



NEWS RELEASE

## **PALADIN REPORTS 2003 FIRST QUARTER RESULTS**

**Montreal, Canada, May 7, 2003** – Paladin Labs Inc. (TSX: PLB), a leading Canadian specialty pharmaceutical company, today announced its 2003 first quarter financial results.

Revenues for the three-month period ended March 31, 2003 declined 5% to \$5.1 million, compared to \$5.3 million in the first quarter of 2002. Decreased year-over-year sales in the period resulted primarily from a 71% decline in Urispas<sup>®</sup> sales due to the product's genericization, and Paladin's suspended sales of Valtaxin<sup>®</sup> related to ongoing supplier manufacturing difficulties. The Company's declining sales resulting from the aforementioned issues with Urispas<sup>®</sup> and Valtaxin<sup>®</sup> were partially offset by sales gains in other product segments.

Gross profit, as a percentage of revenues, was 76% during the period, as compared to 70% in the corresponding period last year. Selling and marketing expenses for the three-month period ended March 31, 2003 increased to \$2.7 million from \$1.4 million in the first quarter a year ago. This increase resulted primarily from the company's recent expansion of its sales and marketing operations in support of Androderm<sup>®</sup>, Dostinex<sup>®</sup>, Estring<sup>®</sup>, Muse<sup>®</sup>, Oesclim<sup>®</sup>, and Plan B<sup>™</sup>.

Net income for the quarter was \$672,000 or \$0.05 per share, compared to net income of \$1.4 million or \$0.11 per share in the first quarter of 2002. The Company's 2003 first quarter net income includes a gain on disposal of \$278,000 related to the assignment and sale of licenses for certain over-the-counter products and other income of \$341,000 which includes a one-time compensation payment for lost revenues of Dalacin<sup>®</sup> Vaginal Cream and other payments related to Paladin's license agreements.

“Over the last few months we have been implementing our sales and marketing expansion and I am thrilled to announce that we have increased our sales force from 14 to 48 sales representatives. We expect to gradually improve the sales performance of our key brands as we move forward,” said Jonathan Ross Goodman, President and CEO of Paladin Labs. “We remain committed to acquiring or in-licensing additional products to strengthen our product pipeline and leverage our sales and marketing capabilities.”

At March 31, 2003, Paladin's cash, cash equivalents and investments in both short-term and long-term marketable securities totalled \$42.1 million, compared to \$43.3 million as at March 31, 2002. From this strong cash position, Paladin is pursuing acquisitions of innovative products for the Canadian market that meet its disciplined investment criteria. Foremost, each acquisition must be regarded as having the potential to support the Company's profitable growth.

### **Product Developments**

Paladin transferred the rights for several of its over-the-counter brands to Pharmascience Inc., effective January 1, 2003, in a related party transaction. Paladin assigned the licenses to Sialor<sup>®</sup>, the Baker Cummins Line of dermatology products and sold the Moi-Stir<sup>®</sup> trademark. This disposition is in-line with Paladin's strategy to focus its sales and marketing efforts on its prescription brands and will not have a material impact on the Company's 2003 revenues. Paladin recognized a gain on disposal of the

licenses of \$278,000 in the quarter ended March 31, 2003. Pharmascience Inc. is a privately held company controlled by Joddes Limited. Joddes Limited also owns 45% of Paladin's common shares.

### **2003 Financial Guidance**

Paladin reiterates its previously announced guidance for revenues of \$26 million and net income of \$2 million in 2003. This projection excludes the impact of acquisitions that may be made by the Company during the year.

### **Conference Call Notice**

Paladin will host a conference call to discuss its first quarter results on Wednesday, May 7, 2003, at 4:30 p.m. EST. The dial-in number for the conference call is 1-800-273-9672 or 416-695-5806 (reference # 1416154). 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**

Paladin Labs Inc., headquartered in Montreal, Quebec, is a leading specialty 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 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 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.*

### **For more information, please contact:**

Samira Sakhia

Chief Financial Officer

**Paladin Labs Inc.**

Tel: (514) 340-5067

email: [info@paladin-labs.com](mailto:info@paladin-labs.com)

Website: [www.paladinlabs.com](http://www.paladinlabs.com)

Bruce Wigle

Investor Relations

**The Equicom Group Inc.**

Tel: (416) 815-0700 ext. 228

email: [bwigle@equicomgroup.com](mailto:bwigle@equicomgroup.com)

