments. EBITDA is calculated and presented consistently from period to period and agrees, on a consolidated basis, with the amount disclosed as "*Earnings before under-noted items*" on the consolidated statement of income. The Company believes EBITDA to be an important measurement that allows it to assess the operating performance of its ongoing business on a consistent basis without the impact of depreciation and amortization expenses. The Company excludes depreciation and amortization expenses because their level depends substantially on non-operating factors such as the historical cost of capital assets. The Company's method for calculating EBITDA may differ from that used by other issuers and, accordingly, this measure may not be comparable to EBITDA used by other issuers.

Critical Accounting Estimates

Paladin's consolidated financial statements are prepared in accordance with Canadian GAAP, applied in a consistent basis. Paladin's critical accounting estimates include revenue recognition, inventory valuation, the recording of research and development expenses and related tax credits, the useful lives and fair value of intangible assets, stock based compensation expense and income taxes. For a more detailed discussion of the Company's critical accounting, please refer to the management's discussion & analysis included in the Company's 2006 Annual Report. There have been no material changes to accounting estimates since December 31, 2006.

Results of Operations

Three-month period ended September 30, 2007 compared to three-month period ended September 30, 2006, and nine-month period ended September 30, 2007 compared to nine-month period ended September 30, 2006.

Revenues

Revenues increased \$4,233 or 33% to \$16,935 for the three-month period ended September 30, 2007 from \$12,702 for the three-month period ended September 30, 2006. For the nine-month period ended September 30, 2007, revenues increased \$11,189 or 33% to \$45,264 from \$34,075 for the nine-month period ended September 30, 2006. Revenue from products acquired during 2007 contributed \$1,340 to the quarter ended September 30, 2007 and \$2,011 to the nine-month period ended September 30, 2007. During the quarter ended September 30, 2007, as per the Company's revenue recognition policy regarding new product launches, a revenue deferral of \$230 was recorded.

The increase in revenues for the three and nine-month periods ended September 30, 2007 is primarily attributable to the sales growth of certain significant promoted products, including Twinject[®], Oxytrol[®], Plan B[®], Pennsaid[®], Metadol[®], Trelstar[®], and Testim[®] which combined increased by 36% and 51% compared to the three and nine-month periods ended September 30, 2006, respectively.

Product revenue highlights for the Company's most significant promoted products using IMS Canada data² for the quarter ended September 30, 2007 compared to the quarter ended September 30, 2006 are as follows: Plan B[®] sales grew \$242 to \$1,622 from \$1,380, Twinject[®] sales grew \$817 to \$2,030 from \$1,213, Pennsaid[®] sales declined \$101 to \$2,731 from \$2,832, Oxytrol[®] sales declined \$18 to \$320 from \$338 and Metadol[®], Trelstar[®] and Testim[®], having been launched post the prior year comparative, contributed \$1,636 in sales growth. Similarly, product revenue highlights for the Company's most significant promoted products using IMS Canada data for the nine-month period ended September 30, 2007 compared to the nine-month period ended September 30, 2006 are as follows: Plan B[®] sales grew \$557 to \$4,417 from \$3,860, Twinject[®] sales grew \$1,643 to \$4,660 from \$3,017, Pennsaid[®] sales declined \$120 to \$7,886 from \$8,006, Oxytrol[®] sales declined \$45 to \$944 from \$989 and Metadol[®], Trelstar[®] and Testim[®], having been launched post the prior year comparative, contributed \$1,362 in sales growth.

Gross Profit

Total gross profit increased \$2,995 or 31% to \$12,705 for the three-month period ended September 30, 2007 from \$9,710 for the three-month period ended September 30, 2006. For the nine-month period ended September 30, 2007, gross profit increased \$9,006 or 35% to \$34,828 from \$25,822 for the nine-month period ended September 30, 2006. Gross profit, as a percentage of revenues, decreased to 75% from 76% for the three-month period ended September 30, 2007 compared to the three-month period ended September 30, 2006. For the nine-month period ended September 30, 2007, gross profit as a percentage of revenues increased to 77% from 76% for the same period ended September 30, 2006. The decrease in gross profit as a percentage of revenues for the three-month period ended September 30, 2007 is a result of the impact of lower margins from the BioEnvelop[™] edible film business recently acquired (see note 7). For the nine-month period ended September 30, 2007, the increase in gross profit as a percentage of revenues resulted from the launch of new products yielding a higher gross profit margin, the effect of terminating a co-promotion agreement which previously shared Pennsaid[®] revenues and the change in the proportion of products sold for which the Company earns a distribution fee and consequently does not incur cost of sales related to these products. It is expected that gross profit, as a percentage of revenues, will approximate 76% to 78% for the year ending December 31, 2007.

Selling and Marketing Expense

Selling and marketing expense increased \$1,478 or 39% to \$5,316 for the three-month period ended September 30, 2007 from \$3,838 for the three-month period ended September 30, 2006. For the nine-month period ended September 30, 2007, selling and marketing increased \$3,503 or 32% to \$14,487 from \$10,984 for the nine-month period ended September 30, 2006. Selling and marketing expense, as percentage of revenues, increased to 31% for the three-month period ended September 30, 2007 from 30% for the same period last year. For the nine-month period ended September 30, 2007, selling and marketing expense, as a percentage of revenues remained steady at 32% compared to the same period ended September 30, 2006. The increase in the current year's third quarter selling and marketing expenses as a percentage of revenues is primarily the result of the launch of Seasonale[™] and Tridural[™] during the period. The promotional activities driving selling and marketing costs primarily relate to Paladin's launch of Pennsaid[®], Metadol[®], Trelstar[®], PravASA[®], Testim[®], Seasonale[™], and Tridural[™], as well as the continued promotion activities for Twinject[®], Plan B[®], and Oxytrol[®].

