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1ST QUARTER RESULTS 2004

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Dear Shareholders,

During the first quarter of 2004, we strengthened our foundation for growth finalizing two agreements to add innovative new products to our portfolio while continuing to achieve strong sales for our key promoted brands.

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 was driven by a 30% increase in sales of our key promoted brands including, Androderm[®], Dalacin[®], Dostinex[®], Estring[®] and Plan B[®].

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.

Our 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 due to a greater number of internal research and development activities.

Amortization expense for the first quarter of 2004 increased to \$791,000 from \$442,000 in the first quarter of 2003. This increase resulted from our 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. Where applicable, we will continue to apply this accelerated amortization schedule to newly acquired products.

Net income for the first quarter of 2004 declined to \$344,000 or \$0.02 per fully diluted share from \$573,000 or \$0.04 per fully diluted share in the same period a year ago. Our decline in net income reflects one-time gains in the first quarter of 2003.

Our balance sheet remains strong with \$39.3 million in cash, cash equivalents and marketable securities as at March 31, 2004. This decrease in our cash balance is a result of an amendment to our distribution agreement with our affiliate effective February 1, 2004. As a result of this amendment, Paladin has taken ownership of inven-

tory and accounts receivables related to products distributed by Paladin. Consequently, on February 1, 2004, Paladin purchased \$4.1 million of accounts receivables and \$2.9 million of inventory from its affiliate.

During the quarter, Paladin obtained the Canadian license for Oxytrol[®], from Watson Pharmaceuticals, Inc. Oxytrol[®] is a novel transdermal patch for the treatment of overactive bladder. We believe Oxytrol[®] represents a tremendous opportunity to leverage our existing relationship with urologists and we look forward to its launch in Canada. According to IMS Canada, in 2003, the total Canadian market for overactive bladder products was \$46 million and grew by 22%.

We also signed an exclusive distribution agreement for Replagal[™] with Transkaryotic Therapies, Inc. ("TKT"). Replagal[™] is an innovative long-term enzyme replacement therapy for the treatment of Fabry disease, a genetic disorder that impairs one's ability to break down fat. Health Canada recently granted TKT regulatory approval for Replagal[™] under its Notice of Compliance with Conditions policy. Approval of a product under this policy allows Health Canada to provide earlier market access to potentially life-saving drugs.

On the corporate development front, I am pleased to report the appointment of Mr. Gerald P. McDole to Paladin's Board of Directors. Mr. McDole was formerly President and CEO of AstraZeneca Canada Inc. until his retirement in October 2003.

Looking ahead, we remain committed to further expanding our product portfolio to strengthen our foundation for growth, 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.

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

Sincerely,



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

Management Discussion And Analysis:

All numbers are in thousands of Canadian dollars except for share and per share amounts

The following analysis explains the variations in the results of operations, financial position and cash flows for Paladin Labs Inc. ("Paladin" or the "Company") and is current as at April 30, 2004. 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.

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.

Overview

Paladin is a specialty pharmaceutical company focused on selling and marketing innovative pharmaceutical products for the Canadian market. Through a national sales force, the Company markets its pharmaceutical products to Canadian physicians in its key therapeutic areas.

Paladin's strategy is to acquire promotion-sensitive products with existing sales and to increase sales of these products through focused marketing and promotion. The Company also in-licenses late-stage development products, obtains regulatory approval for them and then launches them in the Canadian market.

First quarter highlights:

- Revenues reached \$5,597, an increase of 11% over the same period last year.
- Net income was \$344, a decrease of 40% over the same period last year.
- Obtained Canadian license for **Oxytrol**® from Watson Pharmaceuticals, Inc.
- Signed exclusive distribution agreement for **Replagal**™ with Transkaryotic Therapies, Inc.
- Appointed Gerald P. McDole to Paladin Board of Directors.

Paladin's annual and quarterly operating results are primarily affected by the following factors: the level of acceptance of Paladin's products by physicians and their patients; and wholesaler buying patterns. Wholesaler buying patterns, including a tendency to increase inventory levels prior to anticipated or announced price increases, affect the Company's operating results by shifting revenue between quarters. To ensure that Paladin maintains good relations with wholesalers, Paladin typically gives wholesalers prior notice of price increases to enable them to purchase products that they will later sell at higher prices. The level of patient and physician acceptance of Paladin's products, as well as the availability of similar therapies, impact Paladin's revenues by driving the level and timing of prescriptions for its products.

