

PALADIN LABS INC.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011



MANAGEMENT DISCUSSION AND ANALYSIS:

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

This management's discussion and analysis provides our overview of the Company's operations, performance and financial condition for the quarter ended March 31, 2011 and compares these unaudited quarterly results to those of the quarter ended March 31, 2010. It is intended to complement and supplement financial information included in the interim and annual consolidated financial statements, related notes, other financial information found elsewhere in our annual report and in our annual information form or other documents filed on SEDAR at www.sedar.com. As a result, it should be read in conjunction with such financial information. This management's discussion and analysis is current as at May 20, 2011 and as at this date 20,113,202 shares and 1,343,390 options were issued and outstanding. Reference to "Paladin" or the "Company" includes Paladin Labs Inc. and all its subsidiaries.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements for the Company and its subsidiaries. These forward looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. The Company considers the assumptions on which these forward-looking statements are based to be reasonable at the time they were prepared, but cautions the reader that these assumptions regarding future events, many of which are beyond the control of the Company and its subsidiaries, may ultimately prove to be incorrect. Factors and risks, which could cause actual results to differ materially from current expectations, are discussed in the Company's Annual Report as well as in the Company's Annual Information Form for the year ended December 31, 2010. The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events, except as required by law. For additional information on risks and uncertainties relating to these forward-looking statements, investors should consult the Company's ongoing quarterly filings, Annual Report and Annual Information Form and other filings found on SEDAR at www.sedar.com.

OVERVIEW & CORPORATE HIGHLIGHTS

Paladin is a specialty pharmaceutical company focused on researching, developing, acquiring, in-licensing, marketing, and distributing innovative pharmaceutical products.

First quarter highlights:

- Revenues reached \$31,752, an increase of 3% over the same period last year
- Net income was \$8,100, an increase of 158% over the same period last year
- Cash flows from operations reached \$14,502, a 40% increase over the same period last year
- EBITDA¹ was \$17,270, an increase of 50% over the same period last year
- Obtained approval from Health Canada for DigiFab™, a specialty product indicated for the treatment of patients with life-threatening or potentially life-threatening digoxin toxicity or overdose
- Acquired the Temptra® line of products in Canada including both syrup and drop formulations from Bristol Myers Squibb
- Amended its existing agreements with Isotechnika Pharma Inc. ("IsoPharma") to transfer to IsoPharma certain ownership and rights and sold 12,500,000 common shares of IsoPharma to ILJIN Life Science Co., Ltd ("ILJIN")
- Closed a bought deal agreement offering of 1,150,000 common shares, including 150,000 common shares issued pursuant to the exercise of the underwriters' over-allotment option, issued at a price of \$35.00 per common share for total gross proceeds of approximately to \$40,250
- Obtained approval from Health Canada for Abstral®, a novel, rapidly-disintegrating, sublingual formulation of fentanyl, a well-established opioid used for the management of episodes of breakthrough pain
- Consented to repayment of its secured debt facility of £50,000 (\$77,232) including the receipt of a payment equivalent to the balance of interest payable for the first year together with a break fee of £2,000 (\$3,089) in connection with the acquisition of ProStrakan Group plc ("ProStrakan") by Kyowa Hakko Kirin Co., Ltd. ("KHK"). The repayment, interest payments and break fee were received on May 17, 2011
- Accelerated the purchase of Pharmaplan (Pty) Ltd. ("Pharmaplan") shares leading to the acquisition of a total 10% interest of Pharmaplan in 2011. This increased Paladin's ownership from 34.99% to 44.99% effective March 1, 2011

Subsequent to the quarter ended March 31, 2011:

- Launched Seasonique[®], a next generation extended-cycle oral contraceptive for the prevention of pregnancy
- Out-licensed the exclusive right to develop and commercialize fomepizole to Takeda Pharmaceutical Company Limited (TSE: 4502)("Takeda") for the treatment of ethylene glycol and methanol poisonings in Japan (marketed and distributed by Paladin under the trademark Antizol[®] in Canada and the United States)
- Acquired the exclusive Canadian rights to market and sell, upon regulatory approval, a controlled release hydrocodone product for the treatment of moderate to severe pain from an affiliate of Elan Corporation, plc
- Filed a new drug submission for Oralair[™] with Health Canada

Paladin's revenues are principally derived from sales of pharmaceutical products to large pharmaceutical wholesalers and large chain pharmacies. The Company's expenses have been comprised primarily of cost of goods sold (including royalty payments to those companies from whom Paladin licenses its products), selling, general and administrative and research and development expenses. In addition, a substantial portion of the Company's expenses are related to the amortization of the pharmaceutical product licenses and rights the Company acquires.

Paladin's annual and quarterly operating results are primarily affected by the level of acceptance of Paladin's products by physicians and their patients, and the timing and number of product launches. The level of patient and physician acceptance of Paladin's products, the acceptance of provincial government reimbursement on such products, market access, as well as the availability of similar therapies, impact Paladin's revenues by driving the level and timing of prescriptions for its products. Each new product launch requires significant promotional investment during the first three to five years from launch.

¹ EBITDA – NON-IFRS FINANCIAL MEASURES

The term EBITDA (earnings before interest, taxes, depreciation and amortization) does not have any standardized meaning under International Financial Reporting Standards ("IFRS") and therefore may not be comparable to similar measures presented by other companies. The Company defines EBITDA as earnings before interest expense, other finance expense (income), taxes, amortization, foreign exchange gains (losses), share of net income in associate and unusual items; such as write-downs and gains (losses) on intellectual property and investments. EBITDA is calculated and presented consistently from period to period and agrees, on a consolidated basis, with the amount disclosed as "*Earnings before under-noted items*" on the consolidated statements of income. The Company believes EBITDA to be an important measurement that allows it to assess the operating performance of its ongoing business on a consistent basis without the impact of amortization expenses. The Company excludes amortization expenses because their level depends substantially on non-operating factors such as the historical cost of intangible assets. The Company's method for calculating EBITDA may differ from that used by other issuers and, accordingly, this measure may not be comparable to EBITDA used by other issuers.

CRITICAL ACCOUNTING ESTIMATES

Paladin's consolidated financial statements are prepared in accordance with IFRS, applied on a consistent basis. Paladin's significant accounting estimates and judgments include revenue recognition, inventory valuation, the useful lives and fair value of pharmaceutical product licenses and rights, income taxes and share-based compensation expense. For a more detailed discussion of the Company's critical accounting estimates, please refer to the management discussion & analysis included in the Company's 2010 Annual Report. There have been no material changes to accounting estimates since December 31, 2010.

ADOPTION OF IFRS

In February 2008 the Canadian Accounting Standards Board ("AcSB") confirmed that the use of IFRS would be required for Canadian publicly accountable enterprises for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011. The Company implemented these standards on January 1, 2011.

The interim unaudited consolidated financial statements for the period ended March 31, 2011 are the Company's first financial statements that comply with IFRS. These consolidated financial statements have been prepared as described in Note 2 of the interim unaudited consolidated financial statements.

In preparing the interim unaudited consolidated financial statements in accordance with IFRS 1, the Company has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS. The Company has also applied the transitional provision in IFRIC 4,

Determining Whether an Arrangement Contains a Lease, and has assessed all arrangements as at the date of transition.

Note 30 of the interim unaudited consolidated financial statements for the three months ended March 31, 2011 contains a detailed description of the Company's conversion to IFRS, including a line-by-line reconciliation of the Company's financial statements previously prepared under Canadian GAAP to those under IFRS for the three months ended March 31, 2011 and 2010 and for the year ended December 31, 2010.

RESULTS OF OPERATIONS

Three-month period ended March 31, 2011 compared to three-month period ended March 31, 2010.

Revenues

Revenues increased \$915 or 3% to \$31,752 for the three-month period ended March 31, 2011 from \$30,837 for the three-month period ended March 31, 2010.

The increase in revenues for the first quarter of 2011 is mostly attributable to the sales growth of certain significant promoted products, including Tridural[®], Trelstar[®], Testim[®], Metadol[®] and Plan B[®], which combined increased by 16% compared to 2010. In addition, incremental revenues from products acquired after the comparative quarter, March 31, 2010, contributed \$663 to the quarter ended March 31, 2011. Further, the revenues recognized through international tenders were \$nil in the quarter ended March 31, 2011 compared to \$1,668 in the same quarter last year, representing amounts previously recorded in deferred revenue and recognized into revenue in accordance with the Company's revenue recognition policy during the quarter ended March 31, 2010.

In July, 2010 and in March, 2011, generic versions of Pennsaid[®] and Plan B[®], respectively, were approved in Canada. It is not yet known if or when these generic versions will be sold in the Canadian market. Should these generic versions of Pennsaid[®] and Plan B[®] commercially launch, the sales of Pennsaid[®] and Plan B[®] would decline significantly.