General and Administrative Expense

General and administrative expense increased \$235 or 19% to \$1,458 for the three-month period ended September 30, 2007 from \$1,223 for the three-month period ended September 30, 2006. For the nine-month period ended September 30, 2007, general and administrative expense increased \$526 or 15% to \$4,120 from \$3,594 for the nine-month period ended September 30, 2006. General and administrative expense, as percentage of revenues, decreased to 9% for the three-month period ended September 30, 2007 from 10% in the three-month period ended September 30, 2006. Similarly, general and administrative expense, as a percentage of revenues, decreased to 9% for the nine-month period ended September 30, 2007 from 11% for the same period ended September 30, 2006. General and administrative expense, as a percentage of revenues, is expected to approximate 9% to 11% for the year ending December 31, 2007.

² The Company has chosen not to disclose detailed product revenue information for competitive reasons, however, does include detailed IMS Canada sales data to allow the reader to better understand revenue changes from period to period.

Research and Development Expense

Research and development expense increased \$874 or 256% to \$1,216 for the three-month period ended September 30, 2007 from \$342 for the three-month period ended September 30, 2006. For the nine-month period ended September 30, 2007, research and development expense increased \$1,201 or 106% to \$2,331 from \$1,130 for the nine-month period ended September 30, 2006. During the three and nine-month periods ended September 30, 2007 and 2006, Paladin's research and development efforts have been to search and explore potential product opportunities for internal development. The increase for the three and nine-month periods ended September 30, 2007 primarily relate to certain payments for contractual payments for clinical studies and product submission fees; the on-going research and development efforts in BioEnvelop™ (see note 7) and an increased in head-count.

Amortization

Amortization expense increased \$1,834 or 114% to \$3,437 for the three-month period ended September 30, 2007 from \$1,603 for the three-month period ended September 30, 2006. For the nine-month period ended September 30, 2007, amortization expense increased \$4,115 or 79% to \$9,329 from \$5,214 for the nine-month period ended September 30, 2006. This increase in amortization expense is the result of the amortization related to the Company's newly acquired pharmaceutical product licenses and rights.

Net Interest Income

Net interest income decreased \$76 or 17% to \$359 for the three-month period ended September 30, 2007 from \$435 for the three-month period ended September 30, 2006. This decrease is primarily the result of lower average cash and marketable securities balances partially offset by higher interest rates over the three-month period ended September 30, 2007 compared to the three-month period ended September 30, 2006. For the nine-month period ended September 30, 2007, net interest income increased \$63 or 6% to \$1,098 from \$1,035 for the nine-month period ended September 30, 2006. This increase is due to the netting of certain interest payments the Company was required to disburse to interest income in 2006. The Company did not incur such interest expense for the period ended September 30, 2007. In addition, upon adoption of Section 3855 - *Financial Instruments, Recognition and Measurement*, the Company has accreted interest income on the allocated loan portion of a secured convertible term note investment in a portfolio company, in the amount of \$57 (\$21 for the three-month period ended September 30, 2007).

Net Unrealized Loss on Derivative Instruments

Upon adoption of Section 3855, as described above, the Company using the Black-Scholes option pricing model determined the fair value of the conversion option on the secured convertible term note investment in a portfolio company as at January 1, 2007, and subsequently re-measured it as at September 30, 2007. The Company recognized an unrealized loss for the conversion option on the note for \$41 and \$351 for the three and nine-month periods ended September 30, 2007, respectively. In addition, for the three and nine-month period ended September 30, 2007, the Company recognized an unrealized gain on a contingent stock right received from a portfolio investment in the amount of \$10 and \$76, respectively. During the three-month period ended September 30, 2007, this contingent stock right was exercised and converted into common shares of the portfolio company and has been subsequently revalued as a portfolio investment. The effect is a net unrealized loss on derivative instruments of \$31 and \$275 for the three and nine-month periods ended September 30, 2007, respectively.

Gain on Disposal of Investment

During the nine-month period ended September 30, 2007, the Company exercised its right to convert \$158 of a secured convertible term note in one of the Company's portfolio investments into common shares and subsequently sold such shares in the public market for \$232, representing a gain of \$74.

Other Income

Other income was \$nil for the three-month period ended September 30, 2007 and 2006. For the nine-month period ended September 30, 2007, other income was \$nil compared to \$724 for the same period last year which related to a stock dividend received during the period from one of the Company's portfolio investments.

Income Tax Expense

Income tax expense decreased \$453 or 37% to \$778 for the three-month period ended September 30, 2007 from \$1,231 for the three-month period ended September 30, 2006. For the nine-month period ended September 30, 2007, income tax expense decreased \$58 or 2% to \$2,329 from \$2,387 for the nine-month period ended September 30, 2006. For the three and nine-month periods ended September 30, 2007, the effective tax rate was 48% and 43%, respectively, compared to 39% and 36% for the three and nine-month period ended September 30, 2006. The increase in effective rates in the current year is due to increases in permanent differences including stock option compensation expense and amortization of eligible capital property. The Company has the following tax pools detailed below which may be applied against taxable income:

	Available \$	Recognized \$	Expires in
Non-capital tax losses			
Federal	20,123	14,258	2009-2025
Provincial	16,614	10,749	2009-2025
Scientific Research and Experimental Development expenditures			
Federal	11,894	2,124	N/A
Provincial	13,565	3,806	N/A
Capital losses			
Federal	198	—	N/A
Provincial	891	—	N/A
Investment tax credits			
Federal	2,989	518	2008-2015

Net Income before Extraordinary Gain

Due to the factors set forth above, net income before extraordinary gain decreased \$1,080 to \$828 for the three-month period ended September 30, 2007 compared to net income of \$1,908 for the same period last year. Similarly, due to the factors set forth above, for the nine-month period ended September 30, 2007, net income before extraordinary gain decreased \$1,143 to \$3,129 from \$4,272 for the same period last year.

