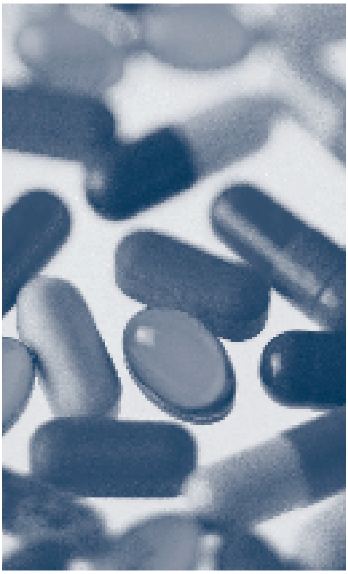
2ND QUARTER RESULTS 2002

RELENTLESS EXECUTION OF STRATEGY



paladin

Q2 2002 PRESIDENT'S MESSAGE

Dear Shareholders,

We are pleased to report another quarter of solid growth. Our strong performance results from the ongoing successful execution of our strategy to provide innovative pharmaceutical products to the Canadian market through in-licensing and acquisitions. In the past quarter, revenues from our existing product portfolio were complemented by increased sales from our recently launched products such as Androderm®, Plan B™, Tapazole®, and Propyl-Thyracil®, as well as first time revenues from products acquired from Novartis Phamaceuticals Canada Inc. and Pharmacia Canada Inc.

Revenues for the second quarter ended June 30, 2002 increased 26% to $5.7 million, compared with $4.5 million for the corresponding period last year. Second quarter net income increased 45% to $1.4 million or $0.10 per share, compared with $1.0 million or $0.08 per share a year ago. For the six months ended June 30, 2002, Paladin's revenues were $11.7 million, an increase of 47% over the comparable period a year ago. Net income for the six months increased 88% to reach $2.8 million. Based on year to date revenues and anticipated business developments, we are confident that in 2002 we can accomplish our seventh consecutive year of record revenues.

In line with our business strategy, over the past quarter, we have continued to capitalize on market opportunities in our target sectors of urology, endocrinology and women's health to drive strong corporate growth.

In May, we announced our filing of a New Drug Submission (NDS), on behalf of Neurim Pharmaceuticals, for the approval of Circadin® (controlled release melatonin tablets) with the Therapeutic Products Directorate (TPD) of Health Canada. The submission seeks Health Canada's approval for use of Circadin® in the treatment of sleep disorders in the elderly. Melatonin is widely available in the U.S. as a health food supplement, but Health Canada considers melatonin as a new chemical entity and, as such, requires the filing of a full NDS. Circadin® has the potential to be the first melatonin product approved for sale in Canada.

Also during the quarter, Paladin received TPD approval for Androderm® 5mg format for the treatment of male testosterone deficiency also commonly referred to as andropause. Androderm® is the only transdermal testosterone patch available in Canada. Paladin currently markets and sells Androderm® in a 2.5mg format and we expect the upcoming launch of the 5mg format to strengthen our market position.

Subsequent to the end of the second quarter, we received a request from Health Canada for additional information on our application on behalf of Women's Capital Corporation, to have Plan B™ 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 allotted.

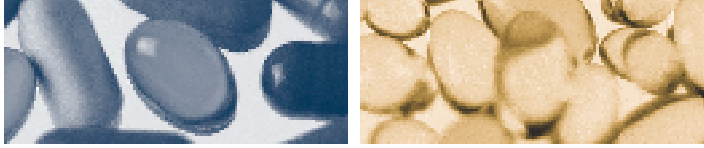
Looking ahead, we will continue to identify and exploit unmet pharmaceutical needs in the Canadian market within our targeted sectors, while maintaining our focus on building revenues within our established product lines. As we expand our product portfolio in our target sectors, we will increasingly benefit from our ability to leverage our strong network of physician relationships and distribution channels to cost-effectively deliver new products to market.

With a focused strategy and over $44 million in cash and temporary investments, virtually no debt, and a growing product portfolio, we are well positioned to achieve continued growth.

On behalf of our Board of Directors, thank you for your continued support.

Sincerely,

Jonathan Ross Goodman, B.A., LL.B., M.B.A.
President & CEO



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(All numbers are in thousands of Canadian dollars)

The following analysis explains the variations in the results of operations, financial position and cash flows for Paladin Labs Inc. ("Paladin" or the "Company"). This discussion should be read in conjunction with the information contained in the Company's interim and annual financial statements and the related notes to these financial statements.

