



STRENGTH
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EXECUTION

3RD QUARTER RESULTS 2003



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Dear Shareholders,

In the third quarter of 2003, Paladin remained focused on building sales of its key promoted products while actively pursuing acquisitions of additional promotion sensitive brands and innovative products in late-stage clinical development.

Revenue for the third quarter decreased 11% to \$5.4 million compared to \$6.1 million in the third quarter a year ago. The year-over-year decline in revenues resulted from a number of factors including, the continued decline in sales of Urispas® due to the product's genericization, a decline in sales of Valtaxin™ related to the manufacturing difficulties at Anthra Pharmaceuticals, Inc., a decline in sales of Tapazole® due to a temporary interruption in supply, and a decline in sales of Oesclim® due to recent concerns relating to female hormone replacement therapies. Aside from these challenges, we continue to achieve sales growth with our key promoted brands. Sales of Androderm®, Dostinex®, Dalacin®, Estring®, and Plan B™ increased by 38% in the third quarter compared to the same period last year.

While gross margins increased to 74% from 73% in the third quarter a year ago, our net income for the quarter declined to \$381,000 or \$0.03 per share from \$1.5 million or \$0.10 per share in the third quarter of 2002. Our decline in net income is primarily attributable to an increase in sales and marketing expenses.

Our balance sheet remains strong with \$47.7 million in cash, cash equivalents and investments in both short-term and long-term marketable securities as at September 30, 2003. From this solid cash position, we continue to pursue acquisitions in support of future growth.

I am pleased to report that during the third quarter, we received orphan drug designation for Fidelin™ (DHEA/prasterone) for adrenal insufficiency in both the United States and Europe. Orphan drug designation provides Fidelin™ with 7 years of market exclusivity in the U.S. and 10 years of market exclusivity in Europe, following regulatory approval. Paladin is developing Fidelin™ for adrenal insufficiency, a rare chronic condition brought about by failure of the adrenal glands, that affects an estimated 100,000 patients in the U.S. and 115,000 patients in Europe.

Also during the quarter, Mr. Mark Nawacki, CA, MBA, was appointed Paladin's Vice President of Business Development. In this position, Mr. Nawacki will play a lead role in identifying and pursuing acquisition opportunities for new products to support our continued growth within the Canadian specialty pharmaceutical market. Prior to joining Paladin, Mr. Nawacki led all of Pharmacia Canada's business development initiatives, including partnering, acquisitions, divestments, and prospecting of the Canadian biotech industry.

Subsequent to the third quarter, Mr. Michael S. Cloutier resigned as a member of our Board of Directors to pursue his new position as President of AstraZeneca Canada Inc. I would like to thank Mr. Cloutier for his valued contributions and wish him all the best in his new position at AstraZeneca Canada.

Our growth strategy remains focused on achieving continued sales growth for our key brands and building our product portfolio through acquisitions. With \$40 million in working capital, we are well positioned to acquire additional promotion sensitive brands from large pharmaceutical companies to leverage our sales and marketing capabilities, and to in-license innovative products in late stage clinical development.

On behalf of our Board of Directors and employees, thank you for your continued support.

Sincerely,

"Jonathan Ross Goodman"
(signed)

Jonathan Ross Goodman, B.A., LL.B., M.B.A.
President & CEO

STRENGTH THROUGH EXECUTION

Management Discussion And Analysis:

(All numbers are in thousands of Canadian dollars)

The following analysis explains the variations in the results of operations, financial position and cash flows for Paladin Labs Inc. ("Paladin" or the "Company"). This discussion should be read in conjunction with the information contained in the Company's interim and annual financial statements and the related notes to these financial statements.

Overview

Paladin is a leading speciality pharmaceutical company focused on acquiring or in-licensing innovative pharmaceutical products for the Canadian market. Through a national sales force, the Company markets its pharmaceutical products to Canadian physicians.

