

Press Release

16th December 2010

ProStrakan Group plc (“ProStrakan” or the “Company”)

ProStrakan and Paladin Labs Announce New Strategic Relationship and Financing Agreement

ProStrakan Group plc (LSE: PSK), the UK-based international specialty pharmaceutical company, and Paladin Labs Inc. (TSX: PLB) (“Paladin”), the Canadian-based international specialty pharmaceutical company, announce today that they plan to enter into a new strategic relationship in which Paladin will acquire, by way of assignment, ProStrakan’s existing secured debt facility, with the addition of certain conversion rights, and will be granted an exclusive licence to ProStrakan’s products for certain emerging territories (the “Proposals”).

This announcement builds on the relationship which already exists between the two companies under which Paladin currently has in-licensed the rights to distribute Abstral and Sancuso in Canada. Today’s announcement broadens this existing partnership, with Paladin being granted exclusive licence to distribute all of ProStrakan’s products, including Abstral, Sancuso, Rectogesic, Xomolix and Tostran, in certain specific territories for which ProStrakan does not already have distribution agreements. These territories include: Canada, Latin America, Sub-Saharan Africa and Israel. Terms of the licence agreements are not being disclosed but equate to arm’s length commercial arrangements. In addition, during the term of the debt facility, Paladin will have the right to license any new products acquired or licensed by ProStrakan for those same territories and on the same terms and conditions.

The £50.0m (CDN\$81.4m) secured facility will be provided by Paladin in Canadian Dollars at a rate of interest of 10.5%. The existing facility agreement will be amended in certain respects. Paladin will have the option to convert the outstanding principal debt into new ProStrakan shares, but cannot convert during the initial six months of the life of the amended agreement. In the event of a change of control of ProStrakan during that initial time, Paladin will receive a payment equivalent to the balance of interest for the first year of the loan, together with a break fee of £2.0m (CDN\$3.3m).

Paladin will be entitled, for so long as either any sums remain outstanding under the amended loan facility (the “Amended Loan Facility”) or Paladin holds at least 15% of the issued share capital of the Company, to appoint one non-executive director to the Board of ProStrakan. Paladin has indicated that it intends to appoint Jonathan Ross Goodman as a Director with effect from Completion of the Proposals (“Completion”). Mr Goodman is founder, president and CEO of Paladin. Mr Goodman is currently a director of Paladin Labs Inc and Medicago Inc and he was formerly a director of Isotechnika Pharma Inc. No

other information is required to be disclosed pursuant to rule 9.6.13 of the Listing Rules in relation to this appointment.

Commenting on the proposed agreement, Peter Allen, Chairman & Acting Chief Executive of ProStrakan, said:

“This agreement provides strategic value to ProStrakan on multiple levels. We have, in Paladin, a capable and proven licensing partner for the emerging markets which will allow us to extract value from markets where we currently are not active. This agreement provides an excellent way to extend our existing debt facility through an added value strategic investor, whilst ensuring that existing ProStrakan shareholders will not be subject to any near term dilution should a sale of the company result from the previously announced discussions that are currently under way. ProStrakan will now be able to focus on the strong growth prospects of our portfolio of proprietary products, particularly as we expand and grow in the US over the coming years.

“ProStrakan and Paladin already have a track record of working well together and I welcome the opportunity to do so more closely as we enter this exciting period in the development of ProStrakan, with US approvals pending for two of our products and the distribution of Sancuso scheduled to re-commence in early 2011. I am looking forward to welcoming Jonathan Goodman to the Board. His extensive experience of marketing products in North America will be very valuable to us as we develop our US business.”

Jonathan Goodman, President & CEO of Paladin, said:

“We are pleased to expand our relationship with ProStrakan. This agreement provides Paladin with a basket of innovative products for Canada, South Africa, Israel and Latin America and we are now in a better position to execute our international growth strategy. With the conversion rights tied to the secured debt facility, Paladin has the option after the initial six months of the agreement to have a strategic investment in a specialty pharmaceutical company operating in Western Europe and the US. I look forward to sitting on the Board of ProStrakan to assist them in generating shareholder value.”

Background to, and reasons for, the Proposals

The ProStrakan Group (the “Group”) entered into its existing facility agreement (“Existing Loan Facility”) in March 2007. This has provided resources to enable the Group to grow its EU operations and to expand its operations into the US. The Directors of ProStrakan regard expansion in the US as a major driver of future shareholder value as it enables the Group to access a large market and, subject to obtaining the requisite regulatory approvals, to commercialise its products in the US.

As previously announced, the Group has experienced delays in the US approvals processes for Fortesta and Abstral as well as the recent interruption to the manufacture of Sancuso. These matters have affected the Group’s cashflows with the consequence that the Board believes that the Group’s existing facility arrangements require to be refinanced.