Extraordinary Gain (net of \$nil taxes)

On April 30, 2007, the Company acquired all of the issued and outstanding shares of BioEnvelop Inc. ("BioEnvelop"), a subsidiary of BioEnvelop Technologies Inc. (TSX VENTURE: BIE), for a total consideration of \$1,993 consisting of the assumption of a note payable in BioEnvelop which was immediately repaid. The total purchase price of \$1,993 was preliminarily allocated to the fair value of the net assets acquired in the amount of \$7,077, representing negative goodwill in the amount of the excess of \$5,084. The Company, as per applicable accounting standards, eliminated the value previously assigned to certain prescribed assets in the amount of \$210 against the excess of the amounts assigned to assets acquired and liabilities assumed over the cost of the purchase above. The remaining excess is presented as an extraordinary gain in the amount of \$4,874 (see note 7).

Net Income

Due to the factors set forth above, net income decreased \$1,080 to \$828 for the three-month period ended September 30, 2007 compared to net income of \$1,908 for the same period ended last year. Similarly, due to the factors set forth above, for the nine-month period ended September 30, 2007, net income increased \$3,731 to \$8,003 from \$4,272 for the same period last year.

Liquidity and Capital Resources

The Company believes that its existing cash and cash equivalents and short-term marketable securities, as well as cash generated from operations, are sufficient to finance its current operations and working capital needs and future product acquisitions. At present, the Company is actively pursuing product acquisitions that may require the use of substantial capital resources.

Paladin's cash, cash equivalents and marketable securities decreased \$3,357 to \$32,717 at September 30, 2007 from \$36,074 at December 31, 2006. This decrease is primarily as a result of the Company's acquisition of pharmaceutical product licenses and rights, and deferred charges in the amount of \$13,291, the purchase of 342,400 of the Company's shares pursuant to the terms of the normal course issuer bid in the amount of \$3,615, the purchase of an investment in a portfolio company in the amount of \$801, the purchase of BioEnvelop Inc. in the amount of \$650 (see note 7), offset by cash flows generated from operating activities in the amount of \$13,760. Working capital (current assets less current liabilities) increased \$1,267 to \$44,939 at September 30, 2007 from \$43,672 at December 31, 2006 primarily due to increases in accounts receivable and inventory balances.

The Company's Investment Policy regulates the investment activities relating to cash resources. An Investment Committee composed of representatives from management and the Board of Directors monitors compliance with said policy. The Company invests strictly in liquid, high-grade investment securities with varying terms to maturity, selected with regard to the expected timing of investments and expenditures for continuing operations and prevailing interest rates. As at September 30, 2007, there were no restrictions on the flow of these funds nor have any of these funds been committed in any way.

Cash flows from operating activities increased 30% or \$1,304 to \$5,634 for the three-month period ended September 30, 2007 from \$4,330 for the three-month period ended September 30, 2006. Cash flows from operating activities for the nine-month period ended September 30, 2007 increased \$4,473 or 48% to \$13,760 compared to \$9,287 for the nine-month period ended September 30, 2006. Cash flows from operating activities represent the cash flows from net earnings, excluding revenues and expenses not affecting cash, principally amortization, future income taxes, stock based compensation expense, gains (losses) on investments and derivative instruments, stock dividend income, and accreted interest.

Cash flows from investing activities were \$3,087 compared to cash flows used of \$5,038 for the three-month period ended September 30, 2007 and 2006, respectively. During the three-month period ended September 30, 2007, the Company invested \$1,533 towards the acquisition of pharmaceutical product licenses and rights, \$801 towards an investment in a portfolio company, \$51 for the acquisition of property, plant and equipment, partially offset by proceeds from maturing marketable securities in the amount of \$5,472. During the three month period ended September 30, 2006, the Company invested \$203 towards the acquisition of pharmaceutical product licenses, rights and deferred charges, \$19,703 towards the purchase of short-term marketable securities offset by cash generated by maturing marketable securities in the amount of \$14,869.

Cash flows used in investing activities were \$4,462 compared to \$8,888 for the nine-month period ended September 30, 2007 and 2006, respectively. During the nine-month period ended September 30, 2007, the Company invested \$13,291 towards the acquisition of pharmaceutical product licenses, rights and deferred charges, \$801 towards an investment in a portfolio company, \$650 towards the acquisition of BioEnvelop Inc. further described in note 7 and \$122 towards the acquisition of property plant and equipment, partially offset by cash generated by maturing marketable securities in the amount of \$10,170 and proceeds from the disposal of an investment in a portfolio company in the amount of \$232. For the nine-month period ended September 30, 2006, the Company purchased short-term marketable securities in the net amount of \$4,491, invested \$3,857 in acquisitions of pharmaceutical product licenses, rights and deferred charges, \$500 in the form of an investment in a portfolio company and \$40 towards the acquisition of property plant and equipment.

Cash flows used in financing activities were \$3,185 compared to cash flows from financing activities of \$88 for the three-month period ended September 30, 2007 and 2006, respectively. During the three-month period ended September 30, 2007, \$3,242 was used by the Company to repurchase 304,600 of its own common shares under the terms of the normal course issuer bid, offset by \$57 received from common stock option exercises and the issuance of common shares under the stock purchase plan for cash. For the three-month period ended September 30, 2006, \$155 was generated from common stock option exercises and the issuance of common shares under the stock purchase plan for cash, offset by \$67 used by the Company to repurchase 8,800 of its own shares under the terms of the normal course issuer bid.

Cash flows used in financing activities were \$2,678 compared to cash flows from financing activities of \$935 for the nine-month period ended September 30, 2007 and 2006, respectively. During the nine-month period ended September 30, 2007, \$3,615 was used by the Company to repurchase 342,400 of its own common shares under the terms of the normal course issuer bid, offset by \$937 received from common stock option exercises and the issuance of common shares under the stock purchase plan for cash. During the nine-month period ended September 30, 2006, \$1,002 was generated from common stock option exercises and the issuance of common shares under the stock purchase plan for cash offset by \$67 used by the Company to repurchase 8,800 of its own common shares under the terms of the normal course issuer bid.