Overview

Paladin is a speciality pharmaceutical company focused on acquiring or in-licensing innovative pharmaceutical products for the Canadian market. Through a national sales force, the Company markets its pharmaceutical products to Canadian specialists in its key therapeutic areas.

Second quarter highlights:

- Revenues reached $5,687, an increase of 26% over the same period last year.
- Net income reached $1,440, an increase of 45% over the same period last year.
- Therapeutic Products Directorate ("TPD") of Health Canada approved Androderm® 5mg format for the treatment of male testosterone deficiency.
- Filed New Drug Submission for the approval of Circadin® with TPD.

As is common in the specialty drug industry, Paladin's revenue and profitability growth may vary from one quarter to another. These fluctuations result from, among other things, the timing of TPD approvals, the timing of new product launches and the timing of the listing of the new drugs on Formularies.

Results of Operations

Revenues: Revenues increased $1,172 or 26% to $5,687 for the three-month period ended June 30, 2002 from $4,515 for the three-month period ended June 30, 2001. For the six-month period ended June 30, 2002, revenues increased $3,726 or 47% to $11,725 from $7,999 for the six-month period ended June 30, 2001. This increase was due primarily to new and recently launched products. Recently launched products include Androderm®, Plan B™, Tapazole®, and Propyl-Thyracil®. The newly launched products include Locacorten® – Vioform® line of products and Rogitine®, licensed from Novartis Pharmaceuticals Canada Inc. in the fourth quarter of 2001 and the portfolio of products acquired from Pharmacia Canada Inc. in January 2002. The addition of these products strengthened the Company's product offering in its key therapeutic areas of urology, endocrinology and women's health. The Company has been able to leverage its existing relationships with key physicians in these therapeutic areas to effectively market and promote these products.

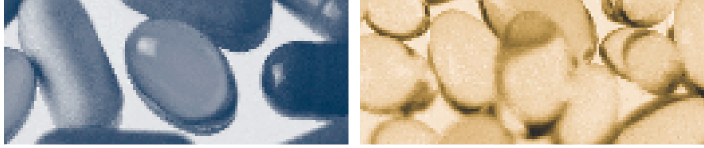
During the quarter, Anthra Pharmaceuticals, Inc. ("Anthra") advised the Company that it was having difficulties manufacturing Valtaxin™, a treatment for BCG-refractory bladder cancer, and is not able to determine when it will resume production. Paladin acquired the exclusive license for Valtaxin™ from Anthra in September 1999 and recorded its first sale in May 2001. Valtaxin™ represented 1.6% of revenues for fiscal 2001 and was expected to grow to 2.1% of revenues for fiscal 2002. The Company now expects that Valtaxin™ will represent 1% of 2002 sales and given the manufacturing issues is not able to forecast at this time when the resumption of sales will begin.

Gross Profit: Total gross profit increased $1,047 or 34% to $4,148 for the three-month period ended June 30, 2002 from $3,101 for the three-month period ended June 30, 2001. For the six-month period ended June 30, 2002, total gross profit increased $3,283 or 62% to $8,577 from $5,294 for the six-month period ended June 30, 2001. Gross profit, as a percentage of revenues, improved to 73% for the three-month period ended June 30, 2002 from 69% for the three-month period ended June 30, 2001. For the six-month period ended June 30, 2002, gross profit, as a percentage of revenues, improved to 73% from 66% for the six-month period ended June 30, 2001.

Selling and Administrative Expense: Selling and administrative expense increased $116 or 6% to $2,093 for the three-month period ended June 30, 2002 from $1,977 for the three-month period ended June 30, 2001. For the six-month period ended June 30, 2002, selling and administrative expense increased $581 or 16% to $4,153 from $3,572 for the six-month period ended June 30, 2001. This increase was primarily due to increased sales and marketing spending associated with new product launches and to higher staffing costs related to expanded infrastructure necessitated by the Company's product line growth during 2001 and 2002.

Selling and administrative expense, as a percentage of revenues, decreased to 37% for the three-month period ended June 30, 2002 from 44% for the three-month period ended June 30, 2001. For the six-month period ended June 30, 2002, selling and administrative expense, as a percentage of revenues, decreased to 35% from 45% for the six-month period ended June 30, 2001. The decrease in selling and administrative expense, as a percentage of revenues, is a result of efficiencies realized from in-licensing and launching brands in the Company's key therapeutic areas. This strategy has allowed the Company to leverage its existing sales and marketing infrastructure to launch new products.

