



NEWS RELEASE

PALADIN REPORTS 2004 FOURTH QUARTER AND YEAR END RESULTS

- Company also provides 2005 guidance -

Montreal, Canada, February 17, 2005 – Paladin Labs Inc. (TSX: PLB), a leading Canadian specialty pharmaceutical company, today reported its financial results for the fourth quarter and year ended December 31, 2004. Supported by strong fourth quarter financial performance, the Company exceeded its 2004 financial guidance for revenue, EBITDA¹ and net income.

2004 Highlights

- Revenues totaled a record \$28.0 million, a 17% increase compared to 2003
- EBITDA¹ increased 67% to \$7.6 million compared to \$4.6 million in 2003
- Net income increased to \$3.2 million, up from a net loss of \$4.2 million in 2003
- Sales of the Company's key promoted brands including, Dostinex[®], Estring[®], Oxytrol[®] and Plan B[®] increased 36% compared to 2003
- New drug submissions were filed with Health Canada for GlucaGen[®] and Histrelin Hydrogel Implant
- Signed an exclusive Canadian marketing and promotion agreement with Duramed Pharmaceuticals, Inc., a wholly-owned subsidiary of Barr Pharmaceuticals, Inc., for Loestrin[®] and Minestrin[®], two oral contraceptive pharmaceutical products
- Canadian market launch of Oxytrol[®]

“We achieved our ninth consecutive year of record revenue. Our key promoted brands performed well in 2004 and with our recent market launch of Oxytrol[®], we look forward to building on this momentum throughout 2005,” said Jonathan Ross Goodman, President and CEO of Paladin Labs.

Financial Results

Revenue for the fourth quarter of 2004 increased 17% to a record \$8.1 million compared to \$6.9 million in the fourth quarter of 2003. For the year ended December 31, 2004, revenue increased 17% to a record \$28.0 million compared to \$23.9 million in 2003. Combined sales of the Company's key promoted brands including, Dostinex[®], Estring[®], Oxytrol[®] and Plan B[®] increased 36% in 2004 compared to 2003.

Paladin's 2004 fourth quarter earnings before interest, taxes, depreciation, and amortization (EBITDA¹) increased to \$1.7 million compared to EBITDA¹ of \$974,000 in the fourth quarter of 2003. For the year ended December 31, 2004, EBITDA¹ increased to \$7.6 million compared to EBITDA¹ of \$4.6 million in 2003.

Net income for the fourth quarter of 2004 was \$1.2 million or \$0.08 per fully diluted share compared to a net loss of \$5.0 million or \$0.34 per share in the fourth quarter a year ago. Net income for the year ended December 31, 2004 was \$3.2 million or \$0.22 per fully diluted share compared to a net loss of \$4.2 million or \$0.28 per share in 2003.

Gross profit, as a percentage of revenues, for the fourth quarter and twelve months ended December 31, 2004 totalled 71% and 73% respectively, compared to 71% and 74% respectively for the fourth quarter and twelve months ended December 31, 2003.

Selling and marketing expense for the fourth quarter of 2004 decreased 24% to \$2.4 million from \$3.2 million in the fourth quarter of 2003. Selling and marketing expense for 2004 decreased 32% to \$7.5 million from \$11.1 million in 2003. Decreased selling and marketing expense in 2004 resulted primarily from reduced promotion activities for Androderm[®].

Research and development expense for the fourth quarter of 2004 increased to \$1.2 million from \$429,000 in the same period a year ago. Research and development expense for 2004 increased to \$3.6 million from \$1.3 million in 2003. Increased research and development expense resulted from new drug submissions, an increased number of research and development projects in 2004, and \$396,000 in-license payments for unapproved products in the first quarter.

Amortization expense for the fourth quarter of 2004 increased to \$941,000 from \$569,000 in the corresponding period a year ago. For the twelve months ended December 31, 2004, amortization expense increased to \$4.0 million from \$1.9 million in 2003. Increased amortization expense in 2004 reflects 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 December 31, 2004, Paladin's cash, cash equivalents and investments in marketable securities totalled \$42.1 million.

Product Developments

Paladin's most significant product development in 2004 was the Canadian launch of Oxytrol[®], a novel transdermal patch for the treatment of overactive bladder. Launched in October, Oxytrol[®] significantly strengthens Paladin's urology franchise. According to IMS Canada, the total Canadian market for overactive bladder in 2004 was \$50 million.