Critical Accounting Estimates

Paladin's financial statements are prepared in accordance with Canadian generally accepted accounting principles, applied in a consistent basis. Paladin's critical accounting estimates include revenue recognition, the recording of research and development expenses, the useful lives and fair value of intangible assets and stock based compensation expense. For a more detailed discussion of the Company's critical accounting, please refer to the Management Discussion & Analysis included in the Company's 2003 Annual Report. There have been no material changes to accounting estimates since December 31, 2003.

Results of Operations

Three-month period ended March 31, 2004 compared to three-month period ended March 31, 2003.

Revenues

Revenues increased \$532 or 11% to \$5,597 for the three-month period ended March 31, 2004 from \$5,065 for the three-month period ended March 31, 2003. This increase was due to strong market performance from the Company's key promoted products, including Androderm[®], Dostinex[®], Dalacin[®], Estring[®] and Plan B[®], which increased by 30% compared to the three-month period ended March 31, 2003. The increase in revenues was partially offset by continued declines in sales of Urispas[®], due to generic competition, and a decline in sales of Oesclim[®], due to the recent medical concerns relating to female hormone replacement therapies.

Gross Profit

Total gross profit increased \$451 or 12% to \$4,279 for the three-month period ended March 31, 2004 from \$3,828 for the three-month period ended March 31, 2003. Gross profit, as a percentage of revenues, was 76% for the three-month period ended March 31, 2004 and for the three-month period ended March 31, 2003.

Selling and Marketing Expense

Selling and marketing expense decreased \$1,221 or 46% to \$1,433 for the three-month period ended March 31, 2004 from \$2,654 for the three-month period ended March 31, 2003. Selling and marketing expense, as percentage of revenues, decreased to 26% for the three-month period ended March 31, 2004 from 52% for the three-month period ended March 31, 2003. This decrease was primarily attributed to decreased promotion activities. It is expected that selling and marketing expense, as a percentage of revenues, will be between 30% and 35% for the year ended December 31, 2004.

General and Administrative Expense

General and administrative expense increased \$57 or 9% to \$705 for the three-month period ended March 31, 2004 from \$648 for the three-month period ended March 31, 2003. General and administrative expense, as a percentage of revenues, was 13% for the three-month period ended March 31, 2004 and for the three-month period ended March 31, 2003.

Research and Development Expense

Research and development expense increased \$841 or 250% to \$1,178 for the three-month period ended March 31, 2004 from \$337 for the three-month period ended March 31, 2003. This increase was primarily due to an increased number of research and development projects in the current period and \$353 related to certain license payments for unapproved products.

Amortization Expense

Amortization expense increased \$349 or 79% to \$791 for the three-month period ended March 31, 2004 from \$442 for the three-month period ended March 31, 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 which may be genericized.

Interest Income

Interest income decreased \$7 or 2% to \$329 for the three-month period ended March 31, 2004 from \$336 for the three-month period ended March 31, 2003. This increase reflects the impact of lower interest rates in the three-month period ended March 31, 2004 compared to the three-month period ended March 31, 2003.

Other Income

Other income was \$354 for the three-month period ended March 31, 2003. Other income in 2003 includes a one-time compensation payment for lost revenues of Dalacin[®] and other payments related to certain license and trademark license agreements.

Income Tax Expense

Income tax expense increased \$15 or 11% to \$157 for the three-month period ended March 31, 2004 from \$142 for the three-month period ended March 31, 2003. The effective tax rate was 31% for the three-month period ended March 31, 2004 compared to 20% for the three-month period ended March 31, 2003.

Net Income

Due to the factors set forth above, net income was \$344 for the three-month period ended March 31, 2004 compared to net income of \$573 for the three-month period ended March 31, 2003.

Liquidity and Capital Resources

The Company believes that its existing cash and cash equivalents and short-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.

Paladin's cash, cash equivalents, and short-term and long-term marketable securities decreased \$5,279 to \$39,268 at March 31, 2003 from \$44,547 at December 31, 2003. This decrease in cash, cash equivalents, and short-term and long-term marketable securities was primarily due to an increase in accounts receivable and inventory. Effective February 1, 2004, the Company amended its distribution agreement with its affiliate (see Related Party Transactions). As a result of this amendment, Paladin has taken ownership of inventory and accounts receivables related to products distributed by Paladin. Consequently, on February 1, 2004, Paladin purchased \$4.1 million of accounts receivables and \$2.9 million of inventory from this affiliate.