Research and Development Expense: Research and development expense increased $86 or 72% to $206 for the three-month period ended June 30, 2002 from $120 for the three-month period ended June 30, 2001. For the six-month period ended June 30, 2002, research and development expense increased $345 or 141% to $589 from $244 for the six-month period ended June 30, 2001. This increase was



primarily due to higher staffing costs and associated costs required to support DHEA and other products in various stages of development including further Canadian regulatory expenses for currently marketed products.

Amortization Expense: Amortization expense increased $274 or 177% to $429 for the three-month period ended June 30, 2002 from $155 for the three-month period ended June 30, 2001. For the six-month period ended June 30, 2002, amortization expense increased $547 or 177% to $856 from $309 for the six-month period ended June 30, 2001. This increase reflects the impact of amortization expense related to the Company's acquisition of pharmaceutical product licenses and rights and intellectual property during the year ended December 31, 2001, as well as the impact of amortization expense related to the Company's acquisitions of pharmaceutical product licenses and rights and intellectual property during fiscal 2002.

Interest Income: Interest income decreased $34 or 11% to $268 for the three-month period ended June 30, 2002 from $302 for the three-month period ended June 30, 2001. For the six-month period ended June 30, 2002, interest income decreased $251 or 42% to $345 from $596 for the six-month period ended June 30, 2001. This decrease reflects the effect of lower interest rates offset by the increase in temporary investments as result of the Company's special warrant offering.

Income Tax Expense: Income tax expense increased $92 or 59% to $248 for the three-month period ended June 30, 2002 from $156 for the three-month period ended June 30, 2001. For the six-month period ended June 30, 2002, income tax expense increased $228 or 89% to $483 from $255 for the six-month period ended June 30, 2001. The effective tax rate was 15% for the three-month period ended June 30, 2002 compared to 14% for the three-month period ended June 30, 2001. For the six-month period ended June 30, 2002, the effective tax rate was 15% compared to 14% for the six-month period ended June 30, 2001.

Net Income: As a result of the factors set forth above, net income increased $445 or 45%, to $1,440 for the three-month period ended June 30, 2002 from $995 for the three-month period ended June 30, 2001 and increased $1,331 or 88% to $2,841 for the six-month period ended June 30, 2002 from $1,510 for the six-month period ended June 30, 2001.

Liquidity and Capital Resources

The Company believes that its existing cash and cash equivalents, temporary investments, as well as cash generated from operations are sufficient to finance its current operations, working capital needs and future product acquisitions. At present, the Company is actively pursuing product acquisitions that may require substantial capital resources. There are no present agreements or commitments with respect to any acquisitions.

Cash flows from operating activities were $1,766 and $1,268 for the three-month period ended June 30, 2002 and 2001, respectively. Cash flows from operating activities were $3,589 and $2,047 for the six-month period ended June 30, 2002 and 2001, respectively. Cash flows from operating activities represent the cash flows from earnings, excluding revenues and expenses not affecting cash, principally amortization, future income taxes, and imputed interest. The Company believes these cash flows are sufficient to meet existing commitments.

The cash flows from operating activities for the second quarter of 2002 and 2001 was the result of increase in net income, amortization and future income taxes offset by a decrease in net change in non-cash balances relating to working capital.

For the six-month period ended June 30, 2002 the cash flows from operating activities was due to an increase in net income, amortization and net change in non-cash balances relating to operations offset by a decrease in future income taxes. For the six-month period ended June 30, 2001, the cash flows from operating activities was mainly due to an increase in net income, amortization and future income taxes.

The Company's investing activities used cash of $8,274 and $2,311 for the three-month period ended June 30, 2002 and 2001, respectively. During the three-month period ended June 30, 2002, the Company invested $663 in acquisitions of pharmaceutical product licenses and rights and intellectual property and had a $7,606 increase in temporary investments. For the three-month period ended June 30, 2001, the Company invested $246 in pharmaceutical products licenses and rights and intellectual property and had a $2,061 increase in temporary investments.

Cash used in investing activities was $20,480 for the six-month period ended June 30, 2002. For the six-month period ended June 30, 2001, cash flows from investing activities were $6,200. During the six-month period ended June 30, 2002, the Company invested $2,752 in acquisitions of pharmaceutical product licenses and rights and intellectual property and had a $18,891 increase in temporary investments. This was investment was offset by $1,179 in accounts payable related to the above-mentioned acquisitions. For the six-month period ended June 30, 2001, the Company invested $2,815 in pharmaceutical products licenses and rights and intellectual property and had a $9,025 reduction in temporary investments.

