



**FOR IMMEDIATE RELEASE**

## **PALADIN ANNOUNCES STRONG SECOND QUARTER RESULTS**

**- Revenues rise 26% and net income increases 45% -**

**Montreal, Canada, July 31, 2002** – Paladin Labs Inc. (“Paladin” or “the Company”) (TSX: PLB), a Canadian specialty pharmaceutical company focused on marketing and selling urology, endocrinology and women’s health products, today announced its financial results for the second quarter and six-month periods ended June 30, 2002.

### **Highlights of the quarter include:**

- Total revenues increased 26% for the second quarter to \$5.7 million
- Net income increased 45% for the second quarter to \$1.4 million
- Health Canada approved Androderm<sup>®</sup> 5mg format for the treatment of male testosterone deficiency
- Filed New Drug Submission for the approval of Circadin<sup>®</sup> (sustained release melatonin) for treatment of sleep disorders in the elderly

“Our quarterly financial results reflect a company-wide commitment to superior execution of our business strategy,” said Jonathan Ross Goodman, President and CEO of Paladin Labs. “We are seeing continued revenue growth from our recently launched products such as Androderm<sup>®</sup>, Plan B<sup>™</sup>, Tapazole<sup>®</sup>, and Propyl-Thyracil<sup>®</sup> as well as first time revenues from products acquired from Novartis Pharmaceuticals Canada and Pharmacia Canada. We are confident that we will complete this year with our seventh consecutive year of record revenues and remain committed to our business model of in-licensing and acquiring innovative pharmaceutical products for the Canadian market. With over \$40 million in cash and temporary investments and virtually no debt, Paladin is well positioned for future growth.”

### **Financial Results**

Revenues for the second quarter of 2002 were \$5.7 million, representing an increase of 26% from \$4.5 million for the comparable quarter last year. For the six-month period ended June 30, 2002, revenues increased \$3.7 million or 47% to \$11.7 million from \$8 million for the same period in 2001. Gross profit, as a percentage of revenues, was 73% for the three-month period ended June 30, 2002, up from 69% in the same quarter last year.

Net income for the quarter ended June 30, 2002 was \$1.4 million compared to \$1.0 million for the same period in fiscal 2001, an increase of 45%. Diluted earnings per share increased 25% to \$0.10 per share compared to \$0.08 per share in the second quarter of 2001. For the six-month period ended June 30, 2002, net income increased 88% to \$2.8 million from \$1.5 million for the same period last year. Diluted earnings per share increased 75% to \$0.21 per share compared to \$0.12 per share for the same period last year.

Selling and administrative expenses for the quarter increased 6% to \$2.1 million from \$2.0 million in the same quarter last year. However, selling and administrative expense, as a percentage of revenues, decreased to 37% in the second quarter, from 44% in the same quarter last year. This decrease is a result of efficiencies realized from in-licensing and launching brands in the Company’s key therapeutic areas. This strategy has allowed Paladin to leverage its existing sales and marketing infrastructure to launch new products. Amortization expense increased \$0.3 million or 177% to \$0.4 million for the quarter ended June 30, 2002 from \$0.1 million for the same quarter last year. This increase reflects the impact of amortization expense related to the Company’s acquisition of pharmaceutical products and product licenses over the past two years.

### **Product Developments**

During the quarter, Paladin announced that, on behalf of Neurim Pharmaceuticals, it filed a New Drug Submission (NDS) for the approval of Circadin<sup>®</sup> (controlled release melatonin tablets) with the Therapeutic Products Directorate (TPD) of Health Canada. The submission seeks Health Canada's approval for use of Circadin<sup>®</sup> in the treatment of sleep disorders in the elderly. Unlike the U.S. where the FDA considers melatonin a health food supplement, the TPD regards melatonin as a new chemical entity and, as such, requires the filing of a full NDS. As a result, there is currently no melatonin being sold legally in Canada, despite robust sales in the U.S. Circadin<sup>®</sup> has the potential to be the first melatonin product approved for sale in Canada.

Also during the quarter, Paladin received TPD approval for Androderm<sup>®</sup> 5mg format for the treatment of male testosterone deficiency also commonly referred to as andropause. Paladin currently markets and sells Androderm<sup>®</sup> in a 2.5mg format. Androderm<sup>®</sup> is the only transdermal testosterone patch available in Canada.

The Company received a request from Health Canada in July 2002 for additional information on its application to have Plan B<sup>™</sup> switched to non-prescription status. The switch from prescription to non-prescription status will allow Canadian women to have more timely access to this highly effective emergency contraceptive pill. Paladin will submit a complete response to Health Canada's request within the 90-calendar day window.

### **Notice of Conference Call**

The Company will host a conference call to discuss the second quarter 2002 results on Wednesday, July 31 at 4:30 p.m. EST. The dial in number for the conference call is 1-800-273-9672 or 1-416-695-5806 and the reference number is 1230154.