Product revenues highlights for the Company's most significant promoted products using IMS Canada data² for the quarter ended March 31, 2011 compared to the quarter ended March 31, 2010 are as follows:

Promoted Products	Three-month period ended March 31, 2011	
	Sales data per IMS Canada	% change vs. 2010
	\$	
Tridural [®]	2,763	14%
Metadol [®]	2,460	11%
Plan B [®]	2,455	9%
Trelstar [®]	1,372	32%
Testim [®]	977	37%
Total	10,027	16%

Gross Profit

Total gross profit increased \$1,655 or 8% to \$23,712 for the quarter ended March 31, 2011 from \$22,057 for the same comparative quarter last year. Gross profit, as a percentage of revenues, increased 3% to 75% for the quarter ended March 31, 2011 from 72% from the same quarter last year. The increase in gross profit as a percentage of revenues for the quarter ended March 31, 2011 relative to the comparative quarter last year is mainly the result of the divestiture of the BioEnvelop operating activities, a favourable product mix and the strengthening of the Canadian dollar relative to the US dollar.

Selling, General and Administrative Expense

Selling, general and administrative expense decreased \$1,037 or 13% to \$7,040 for the quarter ended March 31, 2011 from \$8,077 for the same comparative period last year. Selling, general and administrative expense, as percentage of revenues, decreased to 22% for the quarter ended March 31, 2011 compared to 26% for the same quarter last year. The decrease in selling, general and administrative expenses is mainly

² The Company has chosen not to disclose detailed product by product revenues information for competitive reasons, however, does include detailed IMS Canada sales data, essentially end-user pharmacy purchase volume data, to allow the reader to better understand revenues changes from period to period on certain significant products. It is important that readers of this sales data note that IMS Canada sales data may not necessarily correspond to the Company's recording of revenue in accordance with IFRS.

the result of certain sales and marketing streamlining efforts including the reduction of promotional spend for certain products and the Company's growth in non-promoted product revenues. In addition, during the quarter ended March 31, 2010, the Company incurred certain one-time costs related to the acquisition of Pharmaplan. The promotional activities driving selling and marketing costs primarily relate to Paladin's continued promotional activities for Tridural[®], Plan B[®], Metadol[®], Trelstar[®], and Testim[®].

Research and Development Expense

Research and development expense decreased \$672 or 24% to \$2,071 for the quarter ended March 31, 2011 from \$2,743 for the same comparative quarter last year. Research and development expense, as percentage of revenues, decreased to 7% for the quarter ended March 31, 2011 compared to 9% for the quarter ended March 31, 2010. The decrease in the current quarter's research and development expenses primarily relates to certain payments made with regard to the committed research and development efforts at IsoPharma during the first quarter of 2010, partially offset by incremental research and development expenses related certain development projects with licensors.

Interest Income

Interest income increased \$2,386 or 843% to \$2,669 for the quarter ended March 31, 2011 from \$283 for the same comparative quarter last year. This increase is primarily the result of the incremental interest earned on the Company's strategic investments in partner companies in the form of convertible debentures and loans acquired during and after the quarter ended March 31, 2010. Furthermore, the Company held higher average daily cash and marketable securities balances, mainly as a result of the Company's share offering, with a higher effective rate of return during the quarter ended March 31, 2011, compared to the same comparative period last year.

Amortization of Pharmaceutical Product Licenses and Rights

Amortization expense decreased \$940 or 15% to \$5,330 for the quarter ended March 31, 2011 from \$6,270 for the same comparative quarter last year. The decrease in the amortization expense is the result of certain pharmaceutical product licenses and rights having reached full amortization during the year ended December 31, 2010, partially offset by incremental amortization related to the Company's recently acquired pharmaceutical product licenses and rights.

Foreign Exchange (Gain) Loss

During the quarter ended March 31, 2011, the Company recorded a foreign exchange gain of \$381, mainly as a result of the strengthening of the Canadian dollar relative to the US dollar and as a result of the weakening of the Canadian dollar relative to the Euro and its impact on Company's net monetary position in these currencies during the quarter ended March 31, 2011.

During the three-months ended March 31, 2010, the Company recorded a foreign exchange loss of \$294 on the Company's foreign operating results, mainly as a result of the strengthening of the Canadian dollar relative to the US dollar and EURO and its impact on Company's net monetary position in these currencies during the quarter ended March 31, 2010.

Other Finance Expense (Income)

During the quarter ended March 31, 2011, the Company disposed of certain shares held in portfolio companies for proceeds of \$3,344, representing a net gain of \$24. Furthermore, the Company recorded \$699 in interest accretion on the Company's convertible debentures, principally the Prostrakan secured convertible debt facility, and recorded a \$78 unrealized loss on a foreign exchange forward contract. Moreover, in accordance to applicable accounting standards, the Company re-measured the fair value of a conversion option on the Prostrakan secured convertible debt facility, deemed to be \$nil as at March 31, 2011, and recorded an unrealized loss of \$4,572, partially offset by the remeasurement of the early redemption option on the same facility, deemed to be virtually certain as at March 31, 2011, and recorded an unrealized gain of \$3,354. Please refer to note 13 of the interim unaudited consolidated financial statements for additional details on the ProStrakan secured debt facility.

During the quarter ended March 31, 2010, the Company disposed of certain shares held in a portfolio company for proceeds of \$27, representing a gain of \$7 and recorded \$18 in interest accretion on Company's loans.

Share of Net Income of an associate

On March 16, 2010, the Company entered into a strategic investment to acquire an initial 34.99% ownership interest in Pharmaplan, a privately-owned specialty pharmaceutical company based in Johannesburg, South Africa. On March 1, 2011, the Company acquired an additional 10% ownership interest in Pharmaplan, increasing Paladin's ownership from 34.99% to 44.99%. The equity interest acquired in Pharmaplan

represents an investment subject to significant influence which is accounted for using the equity method from the date of the transaction, March 16, 2010. The investment was initially recorded at cost and adjustments are made to include the Company's share of Pharmaplan's net income. The Company's share of net income is adjusted to reflect the amortization of the fair value adjustments related to the Company's share of Pharmaplan's net identifiable assets acquired and the tax impact on the distributable earnings. The Company's share of Pharmaplan's net income for the three months ended March 31, 2011 amounted to \$201 compared to \$131 for the 15 days ended March 31, 2010.

Provision for Income Taxes

The provision for income taxes increased \$1,879 or 95% to \$3,849 for the quarter ended March 31, 2011 from \$1,970 for the quarter ended March 31, 2010. For the quarter ended March 31, 2011, the effective tax rate was 32% compared to 39%, for the quarter ended March 31, 2010. The decrease in effective rates in the current year is principally due to a decrease in permanent differences as a portion of net income in comparison to the previous period. The Company has the following tax pools detailed below which may be applied against taxable income:

	Available \$	Recognized \$	Expires in
Non-capital tax losses			
Federal	49,904	14,815	2025-2028
Provincial	26,004	539	2025-2028
Scientific Research and Experimental Development expenditures			
Federal	74,175	62,248	N/A
Provincial	74,389	62,506	N/A
Investment tax credits			
Federal	20,025	14,736	2016-2030

The amount of the tax benefit claimed in the current and prior years, is subject to audit by the taxation authorities and could be reduced by a material amount in the future.

During the quarter ended March 31, 2010, in connection with the Company's previously disclosed tax contingency, the Company received notices of re-assessment from the Canada Revenue Agency ("CRA") and the Ontario Minister of Finance ("OMF") reversing their original position on the use of certain non-capital losses acquired as part of the Dimethaid Health Care Ltd. (subsequently renamed Squire Pharmaceuticals Inc. ("Squire")) acquisition from Nuvo Research Inc. ("Nuvo").

As previously disclosed, on various dates during fiscal 2008 and 2009 the Company had received notices of re-assessment from the CRA relating to the taxation years ending August 16, 2005, July 31, 2006, July 31, 2007, and December 31, 2008 and from the OMF for the taxation year ended August 16, 2005, containing adjustments relating to the use of certain non-capital losses. The notices of assessment and re-assessment, if they had stood as a result of the CRA's position, amounted to a total tax liability exposure to the federal and relevant provincial governments of approximately \$11,625 including interest and penalties. The Company filed Notices of Objection through the CRA appeals process on October 23, 2008. Furthermore, the Company, under the terms of the Share Purchase Agreement ("SPA") for Squire with Nuvo holds indemnities with respect to the status of the Squire tax accounts and certain tax asset values the Company as well as all costs relating to reassessment including advisory fees, interest and penalties, as applicable. In addition, Nuvo had issued additional security over the indemnity obligations by entitling the Company to the benefit of security over certain assets and product revenue streams of Nuvo and certain of its subsidiaries.

In connection with the appeals process, during the years ended December 31, 2009 and 2008, the Company had posted a deposit of \$3,752 to the CRA and \$500 to the OMF, representing up to one half of the tax and interest assessed. In addition, during 2009, the Company issued a bank guarantee of \$720 to the OMF through its revolving unsecured credit facility. As a result of the Company's success in the appeal process, the Company received \$3,936 from the CRA on January 20, 2010 and \$524 from the OMF during the second quarter of 2010, representing a refund for the full amount of the deposits above, along with accrued interest of \$208. In addition, the bank guarantee previously issued to the OMF expired on February 1, 2010 without being drawn-down by the OMF.