As indicated in the Company’s interim management statement of 15th November 2010, the principal outstanding amount under the Existing Loan Facility is repayable in monthly instalments of £1.0m per month, with the first instalment falling due on 31st December 2010. The whole of the outstanding amount under the Existing Loan Facility is due to be repaid in full by the end of March 2012. As at 15th December 2010 (being the latest

practicable date prior to the publication of this announcement), the principal amount outstanding under the Existing Loan Facility was £46.5m.

The Directors believe that the Proposals will strengthen the Group's financial position. The Proposals will enable the Group to refinance the Existing Loan Facility and to repay the Group's existing lenders in full.

Further details of the Proposals

Under the Proposals, the Existing Loan Facility will be assigned from the existing lenders to a subsidiary of Paladin (the "New Lender"). The New Lender will make available to the Group a three year convertible term loan of the Canadian Dollar equivalent of £50.0m to repay the principal amount assigned, together with accrued interest under the existing loan agreements and an amount in settlement of prepayment costs due under the existing loan agreements. The balance (net of costs and expenses) will be used for general working capital purposes.

The rate of interest on the amended loan facility will be 10.5% per annum (the blended rate of interest on the Existing Loan Facility is 11.9% per annum). The Amended Loan Facility will be repayable at the end of the three year term unless previously converted. The facility is also repayable on demand on the occurrence of certain events of default and upon a change of control.

In order to avoid dilution of existing ProStrakan shareholders during the current offer period, the New Lender will not be entitled to exercise the conversion rights described below prior to the Conversion Commencement Date (as defined below). Upon a change of control prior to the Conversion Commencement Date (and providing the New Lender requires repayment of the facility in those circumstances), ProStrakan will also be required to pay to the New Lender a sum equal to the aggregate of (i) a prepayment fee of the Canadian dollar equivalent of £2.0m and (ii) an amount equal to one year's interest on the aggregate outstanding amount under the Amended Loan Facility less all payments of interest actually made by ProStrakan from the date of Completion to the date of repayment. If such a Change of Control occurs between 180 and 240 days following the date of Completion, the prepayment fee referred to above will be increased by £0.5m for each 30 day period (or part thereof) between 180 and 240 days after the date of Completion. For these purposes, "Conversion Commencement Date" means the date which is 180 days after the date of Completion, or (if later) if any offer document (or scheme of arrangement circular) in respect of an offer for the Company is posted in accordance with the Takeover Code during such 180 day period, the earlier of (I) the date on which such offer lapses and (II) 240 days after the date of Completion.

The principal sum outstanding under the Amended Loan Facility will be convertible, in whole or in part, at the option of the New Lender, into new ordinary shares in the capital of the Company, in accordance with a loan conversion deed between the Company and the New Lender, at any time from and after Conversion Commencement Date. The conversion price per share will be £1.10 (subject to adjustment in certain circumstances) which represents a premium of 27.9% over the closing price for a ProStrakan share of £0.86 on 15th December 2010 (the latest practicable date prior to the publication of this announcement). If the Amended Loan Facility is converted in full, the maximum number of shares that would be issued upon conversion would represent approximately 22.5% of the issued share capital of the Company as at 15th December 2010.

As previously announced, Endo Pharmaceuticals Inc, the Group's US partner for Fortesta, has been given a PDUFA date by the US Food and Drug Administration ("FDA") of 30th December 2010. Upon FDA approval of Fortesta, a further milestone payment of US\$12.5m will become payable by Endo to the Group. In the event that the FDA delays approval of or does not approve Fortesta, the Group has agreed with Paladin that the Group will have the option, at any time in the period from Completion to 31 March 2012, to require Paladin to purchase its Xomolix product (and related intellectual property and other assets) at a fixed price based on a multiple of 12 months' net sales. This option is intended to give certainty over the future funding of the Group in the event that FDA approval of Fortesta is not obtained. The Directors do not currently intend to exercise the option to sell Xomolix to Paladin without exploring opportunities to sell it to a third party for a higher price, in which case the Group would pay to Paladin an amount equal to 2.5% of the purchase price paid by a third party. Aggregate sales for Xomolix in the year to 31st December 2009 were approximately £7.5m, which represented 9.5% of Group total revenues. Aggregate sales for Xomolix in the six months to 30th June 2010 were approximately £4.0m, which represented 8.8% of Group total revenues for the period.

On Completion, the Group will also enter into an exclusive distribution and licence agreement with Paladin for the commercialisation of certain of the Group's products in various territories, including Canada, Latin America, Sub-Saharan Africa and Israel.

Shareholder Vote

A shareholder circular will be sent to ProStrakan's shareholders shortly as the Proposals are conditional upon, amongst other things, the approval of ProStrakan's shareholders being obtained at a General Meeting, currently scheduled for early January.