Other branded product developments in 2004 included: i) an exclusive Canadian distribution agreement with Transkaryotic Therapies, Inc. for Replagal[™], an innovative, long-term enzyme replacement therapy for the treatment of Fabry disease; ii) an exclusive Canadian distribution agreement with Ovation Pharmaceuticals for Sabril[®] and Frisium[®], two central nervous system pharmaceutical products; iii) an exclusive Canadian marketing and promotion agreement with Duramed Pharmaceuticals, Inc., for Loestrin[®] and Minestrin[®], two oral contraceptive pharmaceutical products; and, iv) a Health Canada announcement that it is moving forward with a proposal to amend regulations, which if approved, would allow Plan B[®], an emergency contraceptive pill, to be sold in Canada on a "behind-the-counter" (BTC) basis without a physician prescription.

In addition, Paladin filed a new drug submission (NDS) with Health Canada in 2004 for GlucaGen[®] (recombinant glucagon), an emergency treatment of hypoglycemia in insulin-dependent diabetics. According to IMS Canada, GlucaGen[®] will compete in a market that was valued at approximately \$5.8 million in 2004 and grew by 43% over the prior year. Paladin also filed an NDS for Histrelin Hydrogel Implant, a unique, once-yearly luteinizing hormone-releasing implant for the treatment of prostate cancer. According to IMS Canada, the total LHRH for prostate cancer agonist market was \$127 million in 2004, and had a compound annual growth rate of 12% since 1999. Pending Health Canada approvals, the timeline for Paladin's Canadian market launch of Histrelin Hydrogel Implant will likely be in 2006 and GlucaGen[®] will follow in 2007.

Financial Outlook

Late in 2004, Paladin's management team, supported by its Board of Directors, engaged in an extensive strategic review to accelerate the growth of the business. As a result of this strategic review, starting in 2005, Paladin will increase its capabilities to internally develop and commercialize innovative products.

For fiscal 2005, Paladin expects to generate \$25 million to \$26 million in revenue. This forecast excludes the impact of acquisitions and/or new product launches that may be made by the Company between now and the end of 2005.

"Supported by more than \$42 million in cash and marketable securities, strong cash flow from our extensive product portfolio, and proven pharmaceutical development and marketing expertise, we believe we are well positioned to add this new competency to our business," said Mr. Goodman.

Notice of Conference call and Web cast

Paladin's senior management team, including: Jonathan Ross Goodman, President & Chief Executive Officer; Samira Sakhia, Chief Financial Officer; Mark Beaudet, VP Sales and Marketing; and Mark Nawacki, VP Business Development, will host an Investor Conference to discuss the Company's year end financial results, strategic direction and 2005 revenue guidance on Friday, February 18, 2005 at 9:30 a.m. (EST). The dial-in number for the conference call is 1-877-272-5574. The presentation will also be audio-cast live via www.financialdisclosure.ca and www.paladinlabs.com.

(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 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.

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 section of the Company's Annual Report and Annual Information Form.

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BALANCE SHEET
[In thousands of Canadian dollars]

	December 31 2004 \$	December 31 2003 \$
ASSETS		
Current		
Cash and cash equivalents	1,507	1,991
Short-term marketable securities	36,039	42,556
Accounts receivable	5,878	248
Inventories	2,718	—
Other current assets	735	2,541
Investment tax credits receivable	—	256
Future income tax assets	600	1,969
Total current assets	47,477	49,561
Long-term marketable securities	4,578	—
Property, plant and equipment	77	132
Intangible assets	11,065	12,359
Deferred charges	4,176	2,781
Investments	1,433	1,877
Future income tax credits recoverable	439	659
Future income tax assets	1,715	1,601
	70,960	68,970
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	4,723	4,546
Accounts payable to related parties	1,754	170
Income taxes payable	229	85
Balance of license agreements payable	1,062	4,537
Deferred credit	—	300
Total current liabilities	7,768	9,638
Shareholders' equity		
Capital stock	57,837	57,440
Other paid-in capital	554	330
Retained earnings	4,801	1,562
Total shareholders' equity	63,192	59,332
	70,960	68,970

