



## NEWS RELEASE

### PALADIN REPORTS RECORD THIRD QUARTER REVENUE

**Montreal, Canada, October 28, 2004** – Paladin Labs Inc. (TSX: PLB), a leading Canadian specialty pharmaceutical company, today reported its financial results for the three and nine-month periods ended September 30, 2004. The Company achieved record revenue for the third quarter and first nine months of 2004 and remains on track to meet its financial guidance for 2004.

#### Third Quarter 2004 Highlights

- Revenue totaled a record \$7.9 million, a 46% increase compared to Q3 2003
- Net income increased to \$1.0 million from net income of \$356,000 in Q3 2003
- Filed new drug submissions for GlucaGen<sup>®</sup> and Histrelin Hydrogel Implant with Health Canada
- Signed exclusive Canadian marketing and promotion agreement with Duramed Pharmaceuticals, Inc., for Loestrin<sup>®</sup> and Minestrin<sup>®</sup>

“We are pleased with our progress and financial results to date in 2004. Our recent market launch of OXYTROL<sup>®</sup> significantly strengthens our urology franchise and will drive strong organic sales growth,” said Jonathan Ross Goodman, President & CEO of Paladin Labs.

#### Financial Results

Revenue for the three months ended September 30, 2004 increased 46% to \$7.9 million compared to \$5.4 million in the third quarter of 2003. Revenue for the nine months ended September 30, 2004 increased 18% to \$19.9 million compared to \$16.9 million in the corresponding period a year ago. To date in 2004, sales of the Company’s key promoted brands including, Androderm<sup>®</sup>, Dalacin<sup>®</sup>, Dostinex<sup>®</sup>, Estring<sup>®</sup> and Plan B<sup>®</sup>, increased by 15% compared to the first nine months of 2003.

Paladin’s 2004 third quarter earnings before interest, taxes, depreciation, and amortization (EBITDA<sup>1</sup>) increased to \$2.6 million compared to EBITDA of \$903,000 in the third quarter of 2003. For the nine months ended September 30, 2004, EBITDA increased to \$5.9 million compared to EBITDA of \$4.2 million in the first nine months of 2003.

Net income for the third quarter was \$1.0 million or \$0.07 per fully diluted share compared to net income of \$356,000 or \$0.02 per fully diluted share in the third quarter a year ago. Net income for the nine months ended September 30, 2004 was \$2.1 million or \$0.14 per fully diluted share compared to net income of \$787,000 or \$0.05 per fully diluted share in the same period a year ago.

Gross profit, as a percentage of revenues, for the third quarter and nine months ended September 30, 2004 totalled 72% and 74% respectively compared to 74% and 75% respectively for the third quarter and nine months ended September 30, 2003.

Selling and marketing expense for the third quarter decreased 26% to \$1.9 million from \$2.6 million in the third quarter of 2003. Selling and marketing expense for the first nine months of 2004 decreased 36% to \$5.1 million from \$7.9 million in the first nine months of 2003. Decreased selling and marketing expenses in 2004 have resulted primarily from reduced promotion on Androderm<sup>®</sup>.

Research and development expense for the third quarter of 2004 increased to \$774,000 from \$391,000 in the same period a year ago. This increase resulted primarily from costs associated with new drug submissions for GlucaGen<sup>®</sup> and Histrelin Hydrogel Implant that were filed with Health Canada during the third quarter. In the first nine months of 2004, research and development expenses increased to \$2.5 million from \$873,000 in the corresponding period a year ago. This increase resulted from the aforementioned new drug submissions, an increased number of research and development projects in 2004, and \$353,000 in license payments for unapproved products in the first quarter of 2004.

Amortization expense for the third quarter of 2004 increased to \$1.1 million from \$442,000 in the third quarter a year ago. For the nine months ended September 30, 2004, amortization expense increased to \$3.0 million from \$1.4 million in the corresponding period a year ago. Increased amortization expense resulted from 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 September 30, 2004, Paladin's cash, cash equivalents and investments in marketable securities totalled \$39.4 million. From this strong cash position, Paladin continues to pursue product acquisition opportunities.

### **Product Developments**

During the third quarter, Paladin filed, on behalf of Novo Nordisk Canada Inc., a new drug submission for GlucaGen<sup>®</sup> (recombinant glucagon for injection) with the Biologics and Genetic Therapies Directorate of Health Canada. GlucaGen<sup>®</sup> is chemically identical to human glucagon, a naturally occurring peptide that selectively converts liver glycogen to glucose, relaxes smooth muscle, and increases the strength of cardiac contractions. Glucagon is indicated for emergency treatment of hypoglycemia in insulin-dependent diabetics. According to IMS Canada, in 2003, the annual market for glucagon was \$4.1 million, and grew by 28% over the previous year.