Related Party Transactions

Joddes Limited ["Joddes"], a private Canadian corporation, is a significant shareholder holding approximately 43% of the outstanding shares of the Company, and one director of the Company, the Company's President and CEO, is related to Joddes.

The Company engages a wholly-owned subsidiary of Joddes to provide logistics services including: customer service, warehousing, shipping, invoicing, collection services and certain manufacturing services on behalf of the Company. The Company also engages this affiliate to perform certain research and development services on a contractual pay-for-use basis. The Company also leases its office facilities from another wholly owned subsidiary of Joddes. This lease is for a period of 10 years, ending in 2013 and includes minimum annual payments of \$136.

Effective November 1, 2006, the Company acquired the Canadian distribution rights to Metadol[®] from a wholly-owned subsidiary of Joddes for cash consideration of \$15,000. Under the terms of the agreement, the Company can purchase the Canadian license for Metadol[®] on the fourth anniversary of the agreement for \$1 and can receive a reimbursement of up to \$3,750 subject to certain acquisition related conditions. As at October 31, 2007, the Company has not received or earned any reimbursement.

All transactions with related parties are carried out in the normal course of operations, and are recorded at an agreed upon exchange amount. The accounts payable to related parties is on normal commercial terms and conditions and is non-interest bearing.

The table below reflects all transactions and services with related parties which include those referred to in the agreements described above as well as revenues from a wholly-owned subsidiary of Joddes:

	Three-month period		Nine-month period	
	ended September 30		ended September 30	
	2007	2006	2007	2006
	\$	\$	\$	\$
Revenues	300	163	593	529
Purchases	5,253	3,035	11,209	7,678
Research and development expenses	89	52	230	125
Sales and marketing expenses	971	663	2,559	1,958
General and administrative expenses	88	68	238	235

Risk Factors

For a more detailed discussion of the risk factors that could materially affect the results of operations and the financial condition of the Company, please refer to the Company's Annual Information Form.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the Company's financial condition, changes in revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that are material to investors.

Contractual Obligations and Commitments

In the normal course of business, Paladin secures development, sales, marketing and distribution rights to innovative drug products and has entered into various agreements which include contractual obligations extending beyond the current year. In addition, under certain agreements, Paladin may have to pay additional consideration should the Company achieve certain sales volumes or if certain milestones are met, such as regulatory approval in Canada. The Company has the following contractual obligations and commitments related to product license, trademark and distribution agreements:

	Contractual Obligations		Commitments	
	Purchase and service based commitments	Milestone based commitments	Revenue based commitments	
	\$	\$	\$	\$
October 1, 2007 – December 31, 2007	3,385	—	—	—
Fiscal 2008 – fiscal 2010	19,405	1,885	1,385	1,385
Fiscal 2011 – fiscal 2012	2,422	710	1,182	1,182
After fiscal 2013	1,585	1,619	12,753	12,753
Total	26,797	4,214	15,320	15,320

Quarterly Information (unaudited)

(In thousands of Canadian dollars except per share information)

	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	F2007	F2007	F2007	F2006	F2006	F2006	F2006	F2005
Revenues	16,935	15,436	12,893	14,282	12,702	11,241	10,132	10,318
EBITDA ¹	5,074	5,094	4,820	4,271	4,742	3,570	2,837	2,901
Earnings before income taxes	1,606	1,786	2,066	2,365	3,139	1,836	1,684	1,764
Net Income	828	5,911	1,264	1,534	1,908	1,214	1,150	1,362
Diluted earnings per share	\$0.05	\$0.38	\$0.08	\$0.10	\$0.13	\$0.08	\$0.08	\$0.09

Paladin's annual and quarterly operating results are primarily affected by the level of acceptance of Paladin's products by physicians and their patients, and the timing and number of product launches. The level of patient and physician acceptance of Paladin's products, the acceptance of provincial government reimbursement on such products, market access, as well as the availability of similar therapies, impact Paladin's revenues by driving the level and timing of prescriptions for its products. Each new product launch requires significant promotional investment during the first three to five years from launch.

New Accounting Standards

On January 1, 2007, the Company retroactively adopted, without restatement of prior periods, the recommendations of the following Sections of the Canadian Institute of Chartered Accountants Handbook: Section 1530, *Comprehensive Income*, Section 3251, *Equity*, Section 3855, *Financial Instruments – Recognition and Measurement*, and Section 3865, *Hedges*. These standards set out, among other things, at what point a financial instrument must be recognized in the balance sheet and in what amount, sometimes using fair value and other times using cost-based measures, in addition to specifying the basis of presentation for the gains and losses on the financial instruments. Based on their classification on the balance sheet, the gains and losses on the financial instruments are recognized in the statement of income or in the newly introduced financial statement, the statement of comprehensive income.

The impact of the adoption of these new standards, as at January 1, 2007, translated into a \$692 increase in accumulated other comprehensive income, a \$162 increase in marketable securities, a \$684 increase in investments in other companies, including the recognition through bifurcation of certain embedded derivatives in investments in secured convertible notes in a portfolio company in the amount of \$526, a \$19 increase in the opening balance of retained earnings, and a \$135 reduction in future income tax assets. Further, the adoption of these new standards has no impact on the Company's cash flows.

The Company refers the reader to note 3 of the Consolidated Interim Financial Statements for the third quarter ended September 30, 2007, for further details regarding the adoption of these standards.

Controls and procedures

In compliance with the Canadian Securities Administrators Multilateral Instrument 52-109, the Company has filed certificates signed by the President and Chief Executive Officer and the Chief Financial Officer that, among other things, report on the design of disclosure controls and procedures and the design of internal control over financial reporting.

