



**INSTRUCTIONS**

This report is to be filed by Exchange Issuers within 60 days of the end of their first, second and third fiscal quarters and within 40 days of the end of their fourth fiscal quarter. Three schedules (typed) are to be attached to this report as follows:

**SCHEDULE A: FINANCIAL INFORMATION**

Financial information prepared in accordance with generally accepted accounting principles for the fiscal year-to-date, with comparative information for the corresponding period of the preceding fiscal year. This financial information should consist of the following:

*For the first, second and third fiscal quarters:*

An interim financial report presented in accordance with Section 1750 of the C.I.C.A. Handbook. This should include a summary income statement (or a statement of deferred costs) and a statement of changes in financial position. A summary balance sheet is also to be provided.

*For the fourth fiscal quarter (year end):*

Annual audited financial statements.

**SCHEDULE B: SUPPLEMENTARY INFORMATION**

The supplementary information set out below is to be provided when not included in Schedule A.

1. *For the current fiscal year-to-date:*

Breakdown, by major category, of those expenditures and costs which are included in the deferred costs, exploration and development expenses, cost of sales or general and administrative expenses set out in Schedule A. State the aggregate amount of expenditures made to parties not at arm's length from the issuer.

2. *For the quarter under review:*

(a) Summary of securities issued during the period, including date of issue, type of security (common shares, convertible debentures, etc.), type of issue (private placement, public offering, exercise of warrants, etc.) number, price, total proceeds, type of consideration (cash, property, etc.) and commission paid.

(b) Summary of options granted, including date, number, name of optionee, exercise price and expiry date.

3. *As at the end of the quarter:*

- (a) Particulars of authorized capital and summary of shares issued and outstanding.
- (b) Summary of options, warrants and convertible securities outstanding, including number or amount, exercise or conversion price and expiry date.
- (c) Total number of shares in escrow or subject to a pooling agreement.
- (d) List of directors.

**SCHEDULE C: MANAGEMENT DISCUSSION**

Review of operations in the quarter under review and up to the date of this report, including brief details of any significant event or transaction which occurred during the period. The following list can be used as a guide but is not exhaustive:

Acquisition or abandonment of resource properties, acquisition of fixed assets, financings and use of proceeds, management changes, material contracts, material expenditures, transactions with related parties, legal proceedings, contingent liabilities, default under debt or other contractual obligations, special resolutions passed by shareholders.

Specifically, the management discussion must include:

- (a) disclosure of and reasons for any material differences in the actual use of proceeds from the previous disclosure by the issuer regarding its intended use of proceeds; and
- (b) a brief summary of the investor relations activities undertaken by or on behalf of the issuer during the quarter and disclosure of the material terms of any investor relation arrangements or contracts entered into by the issuer during the quarter.

**Freedom of Information and Protection of Privacy Act**  
The personal information requested on this form is collected under the authority of and used for the purpose of administering the Securities Act. Questions about the collection or use of this information can be directed to the Supervisor, Statutory Filings (604-660-4890), 1100 - 865 Homby Street, Vancouver, British Columbia V6Z 2H4.

**ISSUER DETAILS**

NAME OF ISSUER <b>PALADIN LABS INC/</b>	FOR QUARTER ENDED <b>Sept. 30, 1998</b>	DATE OF REPORT <b>98 11 12</b>
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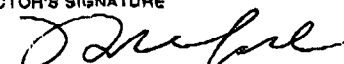
ISSUER'S ADDRESS <b>6111 Royalmount, Suite 102</b>
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CITY <b>Montreal,</b>	PROVINCE <b>QC</b>	POSTAL CODE <b>H 4 P 1 K 6</b>	ISSUER FAX NO. <b>(514) 344-4675</b>	ISSUER TELEPHONE NO. <b>(514) 340-1114</b>
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CONTACT PERSON <b>Jonathan Goodman</b>	CONTACT'S POSITION <b>President</b>	CONTACT TELEPHONE NO. <b>(514) 340-5072</b>
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**CERTIFICATE**

The three schedules required to complete this Quarterly Report are attached and the disclosure contained therein has been approved by the Board of Directors. A copy of this Quarterly Report will be provided to any shareholder who requests it.