Cash flows from financing activities were $132 and $133 for the three-month period ended June 30, 2002 and 2001, respectively, primarily from common stock option exercises and the issuance of shares under the stock purchase plan.

Cash flows from financing activities were $20,118 and $133 for the six-month period ended June 30, 2002 and 2001, respectively. For the six-month period ended June 30, 2002, $19,895 was provided from the issuance of special warrants less related issuance costs. In addition, $223 was provided from common stock option exercises and the issuance of shares under the stock purchase plan. For the six-month period ended June 30, 2001, $133 was provided from common stock option exercises.


BALANCE SHEET

[In thousands of Canadian dollars]

	June 30 2002	December 31 2001
	$ (unaudited)	$
ASSETS		
Current		
Cash and cash equivalents *[note 5]*	**5,205**	1,978
Temporary investments *[note 5]*	**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
Total current assets	**50,578**	27,327
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
	69,816	45,191
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**6,335**	3,924
Income taxes payable	**160**	181
Deferred credit	**1,638**	1,638
Total current liabilities	**8,133**	5,743
Balance of sale payable	**570**	544
Deferred credit	**185**	935
Future income tax liability	**133**	133
	9,021	7,355
Shareholders' equity		
Capital stock *[note 4]*	**57,272**	37,154
Contributed surplus	**87**	87
Other paid-in capital	**23**	23
Retained earnings	**3,413**	572
Total shareholders' equity	**60,795**	37,836
	69,816	45,191

See accompanying notes

STATEMENTS OF INCOME AND RETAINED EARNINGS

[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	**5,687**	4,515	**11,725**	7,999
Cost of sales	**1,539**	1,414	**3,148**	2,705
Gross profit	**4,148**	3,101	**8,577**	5,294
Selling and administrative	**2,093**	1,977	**4,153**	3,572
Research and development	**206**	120	**589**	244
Amortization	**429**	155	**856**	309
Interest income, net	**(268)**	(302)	**(345)**	(596)
Income before income taxes	**1,688**	1,151	**3,324**	1,765
Provision for income taxes				
Current	**39**	5	**60**	10
Future	**209**	151	**423**	245
	248	156	**483**	255
Net income	**1,440**	995	**2,841**	1,510
Retained earnings (deficit), beginning of period	**1,973**	(398)	**572**	(913)
Retained earnings (deficit), end of period	**3,413**	597	**3,413**	597
Earnings per share				
Basic	**0.10**	0.08	**0.22**	0.12
Diluted	**0.10**	0.08	**0.21**	0.12
Weighted average number of shares outstanding				
Basic	**13,820,655**	12,407,224	**13,188,718**	12,400,668
Diluted	**14,085,539**	12,473,553	**13,460,467**	12,466,140

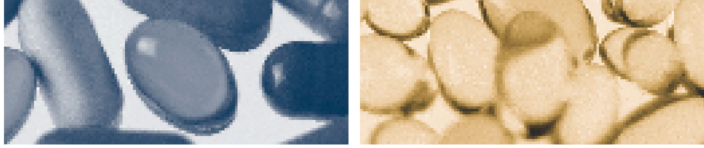
See accompanying notes

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)
Operating activities				
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
Investing activities				
Acquisition of capital assets	**(5)**	(4)	**(16)**	(10)
Additions to pharmaceutical product licenses and rights and intellectual property	**(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
Financing activities				
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
Net increase (decrease) in cash and cash equivalents	**(6,376)**	(910)	**3,227**	8,380
Cash and cash equivalents, beginning of period	**11,581**	12,148	**1,978**	2,858
Cash and cash equivalents, end of period	**5,205**	11,238	**5,205**	11,238
Cash and cash equivalents	**5,205**	11,238		
Temporary investments	**39,362**	12,455		
	44,567	23,693		

See accompanying notes



NOTES TO FINANCIAL STATEMENTS

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

1. BASIS OF PRESENTATION

Information with respect to the December 31, 2001 balance sheet is derived from the Company's complete audited financial statements. These unaudited interim financial statements should be read in conjunction with the notes appearing in the Company's audited financial statements for the year ended December 31, 2001 and the accompanying notes.

2. ACCOUNTING POLICIES

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, 2001, except, as outlined below, effective January 1, 2002 the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants regarding intangible assets and stock – based compensation plans.