Working capital decreased \$1,708 to \$38,215 at March 31, 2004 from \$39,923 at December 31, 2003. This decrease is primarily due to an increase in long-term marketable securities.

Cash flows used in operating activities were \$2,448 for the three-month period ended March 31, 2004. For the three-month period ended March 31, 2003, cash flows from operating activities were \$727. Cash flows from operating activities represent the cash flows from net earnings, excluding revenues and expenses not affecting cash, principally amortization, future income taxes, option compensation expense and imputed interest.

Cash flows from investing activities were \$2,460 and \$7,291 for the three-month periods ended March 31, 2004 and 2003, respectively. During the three-month period ended March 31, 2004, the Company invested \$1,423 in acquisitions of pharmaceutical product licenses and rights and intellectual property. In addition, the Company had a \$3,883 net decrease in short-term and long-term marketable securities. For the three-month period ended March 31, 2003, the Company invested \$519 in acquisitions of pharmaceutical product licenses and

rights and intellectual property and received \$340 related to the assignment of certain over-the-counter products. In addition, the Company had a \$7,495 net decrease in short-term and long-term marketable securities.

Cash flows used in financing activities were \$1,407 for the three-month period ended March 31, 2004. For the three-month period ended March 31, 2003, cash flows from financing activities were \$10. For the three-month period ended March 31, 2004, \$37 was provided from common stock option exercises and the issuance of common shares under the stock purchase plan. In addition, the Company had a decrease of \$1,444 in accounts payable related pharmaceutical product licenses. For the three-month period ended March 31, 2003, cash was provided from the issuance of common shares under the stock purchase plan.

Related Party Transactions

JODDES Limited ("JODDES"), a private Canadian corporation, is a significant shareholder, holding approximately 45% of the outstanding shares of the Company, and one director of the Company, the Company's President and CEO, is related to JODDES.

In June 1998, the Company entered into a number of ten-year agreements each with five-year renewal options with a wholly owned subsidiary of JODDES. Under these agreements, this affiliate provides manufacturing and logistics services including, customer service, warehousing and shipping, invoicing and collection services on behalf of the Company. Effective February 1, 2004, Paladin amended the distribution agreement with this affiliate. As a result of this amendment, Paladin has begun to invoice customers and collect accounts receivables and has taken title to the inventory and accounts receivables related to the products distributed by Paladin. Consequently, on February 1, 2004, Paladin purchased \$4.1 million of accounts receivables and \$2.9 million of inventory from this affiliate. The related party will continue to provide logistics services, including customer service, warehousing and shipping, invoicing and collection services.

The Company also engages this affiliate to perform certain research and development services. These service contracts are on a pay-for-use basis. The Company also leases its office facilities from another

wholly owned subsidiary of JODDES. This lease is for a period of 2 years and includes minimum payments of \$133. On November 5, 2003, the Company purchased a three-year license and distribution agreement from PanGeo Pharmaceutical (Canada) Inc. ("PanGeo"). On November 6, 2003, PanGeo was purchased by JODDES.

All transactions with affiliated companies are carried out in the normal course of operations, and are recorded at an agreed upon exchange amount.

The table below reflects all transactions and services with affiliates, including those referred to in the agreements described above:

	Three-month period ended March 31	
	2004	2003
	\$	\$
Revenues	489	555
Purchases	3,480	1,249
Research and development expenses	104	58
Sales and marketing expenses	300	290
General and administrative expenses	62	70

Effective January 1, 2003, the Company sold the MoiStir[®] trademark and assigned the licenses of Sialor[®] and the Baker Cummins line of dermatology products to a related party, a subsidiary of JODDES, and recorded a gain of \$278. The Company will receive no further consideration for these products.

Risk Factors

For a more detailed discussion of the risk factors that could materially affect the results of operations and the financial condition of the Company, please refer to the Company's Annual Information Form.