Third quarter highlights:

- Revenues reached \$5,420, a decrease of 11% over the same period last year.
- Net income was \$381, a decrease of 75% over the same period last year.
- Received orphan drug designation for Fidelin® in the U.S. and Europe.
- Appointed Mark Nawacki, Vice-President of Business Development.

As is common in the specialty drug industry, Paladin's revenue and profitability growth may vary from one quarter to another. These fluctuations result from, among other things, the timing of TPD approvals, the timing of new product launches and the timing of listing of new drugs on Formularies.

Results of Operations

Revenues

Revenues decreased \$667 or 11%, to \$5,420 for the three-month period ended September 30, 2003 from \$6,087 for the three-month period ended September 30, 2002. During the three-month period ended September 30, 2003, the decrease in revenues is primarily a consequence of continued declines in Urispas® sales as a result of the product's genericization and a decline in sales of Tapazole® due to an interruption in supply. Paladin resumed sales of Tapazole® on October 1, 2003 and has filled all backorders. The decrease in revenues was partially offset by continued growth in sales of the Company's promoted products including Androderm®, Dalacin®, Dostinex®, Estring®, and Plan B™, which grew by 38% during the three months compared to the corresponding period last year.

For the nine-month period ending September 30, 2003, revenues decreased \$179 or 1% to \$16,938 from \$17,117 for the nine-month period ended September 30, 2002. During the nine-month period ended September 30, 2003, there was a decline in sales of both Urispas® and Tapazole®, as mentioned above. In addition, the Company has experienced a decline in sales of Oesclim® due to the recent concerns relating to female hormone replacement therapies and a decline in sales of Valtaxin™ related to the manufacturing difficulties at Anthra Pharmaceuticals, Inc. The decrease in revenues was

partially offset by continued growth in sales of the Company's promoted products including Androderm®, Dalacin®, Dostinex®, Estring®, and Plan B™, which grew by 38% during the nine months compared to the corresponding period last year.

Gross Profit

Total gross profit decreased \$470 or 11% to \$4,002 for the three-month period ended September 30, 2003 from \$4,472 for the three-month period ended September 30, 2002. For the nine-month period ended September 30, 2003, gross profit increased \$397 or 3% to \$12,750 from \$12,353 for the nine-month period ended September 30, 2002. Gross profit, as a percentage of revenues, improved to 74% for the three-month period ended September 30, 2003 from 73% for the three-month period ended September 30, 2002. For the nine-month period ended September 30, 2003, gross profit, as a percentage of revenues, improved to 75% from 72% for the nine-month period ended September 30, 2002. This increase in gross profit, as a percentage of sales, resulted primarily from a higher proportion of products sold for which the Company earns a distribution fee and consequently does not incur costs of sales related to these products.

Selling and Marketing Expense

Selling and marketing expense increased \$846 or 49% to \$2,573 for the three-month period ended September 30, 2003 from \$1,727 for the three-month period ended September 30, 2002. For the nine-month period ended September 30, 2003, selling and marketing expense increased \$3,231 or 69% to \$7,946 from \$4,715 for the nine-month period ended September 30, 2002. Selling and marketing expense, as percentage of revenues, increased to 47% for the three-month period ended September 30, 2003 from 28% for the three-month period ended September 30, 2002. For the nine-month period ended September 30, 2003, selling and marketing expense, as a percentage of revenues, increased to 47% from 28% for the nine-month period ended September 30, 2002. This increase was primarily attributed to increased spending associated with the expansion of the sales and marketing infrastructure behind Androderm®, Dalacin®, Dostinex®, Estring®, Muse®, Oesclim®, and Plan B™.