DIRECTOR'S SIGNATURE 	PRINT FULL NAME <b>Jonathan Goodman (signed)</b>	DATE SIGNED <b>98 11 12</b>
DIRECTOR'S SIGNATURE 	PRINT FULL NAME <b>Ted Wise (signed)</b>	DATE SIGNED <b>98 11 12</b>

**PALADIN LABS INC.**  
(the "Company")  
Quarterly Report  
September 30, 1998

**SCHEDULE A: FINANCIAL INFORMATION**

1. (see financial statements attached)

**PALADIN LABS INC.**  
**BALANCE SHEET**  
**AT SEPTEMBER 30, 1998**  
*(Unaudited)*

	<u>Sep-98</u>	<u>Sep-97</u>
<b><u>ASSETS</u></b>		
<b><u>CURRENT</u></b>		
Cash & Marketable Securities	6,315,956	622,197
Trade Receivables	29,759	20,239
Parent Company Receivables	2,654,005	0
Income Taxes Recoverable	27,290	32,100
Other Current Assets	10,000	10,000
	<b>9,037,010</b>	<b>684,537</b>
 <b><u>OTHER ASSETS</u></b>		
Pharmaceutical Product Rights	1,446,532	2,369,422
Trade Mark Licences	0	122,115
	<b>10,483,542</b>	<b>3,176,074</b>
 <b><u>LIABILITIES</u></b>		
<b><u>CURRENT</u></b>		
Accounts payable -Parent Company	0	33,156
-Trade	37,056	10,301
	<b>37,056</b>	<b>43,457</b>
 <b><u>SHAREHOLDERS' EQUITY</u></b>		
<b><u>CAPITAL STOCK</u></b>	15,659,540	8,866,390
<b><u>CONTRIBUTED SURPLUS</u></b>	86,513	86,513
<b><u>DEFICIT</u></b>	(5,299,567)	(5,820,285)
	<b>10,446,486</b>	<b>3,132,617</b>
	<b>10,483,542</b>	<b>3,176,074</b>

**PALADIN LABS INC.**  
**STATEMENT OF OPERATIONS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1998**  
*(Unaudited)*

	1998	1997	%	July-Sept 1998	July-Sept 1997	%
			Change			Change
<b>Revenues:</b>						
Sales	2,018,813	0	-	2,018,813	0	-
Royalty Income	1,381,914	421,430	228%	520,521	225,478	131%
Interest	49,523	14,642	238%	37,342	5,283	607%
<b>Total Revenues</b>	<b>3,450,249</b>	<b>436,073</b>	<b>691%</b>	<b>2,576,676</b>	<b>230,761</b>	<b>1017%</b>
<b>Costs and Expenses:</b>						
Cost of products sold	682,930	0	-	682,003	0	-
Research and Development	683,975	374,689	83%	88,136	88,108	0%
Selling, general and administrative	731,477	165,298	343%	644,283	41,679	1446%
Interest expense and amortization	88,520	159,470	-44%	29,507	53,156	-44%
<b>Total costs and expenses</b>	<b>2,186,902</b>	<b>699,458</b>	<b>213%</b>	<b>1,443,928</b>	<b>182,943</b>	<b>689%</b>
Income before provision for taxes	1,263,347	(263,385)	nmf *	1,132,748	47,818	2269%
Provision for income taxes	0	0	-	0	0	-
<b>Net Income</b>	<b>1,263,347</b>	<b>(263,385)</b>	<b>nmf *</b>	<b>1,132,748</b>	<b>47,818</b>	<b>2269%</b>
<b>Basic earnings (loss) per share</b>	<b>\$0.23</b>	<b>(\$0.07)</b>	<b>nmf *</b>	<b>\$0.14</b>	<b>\$0.01</b>	<b>1300%</b>
<b>Diluted earnings (loss) per share</b>	<b>\$0.22</b>	<b>(\$0.07)</b>	<b>nmf *</b>	<b>\$0.14</b>	<b>\$0.01</b>	<b>1300%</b>
<b>Weighted average shares outstanding, no dilution</b>	<b>5,542,239</b>	<b>3,991,438</b>	<b>39%</b>	<b>7,910,228</b>	<b>3,992,659</b>	<b>98%</b>
<b>Weighted average shares outstanding, diluted basis</b>	<b>5,707,998</b>	<b>4,044,496</b>	<b>41%</b>	<b>8,297,715</b>	<b>4,045,717</b>	<b>105%</b>

\* nmf = not meaningful

**PALADIN LABS INC.**  
**STATEMENT OF CHANGES IN FINANCIAL POSITION**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1998**  
*(Unaudited)*

	1998	1997
<b><u>OPERATING ACTIVITIES</u></b>		
Net profit (loss) for the period	1,263,347	(263,385)
Add items not affecting cash:		
Amortization	88,520	159,470
	<u>1,351,867</u>	<u>(103,915)</u>
Changes in working capital non-cash items relating to operations	(2,391,742)	(282,573)
	<u>(1,039,875)</u>	<u>(386,488)</u>
<b><u>INVESTING ACTIVITIES</u></b>		
Common shares issued for cash	6,793,150	250,000
Addition to other assets	0	0
Aquisition through issuance of common s	0	0
	<u>6,793,150</u>	<u>250,000</u>
<b><u>INCREASE (DECREASE) IN CASH</u></b>	<b>5,753,275</b>	<b>(136,488)</b>
Cash, beginning of period	562,681	758,685
<b><u>CASH, END OF PERIOD</u></b>	<b><u>6,315,956</u></b>	<b><u>622,197</u></b>