Internal control over financial reporting ("ICFR") is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its compliance with Canadian Generally Accepted Accounting Principles in its financial statements. The President and Chief Executive Officer and the Chief Financial Officer of the Company have evaluated whether there were changes to its ICFR during the nine-month period ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, the ICFR. No such significant changes were identified through their evaluation.

**NOTICE TO READER OF THE INTERIM
CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements of Paladin Labs Inc. (the “**Company**”) and the accompanying interim consolidated balance sheet as at September 30, 2007 and the interim consolidated statements of income, other comprehensive income, retained earnings and cash flows for the three-month period then ended are the responsibility of the Company’s management. These consolidated financial statements have not been audited or reviewed on behalf of the shareholders by the independent external auditors, Ernst & Young LLP.

The interim consolidated financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with Canadian generally accepted accounting principles. Readers are cautioned that these interim consolidated statements may not be appropriate for their purposes.

Jonathan Ross Goodman, B.A., LL.B, M.B.A.
President and Chief Executive Officer
Montreal, Canada
October 31, 2007

Samira Sakhia C.A., M.B.A.
Chief Financial Officer
Montreal, Canada
October 31, 2007

CONSOLIDATED BALANCE SHEETS

[In thousands of Canadian dollars]

	September 30 2007 \$	December 31 2006 \$
	(unaudited)	
ASSETS		
Current		
Cash and cash equivalents	9,389	2,769
Marketable securities <i>[notes 3 and 4]</i>	23,328	33,305
Accounts receivable	12,676	9,495
Inventory	6,206	3,635
Other current assets	2,423	1,306
Investment tax credits receivable	323	831
Future income tax asset	5,057	2,550
Total current assets	59,402	53,891
Property, plant and equipment	206	151
Pharmaceutical product licenses and rights	26,971	21,482
Deferred charges	1,990	3,476
Investments <i>[notes 3 and 4]</i>	4,054	3,217
Future income tax asset	4,617	3,634
Total assets	97,240	85,851
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	10,538	8,208
Accounts payable to related parties	3,137	1,274
Deferred revenue	230	—
Balance of sale payable	149	227
Income taxes payable	409	279
Balance of license agreements payable	—	231
Total current liabilities	14,463	10,219
Long-term		
Balance of sale payable	512	494
Future income tax liability	763	1,397
Total liabilities	15,738	12,110
Shareholders' equity <i>[note 5]</i>		
Capital stock	59,703	58,807
Other paid-in capital	1,823	1,223
Retained earnings	19,487	13,711
Accumulated other comprehensive income <i>[notes 3 and 4]</i>	489	—
Total shareholders' equity	81,502	73,741
Total liabilities and shareholders' equity	97,240	85,851

See accompanying notes

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	
	2007	2006	2007	2006
	\$	\$	\$	\$
Revenues	16,935	12,702	45,264	34,075
Cost of sales	4,230	2,992	10,436	8,253
Gross profit	12,705	9,710	34,828	25,822
Expenses (income)				
Selling and marketing	5,316	3,838	14,487	10,984
General and administrative	1,458	1,223	4,120	3,594
Research and development	1,216	342	2,331	1,130
Interest income, net	(359)	(435)	(1,098)	(1,035)
Earnings before under-noted items	5,074	4,742	14,988	11,149
Amortization of intangible assets and deferred charges	3,437	1,603	9,329	5,214
Net unrealized loss on derivative instruments <i>[note 4]</i>	31	—	275	—
Gain on disposal of investment	—	—	(74)	—
Other income	—	—	—	(724)
Income before income taxes	1,606	3,139	5,458	6,659
Provision for income taxes				
Current	(545)	284	129	284
Future	1,323	947	2,200	2,103
	778	1,231	2,329	2,387
Net income before extraordinary gain	828	1,908	3,129	4,272
Extraordinary gain (net of \$nil taxes) <i>[note 7]</i>	—	—	4,874	—
Net income for the period	828	1,908	8,003	4,272
Earnings per share before extraordinary gain				
Basic	0.06	0.13	0.21	0.29
Diluted	0.05	0.13	0.20	0.28
Earnings per share				
Basic	0.06	0.13	0.53	0.29
Diluted	0.05	0.13	0.52	0.28
Weighted average number of shares outstanding <i>[note 6]</i>				
Basic	15,046,392	14,927,913	15,050,191	14,863,445
Diluted	15,342,890	15,152,341	15,374,831	15,074,139

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

[In thousands of Canadian dollars]

[unaudited]

	Three-month period ended September 30		Nine-month period ended September 30	
	2007	2006	2007	2006
	\$	\$	\$	\$
Operating activities				
Net income	828	1,908	8,003	4,272
Add items not affecting cash				
Amortization	3,463	1,619	9,393	5,263
Future income taxes	1,323	947	(3,570)	2,103
Stock based compensation expense [note 5]	229	105	749	451
Net unrealized loss on derivative instruments [note 4]	31	—	275	—
Accreted interest	(21)	—	(57)	—
Gain on disposal of investment	—	—	(74)	—
Imputed interest on balance of sale	6	6	18	18
Unrealized foreign exchange gain	(3)	1	(5)	1
Stock dividends	—	—	—	(724)
	5,856	4,586	14,732	11,384
Net change in non-cash balances relating to operations	(222)	(256)	(972)	(2,097)
Cash flows from operating activities	5,634	4,330	13,760	9,287
Investing activities				
Additions to pharmaceutical product licenses and rights, and deferred charges	(1,533)	(203)	(13,291)	(3,857)
Acquisition of property, plant and equipment	(51)	(1)	(122)	(40)
Purchases of short-term marketable securities	—	(19,703)	(25,986)	(49,415)
Maturities of short-term marketable securities	5,472	14,869	46,534	44,924
Purchases of long-term marketable securities	—	—	(10,378)	(500)
Investment in portfolio company	(801)	—	(801)	—
Business acquisition	—	—	(650)	—
Proceeds from disposal of investment	—	—	232	—
Cash flows from (used in) investing activities	3,087	(5,038)	(4,462)	(8,888)
Financing activities				
Repurchase of shares	(3,242)	(67)	(3,615)	(67)
Common shares issued for cash	57	155	937	1,002
Cash flows (used in) from from financing activities	(3,185)	88	(2,678)	935
Net change in cash and cash equivalents during the period	5,536	(620)	6,620	1,334
Cash and cash equivalents, beginning of period	3,853	4,789	2,769	2,835
Cash and cash equivalents, end of period	9,389	4,169	9,389	4,169
Cash and cash equivalents	9,389	4,169		
Short-term marketable securities	23,328	43,975		
	32,717	48,144		

