



NEWS RELEASE

PALADIN REPORTS 2004 FIRST QUARTER RESULTS

Montreal, Canada, May 6, 2004 – Paladin Labs Inc. (TSX: PLB), a leading Canadian specialty pharmaceutical company, today reported its 2004 first quarter financial results.

First Quarter Highlights:

- Revenue reached \$5.6 million, an increase of 11% over the same period last year
- Sales of key promoted brands including, Androderm[®], Dalacin[®], Dostinex[®], Estring[®] and Plan B[®] grew 30% compared to the corresponding period a year ago
- Obtained Canadian license for Oxytrol[®] from Watson Pharmaceuticals, Inc.
- Signed exclusive distribution agreement for Replagal[™] with Transkaryotic Therapies, Inc.
- Gerald P. McDole appointed to Board of Directors

“We remain focused on pursuing additional acquisition opportunities to bring innovative, promotion-sensitive brands to the Canadian market, while continuing to grow sales of our existing products. We are confident in our outlook for 2004 and expect to achieve our ninth consecutive year of record revenues”, said Jonathan Ross Goodman, President & CEO of Paladin Labs.

Financial Results

Revenue for the three-month period ended March 31, 2004, increased 11% to \$5.6 million, compared to \$5.1 million in the first quarter of 2003. Revenue growth resulted primarily from a 30% increase in sales of the Company’s key promoted brands including, Androderm[®], Dalacin[®], Dostinex[®], Estring[®] and Plan B[®] compared to the same period a year ago.

Paladin’s 2004 first quarter earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 10% to \$1.31 million, compared to EBITDA of \$1.18 million in the first quarter of 2003.

Net income for the quarter was \$344,000 or \$0.02 per fully diluted share, compared to net income of \$573,000 or \$0.04 per fully diluted share in the first quarter a year ago. The Company’s year-over-year decline in net income reflects one-time items in the first quarter of 2003, including a \$278,000 one-time gain on disposal of certain over-the-counter products and other income of \$354,000 related to license agreements, which included a compensation payment to Paladin for lost revenues of Dalacin[®] Vaginal Cream.

Gross profit, as a percentage of revenues, for the first quarter of 2004 remained steady at 76% between the first quarter of 2004 and the first quarter of 2003.

Selling and marketing expense for the first quarter of 2004 decreased 46% to \$1.4 million from \$2.7 million in the first quarter of 2003 due to reduced promotional expenses.

Research and development expenses for the first quarter of 2004 increased to \$1.2 million from \$340,000 in the first quarter a year ago. This increase was primarily due to an increased number of research and development projects in the current period and \$353,000 related to certain license payments for unapproved products.

Amortization expense for the first quarter of 2004 increased to \$791,000 from \$442,000 in the first quarter of 2003. This increase in amortization expense is a result of the Company's decision to reduce the estimated useful life of the carrying value of the intellectual property associated with products that face a heightened risk of generic competition.

At March 31, 2004, Paladin's cash, cash equivalents and investments in marketable securities totalled \$39.3 million. From this strong cash position, Paladin continues to pursue product acquisition opportunities.

Product Developments

During the first quarter, Paladin obtained the Canadian license for Oxytrol[®], a novel transdermal patch for the treatment of overactive bladder, from Watson Pharmaceuticals, Inc. According to the Canadian Continence Foundation, approximately 1.5 million Canadians suffer from overactive bladder and according to IMS Canada, the total Canadian market for overactive bladder in 2003 was \$46 million.

In addition, Paladin signed an exclusive distribution agreement for Replagal[™], an innovative treatment for Fabry disease from Transkaryotic Therapies, Inc. ("TKT"). Health Canada recently granted TKT regulatory approval for Replagal[™], a long-term enzyme replacement therapy for the treatment of Fabry disease under its Notice of Compliance with Conditions (NOC/c) Policy. Approval of a product under the NOC/c policy allows Health Canada to provide earlier market access to potentially life-saving drugs. Conditions associated with approval allow Health Canada to monitor the safety and effectiveness of the drug through enhanced post-market surveillance.

Corporate Developments

During the quarter, Mr. Gerald P. McDole was appointed to Paladin's Board of Directors. Mr. McDole was formerly President and CEO of AstraZeneca Canada Inc. until his retirement in October 2003. Mr. McDole will be replacing Mr. Michael Tarnow, who did not stand for re-election at this year's annual general meeting. "On behalf of the other members of the Board and our employees, I would like to thank Mr. Tarnow for his three years of exemplary service to Paladin," said Jonathan Ross Goodman, President and CEO.