Paladin filed a new drug submission for Histrelin Hydrogel Implant with the Therapeutic Products Directorate of Health Canada. Histrelin Hydrogel Implant is a unique, once-yearly luteinizing hormone-releasing hormone (LHRH) implant indicated for the treatment of prostate cancer, the most prevalent form of cancer afflicting Canadian men. According to IMS Canada, in 2003, the total LHRH agonist market for the treatment of prostate cancer was \$108 million, and had a compound annual growth rate of 15% since 1998.

Paladin entered into an exclusive Canadian marketing and promotion agreement with Duramed Pharmaceuticals, Inc., a wholly-owned subsidiary of Barr Pharmaceuticals, Inc., for Loestrin<sup>®</sup> (norethindrone acetate 1.5mg/ ethinyl estradiol 0.03mg) and Minestrin<sup>®</sup> (norethindrone acetate 1.0mg/ ethinyl estradiol 0.02mg), two oral contraceptive pharmaceutical products that are currently available in Canada. Under the terms of the agreement, Paladin will assume responsibility for all marketing and promotion in Canada in exchange for a service fee. Duramed will continue to maintain control of manufacturing, distribution and logistical support.

Due to changes in market conditions, Paladin announced that it will no longer pursue its new drug submission for Statex<sup>®</sup> SR (sustained-release morphine sulfate tablets) with the Therapeutic Products Directorate of Health Canada. Paladin also announced that as a result of Health Canada's recent classification of melatonin as a natural health product, Circadin<sup>®</sup> (controlled release melatonin tablets) no longer fits within its sales and marketing strategy and will not be commercialized.

Subsequent to the end of the third quarter, on October 18, 2004, Paladin announced the Canadian launch of OXYTROL<sup>®</sup> (oxybutynin transdermal system), a unique patch medication indicated for the treatment of overactive bladder (OAB), with symptoms of urge urinary incontinence, urgency, and frequency. By bypassing initial metabolism in the liver and the gastrointestinal tract that occurs with

oral medications, OXYTROL<sup>®</sup> provides relief of overactive bladder symptoms for up to four days with anticholinergic side effects comparable to placebo. According to The Canadian Continence Foundation (TCCF), approximately three million Canadians suffer from an overactive bladder and, according to IMS Canada, the total Canadian prescription market for overactive bladder exceeded \$46 million in 2003.

### **Financial Guidance**

For the year ended December 31, 2004, Paladin expects to generate \$26.5 million in revenue, EBITDA<sup>1</sup> in the range of \$6.4 million to \$7.0 million, and net income in the range of \$1.9 million to \$2.1 million. This forecast excludes the impact of acquisitions that may be made by the Company between now and the end of 2004.

(1) EBITDA does not have any standardized meaning prescribed by generally accepted accounting principles (GAAP) and therefore may not be comparable to similar measures presented by other public issuers. EBITDA performance and guidance is presented herein because Paladin management believes that, in addition to net income, EBITDA is a useful supplemental measure of the Company's financial performance.

### **Conference Call Notice**

Paladin will host a conference call to discuss its third quarter results today at 10:00 a.m. EST. The dial-in number for the conference call is 1-877-211-7911 or 416-405-9310 (reference # 3107504). 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, 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](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 section of the Company's Annual Report and Annual Information Form.*

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BALANCE SHEET  
 [In thousands of Canadian dollars]

	September 30 2004 \$	December 31 2003 \$
	(unaudited)	
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	4,412	1,991
Short-term marketable securities	30,948	42,556
Accounts receivable	5,553	248
Inventories	2,780	—
Other current assets	520	2,541
Investment tax credits receivable	176	256
Future income tax assets	1,969	1,969
<b>Total current assets</b>	<b>46,358</b>	<b>49,561</b>
Long-term marketable securities	4,086	—
Property, plant and equipment	89	132
Intangible assets	10,731	12,359
Deferred charges	3,859	2,781
Investments	1,877	1,877
Future income tax credits recoverable	659	659
Future income tax assets	743	1,601
	<b>68,402</b>	<b>68,970</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	4,010	4,546
Accounts payable to related parties	640	170
Income taxes payable	159	85
Balance of license agreements payable	1,635	4,537
Deferred credit	—	300
<b>Total current liabilities</b>	<b>6,444</b>	<b>9,638</b>
<b>Shareholders' equity</b>		
Capital stock	57,727	57,440
Contributed surplus	87	87
Other paid-in capital	519	243
Retained earnings	3,625	1,562
<b>Total shareholders' equity</b>	<b>61,958</b>	<b>59,332</b>
	<b>68,402</b>	<b>68,970</b>