The call will be audio-cast live and archived for 90 days at [www.financialdisclosure.ca](http://www.financialdisclosure.ca) and [www.paladinlabs.com](http://www.paladinlabs.com)

### **About Paladin Labs Inc:**

Paladin Labs, headquartered in Montreal, Quebec, is a rapidly growing 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 most profitable publicly-traded pharmaceutical companies. Paladin's shares trade on the Toronto Stock Exchange under the symbol *PLB*. For more information about Paladin, please visit the Paladin Web Site at [www.paladinlabs.com](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 published in the Company's annual report.*

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# BALANCE SHEET

[In thousands of Canadian dollars]

	June 30 2002 \$	December 31 2001 \$
<b>(unaudited)</b>		
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	5,205	1,978
Temporary investments	39,362	20,470
Accounts receivable	3,202	2,067
Inventories	—	50
Income tax credits receivable	534	487
Future income tax assets	2,275	2,275
<b>Total current assets</b>	<b>50,578</b>	<b>27,327</b>
Capital assets	14,442	12,530
Investments, at cost	2,771	2,771
Future income tax credits receivable	1,678	347
Future income tax assets	347	2,216
	<b>69,816</b>	<b>45,191</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	6,335	3,924
Income taxes payable	160	181
Deferred credit	1,638	1,638
<b>Total current liabilities</b>	<b>8,133</b>	<b>5,743</b>
Balance of sale payable	570	544
Deferred credit	185	935
Future income tax liability	133	133
	<b>9,021</b>	<b>7,355</b>
<b>Shareholders' equity</b>		
Capital stock	57,272	37,154
Contributed surplus	87	87
Other paid-in capital	23	23
Retained earnings	3,413	572
<b>Total shareholders' equity</b>	<b>60,795</b>	<b>37,836</b>
	<b>69,816</b>	<b>45,191</b>

## STATEMENTS OF INCOME

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

	Three-month period ended June 30		Six-month period ended June 30	
	2002	2001	2002	2001
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues	<b>5,687</b>	4,515	<b>11,725</b>	7,999
Cost of sales	<b>1,539</b>	1,414	<b>3,148</b>	2,705
<b>Gross profit</b>	<b>4,148</b>	3,101	<b>8,577</b>	5,294
Selling and administrative	<b>2,093</b>	1,977	<b>4,153</b>	3,572
Research and development	<b>206</b>	120	<b>589</b>	244
Amortization	<b>429</b>	155	<b>856</b>	309
Interest income, net	<b>(268)</b>	(302)	<b>(345)</b>	(596)
<b>Income before income taxes</b>	<b>1,688</b>	1,151	<b>3,324</b>	1,765
Provision for income taxes				
Current	<b>39</b>	5	<b>60</b>	10
Future	<b>209</b>	151	<b>423</b>	245
	<b>248</b>	156	<b>483</b>	255
<b>Net income</b>	<b>1,440</b>	995	<b>2,841</b>	1,510
<b>Earnings per share</b>				
Basic	<b>0.10</b>	0.08	<b>0.22</b>	0.12
Diluted	<b>0.10</b>	0.08	<b>0.21</b>	0.12
<b>Weighted average number of shares outstanding</b>				
Basic	<b>13,820,655</b>	12,407,224	<b>13,188,718</b>	12,400,668
Diluted	<b>14,085,539</b>	12,473,553	<b>13,460,467</b>	12,466,140

## STATEMENTS OF CASH FLOWS

[In thousands of Canadian dollars]

	Three-month period ended June 30		Six-month period ended June 30	
	2002	2001	2002	2001
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Operating activities</b>				
Net income	1,440	995	2,841	1,510
Add items not affecting cash				
Amortization	429	155	856	309
Future income taxes	175	128	(212)	198
Imputed interest on balance of sale	13	12	26	25
	2,057	1,290	3,511	2,042
Net change in non-cash balances relating to operations	(291)	(22)	78	5
Cash flows from (used in) operating activities	1,766	1,268	3,589	2,047
<b>Investing activities</b>				
Acquisition of capital assets	(5)	(4)	(16)	(10)
Additions to pharmaceutical product licenses and rights	(663)	(246)	(2,752)	(2,815)
Accounts payable related to the acquisition of intellectual property	—	—	1,179	—
Net decrease (increase) in temporary investments	(7,606)	(2,061)	(18,891)	9,025
Cash flows (used in) from financing activities	(8,274)	(2,311)	(20,480)	6,200
<b>Financing Activities</b>				
Issuance of common shares	132	133	223	133
Issuance/conversion of special warrants	—	—	20,952	—
Share issue costs	—	—	(1,057)	—
Cash flows from financing activities	132	133	20,118	133
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(6,376)</b>	<b>(910)</b>	<b>3,227</b>	<b>8,380</b>
Cash and cash equivalents, beginning of period	11,581	12,148	1,978	2,858
<b>Cash and cash equivalents, end of period</b>	<b>5,205</b>	<b>11,238</b>	<b>5,205</b>	<b>11,238</b>
Cash and cash equivalents	5,205	11,238		
Temporary investments	39,362	12,455		
	44,567	23,693		