

**PALADIN LABS INC.**  
**BALANCE SHEET**  
**AT JUNE 30, 1999**  
(Unaudited)

	Jun-99	Jun-98
<b><u>ASSETS</u></b>		
<b>CURRENT</b>		
Cash & Marketable Securities	9,240,334	532,398
Trade Receivables	454,452	32,746
Parent Company Receivables	905,926	1,139,339
Inventories	1,236,850	0
Income Taxes Recoverable	129,095	112,162
Other Current Assets	0	10,000
<b>Total Current Assets</b>	<b>11,966,657</b>	<b>1,826,644</b>
<b>OTHER ASSETS</b>		
Pharmaceutical Product Rights	2	1,476,039
Trade Mark Licences	21,000	0
Investments	59,600	0
Deferred Income Taxes	68,016	0
<b>Total Other Assets</b>	<b>148,618</b>	<b>1,476,039</b>
<b>Total Assets</b>	<b>12,115,275</b>	<b>3,302,684</b>
<b><u>LIABILITIES</u></b>		
<b>CURRENT</b>		
Accounts payable - Trade	103,725	28,450
<b>Total Current Liabilities</b>	<b>103,725</b>	<b>28,450</b>
<b><u>SHAREHOLDERS' EQUITY</u></b>		
<b>CAPITAL STOCK</b>	16,167,145	9,620,035
<b>CONTRIBUTED SURPLUS</b>	86,513	86,513
<b>DEFICIT</b>	(4,242,108)	(6,432,314)
	<b>12,011,550</b>	<b>3,274,233</b>
	<b>12,115,275</b>	<b>3,302,684</b>

**PALADIN LABS INC.**  
**STATEMENT OF CHANGES IN FINANCIAL POSITION**  
**FOR THE SIX MONTHS ENDED JUNE 30, 1999**  
(Unaudited)

	<u>1999</u>	<u>1998</u>
<b><u>OPERATING ACTIVITIES</u></b>		
Net profit (loss) for the period	1,375,411	130,599
Add items not affecting cash:		
Amortization	0	59,013
	<u>1,375,411</u>	<u>189,614</u>
Changes in working capital non-cash items relating to operations	1,121,824	(973,540)
	<u>253,587</u>	<u>(783,927)</u>
<b><u>INVESTING ACTIVITIES</u></b>		
Common shares issued for cash	0	753,645
Addition to other assets	(60,600)	0
Acquisition through issuance of common shares	502,257	0
	<u>441,657</u>	<u>753,645</u>
<b><u>INCREASE (DECREASE) IN CASH</u></b>	<b>695,244</b>	<b>(30,282)</b>
Cash, beginning of period	8,545,090	562,681
<b><u>CASH, END OF PERIOD</u></b>	<b><u>9,240,334</u></b>	<b><u>532,398</u></b>

**PALADIN LABS INC.**  
**STATEMENT OF OPERATIONS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 1999**  
(Unaudited)

	1999	1998	Change
<b>Revenues:</b>			
Sales	4,660,391	0	nmf
Royalty Income	1,026,209	861,392	19%
Interest	203,531	12,181	1571%
<b>Total Revenues</b>	<b>5,890,131</b>	<b>873,573</b>	<b>574%</b>
<b>Costs and Expenses:</b>			
Cost of products sold	1,869,834		nmf
Research and development	476,366	595,839	-20%
Selling, general and administrative	1,920,549	88,122	2079%
Interest expense and amortization	0	59,013	nmf
<b>Total Costs and Expenses</b>	<b>4,266,749</b>	<b>742,974</b>	<b>474%</b>
Income before provision for taxes	1,623,383	130,599	1143%
Provision for income taxes net of Tax Loss Carryforwards available:	247,972	0	nmf
<b>Net Income</b>	<b>1,375,411</b>	<b>130,599</b>	<b>953%</b>
<b>Basic earnings (loss) per share</b>	<b>\$0.15</b>	\$0.03	400%
<b>Diluted earnings (loss) per share</b>	<b>\$0.14</b>	\$0.03	367%
Weighted average shares outstanding, no dilution	9,058,376	4,338,618	109%
Weighted average shares outstanding, fully diluted	9,715,965	4,456,583	118%

\* nmf = not meaningful