## STATEMENTS OF INCOME AND RETAINED EARNINGS

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

[unaudited]

	Three-month period ended September 30		Nine-month period ended September 30	
	2004	2003	2004	2003
	\$	\$	\$	\$
		(restated)		(restated)
Revenues	7,938	5,420	19,932	16,938
Cost of sales	2,259	1,418	5,211	4,188
<b>Gross profit</b>	<b>5,679</b>	<b>4,002</b>	<b>14,721</b>	<b>12,750</b>
Selling and marketing	1,898	2,574	5,115	7,947
General and administrative	655	580	2,124	1,837
Research and development	774	391	2,452	873
Amortization	1,109	442	3,010	1,377
Interest income, net	(267)	(412)	(866)	(1,113)
Other income	—	(11)	—	(392)
<b>Income before under noted items</b>	<b>1,510</b>	<b>438</b>	<b>2,886</b>	<b>2,221</b>
Gain on disposal of license	—	—	—	(504)
Write-down of long-term investments	—	—	—	1,497
<b>Income before income taxes</b>	<b>1,510</b>	<b>438</b>	<b>2,886</b>	<b>1,228</b>
Provision for income taxes				
Current	25	15	75	75
Future	447	67	748	366
	472	82	823	441
<b>Net income (loss)</b>	<b>1,038</b>	<b>356</b>	<b>2,063</b>	<b>787</b>
<b>Earnings per share</b>				
Basic	0.07	0.02	0.14	0.05
Diluted	0.07	0.02	0.14	0.05
<b>Weighted average number of shares outstanding</b>				
Basic	14,851,775	14,789,827	14,828,278	14,785,069
Diluted	14,909,415	14,824,569	14,908,867	14,802,981

## STATEMENTS OF CASH FLOWS

[In thousands of Canadian dollars]

[unaudited]

	Three-month period ended		Nine-month period ended	
	2004	September 30 2003	2004	September 30 2003
	\$	\$ (restated)	\$	\$ (restated)
<b>Operating activities</b>				
Net income (loss)	1,038	356	2,063	787
Add items not affecting cash				
Amortization	1,124	452	3,057	1,416
Stock based compensation expense	62	30	280	188
Future income taxes	408	8	558	235
Write-down of long-term investment	—	—	—	1,497
Imputed interest on balance of sale	—	13	—	40
Gain on disposal of license	—	—	—	(504)
	2,632	859	5,958	3,659
Net change in non-cash balances relating to operations	(139)	664	(5,360)	526
Cash flows from (used in) operating activities	2,493	1,523	598	4,185
<b>Investing activities</b>				
Additions to pharmaceutical product licenses and rights and intellectual property and deferred charges	(519)	(519)	(2,460)	(1,606)
Investment in other companies	—	—	—	(1,434)
Acquisition of property, plant and equipment	(2)	(2)	(4)	(51)
Purchases of short-term marketable securities	(7,895)	(8,382)	(24,664)	(39,219)
Maturities of short-term marketable securities	7,748	14,153	36,272	44,632
Purchases of long-term marketable securities	(1,736)	(6,683)	(5,435)	(7,936)
Maturities of long-term marketable securities	268	—	1,349	—
Proceeds from disposal of assets	—	—	—	869
Cash flows from (used in) investing activities	(2,136)	(1,433)	5,058	(4,745)
<b>Financing activities</b>				
Common shares issued for cash	14	12	267	53
Account payable related to the acquisition of intellectual property	(1,039)	—	(3,522)	—
Repayment of share purchase loan	—	—	20	20
Cash flows from (used in) financing activities	(1,025)	12	(3,235)	73
<b>Net change in cash and cash equivalents during the period</b>				
	(668)	102	2,421	(487)
Cash and cash equivalents, beginning of period	5,080	1,431	1,991	2,020
<b>Cash and cash equivalents, end of period</b>	<b>4,412</b>	<b>1,533</b>	<b>4,412</b>	<b>1,533</b>
Cash and cash equivalents	4,412	1,533		
Short-term marketable securities	30,948	39,432		
Long-term marketable securities	4,086	6,683		
	39,446	47,648		