See accompanying notes

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME AND RETAINED EARNINGS

[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	
	2007	2006	2007	2006
	\$	\$	\$	\$
Net income for the period	828	1,908	8,003	4,272
Other comprehensive income:				
Change in fair value of available-for-sale financial instruments [net of income taxes of (\$3) for the three-month period and (\$13) for the nine-month period]	(17)	—	(69)	—
Reclassification adjustment for losses (gains) on available-for-sale financial instruments included in net income in the current period [net of income taxes of \$nil for the three-month period and (\$25) for the nine-month period]	—	—	(134)	—
	(17)	—	(203)	—
Comprehensive income for the period	811	1,908	7,800	4,272
Retained earnings, beginning of period	20,678	10,303	13,711	7,939
Net income for the period	828	1,908	8,003	4,272
Purchase of common shares	(2,019)	(34)	(2,246)	(34)
Cumulative impact of accounting changes relating to financial instruments (net of income taxes of \$3) [Note 3]	—	—	19	—
Retained earnings, end of period	19,487	12,177	19,487	12,177

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. Governing Statute and Nature of Operations

Paladin Labs Inc. is a specialty pharmaceutical public company continued under the Canada Business Corporations Act, focusing on developing, acquiring, marketing and distributing innovative pharmaceutical products. Paladin Labs Inc., together with its subsidiaries, is hereinafter referred to as the “Company”.

2. Basis of Presentation and Accounting policies

The unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles (“GAAP”) applicable to interim financial statements and include the accounts of all its subsidiaries. Accordingly, they do not include all the information and disclosures required according to GAAP for annual financial statements and should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto in the Company’s Annual Report for the year ended December 31, 2006.

Information with respect to the December 31, 2006 balance sheet is derived from the Company’s complete audited consolidated financial statements. The accounting policies underlying these interim financial statements are those set forth in note 2 of the audited financial statements for the year ended December 31, 2006 and those mentioned in note 3 to the interim financial statements.

3. Change in Accounting Policy

Effective January 1, 2007, the Company retroactively adopted, without restatement of prior periods, the recommendations included in the following sections of the Canadian Institute of Chartered Accountants (“CICA”) Handbook: Section 1530, *Comprehensive Income*, Section 3251, *Equity*, Section 3855, *Financial Instruments – Recognition and Measurement*, and Section 3865, *Hedges*.

Section 1530, *Comprehensive Income*, along with Section 3251, *Equity*, which amends Section 3250, *Surplus*, requires the presentation of comprehensive income and its components in a new financial statement. Further, they require companies to separately present changes in equity during the period as well as components of equity at the end of the period, including comprehensive income. Comprehensive income is the change in the net assets of a company arising from transactions, events and circumstances not related to shareholders. The impact of the adoption of this standard has been to incorporate other comprehensive income disclosures within the financial statements.

Section 3855, *Financial Instruments – Recognition and Measurement* sets out the standards for the recognition and measurement of financial assets, financial liabilities and derivatives. This standard prescribes when to recognize a financial instrument in the balance sheet and at what amount. Depending on their balance sheet classification, fair value or cost-based measures are used. This standard also prescribes the basis of presentation for gains and losses on financial instruments. Based on financial instrument classification, gains and losses on financial instruments are recognized in net income or other comprehensive income.

3. Change in Accounting Policy (cont'd)

The following is a summary of the classifications the Company has elected to apply to each of its significant categories of financial instruments outstanding as of January 1, 2007:

- Marketable Securities are classified principally as “Assets held to maturity” with certain identified investments classified as “Available for sale”. The Marketable Securities classified as “Assets held to maturity” are initially recognized at their fair values, with any resulting premium or discount from the face value being amortized to income or expense using the effective interest method. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. The Marketable Securities classified as “Available for sale” are initially recognized at their fair values, with any resulting changes in the fair value being charged or credited to other comprehensive income and when ultimately sold to net income. Fair values for marketable securities are obtained using quoted active market prices for such securities;
- Accounts receivable and other assets and Investment tax credits receivable are classified as “Loans and receivables”. They are recorded at cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method;
- Investments in other companies are classified as “Available for Sale” except for the allocated conversion option of a secured convertible term note in a portfolio company, which is classified as a “Derivative” and the allocated loan portion on the same convertible term note which is classified as “Loans and receivables”. Derivatives are carried at fair value with changes in the fair value being charged or credited to the statement of income for the relevant period. Investments in other companies, consist of strategic investments in the form of equity in partner companies. The investments classified as “Available for Sale” are carried at fair value with changes in the fair value being charged or credited to other comprehensive income. In compliance with Section 3855, investments in private companies are carried at cost unless evidence of an other than temporary impairment exists in which case they are written down to their net recoverable amount. Fair values for investments in other companies classified as “Available for sale” are obtained using quoted prices in active markets for public companies, if such are available. Fair value for the allocated conversion option of a secured convertible term note in a portfolio company classified as a Derivative was obtained using the Black-Scholes option pricing valuation model; and,
- Accounts payable and accrued liabilities, Accounts payable to related parties and Balance of sale payable are classified as “Other financial liabilities”. They are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

The impact of the adoption of these new standards translated into the following changes as at January 1, 2007: a \$692 increase in accumulated other comprehensive income; a \$162 increase in marketable securities; a \$684 increase in investments in other companies, including the recognition through bifurcation of certain embedded derivatives in investments (secured convertible notes in a portfolio company) in the amount of \$527; a \$19 increase in the opening balance of retained earnings; and, a \$135 reduction in future income tax assets. Further, the adoption of these new standards has no impact on the Company’s cash flows.