Contractual Obligations and Commitments

In the normal course of business, Paladin secures Canadian development, sales, marketing and distribution rights to innovative drug products and has entered into various agreements which include contractual obligations extending beyond the current year. In addition, under certain agreements, Paladin may have to pay additional consideration should the Company achieve certain sales volumes or if certain milestones are met, such as regulatory approval in Canada. The Company has the following contractual obligations and commitments related to product license, trademark and distribution agreements:

	Contractual Obligations	Commitments	
	Purchase and service based commitments	Milestone based commitments	Revenue based commitments
	\$	\$	\$
April 1, 2004 –			
December 31, 2004	2,522	—	—
Fiscal 2005 – fiscal 2006	6,788	1,723	393
Fiscal 2007 – fiscal 2008	3,232	—	721
After fiscal 2009	2,221	2,120	4,031
Total	14,763	3,843	5,145



Notice to Reader of the Interim Financial Statements

The financial statements of Paladin Labs Inc. (the “**Company**”) and the accompanying interim balance sheet as at March 31, 2004 and the interim statements of income and retained earnings and cash flows for the three month period then ended are the responsibility of the Company’s management. These financial statements have not been audited or reviewed on behalf of the shareholders by the independent external auditors, Ernst & Young LLP.

The interim financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with Canadian generally accepted accounting principles. Readers are cautioned that these interim statements may not be appropriate for their purposes.

(signed) Jonathan Ross Goodman

Jonathan Ross Goodman,
B.A., LL.B, M.B.A.
President and Chief Executive Officer
Montreal, Canada
April 30, 2004

(signed) Samira Sakhia

Samira Sakhia,
C.A., M.B.A.
Chief Financial Officer
Montreal, Canada
April 30, 2004

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 recoverable	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 [note 4]		
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

See accompanying notes

STATEMENTS OF INCOME AND RETAINED EARNINGS

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

	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 <i>[note 3]</i>	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 <i>[note 6]</i>	—	278
Income before income taxes	501	715
Provision for income taxes		
Current	25	30
Future	132	112
	157	142
Net income <i>[note 3]</i>	344	573
Retained earnings, beginning of period	1,562	5,734
Retained earnings, end of period	1,906	6,307
Earnings per share		
Basic	0.02	0.04
Diluted	0.02	0.04
Weighted average number of shares outstanding <i>[note 5]</i>		
Basic	14,802,846	14,781,784
Diluted	14,879,963	14,784,285

See accompanying notes

STATEMENTS OF CASH FLOWS

[In thousands of Canadian dollars]

	Three-month period ended March 31	
	2004	2003
	\$ (unaudited)	\$ (restated – (see note 3))
Operating activities		
Net income <i>[note 3]</i>	344	573
Add items not affecting cash		
Amortization	807	455
Stock based compensation expense <i>[note 3]</i>	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 and intellectual property and deferred charges	(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
Purchases of long-term marketable securities	(1,796)	—
Proceeds from disposal of pharmaceutical licenses	—	340
Cash flows from financing activities	2,460	7,291
Financing activities		
Common shares issued for cash	37	10
Accounts payable related to the acquisition of intellectual property and deferred charges	(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

See accompanying notes

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, 2003 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, 2003.

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, 2003.

3. Restatement

As reported in note 3 of the audited financial statements for the year ended December 31, 2003, the Company changed its accounting policy for the stock-based compensation plans in the fourth quarter of 2003. Consequently, the Company has applied fair value based method to expense employee options awarded since January 1, 2003. This change in accounting policy has resulted in restatement of general and administrative expenses and net income for the three-month period ended March 31, 2003.

4. Capital Stock

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

Issued and outstanding:

	Number of shares	Amount
Balance at beginning of year	14,799,588	\$57,440
Issued on exercise of stock options	5,590	24
Issued under employee share purchase plan	2,296	13
Other	5	—
Balance at March 31, 2004	14,807,479	\$57,477

Stock option plan

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

	2004		2003	
	Weighted average exercise price		Weighted average exercise price	
	#	\$	#	\$
Balance at beginning of year	873,984	5.57	706,524	6.18
Granted	72,869	4.99	149,318	4.25
Exercised	(5,590)	4.37	—	—
Expired or forfeited	(35,322)	6.67	—	—
Balance at March 31	905,941	5.49	855,842	5.84
Options exercisable at March 31	446,718	5.60	349,032	5.66

During 2003, the Company adopted the fair value based method of accounting for employee stock compensation on a prospective basis for options awarded since January 1, 2003. Consequently, the Company records a charge against income with a corresponding credit against paid-in-capital. For options, which were granted or modified during fiscal 2002, the Company will continue to present pro forma net income as if the fair value had been applied to those awards. The Company uses the Black-Scholes option-pricing model to determine the fair value of stock options.