In the event that Shareholders do not approve the resolutions to be proposed at the General Meeting, the Proposals will not proceed.

If the Proposals do not proceed, the Board would need to consider alternative courses of action in order to meet the Group's repayment obligations pursuant to the Existing Loan Facility, which would likely have to result in a material product disposal in the event that the Group was unable to secure alternative funding arrangements or renegotiate the terms of the Existing Loan Facility. Any such material product disposal would, due to its size, be likely to require Shareholder approval in accordance with the Listing Rules and would diminish the Group's ability to generate revenues in the future.

If the Group is not able to secure appropriate alternative funding arrangements or renegotiate the terms of the Existing Loan Facility or dispose of certain key assets, the Group is likely to be unable to meet all of its repayment obligations pursuant to the Existing Loan Facility. It is also anticipated that if the Proposals do not proceed, the Group would in the medium term fail to meet certain financial covenants in the Existing Loan Facility. In that event, the existing lenders would be in a position, as would normally be the case in agreements of this nature, to demand repayment in full of all of the outstanding debt under the Existing Loan Facility and to seek to enforce their securities over the assets of the Group. In such circumstances, the Group could potentially face the risk of insolvency.

Accordingly, the Board considers that it is important that Shareholders vote in favour of the resolutions at the General Meeting in order that the Proposals can proceed. If the resolutions to be proposed at the General Meeting are not passed and the Proposals do not proceed, the Group will be at risk of being unable to meet its repayment obligations

pursuant to the Existing Loan Facility, which could be extremely harmful to the Group and the interests of Shareholders.

The Company has received irrevocable undertakings to vote (or procure voting) in favour of the Resolutions to be proposed at the General Meeting from certain Warburg Pincus entities which hold in aggregate 49,282,291 ordinary shares representing approximately 24.4% of the issued share capital of the Company.

Aberforth Partners LLP, which manages on behalf of its clients Ordinary Shares representing approximately 14.9% of the issued share capital of the Company, has irrevocably undertaken to vote the 18,284,435 Ordinary Shares over which it exercises discretionary and voting control representing approximately 9.0% of the issued share capital of the Company (or such lesser number of Ordinary Shares over which Aberforth Partners LLP exercises discretionary and voting control at the time of the General Meeting) in favour of the Resolutions to be proposed at the General Meeting.

In addition, the Company has received non-binding letters of intent from the following shareholders, namely, LMS Capital Limited and Schroder Investment Management Limited, indicating support for the Proposals and outlining their current intention to vote in favour of the Resolutions at the General Meeting. LMS Capital Limited holds 17,601,737 Ordinary Shares representing approximately 8.7% of the issued share capital of the Company and Schroder Investment Management Limited holds in aggregate 11,064,656 Ordinary Shares representing approximately 5.5% of the issued share capital of the Company.

Offer Update

As announced by the Company on 15th November 2010, the Board has received expressions of interest in the Company and its assets which it is evaluating. The process of evaluating these expressions of interest is at a preliminary stage and the Company cannot provide any further information in relation to a potential offeror or offerors or any information in relation to any potential offer.

Ends

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About ProStrakan:

ProStrakan Group plc is a rapidly growing specialty pharmaceutical company engaged in the development and commercialisation of prescription medicines for the treatment of unmet therapeutic needs in major markets.

ProStrakan's head office is located in Galashiels in Scotland. The company's development capabilities are centred in Galashiels and Bedminster, New Jersey, USA. Sales and marketing of ProStrakan's portfolio of products are handled by commercial subsidiaries in the UK, US, France, Germany, Spain, Italy and other EU countries.

You can learn more about ProStrakan's business at: www.prostrakan.com

About Paladin:

Paladin Labs Inc., headquartered in Montreal, Canada, is a specialty pharmaceutical company focused on acquiring or in-licensing innovative pharmaceutical products for the Canadian and world markets. With this strategy, a focused national sales team and proven marketing expertise, Paladin has evolved into one of Canada's leading specialty pharmaceutical companies.

Paladin's shares trade on the Toronto Stock Exchange under the symbol PLB. For more information about Paladin, please visit the Company's website at www.paladinlabs.com.

Forward Looking Statements

This announcement contains (or may contain) certain forward-looking statements with respect to certain of the Company's plans and its current goals and expectations relating to its future financial condition and performance and which involve a number of risks and uncertainties. The Company cautions readers that no forward-looking statement is a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking statements. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as "aim", "anticipate", "target", "expect", "estimate", "intend", "plan", "goal", "believe", or other words of similar meaning. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances.

All references in this announcement to "£" are to the lawful currency of the United Kingdom, all references to "Canadian dollars" or "CDN\$" are to the lawful currency of Canada and all references to "US\$" are to the lawful currency of the United States.