Net Income

Due to the factors set forth above, net income increased by \$4,958 or 158% to \$8,100 for the quarter ended March 31, 2011 compared to net income of \$3,142 for the same comparative quarter last year.

Liquidity and Capital Resources

The Company's Investment Policy regulates the investment activities relating to cash resources. An Investment Committee composed of representatives from management and the Board of Directors monitors compliance with said policy. The Company invests strictly in liquid, high-grade investment securities with varying terms to maturity, selected with regard to the expected timing of investments and expenditures for continuing operations and prevailing interest rates. On May 17, 2011, the Company received gross proceeds of \$86,432 in exchange for the early redemption of the ProStrakan secured convertible debt facility, more fully described in note 13 to the interim unaudited consolidated financial statements.

The Company believes that its existing cash, cash equivalents and marketable securities, as well as cash generated from operations, are sufficient to finance its current operations, 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.

Effective August 10, 2009, the Company entered into a one-year \$2,000 revolving unsecured credit facility with one of the Company's bankers. On July 29, 2010, the credit facility was renewed for an additional year and the revolving credit limit increased to \$5,000 of which, as at March 31, 2011, \$1,603 is being utilized for the Company's use of forward contracts to manage certain foreign exchange exposure. The credit facility may also be used for general corporate purposes.

The table below sets forth a summary of cash flow activity and should be read in conjunction with the Company's consolidated cash flows statements.

	Three-month period ended March 31	
	2011	2010
	\$	\$
Cash inflow from operating activities	14,502	10,383
Net cash (outflow) inflow from investing activities	(130,376)	4,359
Net cash inflow from financing activities	39,387	771
Foreign exchange rate loss on cash and cash equivalents	(167)	(18)
(Decrease) increase in cash and cash equivalents during the period	(76,654)	15,495
Cash and cash equivalents, beginning of year	96,295	31,227
Cash and cash equivalents, end of period	19,641	46,722
Marketable securities, end of period	86,067	43,519
Cash, cash equivalents and marketable securities, end of period	105,708	90,241

Paladin's cash, cash equivalents and marketable securities decreased \$33,681 to \$105,708 at March 31, 2011 from \$139,389 at December 31, 2010. This decrease is primarily a result of the Company's net investments in long-term financial assets of \$76,994, the purchase of pharmaceutical product licenses and rights of \$7,567, the investment in an associate of \$2,936, a partial repayment of the balance of sale payable of \$250 and the purchase of property, plant and equipment of \$55, partially offset by common shares issued for cash of \$39,387, cash flows generated from operating activities of \$14,502 and dividends received from an associate of \$251. Working capital (current assets less current liabilities) decreased \$34,321 to \$94,352 at March 31, 2011 from \$128,673 at December 31, 2010 primarily due to the decrease in the cash, cash equivalents and marketable securities explained above.

Cash flows from operating activities increased 40% or \$4,119 to \$14,502 for the quarter ended March 31, 2011 from \$10,383 for the same comparative quarter last year. Cash flows from operating activities represent the cash flows from net earnings, excluding revenues and expenses not affecting cash, principally amortization, deferred taxes, share-based compensation expense, foreign exchange (gains) losses and other finance expenses (income) and changes in working capital.

Cash flows used in investing activities were \$130,376 compared to cash flows from investing activities of \$4,359 for the quarters ended March 31, 2011 and 2010, respectively. During the quarter ended March 31, 2011, the Company used \$80,338 to acquire long-term financial assets, \$45,738 for purchases of marketable securities, \$7,567 towards the acquisition of pharmaceutical product licenses and rights, \$2,936 towards an addition of 10% interest in an associate, \$250 to repay of a portion of the balance of sale payable and \$55 for the acquisition of property, plant and equipment, partially offset by proceeds from disposal of long-term investments of \$3,344, proceeds from maturing of marketable securities of \$2,913 and

dividends received from an associate of \$251. During the quarter ended March 31, 2010, the Company generated proceeds from maturing marketable securities net of the acquisition marketable securities in the amount of \$30,616 and proceeds from disposal of investments in the amount of \$27, partially offset by \$15,982 deployed towards an investment in an associate, \$8,630 invested towards the acquisition of long-term financial assets, \$1,650 towards a partial repayment of the balance of sale payable and \$22 for the acquisition of capital assets.

Cash flows from financing activities were \$39,387 compared to \$771 for the quarters ended March 31, 2011 and 2010, respectively. During the quarter ended March 31, 2011, the Company issued 1,150,000 common shares in form of a bought deal share offering at a price of \$35.00 per common share for total gross proceeds to the Company in the amount of \$40,250. In conjunction with the offering, the Company incurred share issue costs of approximately \$2,258, for total net proceeds amounting to \$37,992. In addition, an amount of \$1,395 was generated from stock option exercises and the issuance of common shares under the stock purchase plan for cash. During the quarter ended March 31, 2010 the Company generated \$771 from stock option exercises and the issuance of common shares under the stock purchase plan for cash.

EQUITY INVESTMENT IN PHARMAPLAN

On March 16, 2010, the Company entered into a strategic investment to acquire an initial 34.99% ownership interest in Pharmaplan, a privately-owned specialty pharmaceutical company based in Johannesburg, South Africa. The Company paid \$18,861 including a non-interest bearing loan of \$2,879 (R21,000). In addition, the Company committed to additional future consideration by increasing its ownership position by 5% per year over the next 3 years to 49.99%, with such additional consideration based upon Pharmaplan's future financial results. In addition, the Company has the option to increase its ownership interest in Pharmaplan to 100% in 2013, at a purchase price determined using Pharmaplan's future financial results in ZAR.

The equity interest acquired in Pharmaplan represents an investment subject to significant influence which is accounted for using the equity method from the date of the acquisition, March 16, 2010. The investment was initially recorded at cost and adjustments are made to include the Company's share of Pharmaplan's net income. The Company's share of net income is adjusted to reflect the amortization of the fair value adjustments related to the Company's share of the net identifiable assets of Pharmaplan acquired and the tax impact on the distributable earnings.

The total cost was allocated to the Company's share of net identifiable assets acquired on the basis of their fair values using the purchase method of accounting. The allocation of the cost of the investment in Pharmaplan over the underlying net book value of assets acquired amounted to \$13,496 as at March 16, 2010, and represents definite life intangible assets (consisting mainly of exclusive distribution licenses) of \$10,665, indefinite life intangible assets of \$278, future income tax liabilities of \$3,064 and incremental goodwill of \$5,617.

On March 1, 2011, the Company entered into an agreement with Pharmaplan to accelerate the purchase of Pharmaplan shares leading to the acquisition of a total 10% ownership interest in Pharmaplan. This increased Paladin's ownership from 34.99% to 44.99% effective March 1, 2011. The Company paid \$5,975 including the settlement of the non-interest bearing loan mentioned above. The total cost was allocated to the Company's share of net identifiable assets acquired on the basis of their fair values using the purchase method of accounting. The purchase price allocations are preliminary and are subject to changes once the final valuation of the net identifiable assets acquired has been made. The preliminary allocation of the cost of the investment in Pharmaplan over the underlying net book value of assets acquired amounted to \$4,886 as at March 1, 2011, and represents definite life intangible assets (consisting mainly of exclusive distribution licenses) of \$3,723, indefinite life intangible assets of \$80, future income tax liabilities of \$1,065 and incremental goodwill of \$2,148. The Company is in the process of finalizing the purchase price allocation which will be completed during 2011.

	March 31, 2011	December 31, 2010	March 31, 2010
	\$	\$	\$
Carrying values, beginning of year	15,739	—	—
Additions in the period	5,975	15,982	15,982
Share of net income for the period before adjustments	735	1,908	201
Adjustments to net income:			
Amortization of fair value adjustments	(436)	(1,108)	(70)
Taxation	(98)	—	—
Share of net income for the period	201	800	131
Share of dividends received in the period	—	(1,043)	—
Carrying values, end of period	21,915	15,739	16,113

The Company is presenting selected financial information derived from Pharmaplan's unaudited financial statements in South African Rand ("ZAR") using South African GAAP converted into IFRS in Canadian dollars ("CAD") for information purposes.

Pharmaplan's statement of income data	Three months ended March 31, 2011	15 days ended March 31, 2010
	\$	\$
Revenues	10,581	2,509
Cost of sales	5,109	1,146
Gross profit	5,472	1,363
Operating expenses	2,908	562
Earnings before under-noted items	2,564	801
Interest, depreciation and income taxes	721	226
Net income for the period	1,843	575

Pharmaplan's balance sheet data	March 31, 2011	December 31, 2010
	\$	\$
Total assets	18,698	18,943
Total liabilities	6,689	8,281

RELATED PARTY TRANSACTIONS

Joddes Limited ("Joddes"), a private Canadian corporation, together with its affiliates own in aggregate approximately 35% of the outstanding shares of the Company, and one director of the Company, the Company's President and CEO, is related to this group.