2004 Financial Guidance

Paladin reiterates its previously announced financial guidance for revenues of \$26.5 million, earnings before interest, taxes, depreciation and amortization (EBITDA) of \$9 million and net income of \$3.6 million in fiscal 2004. 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 Thursday, May 6, 2004, at 10:00 a.m. EST. The dial-in number for the conference call is 1-800-387-6216 or 416-405-9328 (reference # 3041857). The call will be audio-cast live and archived for 90 days at www.financialdisclosure.ca and www.paladinlabs.com

About Paladin Labs

Paladin Labs Inc., headquartered in Montreal, Canada, is a 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 Company's Web site at 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]

	March 31 2004 \$	December 31 2003 \$
	(unaudited)	
ASSETS		
Current		
Cash and cash equivalents	596	1,991
Short-term marketable securities	36,876	42,556
Accounts receivable	3,529	248
Inventories	3,282	—
Other current assets	1,032	2,541
Investment tax credits receivable	147	256
Future income tax assets	1,969	1,969
Total current assets	47,431	49,561
Long-term marketable securities	1,796	—
Property plant and equipment	116	132
Intangible assets	12,545	12,359
Deferred charges	3,227	2,781
Investments	1,877	1,877
Future income tax credits receivable	1,414	659
Future income tax assets	659	1,601
	69,065	68,970
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	3,422	4,546
Accounts payable to related parties	1,803	170
Income taxes payable	121	85
Balance of license agreements payable	3,683	4,537
Deferred credit	187	300
Total current liabilities	9,216	9,638
Shareholders' equity		
Capital stock	57,477	57,440
Contributed surplus	87	87
Other paid-in capital	379	243
Retained earnings	1,906	1,562
Total shareholders' equity	59,849	59,332
	69,065	68,970

STATEMENTS OF INCOME

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

[unaudited]

	Three-month period ended	
	March 31	
	2004	2003
	\$	\$
		(restated – see note 3)
Revenues	5,597	5,065
Cost of sales	1,318	1,237
Gross profit	4,279	3,828
Selling and marketing	1,433	2,654
General and administrative	705	648
Research and development	1,178	337
Amortization	791	442
Interest income, net	(329)	(336)
Other income	—	(354)
Income before under noted items	501	437
Gain on disposal of license	—	278
Income before income taxes	501	715
Provision for income taxes		
Current	25	30
Future	132	112
	157	142
Net income	344	573
Earnings per share		
Basic	0.02	0.04
Diluted	0.02	0.04
Weighted average number of shares outstanding		
Basic	14,802,846	14,781,784
Diluted	14,879,963	14,784,285

STATEMENTS OF CASH FLOWS

[In thousands of Canadian dollars]

[unaudited]

	Three-month period ended	
	2004	March 31 2003
	\$	\$
		(restated – see note 3)
Operating activities		
Net income	344	573
Add items not affecting cash		
Amortization	807	455
Stock based compensation expense	137	99
Future income taxes	75	54
Imputed interest on balance of sale	—	13
Gain on disposal of license	—	(278)
	1,363	916
Net change in non-cash balances relating to operations	(3,811)	(189)
Cash flows from (used in) operating activities	(2,448)	727
Investing activities		
Additions to pharmaceutical product licenses and rights	(1,423)	(519)
Acquisition of property plant and equipment	—	(25)
Purchases of short-term marketable securities	(2,753)	(4,421)
Maturities of short-term marketable securities	8,432	11,916
Purchase of long-term marketable securities	(1,796)	—
Proceeds from disposal of pharmaceutical licenses	—	340
Cash flows from (used in) financing activities	2,460	7,291
Financing activities		
Common shares issued for cash	37	10
Account payable related to the acquisition of intellectual property	(1,444)	—
Cash flows from financing activities	(1,407)	10
Net change in cash and cash equivalents during the period	(1,395)	8,028
Cash and cash equivalents, beginning of period	1,991	2,020
Cash and cash equivalents, end of period	596	10,048
Cash and cash equivalents	596	10,048
Short-term marketable securities	36,876	32,077
Long-term marketable securities	1,796	4,040
	39,268	46,165