3. Change in Accounting Policy (cont'd)

The impact of the adoption of this standard on the statement of income for the nine-month period ended September 30, 2007 has been to record an unrealized loss on the allocated conversion option of a secured convertible term note in a portfolio company recognized as a derivative instrument, in the amount of \$351 (\$41 for the three-month period ended September 30, 2007), which will subsequently be re-measured at each reporting period until ultimate settlement. In addition, accretive interest income on the allocated loan portion of the same convertible term note in the amount of \$57 (\$21 for the three-month period ended September 30, 2007) was recorded. During the three and nine-month period ended September 30, 2007, the Company also recorded an unrealized gain of \$10 and \$76, respectively, on a contingent stock right received from a portfolio investment. During the quarter, this contingent stock right was exercised and converted into common shares of the portfolio company and subsequently revalued as a portfolio investment.

Section 3865, “*Hedges*” allows optional treatment providing that hedges be designated as either fair value hedges, cash flow hedges or hedges of a self-sustaining foreign operation. Since the Company does not currently have any hedging programs in place, the adoption of this section did not have any impact on the Company’s financial statements.

4. Financial Instruments and Accumulated Other Comprehensive Income

	Carrying Value \$	Fair Value \$
Marketable Securities		
<i>Available for Sale</i>	9,073	9,073
<i>Held to Maturity</i>	14,255	14,157
Investments		
Investment in 8% Secured Convertible Term Notes in Nuvo Research Inc. [“Nuvo”], a public company listed on the Toronto Stock Exchange (Face Value \$500)		
• <i>Loans and receivables allocated amount</i>	203	457
• <i>Embedded derivative</i>	25	25
Investment in common shares of Indevus Pharmaceuticals, Inc. [“Indevus”], a public company in the United States	2,623	2,623
Investment in common shares of Glide Pharmaceutical Technologies, Limited [“Glide”], a private company in the United Kingdom	801	801³
Investment in Series A 8% non-cumulative, convertible Preferred Shares of Verus Pharmaceuticals, Inc. [“Verus”], a private company in the United States	394	394³
Investment in common shares of BioSante Pharmaceuticals, Inc. [“BioSante”], a public company in the United States	8	8

³ In compliance with Section 3855, the Company’s investment in Verus, a private company, is carried at cost as there are no quoted market prices in an active market for such an equity instrument. Fair value has not been disclosed because fair value cannot be measured reliably.

4. Financial Instruments and Accumulated Other Comprehensive Income (cont'd)

The accumulated other comprehensive income as at September 30, 2007, and the net change in unrealized gains on available-for-sale investments are detailed as follows:

	Three-month period ended September 30, 2007 \$	Nine-month period ended September 30, 2007 \$
Balance, beginning of period	506	—
Cumulative impact of accounting changes relating to financial instruments [Note 3]	—	692
Adjusted balance, beginning of period	506	692
Other comprehensive income for the period	(17)	(203)
Balance, end of period	489	489

5. Capital Stock

Authorized: 100,000,000 common shares without nominal or par value

Issued and outstanding:

	Number of shares	Amount
Balance at beginning of year	14,980,131	\$58,807
Issued upon exercise of stock options	134,695	993
Issued under employee share purchase plan	7,488	76
Purchase of shares	(342,400)	(1,368)
Issued in connection with the acquisition of BioEnvelop Inc. [note 7]	98,455	1,029
Common shares to be issued in connection with the acquisition of BioEnvelop Inc. [note 7]	—	166
Balance at September 30, 2007	14,878,369	\$59,703

During the nine-month period ended September 30, 2007, under the terms of the normal course issuer bid, the Company repurchased and cancelled 342,400 shares.

5. Capital Stock (cont'd)

Stock option plan

The changes to the number of stock options granted by the Company and their weighted average exercise price are as follows:

	2007		2006	
	#	Weighted average exercise price \$	#	Weighted average exercise price \$
Balance at beginning of year	819,915	6.07	915,743	5.57
Granted	330,822	11.19	12	6.91
Exercised	(134,695)	6.39	(210,997)	4.54
Expired or forfeited	(39,764)	9.15	(15,586)	5.62
Balance at September 30	976,278	7.64	843,160	5.88
Options exercisable at September 30	449,814	5.83	498,363	6.05

The Company recorded option compensation expense with a corresponding credit to other paid-in-capital and determined the fair value of stock under the Black-Scholes option-pricing model using the following assumptions:

	Three-month period ended September 30		Nine-month period ended September 30	
	2007	2006	2007	2006
Option compensation expense	\$228	\$103	\$732	\$445
Weighted average fair value of options	\$6.79	\$4.70	\$6.69	\$4.28
Weighted average risk-free interest rate	4.49%	4.24%	4.19%	4.16%
Dividend yield	Nil	Nil	Nil	Nil
Weighted average volatility factor	53%	57%	55%	58%
Weighted average expected life	7 years	7 years	7 years	7 years

6. Earnings per share

The following summarizes the reconciliation of the basic weighted average number of shares outstanding and the diluted weighted average number of shares outstanding used in the diluted earnings per share calculations:

Earnings per share	Three-month period ended September 30		Nine-month period ended September 30	
	2007	2006	2007	2006
Basic weighted average number of shares outstanding	15,046,392	14,927,913	15,050,191	14,863,445
Dilutive effect of options	296,498	224,428	324,640	210,694
Diluted weighted average number of shares outstanding	15,342,890	15,152,341	15,374,831	15,074,139

There was no significant adjustment to net income for purposes of calculating diluted earnings per share.