The Company engages a wholly-owned subsidiary of Joddes to provide logistics services including: customer service, warehousing, shipping, invoicing, collection services and certain manufacturing and selling services on behalf of the Company. The Company also engages this affiliate to perform certain research and development and selling services on a contractual pay-for-use basis. In addition, the Company leases its office facilities from another wholly-owned subsidiary of Joddes. This lease is for a period of 10 years, ending in 2013 and includes minimum annual payments for a total remaining committed amount of \$479 as at March 31, 2011 and is included in the purchase and service based commitments amount in the "Contractual Obligations and Commitments" section below.

The Company has also entered into contractual royalty agreements with a wholly-owned subsidiary of Joddes for certain legacy and over-the-counter products. The terms of these arrangements vary whereby the Company may earn a royalty fee based on certain established terms relating to the performance of the respective products such as through a percentage of net sales, certain guaranteed minimum annual payments, or as a percentage of a defined product contribution.

Effective November 1, 2006, the Company acquired the Canadian distribution rights to Metadol[®] from a wholly-owned subsidiary of Joddes for cash consideration of \$15,000. Under the terms of the agreement, the Company had the option to purchase the Canadian license for Metadol[®] on the fourth anniversary of the agreement for \$1 and receive a reimbursement of up to \$3,750 subject to certain acquisition related conditions. The Company exercised its right and acquired the Canadian license for Metadol[®] on November 1, 2010. Furthermore, the Company has not received or earned any reimbursement with respect

to the acquisition related conditions which have expired as at December 31, 2010. The acquisition of the Canadian distribution rights and license to Metadol[®] was not in the normal course of operations and was recorded at an agreed upon exchange amount in accordance with the requirements of applicable accounting standard.

The following table reflects all transactions and services with Joddes carried in the normal course of operations, which include those referred to in the agreements described above, as well as revenues from a wholly-owned subsidiary of Joddes:

Three months ended March 31st

	2011	2010
	\$	\$
Revenues	871	1,064
Purchases	2,339	4,162
Selling, general and administrative	1,896	1,701
Research and development	206	1,131

As at March 31, 2011, the Company has a balance payable to a wholly-owned subsidiary of Joddes, included in Payables, accruals and provisions on the interim consolidated balance sheets, of \$1,140 (December 31, 2010: \$834; January 1, 2010: \$1,122).

The Company owns an approximate 5% interest in the common shares of IsoPharma as at March 31, 2011. The Company accounted for IsoPharma as an investment subject to significant influence during 2010 and effective October 27, 2010 was no longer considered to have significant influence and thus, no longer considered IsoPharma a related party. The Company, settled with IsoPharma on December 31, 2009 the contingent balance of sale payable over a seven-year period for an amount of \$1,991, of which \$1,650 was paid on February 26, 2010 and \$341, representing the discounted present value on December 31, 2009, was due for payment on January 31, 2011. This transaction was not in the normal course of operations and was recorded at an agreed upon exchange amount in accordance with the requirements of applicable accounting standards. In addition, as part of a Research and Development Agreement the Company was committed to pay a \$400 milestone payment in the event IsoPharma attained a regulatory milestone.

On November 11, 2010, the Company agreed to amend its agreement with IsoPharma in order to support a transaction between IsoPharma and ILJIN in exchange for the forgiveness of the remaining contingent balance of sale payable in the current amount of \$348 discussed in the paragraph above, as well as an earned and payable milestone by the Company to IsoPharma of \$400, resulting in a gain of \$348 recorded in "Other income" during the year ended December 31, 2010. In addition, the Company earned \$185 in royalty revenue during the quarter ended September 30, 2010 from IsoPharma's licensing activities during the same period.

The Company owns a 44.99% interest in the common shares of Pharmaplan and considers this investment a related party. During the year ended December 31, 2010, Pharmaplan declared dividends of R20,000 the Company's share amounting to \$1,043, of which \$792 was received during the year ended December 31, 2010 and \$251 was received during the three months ended March 31, 2011. On March 1, 2011, the Company entered into an agreement with Pharmaplan to accelerate the purchase of Pharmaplan shares leading to an acquisition of a total of 10% ownership interest in Pharmaplan, as further discussed in note 12 to the interim unaudited consolidated financial statements. The Company paid \$5,975 which included the settlement of a previous investment in a non-interest bearing loan in Pharmaplan of \$2,879. The Company is committed to an additional future consideration by increasing its ownership position to 49.99% by March 2013, with such additional consideration based upon Pharmaplan's future financial results.

All transactions with related parties, except for the Metadol[®] and IsoPharma transactions described above, are carried out in the normal course of operations, and are recorded at an agreed upon exchange amount. The accounts payable to related parties are on normal commercial terms and conditions and are non-interest bearing.

The following table presents the principal subsidiaries and associates of the Company as at March 31, 2011. The equity share capital of these undertakings is wholly-owned by the Company except where its percentage interest is shown otherwise and where the Company has significant influence.

Name of subsidiary/associate	Country of registration	%	Nature of business
Paladin Labs (Barbados) Inc.	Barbados	100	Develop, acquire, in-license, market and distribute innovative pharmaceutical products internationally
Paladin Labs (USA) Inc.	USA	100	Develop, acquire, in-license, market and distribute innovative pharmaceutical products in the United States
Pharmaplan (Pty) Ltd.	South Africa	45	Search, acquire, commercialize specialty pharmaceutical products in South Africa and sub-Saharan African region

QUARTERLY INFORMATION (UNAUDITED)

(In thousands of Canadian dollars except per share information)

	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	F2011	F2010	F2010	F2010	F2010	F2009³	F2009³	F2009³
Revenues	31,752	32,434	31,782	32,936	30,837	29,279	28,374	26,255
EBITDA ¹	17,270	15,451	15,849	13,621	11,520	9,961	10,161	8,410
Net income before income taxes	11,949	16,797	11,355	8,095	5,112	2,501	4,212	3,051
Net Income	8,100	13,893	7,959	4,862	3,142	4,392 ⁴	2,564	27,730 ⁴
Earnings per share	\$0.42	\$0.74	\$0.43	\$0.26	\$0.17	\$0.24	\$0.14	\$1.77
Diluted earnings per share	\$0.40	\$0.72	\$0.41	\$0.25	\$0.16	\$0.23	\$0.13	\$1.71

Paladin's annual and quarterly operating results are primarily affected by the level of acceptance of Paladin's products by physicians and their patients, and the timing and number of product launches. The level of patient and physician acceptance of Paladin's products, the acceptance of provincial government reimbursement on such products, market access, as well as the availability of similar therapies, impact Paladin's revenues by driving the level and timing of prescriptions for its products. Each new product launch requires significant promotional investment during the first three to five years from launch.

OFF BALANCE SHEET ARRANGEMENTS

The Company's off balance sheet arrangements consist of contractual obligations and agreements for development, sales, marketing and distribution rights to innovative drug products for the Canadian market. The effect of terminating these arrangements under normal operating circumstances consists of an effective transition of the remaining responsibilities and obligations to the licensor under agreed upon time frames and conditions. Please refer to the "Contractual Obligations and Commitments" section below for additional details. Other than these contractual obligations and commitments, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the Company's financial condition, changes in revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that are material to investors.

The Company does not issue guarantees contemplated by the applicable IFRS standards.

FINANCIAL INSTRUMENTS

The Company's Investment Policy regulates the investment activities relating to cash resources. An Investment Committee composed of representatives from management and the Board of Directors monitors compliance with said policy. The Company invests in strategic investments in the form of equity or strictly in liquid, high-grade investment securities with varying terms to maturity, selected with regard to the expected timing of investments and expenditures for continuing operations and prevailing interest rates.

³ The Company has transitioned to IFRS starting with January 1, 2010 and the quarterly information disclosed for fiscal years 2010 and 2011 is IFRS compliant – refer to Note 2 and 29 to the interim unaudited consolidated financial statements for additional details. The quarterly information disclosed for fiscal year 2009 is not IFRS compliant and was prepared in accordance to Canadian GAAP.

⁴ During the second and fourth quarter of 2009, in conjunction with the Isotechnika acquisition and in accordance to Canadian GAAP the Company recorded an extraordinary gain of \$25,959 and \$3,458, respectively.

CONCENTRATION OF CREDIT RISK AND MAJOR CUSTOMERS

The Company considers its maximum credit risk to be \$110,990 (December 31, 2010: \$37,335; January 1, 2010: \$14,553) which is the total of the following financial assets: trade and other receivables, loans and other receivables and derivatives at fair value through profit and loss. The Company's cash, cash equivalents, marketable securities, short-term and long-term investments are held through various institutions. Marketable securities are mainly investments in liquid, high-grade investment securities. They are subject to minimal risk of changes in value and generally have an original maturity from three months to twenty-four months from the date of purchase. Marketable securities are invested with four large Canadian and one large U.S. financial institutions.