3. CHANGES IN ACCOUNTING POLICIES

i) Intangible Assets

Effective January 1, 2002, the Company prospectively adopted the new recommendation published by the Canadian Institute of Chartered Accountants relating to the method of valuation and the presentation and disclosure requirements for intangible assets. The new recommendations require recognized intangible assets to be amortized over their useful life to an enterprise, unless the life is determined to be indefinite. When an intangible asset is determined to have an indefinite useful life, it should not be amortized until its life is determined to be no longer indefinite. The amortization method and estimate of the useful life of an intangible asset should be reviewed annually. Intangible assets which are subject to amortization are tested for impairment by comparing the net carrying amount with the net recoverable amount whereas for intangible assets not subject to amortization, the net carrying amount is compared to the asset's fair value. The impact of the adoption of the new recommendations will not result in any change to the recognized intangible assets of the Company because its intangible assets are not considered to have an indefinite life. However, the Company will have additional disclosure requirements relating to its intangible assets.


ii) Stock-Based Compensation

Effective January 1, 2002, the Company prospectively adopted the new recommendation published by the Canadian Institute of Chartered Accountants relating to stock – based compensation and other stock – based payments. The Company has chosen to recognize no compensation when stock options are granted to employees and directors under stock option plan with no cash settlement features. However, direct awards of stock to employees and stock options awards granted to non-employees will continue to be accounted for in accordance with the fair value method of accounting for stock – based compensation.

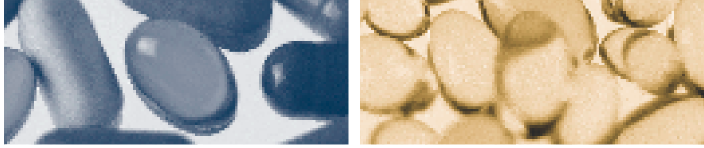
4. CAPITAL STOCK

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

Issued and outstanding:

	Number of shares	Amount
Balance at December 31, 2001	12,539,247	$37,154
Issued on exercise of stock options	30,041	183
Issued under employee share purchase plan	2,171	20
Issued under exercise of special warrants	2,205,500	19,895
Employee share purchase loan repayment	–	20
Balance at June 30, 2002	14,776,959	$57,272

On March 20, 2002, the Company signed an agency agreement to issue 2,205,500 special warrants for a cash consideration of $20,952 less issue costs of $1,057. On May 3, 2002, Paladin filed a long form prospectus to qualify the common shares which were to be issued in exchange for the special warrants. On May 10, 2002, each special warrant was exercised without additional consideration into one common share.



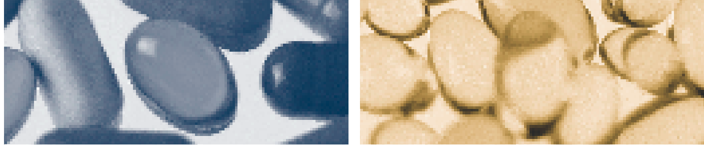
Stock option plan

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

	2002		2001	
		Weighted average exercise price		Weighted average exercise price
	#	**$**	#	$
Balance at December 31	**694,833**	**5.71**	484,344	4.90
Granted	**88,258**	**9.89**	136,867	5.22
Exercised	**(30,041)**	**6.10**	(25,000)	4.50
Expired or forfeited	**(19,221)**	**7.36**	(37,861)	5.65
Balance at June 30	**733,829**	**6.15**	558,350	4.95
Options exercisable at June 30	**266,856**	**5.47**	338,265	4.44

5. CASH AND TEMPORARY INVESTMENTS

Cash and temporary investments increased by $1,231 during the three-month period ended June 30, 2002 and increased by $22,119 during the six-month period ended June 30, 2002.



6. COMMITMENTS

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

Revenue based commitments

The Company has committed under certain pharmaceutical product license agreements to make royalty payments ranging from 2.5% to 15% of sales, or require payments for products at rates ranging from 26% to 50% of the net selling price, or 60% of the net profit on sales. In addition, the Company will have to pay $4,632 [US$3,050] and $250 if the Company achieves specific sales volumes on specific products in the future.

Milestone based commitments

The Company has also committed to fund certain research and development expenditures of third parties of $380 [US$250] over the next two years. In addition, specific payments are 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 $2,077 [US$1,368] and $100.

Purchase and service based commitments

The Company is committed to making minimum spending relating to inventory purchases, regulatory, sales and marketing expenditures in the amount of $16,098 in order to retain exclusive distribution agreements for certain products. These commitments end in 2011 and annual amounts are as follows:

	$
July 1, 2002 to December 31, 2002	1,813
2003	3,485
2004	3,295
2005	1,786
2006	1,792
2007	851
2008-2011	3,076

Stock Exchange Listing
Toronto Stock Exchange
Trading Symbol: PLB

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