General and Administrative Expense

General and administrative expense decreased \$117 or 17% to \$556 for the three-month period ended September 30, 2003 from \$673 for the three-month period ended September 30, 2002. For the nine-month period ended September 30, 2003, general and administrative expense decreased \$193 or 10% to \$1,655 from \$1,848 for the nine-month period ended September 30, 2002. General and administrative expense, as a percentage of revenues, was 10% for the three-month period ended September 30, 2003, and 11% for the three-month period ended September 30, 2002. For the nine-month period ended September 30, 2003, general and administrative expense, as a percentage of revenues, decreased to 10% from 11% for the nine-month period ended September 30, 2002.

Research and Development Expense

Research and development expense increased \$188 or 93% to \$391 for the three-month period ended September 30, 2003 from \$203 for the three-month period ended

STRENGTH THROUGH EXECUTION

September 30, 2002. For the nine-month period ended September 30, 2003, research and development expense increased \$82 or 10% to \$873 from \$791 for the nine-month period ended September 30, 2002. This increase is primarily due to the timing of research and development projects and related expenditures. Research and development expense consists of staffing costs and associated costs required to support Fidelin™ (DHEA) and other products in various stages of development, including further Canadian regulatory expense for currently marketed products.

Amortization Expense

Amortization expense increased \$16 or 4% to \$442 for the three-month period ended September 30, 2003 from \$426 for the three-month period ended September 30, 2002. For the nine-month period ended September 30, 2003, amortization expense increased \$105 or 8% to \$1,377 from \$1,272 for the nine-month period ended September 30, 2002. This increase reflects the impact of amortization expense related to the Company's additions to licenses, rights, and intellectual property during fiscal 2002 and 2003.

The Company has reason to believe that the risk of generic competition for some of its products may have increased. Management is in the process of determining the impact of this heightened risk, which may result in a write-down of intellectual property or accelerated amortization of certain assets.

Interest Income

Interest income increased \$47 or 13% to \$412 for the three-month period ended September 30, 2003 from \$365 for the three-month period ended September 30, 2002. For the nine-month period ended September 30, 2003 interest income increased \$403 or 57% to \$1,113 from \$710 for the nine-month period ended September 30, 2002. This increase reflects the impact of increased cash available for investment during the three and nine-month periods ended September 30, 2003 compared to the same periods last year.

Other Income

Other income was \$11 for the three-month period ended September 30, 2003. For the nine-month period ended September 30, 2003, other income decreased \$303 or 44% to \$392 from \$695 for the nine-month period ended September 30, 2002. For the nine-month period ended September 30, 2003, other income includes a one-time compensation payment for lost revenues of Dalacin® Vaginal Cream and other payments related to certain license and trademark license agreements.

Gain of Disposal

During the nine-month period ended September 30, 2003, the Company recorded a gain on disposal of \$504 related to assignment and sale of licenses to certain over-the-counter products and the sale of its investment in Connetics Corporation.

During the three-month period ended, Paladin reached an agreement with United Therapeutics for the return of the Canadian marketing and distribution rights for Remodulin™ and the cessation of Paladin's involvement in an ongoing, open-label clinical trial of Remodulin™. Paladin acquired the exclusive Canadian distribution rights for Remodulin™ from United Therapeutics in February 1999. There was no financial impact resulting from this termination.

Liquidity and Capital Resources

The Company believes that its existing cash and cash equivalents, short-term and long-term marketable securities, as well as cash generated from operations are sufficient to finance its current operations and working capital needs and future product acquisitions. At present, the Company is actively pursuing product acquisitions that may require the use of substantial capital resources. There are no present agreements or commitments with respect to any such acquisitions.

Cash flows from operating activities were \$1,523 and \$3,369 for the three-month periods ended September 30, 2003 and 2002, respectively. Cash flows from operating activities were \$4,185 and \$6,959 for the nine-month periods ended September 30, 2003 and 2002, respectively. Cash flows from operating activities represent the cash flows from net earnings, excluding revenues and expenses not affecting cash, principally amortization, write-down of intellectual property and investments, future income taxes, gain on disposal of assets, and imputed interest.