STATEMENTS OF INCOME AND RETAINED EARNINGS

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

	Three-month period ended December 31		Twelve-month period ended December	
	2004 \$ (unaudited)	2003 \$ (unaudited)	2004 \$ (audited)	2003 \$ (audited)
Revenues	8,085	6,921	28,017	23,859
Cost of sales	2,363	1,976	7,574	6,164
Gross profit	5,722	4,945	20,443	17,695
Selling and marketing	2,425	3,196	7,540	11,142
General and administrative	660	790	2,784	2,627
Research and development	1,229	429	3,681	1,302
Amortization	942	569	3,952	1,946
Interest income, net	(267)	(299)	(1,133)	(1,412)
Other income	—	(28)	—	(421)
Income before under noted items	733	288	3,619	2,511
Gain on disposal of investment	(577)	—	(577)	(225)
Gain on disposal of intellectual property	—	(80)	—	(358)
Write-down of investments	—	526	—	2,023
Write-down of intellectual property	—	7,039	—	7,039
Income before income taxes	1,310	(7,197)	4,196	(5,968)
Provision for income taxes				
Current	(75)	13	—	88
Future	209	(2,250)	957	(1,884)
	134	(2,237)	957	(1,796)
Net income (loss)	1,176	(4,960)	3,239	(4,172)
Earnings per share				
Basic	0.08	(0.34)	0.22	(0.28)
Diluted	0.08	(0.34)	0.22	(0.28)
Weighted average number of shares outstanding				
Basic	14,854,971	14,795,732	14,834,988	14,787,733
Diluted	14,885,133	14,795,732	14,910,798	14,787,733

STATEMENTS OF CASH FLOWS

[In thousands of Canadian dollars]

	Three-month period ended December 31		Twelve-month period ended December 31	
	2004 \$ (unaudited)	2003 \$ (unaudited)	2004 \$ (audited)	2003 \$ (audited)
Operating activities				
Net income (loss)	1,176	(4,960)	3,239	(4,172)
Add items not affecting cash				
Amortization	957	633	4,014	2,000
Non-cash compensation expense	40	41	320	227
Future income taxes	617	(2,226)	1,175	(1,991)
Gain on disposal of investment	(577)	—	(577)	(225)
Unrealized foreign exchange (gain) loss	17	—	17	—
Write-down of intellectual property	—	7,039	—	7,039
Write-down of investments in other companies	—	526	—	2,023
Imputed interest on balance of sale	—	13	—	53
Gain on disposal of intellectual property	—	(80)	—	(358)
	2,230	986	8,188	4,596
Net change in non-cash balances relating to operations	1,613	368	(3,747)	850
Cash flows from (used in) operating activities	3,843	1,354	4,441	5,446
Investing activities				
Additions to pharmaceutical product licenses and rights and intellectual property and deferred charges	(1,593)	(8,412)	(4,053)	(9,969))
Investment in other companies	—	—	—	(1,433)
Acquisition of property, plant and equipment	(3)	(63)	(7)	(114)
Purchases of short-term marketable securities	(18,175)	(13,390)	(42,839)	(52,608)
Maturities of short-term marketable securities	16,495	16,948	54,116	61,580
Purchases of long-term marketable securities	(3,903)	—	(9,338)	(7,936)
Proceeds from disposal of pharmaceutical license	—	80	—	420
Proceeds from disposal of investments	1,021	—	1,021	529
Cash flows from (used in) investing activities	(6,158)	(4,837)	(1,100)	(9,531)
Financing activities				
Account payable related to the acquisition of intellectual property	(573)	4,560	(4,095)	4,602
Common shares issued for cash	21	33	288	86
Repayment of share purchase loan	—	—	20	20
Payment of balance of sale	—	(650)	—	(650)
Cash flows from (used in) financing activities	(552)	3,943	(3,787)	4,058
Effect of exchange rate change on cash and cash equivalents	(38)	(2)	(38)	(2)
Net change in cash and cash equivalents during the period	(2,905)	458	(484)	(29)
Cash and cash equivalents, beginning of period	4,412	1,533	1,991	2,020
Cash and cash equivalents, end of period	1,507	1,991	1,507	1,991
Cash and cash equivalents	1,507	1,991		
Short-term marketable securities	36,039	42,556		
Long-term marketable securities	4,578	—		
	42,124	44,547		