The Company recorded option compensation expense and determined the fair value of stock options as follows:

	Three-month period ended March 31	
	2004	2003
Option compensation expense	136	99
Weighted average fair value of stock options	\$3.22	\$3.31
Weighted average risk-free interest rate	3.86%	4.68%
Dividend yield	nil	nil
Weighted average volatility factor	66%	71%
Weighted average expected life	7 years	7 years

For purposes of pro forma disclosures, the estimated fair value of the options granted prior to 2003 will continue to be disclosed as an expense on a straight-line basis over the option's vesting period. The fair value of option grants during 2002 was estimated at the date of grant using the following assumptions: weighted-average risk-free interest rate of 5.02%; dividend yield of nil; weighted-average volatility factor of the expected market price of the Company's common shares of 76%; and a weighted-average expected

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life of the options of 7 years. The weighted average fair value of stock options granted during 2002, under the Black-Scholes option-pricing model, and above assumptions was \$6.05.

For options for which the option term was amended from five years to seven years, the fair value was estimated at the date of amendment using the following assumptions: weighted-average risk-free interest rate of 4.06%; dividend yield of nil; weighted-average volatility factor of the expected market price of the Company's common shares of 72%; and a weighted-average expected life of the options of 3.5 years. The weighted average fair value of stock options amended on December 4, 2002, under the Black-Scholes option-pricing model, and above assumptions was \$4.06.

	Three-month period ended March 31	
	2004	2003
	\$	\$
Net income as reported	344	573
Less: Amortization of fair value related to option grants	(19)	(39)
Amortization of fair value related to option life amendment in fiscal 2002	(26)	(28)
Pro-forma net income	299	506
Basic Earnings per share		
As reported	0.02	0.04
Pro-forma	0.02	0.03
Diluted Earnings per share		
As reported	0.02	0.04
Pro-forma	0.02	0.03

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 March 31	
	2004	2003
	\$	\$
Basic weighted average number of shares outstanding	14,802,846	14,781,784
Dilutive effect of options	77,117	2,501
Diluted weighted average number of shares outstanding	14,879,963	14,784,285

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

6. Related party transactions

JODDES Limited (“JODDES”), a private Canadian corporation, is a significant shareholder, holding approximately 45% of the outstanding shares of the Company, and one director of the Company, the Company’s President and CEO, is related to JODDES.

In June 1998, the Company entered into a number of ten-year agreements each with five-year renewal options with a wholly owned subsidiary of JODDES. Under these agreements, this affiliate provides manufacturing and logistics services including, customer service, warehousing and shipping, invoicing and collection services on behalf of the Company. Effective February 1, 2004, Paladin amended the distribution agreement with this affiliate. As a result of this amendment, Paladin has begun to invoice customers and collect accounts receivables and has taken title to the inventory and accounts receivables related to the products distributed by Paladin. Consequently, on February 1, 2004, Paladin purchased \$4.1 million of accounts receivables and \$2.9 million of inventory from this affiliate. The related party will continue to provide logistics services, including customer service, warehousing and shipping, invoicing and collection services.

The Company also engages this affiliate to perform certain research and development services. These service contracts are on a pay-for-use basis. The Company also leases its office facilities from another wholly owned subsidiary of JODDES. This lease is for a period of 2 years and includes minimum payments of \$133. On November 5, 2003, the Company purchased a three-year license and distribution agreement from PanGeo Pharmaceutical (Canada) Inc. (“PanGeo”). On November 6, 2003, PanGeo was purchased by JODDES.

All transactions with affiliated companies are carried out in the normal course of operations, and are recorded at an agreed upon exchange amount.

The table below reflects all transactions and services with affiliates, including those referred to in the agreements described above:

	Three-month period ended March 31	
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7. Commitments

In the normal course of business, the Company secures Canadian development, sales, marketing and distribution 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 2.5% to 20% of sales, or require payments for products at rates ranging from 26% 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 \$5,045 [US\$3,850] 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 \$328 [US\$250] over the next two years. In addition, additional payments maybe 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 \$3,515, including US\$2,618, over a maximum period of 15 years.

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 \$14,763 including US\$250 in order to retain exclusive distribution agreements for certain products. These commitments end in 2011 and annual amounts are as follows:

	\$
April 1, 2004-December 31, 2004	2,522
2005	3,472
2006	3,316
2007	2,376
2008	856
2009-2011	2,221

8. 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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