The cash flows from operating activities for the three-month period ended September 30, 2003 were due primarily to net income, amortization and net change in non-cash balances relating to operations. For the three-month period ended September 30, 2002, the cash flows from operating activities were mainly due to net income, amortization, future income taxes and net change in non-cash balances relating to operations.

For the nine-month period ended September 30, 2003, cash flows from operating activities were due to net income, amortization, write-down of long-term investments, future income taxes, net change in non-cash balances relating to operations offset by a gain on disposal. For the nine-month period ended September 30, 2002, cash flows from operating activities were due to net income, amortization and net change in non-cash balances relating to operations.

The Company's investing activities used cash of \$1,433 and \$1,146 for the three-month periods ended September 30, 2003 and 2002, respectively. During the three-month period ended September 30, 2003, the Company invested \$519 in acquisitions of patents, pharmaceutical product licenses and rights and intellectual property. In addition, the Company had net purchases of \$912 in short-term and long-term marketable securities during the three-month period ended September 30, 2003. For the three-month period ended September 30, 2002, the Company invested \$519 in acquisitions of patents, pharmaceutical product licenses and rights and intellectual property and had net purchases of short-term marketable securities of \$611.

Cash used in investing activities was \$4,745 and \$21,627 for the nine-month periods ended September 30, 2003 and 2002, respectively. During the nine-month period ended September 30, 2003, the Company invested \$1,606 in acquisitions of patents, pharmaceutical product licenses and rights and intellectual property and invested \$1,434 in other companies. The Company received \$869 related to the sale of its investment in Connetics Corporation and the assignment and sale of certain over-the-counter products. In addition, the Company had net purchases of \$2,523 short-term and long-term marketable securities. For the nine-month period ended September 30, 2002, the Company invested \$3,270 in acquisitions of patents,

STRENGTH THROUGH EXECUTION

pharmaceutical product licenses and rights and intellectual property and had net purchases of short-term and long-term marketable securities of \$19,503. This was offset by \$1,179 in accounts payable related to the above-mentioned acquisitions.

Cash flows from financing activities were \$12 and \$9 for the three-month periods ended September 30, 2003 and 2002, respectively. The Company received \$12 and \$9 from the issuance of common shares under the Company's stock purchase plan for the three-month periods ended September 30, 2003 and 2002, respectively.

Cash flows from financing activities were \$73 and \$20,127 for the nine-month periods ended September 30, 2003 and 2002, respectively. For the nine-month period ended September 30, 2003, \$53 was provided from common stock option exercises and the issuance of common shares under the Company's stock purchase plan. For the nine-month period ended September 30, 2002, \$19,895 was raised from the issuance of special warrants less related issuance costs. In addition, \$232 was provided from common stock option exercises and the issuance of common shares under the Company's stock purchase plan.

Subsequent Event

Effective October 15, 2003, the distribution agreement with Bioniche Life Sciences Inc. for Cystistat® was terminated for net proceeds to the Company of \$80. The net proceeds will be recorded as a gain in the fourth quarter.

Forward-Looking Statements

This document contains forward-looking statements, which reflect the Company's current expectations regarding future events. The forward-looking statements involve risk and uncertainties, including the difficulty in predicting product approvals, acceptance and demand for new pharmaceutical products, the impact of competitive products and pricing, new product development and launch, availability of raw materials, the regulatory environment, fluctuations in operating results and other risks. Many risks are inherent in the pharmaceutical industry; others are more specific to Paladin. Investors should consult the Company's ongoing quarterly filings, annual reports and Annual Information Form for additional information on risks and uncertainties relating to these forward-looking statements.