The Company is exposed to credit risk from its customers and continually monitors its customers' credit. It establishes the provision for doubtful accounts based upon the credit risk applicable to each customer. In line with other pharmaceutical companies, the Company sells its products through a small number of wholesalers and retail pharmacy chains in addition to hospitals, pharmacies, physicians and other groups. For the three-months ended March 31, 2011, two customers, a major wholesale distributor and a major retail chain, represented 28% and 13% of revenues, respectively (March 31, 2010: 29% and 16%). As at March 31, 2011, two customers, a major wholesale distributor and a major retail chain, represented 13% and 15% of trade accounts receivable, respectively (December 31, 2010: 6% and 13%; January 1, 2010: 32% and 13%). These above concentrations on the Company's customers are considered normal for the Company and its industry. For a more detailed analysis and disclosure of credit risk please refer to note 26 to the quarterly unaudited consolidated financial statements.

Another source of credit risk for the Company arises from its strategic investments in third-parties with whom it has strategic commercial relationships. In connection with a license agreement with ProStrakan, Paladin invested \$77,232 through a convertible debenture; in connection with a licensing arrangement with Labopharm, Paladin advanced Labopharm \$10,000 against future product supply, with a balance outstanding as at March 31, 2011 of \$9,498; and in connection with a license arrangement with SpePharm, Paladin invested €4,000 through a secured convertible debenture. The Company continuously monitors the risks associated with these amounts.

LIQUIDITY RISK

The Company generates sufficient cash from operating activities to fund its operations and fulfill its obligations as they become due. The Company has sufficient funds available through its cash, cash equivalents and marketable securities, should its cash requirements exceed cash generated from operations to cover all financial liability obligations. As at March 31, 2011, there were no restrictions on the flow of these funds nor have any of these funds been committed in any way, except as set out in the "Contractual Obligations and Commitments" section below. All financial liabilities are short term in nature except for the long-term portion of the balance of sale payable, which is payable to the extent of future product sales.

FOREIGN EXCHANGE RISK

The Company principally operates within Canada, however, a portion of the Company's revenues, expenses, and current assets and liabilities, are denominated in United States dollars ("USD"), EURO and South African Rand ("ZAR"). This results in financial risk due to fluctuations in the value of the USD, EURO and ZAR relative to the Canadian dollar ("CAD"). The Company has significant monetary assets and liabilities denominated in USD, EURO and ZAR that are required to be revalued in CAD at each period end. On March 31, 2010, the Company entered into a €4,000 notional amount forward foreign exchange contract expiring on October 15, 2012 to cover the foreign exchange exposure related to a certain investment denominated in EURO. With the exception of the forward contract described above, the Company does not currently use derivative financial instruments to reduce its foreign exchange exposure and often relies on natural hedges to mitigate foreign currency risk. Fluctuations in foreign exchange rates could cause unanticipated fluctuations in the Company's operating results, financial position or cash flows. These three currencies are the major currencies in which the Company's financial instruments are denominated. The Company has considered movements in these currencies over the last three years and has concluded that a 10% movement in rates is a reasonable benchmark. Based on the net exposure described in Note 26 to the interim unaudited consolidated financial statements as at March 31, 2011, and assuming that all other variables remain constant, a ten-point increase or decrease in the CAD/USD, CAD/EURO and CAD/ZAR exchange rate would have an effect of \$582 (2010: \$694; January 1, 2010: \$419) on net income. For a more detailed analysis and disclosure of the foreign exchange risk please refer to Note 26 to the interim unaudited consolidated financial statements

INTEREST RATE RISK

The Company is subject to interest rate risk on its cash, cash equivalents and marketable securities. Details regarding maturity dates and effective interest rates are described in Notes 6 and 7 to the interim unaudited consolidated financial statements. The Company does not believe that the results of operations or cash flows would be materially affected to any significant degree by a sudden change in market interest rates relative to interest rates on the investments, owing to the relative short-term nature of the marketable securities.

EQUITY PRICE RISK

Equity price risk arises from changes in market prices of the available-for-sale equity securities. The carrying values of investments subject to equity price risk are, in almost all instances, based on quoted market prices as of the balance sheet dates with an estimated fair value of \$6,803 at March 31, 2011 (December 31, 2010: \$7,394; January 1, 2010: \$62). The Company monitors its equity investments for impairment on a periodic basis. Market prices are subject to fluctuation and, consequently, the amount realized in the subsequent sale of an investment may significantly differ from the reported market value. Fluctuation in the market price of a security may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments and general market conditions. Furthermore, amounts realized in the sale of a particular security may be affected by the relative quantity of the security being sold.

The Company manages the equity price risk through the use of strict investment policies approved by the Board of Directors. Reports on the equity portfolio are submitted to the Company's senior management on a regular basis. The Company's Board of Directors reviews and approves all equity investment decisions.

A hypothetical 10% adverse change in the stock prices of the Company's available-for-sale equity securities would result in a loss of approximately \$680 (December 31, 2010: \$739; January 1, 2010: \$6). The Company does not include in the analysis above investments which are subject to significant influence. The adverse change above does not reflect what could be considered the best or worst case scenarios. Indeed, results could be worse due both to the nature of equity markets and the concentrations existing in the Company's equity investment portfolio, in particular where there is less liquidity available as in the case of the small capitalization companies included in the available-for-sale equity securities.

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 filed on SEDAR at www.sedar.com.

INTERNAL CONTROL OVER FINANCIAL REPORTING

No changes were made in our internal control over financial reporting during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The conversion to IFRS from Canadian GAAP impacts the way the Company presents its financial results. In conjunction with its conversion to IFRS, the Company completed an assessment of its information systems and based on this review no significant changes to the information systems were required as part of the IFRS conversion process. In addition, the effect of the adoption of IFRS on the Company's business activities and internal controls, including disclosure controls and procedures, were reviewed and no significant changes to the Company's business activities and internal control environment were required.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

In the normal course of business, the Company secures development, sales, marketing and distribution rights to innovative drug products requiring royalties or product payments considered normal operating commitments and as such not included herein. The Company is committed to making minimum purchases of inventory, and minimum expenditures for regulatory, selling and marketing services in the amount of \$10,046, including €3,216, to retain exclusive distribution agreements for certain products. The Company, as further discussed in note 12 to the interim unaudited consolidated financial statements is also committed to purchase an additional 5% interest in Pharmaplan's common shares in 2013, currently estimated to amount to \$2,900 (R20,195) and subject to change based upon Pharmaplan's future operating results. These commitments end in 2015 and annual commitments are as follows:

Contractual Obligations (in thousands of Canadian dollars)	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Purchase and service based commitments	10,046	2,825	6,288	933	—

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 may have to pay up to \$19,766 including US\$10,111, €713 and GBP£500 over a maximum period of 15 years if it achieves certain product, regulatory or sales milestones on specific products in the future. The Company has the following commitments related to product license, trademark and distribution agreements:

Commitments (in thousands of Canadian dollars)	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Milestone based commitments	11,790	485	485	485	10,335
Revenues based commitments	7,976	2,520	1,274	—	4,182

Moreover, the Company has various non-cancellable operating lease agreements for office space, a manufacturing facility and certain Company vehicles, as follows:

	2011	2010
	\$	\$
Rental payments due within one year	347	487
Rental payments due between one and five years	705	705
Rental payments due after five years	—	—
	1,052	1,192

Lease and rental expense for the three months ended March 31, 2011 were \$129 (year ended December 31, 2010: \$580), which is predominately included in selling, general and administrative expenses in the consolidated income statements.

SUBSEQUENT EVENTS

On May 17, 2011, the Company received gross proceeds of \$86,432 representing the aggregate of: the principal of the ProStrakan secured debt facility of \$77,232, a break free of £2,000 (\$3,089) and the outstanding balance of interest payable for the first year of \$6,111. Moreover, the Company has retained the rights to the products it had previously been licensed in connection with the agreement. Refer to note 13 of the interim unaudited consolidated financial statements for additional details on the ProStrakan secured debt facility.

**NOTICE TO READER OF THE INTERIM
CONSOLIDATED FINANCIAL STATEMENTS**

The interim consolidated financial statements of Paladin Labs Inc. (the "**Company**") and the accompanying interim consolidated balance sheet as at March 31, 2011 and the interim consolidated income statements, cash flows, comprehensive income and changes in shareholders' equity for the three-month period then ended are the responsibility of the Company's management. These interim consolidated financial statements have not been audited or reviewed on behalf of the shareholders by the independent external auditors, Ernst & Young LLP.