# BALANCE SHEET

[In thousands of Canadian dollars]

	March 31 2003 \$	December 31 2002 \$
(unaudited)		
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	10,047	2,020
Short-term marketable securities	32,077	36,572
Accounts receivable and other assets	2,539	2,586
Inventories	8	21
Income tax credits receivable	363	325
Future income tax assets	1,221	1,221
<b>Total current assets</b>	<b>46,255</b>	<b>42,745</b>
Long-term marketable securities	4,020	7,020
Property plant and equipment	84	72
Intangible assets	12,401	12,703
Deferred charges	1,832	1,515
Investments, at cost	2,771	2,771
Future income tax credits receivable	470	470
Future income tax assets	1,171	1,359
	<b>69,004</b>	<b>68,655</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	3,456	3,658
Income taxes payable	99	109
Balance of sale payable	610	597
Deferred credit	979	1,113
<b>Total current liabilities</b>	<b>5,144</b>	<b>5,477</b>
<b>Shareholders' equity</b>		
Capital stock	57,344	57,334
Special warrants	—	—
Contributed surplus	87	87
Other paid-in capital	23	23
Retained earnings	6,406	5,734
<b>Total shareholders' equity</b>	<b>63,860</b>	<b>63,178</b>
	<b>69,004</b>	<b>68,655</b>

## STATEMENTS OF INCOME AND RETAINED EARNINGS

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

	Three-month period ended	
	March 31	
	2003	2002
	\$	\$
	(unaudited)	(unaudited)
Revenues	5,065	5,344
Cost of sales	1,237	1,609
<b>Gross profit</b>	<b>3,828</b>	<b>3,735</b>
Selling and marketing	2,654	1,420
General and administrative	549	646
Research and development	337	383
Amortization	442	422
Interest income, net	(336)	(77)
Other income	(354)	(695)
<b>Income before under noted items</b>	<b>536</b>	<b>1,636</b>
Gain on disposal of license	278	—
<b>Income before income taxes</b>	<b>814</b>	<b>1,636</b>
Provision for income taxes		
Current	30	21
Future	112	214
	142	235
<b>Net income</b>	<b>672</b>	<b>1,401</b>
<b>Earnings per share</b>		
Basic	0.05	0.11
Diluted	0.05	0.11
<b>Weighted average number of shares outstanding</b>		
Basic	14,781,784	12,549,760
Diluted	14,784,285	12,833,496

## STATEMENTS OF CASH FLOWS

[In thousands of Canadian dollars]

	Three-month period ended	
	2003	March 31 2002
	\$	\$
	(unaudited)	(unaudited)
<b>Operating activities</b>		
Net income	672	1,401
Add items not affecting cash		
Amortization	455	427
Future income taxes	54	(387)
Imputed interest on balance of sale	13	13
Gain on disposal of license	(278)	—
	<b>916</b>	1,454
Net change in non-cash balances relating to operations	<b>(189)</b>	369
Cash flows from (used in) operating activities	<b>727</b>	1,823
<b>Investing activities</b>		
Additions to pharmaceutical product licenses and rights	<b>(519)</b>	(2,089)
Accounts payable related to the acquisition of intellectual property	—	1,179
Acquisition of property plant and equipment	<b>(25)</b>	(11)
Purchases of short-term marketable securities	<b>(4,421)</b>	(26,095)
Maturities of short-term marketable securities	<b>11,915</b>	14,810
Proceeds from disposal of pharmaceutical licenses	<b>340</b>	—
Cash flows (used in) from financing activities	<b>7,290</b>	(12,206)
<b>Financing activities</b>		
Common shares issued for cash	<b>10</b>	91
Issuance of special warrants	—	20,952
Share issue costs, net of tax	—	(1,057)
Cash flows from financing activities	<b>10</b>	19,986
<b>Net change in cash and cash equivalents during the period</b>	<b>8,027</b>	9,603
Cash and cash equivalents, beginning of period	<b>2,020</b>	1,978
<b>Cash and cash equivalents, end of period</b>	<b>10,047</b>	11,581
Cash and cash equivalents	<b>10,047</b>	11,581
Short-term marketable securities	<b>32,077</b>	31,755
Long-term marketable securities	<b>4,020</b>	—
	<b>46,144</b>	43,336