BALANCE SHEET

[In thousands of Canadian dollars]

	September 30 2003 \$ (unaudited)	December 31 2002 \$
ASSETS		
Current		
Cash and cash equivalents <i>[note 3]</i>	1,533	2,020
Short-term marketable securities <i>[note 3]</i>	39,432	36,572
Accounts receivable and other assets	2,751	2,586
Inventories	–	21
Income tax credits receivable	270	325
Future income tax assets	1,276	1,221
Total current assets	45,262	42,745
Long-term marketable securities <i>[note 3]</i>	6,683	7,020
Property plant and equipment	83	72
Intangible assets	11,921	12,703
Deferred charges	2,465	1,515
Investments, at cost	2,403	2,771
Future income tax credits receivable	470	470
Future income tax assets	472	1,359
	69,759	68,655
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	2,283	3,658
Income taxes payable	103	109
Balance of sale payable	637	597
Deferred credit	515	1,113
Total current liabilities	5,538	5,477
Shareholders' equity <i>[note 4]</i>		
Capital stock	57,407	57,334
Contributed surplus	87	87
Other paid-in capital	23	23
Retained earnings	6,704	5,734
Total shareholders' equity	64,221	63,178
	69,759	68,655

See accompanying notes

STRENGTH THROUGH EXECUTION

STATEMENTS OF INCOME AND RETAINED EARNINGS

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

	Three-month period ended		Nine-month period ended	
	2003	September 30 2002	2003	September 30 2002
	\$ (unaudited)	\$ (unaudited)	\$ (unaudited)	\$ (unaudited)
Revenues	5,420	6,087	16,938	17,117
Cost of sales	1,418	1,615	4,188	4,764
Gross profit	4,002	4,472	12,750	12,353
Selling and marketing	2,573	1,727	7,946	4,715
General and administrative	556	673	1,655	1,848
Research and development	391	203	873	791
Amortization	442	426	1,377	1,272
Interest income, net	(412)	(365)	(1,113)	(710)
Other income	(11)	-	(392)	(695)
Gain on disposal of assets <i>[note 6]</i>	-	-	(504)	-
Income before under noted items	463	1,808	2,908	5,132
Write down of long-term investment <i>[note 7]</i>	-	-	1,497	-
Income before income taxes	463	1,808	1,411	5,132
Provision for income taxes				
Current	15	21	75	81
Future	67	254	366	677
	82	275	441	758
Net income	381	1,533	970	4,374
Retained earnings, beginning of period	6,323	3,413	5,734	572
Retained earnings, end of period	6,704	4,946	6,704	4,946
Earnings per share				
Basic	0.03	0.10	0.07	0.32
Diluted	0.03	0.10	0.07	0.31
Weighted average number of shares outstanding <i>[note 5]</i>				
Basic	14,789,827	14,777,171	14,785,069	13,724,021
Diluted	14,824,569	15,052,244	14,802,981	13,956,901

See accompanying notes

STATEMENTS OF CASH FLOWS

[In thousands of Canadian dollars]

	Three-month period ended		Nine-month period ended	
	2003	September 30 2002	2003	September 30 2002
	\$ (unaudited)	\$ (unaudited)	\$ (unaudited)	\$ (unaudited)
Operating activities				
Net income	381	1,533	970	4,374
Add items not affecting cash				
Amortization	452	433	1,416	1,289
Share purchase plan compensation expense [note 4]	5	-	5	-
Write-down of long-term investment	-	-	1,497	-
Future income taxes	8	227	235	15
Imputed interest on balance of sale	13	13	40	40
Gain on disposal of assets	-	-	(504)	-
	859	2,206	3,659	5,718
Net change in non-cash balances relating to operations	664	1,163	526	1,241
Cash flows from operating activities	1,523	3,369	4,185	6,959
Investing activities				
Additions to pharmaceutical product licenses and rights and deferred changes	(519)	(519)	(1,606)	(3,270)
Accounts payable related to the acquisition of intellectual property	-	-	-	1,179
Investment in other companies	-	-	(1,434)	-
Acquisition of property plant and equipment	(2)	(16)	(51)	(33)
Purchases of short-term marketable securities	(8,382)	(19,818)	(39,219)	(64,760)
Maturities of short-term marketable securities	14,153	19,207	44,632	55,041
Purchases of long-term marketable securities	(6,683)	-	(7,936)	(9,784)
Proceeds from disposal of assets	-	-	869	-
Cash flows used in investing activities	(1,433)	(1,146)	(4,745)	(21,627)
Financing activities				
Common shares issued for cash	12	9	53	212
Issuance of special warrants	-	-	-	20,952
Share issue costs, net of tax	-	-	-	(1,057)
Repayment of share purchase loan	-	-	20	20
Cash flows from financing activities	12	9	73	20,127
Net change in cash and cash equivalents during the period	102	2,232	(487)	5,459
Cash and cash equivalents, beginning of period	1,431	5,205	2,020	1,978
Cash and cash equivalents, end of period	1,533	7,437	1,533	7,437
Cash and cash equivalents	1,533	7,437		
Short-term marketable securities	39,432	32,953		
Long-term marketable securities	6,683	7,020		
	47,648	47,410		