The interim consolidated 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 International Financial Reporting Standards. Management has determined such amounts on a reasonable basis in order to ensure that the interim consolidated financial statements are presented fairly in all material respects. The Company's accounting procedures and related systems of internal controls are designed to provide a reasonable assurance that its assets are safeguarded and its financial records are reliable. Readers are cautioned that these interim consolidated financial 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
May 25, 2011

(signed) Samira Sakhia

Samira Sakhia C.A., M.B.A.
Chief Financial Officer

Montreal, Canada
May 25, 2011

INTERIM CONSOLIDATED BALANCE SHEETS

[In thousands of Canadian dollars]

	Notes	March 31, 2011	December 31, 2010	January 1, 2010
ASSETS				
Current				
Cash and cash equivalents	6	19,641	96,295	31,227
Marketable securities	7	86,067	43,094	74,142
Trade and other receivables	8	19,518	21,912	15,243
Inventories	9	12,528	13,877	12,361
Investment tax credits recoverable	10	—	—	776
Income tax receivable	10	—	17	4,630
Other current assets	11	1,667	4,717	1,592
Total current assets		139,421	179,912	139,971
Investment in an associate	12	21,915	15,739	—
Financial assets	13	98,783	22,835	62
Investment tax credits recoverable	22	14,736	14,736	14,903
Deferred income tax assets	10	24,954	26,586	33,062
Property, plant and equipment	14	171	221	691
Pharmaceutical product licenses and rights	15	22,831	20,594	42,543
Total assets		322,811	280,623	231,232
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Payables, accruals and provisions	16, 17	28,900	36,901	24,056
Income tax payable	10	12,625	11,254	7,109
Deferred revenue		2,649	1,939	1,776
Balances of sale payable	18	895	1,145	1,650
Total current liabilities		45,069	51,239	34,591
Balances of sale payable	18	539	539	1,743
Total liabilities		45,608	51,778	36,334
Shareholders' equity				
Share capital	19	163,922	123,136	119,652
Other paid-in capital		4,557	4,892	4,362
Other capital (deficit) reserves		(18)	175	98
Retained earnings		108,742	100,642	70,786
Total shareholders' equity		277,203	228,845	194,898
Total liabilities and shareholders' equity		322,811	280,623	231,232

Commitments [note 27]
See accompanying notes

INTERIM CONSOLIDATED INCOME STATEMENTS

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

	Notes	Three months ended March 31	
		2011	2010
Revenues	17, 20	31,752	30,837
Cost of sales	17	8,040	8,780
Gross income		23,712	22,057
Expenses (income)			
Selling, general and administrative	17	7,040	8,077
Research and development	10, 17, 22	2,071	2,743
Interest income	23	(2,669)	(283)
Earnings before under-noted items		17,270	11,520
Amortization of pharmaceutical product licenses and rights	15	5,330	6,270
Foreign exchange (gain) loss		(381)	294
Other finance expense (income)	23	573	(25)
Share of net income of an associate	12	(201)	(131)
Income before income tax		11,949	5,112
Provision for income taxes	10	3,849	1,970
Net income for the period		8,100	3,142
Attributable to shareholders			
Basic earnings per share	24	0.42	0.17
Diluted earnings per share	24	0.40	0.16
Weighted average number of shares outstanding			
Basic	24	19,290,851	18,595,616
Diluted	24	20,042,756	19,160,825

See accompanying notes

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[In thousands of Canadian dollars]

	Three months ended March 31	
	2011	2010
Net income for the period	8,100	3,142
Other comprehensive (loss) income:		
Change in fair value of available-for-sale financial instruments [net of \$34 taxes [2010 – (\$2)]]	(193)	13
Reclassification adjustment for gains on available-for-sale financial instruments included in net income in the year [net of \$nil taxes [2010 - \$1]]	—	(10)
Other comprehensive (loss) income for the period	(193)	3
Total comprehensive income for the period	7,907	3,145
Attributable to shareholders	7,907	3,145

See accompanying notes

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

[In thousands of Canadian dollars]

		Three months ended March 31	
	Notes	2011	2010
Operating activities			
Net income for the period		8,100	3,142
Adjustments reconciling net income to operating cash flows			
Amortization of pharmaceutical product licenses and rights	15	5,330	6,270
Deferred tax	10	2,280	1,548
Share-based compensation expense	19	423	361
Other finance expense (income)	23	573	(25)
Unrealized foreign exchange (gain) loss		(470)	311
Depreciation of property, plant and equipment	14	105	219
Changes in working capital and other non-cash balances			
Decrease (increase) in inventories		1,349	(1,303)
Decrease in trade and other receivables		2,394	1,463
Decrease in payables, accruals and provisions		(8,001)	(4,856)
Increase (decrease) in deferred revenue		710	(1,683)
Other working capital non-cash balances		1,910	5,067
Share of net income of an associate	12	(201)	(131)
Cash inflow from operating activities		14,502	10,383
Investing activities			
Purchase of financial assets	13	(80,338)	(8,630)
Purchases of marketable securities		(45,738)	(43,788)
Purchase of pharmaceutical product licenses and rights	15	(7,567)	—
Investment in an associate	12	(2,936)	(15,982)
Repayment of balances of sale payable		(250)	(1,650)
Purchase of property, plant and equipment	14	(55)	(22)
Proceeds from disposal of financial assets	13	3,344	27
Disposal and maturities of marketable securities		2,913	74,404
Dividends from an associate	12	251	—
Net cash (outflow) inflow from investing activities		(130,376)	4,359
Financing activities			
Common shares issued for cash, net of issue costs	19	39,387	771
Net cash inflow from financing activities		39,387	771
Foreign exchange rate loss on cash and cash equivalents		(167)	(18)
(Decrease) increase in cash and cash equivalents during the period		(76,654)	15,495
Cash and cash equivalents, beginning of period		96,295	31,227
Cash and cash equivalents, end of period		19,641	46,722
Supplemental cash flow information			
Interest received		285	490
Income taxes (paid) received	10	(45)	3,764

Amounts received for interest and paid for income taxes were reflected as operating cash flows in the interim consolidated statements of cash flows.

See accompanying notes

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

[In thousands of Canadian dollars]

	Note	Share capital	Other paid-in capital	Other capital reserves (deficit)	Retained earnings	Total shareholders' equity
Balance as at January 1, 2010		119,652	4,362	98	70,786	194,898
Net income for the period					3,142	3,142
Other comprehensive income for the period				3		3
Shares issued	19	779				779
Share-based incentive plans	19	—	361			361
Transfers upon exercise of share options		397	(397)			—
Balance as at March 31, 2010		120,828	4,326	101	73,928	199,183
Balance as at April 1, 2010		120,828	4,326	101	73,928	199,183
Net income for the period					26,714	26,714
Other comprehensive income for the period				74		74
Shares issued	19	1,521				1,521
Share-based incentive plans	19	—	1,353			1,353
Transfers upon exercise of share options		787	(787)			—
Balance as at December 31, 2010		123,136	4,892	175	100,642	228,845
Balance as at January 1, 2011		123,136	4,892	175	100,642	228,845
Net income for the period					8,100	8,100
Other comprehensive loss for the period				(193)		(193)
Shares issued	19	40,028				40,028
Share-based incentive plans	19	—	423			423
Transfers upon exercise of share options		758	(758)			—
Balance as at March 31, 2011		163,922	4,557	(18)	108,742	277,203

See accompanying notes

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

1. PRESENTATION OF FINANCIAL STATEMENTS

DESCRIPTION OF THE BUSINESS

Paladin Labs Inc., together with its subsidiaries, hereinafter referred to as “the Company”, is a specialty pharmaceutical public company continued under the *Canada Business Corporations Act*, focused on researching, developing, acquiring, in-licensing, marketing and distributing innovative pharmaceutical products.

BASIS OF PREPARATION

These interim consolidated financial statements of the Company have been prepared for the period ended March 31, 2011 in accordance with International Financial Reporting Standards [IFRS] as issued by the International Accounting Standards Board [IASB]. The consolidated financial statements have been prepared on a historical cost basis, except for items that are required to be accounted for at fair value. Furthermore, they have been prepared in accordance IAS 1, Presentation of Financial Statements, and are covered by IFRS 1, First-time Adoption of IFRS. These interim consolidated financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements. The policies set out below have been consistently applied to all the periods presented.

For all periods up to and including the year ended December 31, 2010, the Company prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles [Canadian GAAP]. These interim consolidated financial statements, for the period ended March 31, 2011, are the first the Company has prepared in accordance with IFRS. Accordingly, the Company has prepared consolidated financial statements which comply with IFRS applicable for periods beginning on January 1, 2011 as described in the accounting policies. In preparing these interim consolidated financial statements, the Company's opening balance sheet was prepared as at January 1, 2010, the Company's date of transition to IFRS. Note 30 explains the principal adjustments made by the Company in restating its Canadian GAAP consolidated balance sheet as at January 1, 2010, its previously published Canadian GAAP consolidated income statement as at March 31, 2010 and the consolidated financial statements as at December 31, 2010 and for the year then ended.

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. In the process of applying the Company's accounting policies, management has made judgments and estimates disclosed in Note 3, which have the most significant effect on the amounts recognized in the consolidated financial statements.

These interim consolidated financial statements were authorised for issue by the Company's Board of Directors on May 25, 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION

The consolidated financial statements of the Company include the accounts of Paladin Labs Inc. and all its subsidiaries and include the Company's share of the results and net assets of its associates. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases.