7. Business acquisition

On April 30, 2007, the Company acquired all of the issued and outstanding shares of BioEnvelop Inc. ("BioEnvelop"), a subsidiary of BioEnvelop Technologies Inc. (TSX VENTURE: BIE), for a total consideration of \$1,993 consisting of the assumption of a note payable in BioEnvelop which was immediately repaid. The consideration was paid as follows: \$650 in cash, \$1,029 in common stock issued on the closing of the transaction representing 98,455 common shares and a \$315 non-interest bearing balance of sale payable 180 days after the closing date, subject to certain acquisition related conditions. The non-interest bearing balance of sale payable consists of a short term balance of sale payable in the amount of \$149 and \$166 payable in a pre-determined number of common shares to be issued using a value of \$10.45 per share, determined based on the weighted average trading price of the Company's common shares on the TSX for the ten trading days immediately prior to the closing date. The Company also incurred transaction costs in the amount of \$179, included in cash above, in connection with the acquisition. BioEnvelop has expertise in developing and manufacturing rapidly dissolving edible films for the nutraceutical and pharmaceutical markets. BioEnvelop was amalgamated with Squire Pharmaceuticals Inc., a wholly-owned subsidiary of the Company, effective August 1, 2007.

The acquisition was accounted for using the purchase method. The results of BioEnvelop operations have been included in the Company's results since April 30, 2007, the date of acquisition. The total purchase price of \$1,993 was preliminarily allocated to the fair value of the net assets acquired in the amount of \$7,077, representing negative goodwill in the amount of the excess of \$5,084. The Company, as per applicable accounting standards, eliminated the value previously assigned to certain prescribed assets in the amount of \$210 against the excess of the amounts assigned to assets acquired and liabilities assumed over the cost of the purchase above. The remaining excess is presented as an extraordinary gain in the amount of \$4,874. The purchase price was preliminarily allocated as follows:

Purchase price allocation	\$
Current assets	448
Future income tax asset	5,919
Government assistance benefits receivable	500
	<u>6,867</u>
Consideration represented by:	
Assumption and simultaneous payment of debt	1,993
	<u>4,874</u>

The Company is in the process of finalizing the purchase price allocation and will be completed during 2007.

8. Related party transactions

Joddes Limited [“Joddes”], a private Canadian corporation, is a significant shareholder holding approximately 43% of the outstanding shares of the Company, and one director of the Company, the Company’s President and CEO, is related to Joddes.

The Company engages a wholly-owned subsidiary of Joddes to provide logistics services including: customer service, warehousing, shipping, invoicing, collection services and certain manufacturing services on behalf of the Company. The Company also engages this affiliate to perform certain research and development services on a contractual pay-for-use basis. The Company also leases its office facilities from another wholly owned subsidiary of Joddes. This lease is for a period of 10 years, ending in 2013 and includes minimum annual payments of \$136.

Effective November 1, 2006, the Company acquired the Canadian distribution rights to Metadol® from a wholly-owned subsidiary of Joddes for cash consideration of \$15,000. Under the terms of the agreement, the Company can purchase the Canadian license for Metadol® on the fourth anniversary of the agreement for \$1 and can receive a reimbursement of up to \$3,750 subject to certain acquisition related conditions. As at September 30, 2007, the Company has not received or earned any reimbursement.

All transactions with related parties are carried out in the normal course of operations, and are recorded at an agreed upon exchange amount. The accounts payable to related parties is on normal commercial terms and conditions and is non-interest bearing.

The table below reflects all transactions and services with related parties which include those referred to in the agreements described above as well as revenues from a wholly-owned subsidiary of Joddes:

	Three-month period ended September 30		Nine-month period ended September 30	
	2007	2006	2007	2006
	\$	\$	\$	\$
Revenues	300	163	593	529
Purchases	5,253	3,035	11,209	7,678
Research and development expenses	89	52	230	125
Sales and marketing expenses	971	663	2,559	1,958
General and administrative expenses	88	68	238	235

9. Commitments

In the normal course of business, the Company secures development, sales, marketing and distribution rights to innovative drug products and has entered into various agreements, which include contractual obligations extending beyond the current year. These obligations are classified into three major categories: revenue based, milestone based and purchase and services based commitments.

Revenue based commitments

Most pharmaceutical product license agreements require that the Company make royalty payments; ranging from 3% to 20% of sales, or require payments for products at rates ranging from 20% to 40% of the net selling price.

A certain pharmaceutical product license agreement requires that the Company make royalty payments ranging from 75% to 90% of the excess of a defined contribution amount above certain established minimums and requires payments of 50% of the excess of certain established internal rates of return for a product.

In addition, the Company may have to pay up to \$15,320, including US\$14,720 if it achieves specific sales volumes on certain products in the future, over a maximum of 10 years.

Milestone based commitments

The Company has also committed to fund certain research and development expenditures of third parties for \$2,780, including US\$150 and €1,500 over the next six years. In addition, certain additional payments may be required under these agreements if milestones are met, such as regulatory approval in Canada. Based on the outcome of these milestones, the Company may have to pay up to \$1,434, including US\$411 and GBP£500, over a maximum period of 15 years.

Purchase and service based commitments

The Company is committed to making minimum purchases of inventory, and minimum expenditures for regulatory, selling and marketing services in the amount of \$26,797, including US\$6,617, to retain exclusive distribution agreements for certain products. These commitments end in 2014 and annual commitments are as follows:

	\$
July 1, 2007 - December 31, 2007	3,385
2008	7,639
2009	6,044
2010	5,722
2011	1,551
2012-2014	2,456

10. Comparative figures

Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current year.

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