See accompanying notes

STRENGTH THROUGH EXECUTION

NOTES TO FINANCIAL STATEMENTS

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

1. BASIS OF PRESENTATION

Information with respect to the December 31, 2002 balance sheet is derived from the Company's complete audited financial statements. These unaudited interim financial statements should be read in conjunction with the audited financial statements and the notes thereto in the Company's Annual Report for the year ended December 31, 2002.

2. ACCOUNTING POLICIES

The accounting policies underlying these interim financial statements are those set forth in note 2 of the audited financial statements for the year ended December 31, 2002.

3. CASH AND MARKETABLE SECURITIES

Cash, short-term marketable securities and long-term marketable securities increased by \$1,014 during the three-month period ended September 30, 2003 and increased by \$2,036 during the nine-month period ended September 30, 2003.

4. CAPITAL STOCK

Authorized: 100,000,000 common shares without nominal or par value

Issued and outstanding:

	Number of shares	Amount
Balance at December 31, 2002	14,780,205	\$57,334
Issued on exercise of stock options	5,000	21
Issued under employee share purchase plan	6,661	32
Employee share purchase loan	-	20
Balance at September 30, 2003	14,791,866	\$57,407

Under the Company's share purchase plan, the Company will contribute 25% of employees contribution to a maximum of 6% of the employees salary in the form of common shares. The Company will make its contribution if the employee remains employed by the Company and has held the original shares for two years from the original purchase date. During the three and nine-month period ended September 30, 2003 the Company issued 27 shares to participating employees.

Stock option plan

The changes to the number of stock options granted by the Company and their weighted average exercise price are as follows:

	2003		2002	
	#	Weighted average exercise price	#	Weighted average exercise price
		\$		\$
Balance at December 31	706,524	6.18	694,833	5.71
Granted	195,318	4.29	89,258	9.85
Exercised	(5,000)	4.25	(30,041)	6.10
Expired or forfeited	(80,338)	6.31	(25,054)	7.31
Balance at September 30	816,504	5.82	728,996	6.15
Options exercisable at September 30	361,816	5.61	289,976	5.43

The company applies the intrinsic value based method of accounting for stock-based compensation awards granted to employees. Accordingly, no compensation cost has been recognized for stock options granted to employees and directors. Had compensation cost been determined based on the fair value at the date of grant of options, the fair value of the options would have been amortized over the vesting period of the options and the Company's net income and income per common share would have been amended as follow:

	Three-month period ended September 30		Nine-month period ended September 30	
	2003	2002	2003	2002
Net income as reported	381	1,533	970	4,374
Less: Amortization of fair value related to option grants	(67)	(25)	(251)	(288)
Amortization of fair value related to option life amendment in fiscal 2002	(29)	-	(83)	-
Pro-forma net income	285	1,508	636	4,086
Basic Earnings per share				
As reported	0.03	0.10	0.07	0.32
Pro-forma	0.02	0.10	0.04	0.30
Diluted Earnings per share				
As reported	0.03	0.10	0.07	0.31
Pro-forma	0.02	0.10	0.04	0.29