The entities over which the Company has the ability to exercise significant influence are accounted for as associates. The results and assets and liabilities of associates are incorporated into the consolidated financial statements using the equity method of accounting. The relevant proportion of net income on transactions with associates is also deferred until the products are sold to third parties.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

Transactions and balances between subsidiaries are eliminated and no income is recognized on sales between subsidiaries until the products are sold to customers outside the Company. The relevant proportion of income on transactions with associates is also deferred until the products are sold to third parties. The financial statements of the subsidiaries and associates are prepared for the same reporting period as the Company, using consistent accounting policies.

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value. Acquisition costs incurred are expensed.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration deemed to be an asset or liability will be recognized in accordance with IAS 39 either in income or loss or as change to other comprehensive income.

Goodwill arising on the acquisition of interests in subsidiaries and associates, representing the excess of the acquisition cost over the Company's share of the fair values of the identifiable assets, liabilities and contingent liabilities acquired, is capitalized as a separate item in the case of subsidiaries and as part of the cost of investment in the case of associates. Goodwill is denominated in the currency of the entity acquired. Where the cost of acquisition is below the fair value of the net assets acquired, the difference is recognized directly in the consolidated income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

FOREIGN CURRENCY TRANSLATION

[a] Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ["the functional currency"]. The consolidated financial statements of the Company are presented in Canadian dollars ["CAD"], which is the Company's functional and presentation currency.

[b] Transactions and balances

Foreign currency transactions are initially recorded by the Company's entities at their respective functional currency using the exchange rates prevailing at the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the period-end rates of exchange. Non-monetary assets and liabilities are translated at the historical exchange rates. Exchange gains and losses, except those related to available-for-sale securities, arising from the translation of foreign currency items are recognized in the consolidated income statement.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise current balances with banks and similar institutions and highly liquid investments with original maturities of three months or less. They are readily convertible into known amounts of cash and have an insignificant risk of changes in value.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

MARKETABLE SECURITIES

Marketable securities consist of equity and debt securities which are principally traded in liquid markets. Marketable securities that are classified as "Available-for-sale" are initially measured at fair value with any resulting subsequent changes in the fair value being charged or credited to other comprehensive income and when ultimately sold to net income. Fair values for marketable securities are obtained using quoted active market prices for such securities.

TRADE RECEIVABLES

Trade receivables are carried at original invoice amount less any provisions for product returns, credits and doubtful accounts. Provisions for returns are made where the returns or exchange of products are allowed under the Company's policy. Provisions for doubtful accounts are made where there is evidence of a risk of non-payment, taking into account ageing, previous experience and general economic conditions. When a trade receivable is determined to be uncollectable it is written off, firstly against any provision available and then to the consolidated income statement. Subsequent recoveries of amounts previously provided for are credited to the consolidated income statement. Long-term receivables are discounted to current values using appropriate rates of interest.

INVENTORIES

Inventory is valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value. The cost of finished goods and work-in-progress includes direct costs and an allocation of overhead. Net realizable value for finished goods and work-in-process is the estimated selling price in the ordinary course of business less estimated costs of completion and applicable selling expenses.

INVESTMENTS IN ASSOCIATES

The Company accounts for investments in associates using the equity method. An associate is an entity in which the Company has significant influence. Investments in associates are carried in the consolidated balance sheet at the Company's share of the associates' net assets at date of acquisition and of its post-acquisition retained net income or losses, net of the amortization of fair value adjustments, taxation and dividends received. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated income statement reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Company recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The share of net income of an associate is shown on the face of the consolidated income statement. This is the net income attributable to equity holders of the associate and therefore is income after tax. When the Company's share of losses in an associate equals or exceeds its interest in the associate the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

The financial statements of the associate are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies and classifications in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognize an additional impairment loss on the Company's investment in its associate. The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the "share of net income of an associate" in the consolidated income statement.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

Upon loss of significant influence over the associate, the Company measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investments and proceeds from disposal is recognized in the consolidated income statement.

FINANCIAL INSTRUMENTS – INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT

[a] Available-for-sale financial investments

Investments classified as available-for-sale are initially recorded at fair value plus transaction costs and then remeasured at subsequent reporting dates to fair value using quoted market prices, if such are available, or are carried at cost for investments held in private entities, where there are no quoted market prices in an active market. Unrealized gains and losses on available-for-sale investments are recognized directly in equity as other comprehensive income in the “Other capital reserves” until the investment is sold, at which time the cumulative gain or loss is recognized in “Other finance income”. Purchases and sales of available-for-sale investments are accounted for on the trade date. Impairments arising from the significant or prolonged decline in fair value of an investment reduce the carrying amount of the asset directly and are charged to the consolidated income statement. On disposal or impairment of the investments, any gains and losses that have been deferred in equity are recognized in the consolidated income statement. On disposal of investments, fair value movements are reclassified from “Other capital reserves” to the consolidated income statement based on average cost for shares acquired at different times.

[b] Loans and receivables

Investments classified as loans and receivables are initially recorded at fair value with subsequent measurements recorded at amortized cost using the effective interest method, less impairment, if any. The interest accretion is captured under “Other finance income” on the consolidated income statement.

[c] Derivative financial instruments

Derivative financial instruments are carried at fair value with changes in the fair value being charged or credited to the consolidated income statement under “Other finance income” during the year. Fair value of conversion options within convertible term notes and common share purchase warrants are obtained using the Black-Scholes option pricing valuation model.

[d] Financial liabilities

Payables, accruals and provisions and Balance of sale payable are classified as financial liabilities. They are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The interest accretion is captured under “Other finance income” on the consolidated income statement.

[e] Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include the following:

- Significant financial difficulty of the issuer or counterparty;
- Default or delinquency in interest or principal payments or it has become probable that the borrower will enter bankruptcy or financial reorganization;
- An adverse change in legal factors or in the business climate that could affect the value of an asset; and
- Current or forecasted operating or cash flow losses that demonstrate continuing losses associated with the use of an asset.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

[f] Derecognition

A financial asset [or, where applicable, a part of a financial asset or part of a group of similar financial assets] or financial liability is derecognized when:

- The rights/obligations to receive/disburse cash flows from the asset/liability have expired; and
- The Company has transferred its rights/obligations to receive/disburse cash flows from the asset/liability.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at historical cost less accumulated depreciation and/or accumulated impairment losses, if any. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement during the financial year in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets, as follows:

Computer equipment and software	3 years
Furniture and fixtures	2-3 years
Machinery and equipment	2-5 years
Leasehold improvements	Over the life of the lease

On disposal of property, plant and equipment, the cost and related accumulated depreciation and impairments are removed from the consolidated financial statements and the net amount, less any proceeds, is included in the consolidated income statement.

PHARMACEUTICAL PRODUCT LICENSES AND RIGHTS

In the normal course of business, the Company secures development, sales, marketing and distribution rights to innovative drug products. Pharmaceutical product licenses and rights acquired are recorded at cost and consist primarily of process know-how covered by certain patented and non-patented information. Milestones and other license payments determined to have a high likelihood of attainment, subsequent to the regulatory approval of the product, are capitalized based upon the Company's periodic review and assessment of the product's expected performance. Pharmaceutical product licenses and rights with finite lives are amortized on a straight-line basis over the lesser of the term of the agreement, the life of the patent or the expected useful life of the product once they are available for commercialization. The terms generally range from 2 to 10 years. The Company periodically reviews the useful lives and the carrying values of its intangible assets. As a result, the useful life of pharmaceutical product licenses and rights may be reduced.

IMPAIRMENT OF NON-FINANCIAL ASSETS

The Company assesses at each reporting period whether there is an indication that an asset may be impaired. An impairment loss is recognized when the carrying amount of an asset, or its cash generating unit ["CGU"], exceeds its recoverable amount. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount is the greater of the asset's or CGU's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In determining fair value less cost to sell, an appropriate valuation model is used. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

In addition, goodwill, intangible assets with indefinite useful lives and intangible assets which are not yet available for use, if any, are tested for impairment annually. Impairment losses are charged to the consolidated income statement in the year concerned. Impairments of goodwill are not reversed. Impairment losses on other long-term assets are only reversed if there has been a change in estimates used to determine the recoverable amounts and only to the extent that the revised recoverable amounts do not exceed the carrying values that would have existed, net of depreciation or amortisation, had no impairments been recognized.

PAYABLES, ACCRUALS AND PROVISIONS

Payables, accruals and provisions are initially measured at fair value with subsequent measurement recorded at amortized cost using the effective interest rate method. Provisions are recognized when the Company has a present obligation [legal or constructive] as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The recognized provisions are mostly product-related agreement exposures and are part of the normal course of business.

BALANCE OF SALE PAYABLE

As part of business acquisitions and acquisitions of pharmaceutical product licenses and rights, the Company may assume obligations to pay out certain future contractually pre-defined amounts upon meeting specific timelines or specific regulatory or sales related milestones. These obligations are recorded when the likelihood of attainment is deemed highly likely and are initially measured at fair value with subsequent measurements recorded at amortized cost using the effective interest rate method. The long-term balances of sale payable are discounted to current values using appropriate rates of interest.