STRENGTH THROUGH EXECUTION

5. EARNINGS PER SHARE

The following summarizes the reconciliation of the basic weighted average number of shares outstanding and the diluted weighted average number of shares outstanding used in the diluted earnings per share calculations:

	Three-month period ended September 30		Nine-month period ended September 30	
	2003	2002	2003	2002
Basic weighted average number of shares outstanding	14,789,827	14,777,171	14,785,069	13,724,021
Dilutive effect of options	34,742	275,073	17,912	227,806
Dilutive effect of warrants	–	–	–	5,074
Diluted weighted average number of shares outstanding	14,824,569	15,052,244	14,802,981	13,956,901

There was no adjustment to net income for purposes of calculating diluted earnings per share.

6. RELATED PARTY TRANSACTION

Effective January 1, 2003, the Company assigned the licenses to Sialor® and the Baker Cummins line of dermatology products and sold the MoiStir® trademark to a related party for net proceeds of \$340. The Company recorded a gain of \$278 representing the difference between the value of the consideration received and the net carrying value of the intellectual property of \$90 less accumulated amortization of \$28. The Company will receive no further consideration for these products.

7. WRITE-DOWN OF INVESTMENT

During the three-month period ended June 30, 2003, the Company recorded a write-down of \$1,497 related to its investment in Anthra. During June 2003, Anthra advised the Company that it had disposed virtually all of its assets. Further, Anthra remains unable to determine when it will be able to resume production of its marketed product, Valtaxin™. Management considers that there has been impairment in the carrying value of the investment in Anthra. Consequently, the Company recorded a write-down of \$1,497, representing the full amount of the carrying value of its investment in Anthra.

8. COMMITMENTS

In the normal course of business, the Company secures Canadian sales and marketing rights to innovative drug products and has entered into various agreements, which include contractual obligations extending beyond the current year. These obligations are classified into three major categories: revenue based, milestone based and purchase based commitments.

Revenue based commitments

Most pharmaceutical product license agreements require that the Company make royalty payments ranging from 5% to 16% of sales, or require payments for products at rates ranging from 40% to 50% of the net selling price, or 60% of the net profit on sales.

In addition, the Company may have to pay up to \$4,119 [US\$3,050] and \$100 if the Company achieves specific sales volumes on specific products in the future. Payments related to sales volume may be due over the next 10 years.

Milestone based commitments

The Company has also committed to fund certain research and development expenditures of third parties for \$338 [US\$250] over the next two years. In addition, specific payments are required under these agreements if milestones are met, such as regulatory approval in Canada. Based on the outcome of these milestones, the Company may have to pay up to \$2,607 including US\$1,868.

Purchase and service based commitments

The Company is committed to making minimum spending related to inventory purchases, regulatory, sales and marketing expenditures in the amount of \$11,412 in order to retain exclusive distribution agreements for certain products. These commitments end in 2011 and annual amounts are as follows:

	\$
October 1, 2003 to December 31, 2003	612
2004	3,295
2005	1,786
2006	1,792
2007	851
2008-2011	3,076

9. SUBSEQUENT EVENT

Effective October 15, 2003, the distribution agreement with Bioniche Life Sciences Inc. for Cystistat® was terminated for net proceeds to the Company of \$80. The net proceeds will be recorded as a gain in the fourth quarter.

10. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current year.

Stock Exchange Listing

Toronto Stock Exchange

Trading Symbol: PLB

Transfer Agent

Computershare Trust Company of Canada

1500 University St.

Suite 700

Montreal, Quebec

H3A 3S8

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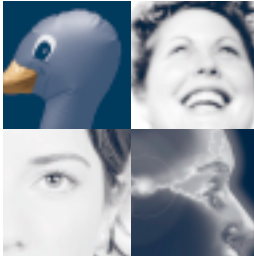
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