SHARE-BASED COMPENSATION PLANS

The Company has share-based compensation plans, which are described in note 19. Any consideration paid by employees on exercise of share options or purchase of shares is credited to share capital.

SHARE BUY-BACK PLANS

The Company from time to time initiates a share buy-back plan, which is described in note 19. The common shares are repurchased by the Company and later cancelled. The difference between the amounts paid for the common shares and the weighted average common share value is recorded to contributed surplus or retained earnings according to applicable accounting standards.

SHARE ISSUE COSTS

Share issue costs incurred by the Company are recorded as a reduction of share capital.

REVENUE RECOGNITION

Revenue is recognized when the product is delivered to the Company's customers, provided the Company has not retained any significant risks of ownership or future obligations with respect to the product. Revenue from product sales is recognized net of sales discounts, credits and allowances. Revenue related to service arrangements, where the Company earns a distribution fee on net sales or earns co-promotion revenue, is recognized when the service is provided and is recorded on a net basis. Revenue related to royalty arrangements with partners, where the Company earns a royalty fee based on certain pre-determined terms relating to the net sales of products is recognized as such terms are met alongside the recording of partner product revenues. In certain circumstances, returns or exchange of products are allowed under the Company's policy and provisions are maintained accordingly. Revenue is recorded net of these provisions. In certain situations, such as initial product launches for which the Company has limited comparable information or where the market or client acceptance has not been clearly established, the Company may determine that it has not met the requirements for recognition of revenue, such as the ability to reasonably determine provisions for product returns, as a result the Company will defer the recognition of revenue for these product sales until such criteria are met.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

INTEREST INCOME

Interest income is recognized on a time-proportion basis. For all financial instruments measured at amortized cost and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

GOVERNMENT ASSISTANCE

Amounts received or receivable resulting from government assistance programs, including grants and investment tax credits for research and development, are reflected as reductions to the cost of the assets or expenses to which they relate at the time the eligible expenditures are incurred, provided that there is reasonable assurance that benefits will be realized and all attached conditions have been complied with.

RESEARCH AND DEVELOPMENT

Research and development expenditures are charged to the consolidated income statement in the period in which it is incurred. Milestones and other license payments paid prior to regulatory approval of the product are generally expensed when the event requiring payment of the milestone occurs. Development expenditures are capitalized when the criteria for recognizing an asset are met, usually when a regulatory filing has been made in a major market and approval is considered highly likely. The Company has not capitalized any such expenditures to date. Property, plant and equipment used for research and development is depreciated in accordance with the Company's policy.

EMPLOYMENT BENEFITS

The Company has an employee deferred income sharing plan available to all permanent employees pursuant to which the Company matches a contribution of up to 4% of an employee's salary in the form of a registered retirement savings plan contribution. The Company's contributions are charged to the consolidated income statement as incurred.

INCOME TAXES

Income tax expense comprises current and deferred tax. Tax expenses are recognized in the consolidated income statement except to the extent they relate to items recognized directly in shareholders' equity, in which case the related tax is recognized in shareholders' equity.

Current Income Tax

Current income tax is provided at the amounts expected to be recovered or paid applying the local tax rates that have been enacted or substantively enacted by the reporting date for each taxable entity within the Company. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred Tax

Deferred tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is calculated based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates that are expected to apply to the year of realization or settlement based on tax rates and tax laws enacted or substantially enacted at the reporting date.

Deferred tax assets (liabilities) are recognized for all deductible (taxable) temporary differences and carry forward unused tax losses, to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carry forward of unused tax losses can be utilized except:

- where the deferred tax asset (liability) relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination or goodwill in the case of a deferred tax liability and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

- in respect of deductible temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future for deferred tax liabilities, and for deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable income together with future tax planning strategies. Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be realized.

Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax relating to items recognized outside income or loss is recognized outside income or loss. Deferred tax items are recognized in correlation to the underlying transaction either in comprehensive income or directly in shareholders' equity. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority. Deferred tax liabilities and assets are not discounted.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognized subsequently if new information about facts and circumstances changed. The adjustment would be treated as a reduction to goodwill [as long as it does not exceed goodwill] or in income or loss.

Sales Tax

Revenues, expenses and assets are recognized net of amount of sales tax except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized in the cost of acquisition of the asset or as part of the expense item, as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables and payables in the consolidated balance sheet.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the amounts of assets, liabilities, revenue and expenses reported in the financial statements. Actual amounts and results could differ from those estimates. The following are considered to be the key accounting estimates and judgements made.

REVENUE RECOGNITION

Revenue is recognized when title and risk of loss is passed to the customer and reliable estimates can be made of relevant deductions. Gross revenue is reduced by discounts, credits, allowances and product returns. Accruals are made at the time of sale for the estimated discounts, credits, allowances and product returns, based on available market information and historical experience. Because the amounts are estimated they may not fully reflect the final outcome, and the amounts are subject to change. The level of accrual is reviewed and adjusted regularly in the light of contractual and legal obligations, historical trends, past experience and projected market conditions. Market conditions are evaluated using wholesaler and other third-party analyses, market research data and internally generated information. Future events could cause the assumptions on which the accruals are based to change, which could affect the future results of the Company.

In certain situations, such as initial product launches for which the Company has limited comparable information or where the market or client acceptance has not been clearly established, the Company may determine that it has not met the requirements for recognition of revenue, such as the ability to reasonably determine provisions for product returns, as a result the Company will defer the recognition of revenue for these product sales until such criteria are met.

INVENTORY VALUATION

The reserve for inventory is equal to all or a portion of the inventory which has reached its expiration or is close to expiration and not expected to be sold, based on the specific facts and circumstances. In order to determine whether the inventory is properly stated at the lower of cost or net realizable value, management reviews the amount of inventory on hand, the remaining shelf life and estimates the time required to sell such inventory taking into account current and expected market conditions and competition.

PHARMACEUTICAL PRODUCT LICENSES AND RIGHTS

The factors that drive the actual economic useful life of the pharmaceutical product licenses and rights are inherently uncertain, and include patent protection, physician loyalty and prescribing patterns, competition by products prescribed for similar indications, introductions of competing products, the impact of promotional efforts, adverse patient reactions to products or similar products and many other issues. The terms generally range from 2 to 10 years. Capitalized milestones and other license payments are based on future cash flows that are derived from business forecasts and are inherently judgemental.

Estimated useful lives are reviewed annually and impairment tests are undertaken if events occur which call into question the carrying values of the assets. Impairment tests are based on risk-adjusted future cash flows discounted using appropriate interest rates. These future cash flows are based on business forecasts and are therefore inherently judgemental. Future events could cause the assumptions used in these impairment reviews to change with a consequential adverse effect on the future results of the Company.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS [CONT'D]

INCOME TAXES

The Company has deferred tax assets from various sources and uses judgment when estimating income taxes and deferred tax assets and liabilities. This process involves estimating actual current tax exposure, as well as assessing temporary differences that result from the difference in treatment for accounting and tax purposes and the availability of loss carry-forwards. The temporary differences and tax-loss carry-forwards result in deferred tax assets and liabilities which are included in the Company's consolidated balance sheet. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable income together with future tax planning strategies. Management is required to assess whether it is probable that the deferred tax assets will be realized and, based on all available evidence, determine if an adjustment is required on all or a portion of the recognized deferred tax assets. Factors considered in the assessment of the likelihood and value of the realizable deferred tax assets include the Company's forecast of the amount and timing of future net income before taxes on an annual basis, available tax planning strategies that could be implemented to realize the deferred tax assets, and the remaining period of loss carry-forwards.

The Company's income tax reporting is subject to audit by taxation authorities. The final outcome of any audits by taxation authorities may differ from the Company's estimates, assumptions and tax planning strategies used in determining the tax provisions and accruals.

SHARE-BASED COMPENSATION EXPENSE

The Company has share-based compensation plans and applies the fair value method of accounting for such plans. The calculation of share-based compensation is dependent on estimates to determine the fair value. The fair value of the option is calculated using the Black-Scholes option-pricing model, which requires making assumptions including, the volatility of the market price of the Company's common shares and the expected life of the option. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome. The expected life of the share options is based on historical data and current expectation and is not necessarily indicative of exercise patterns that may occur.

4. RECENT ACCOUNTING PRONOUNCEMENTS

Certain new standards, interpretations and amendments to existing standards issued by the IASB or IFRIC that are not yet effective up to the date of issuance of the Company's financial statements are listed below. The Company is assessing the impact of these pronouncements on its consolidated results and financial position. The Company intends to adopt those standards when they become effective.

IAS 12 *Income Taxes* — Recovery of Underlying Assets

The amendment clarified the determination of deferred tax in investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Further, it introduces the requirement to calculate deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16, always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012. The initial application of this standard is not expected to have a significant effect on the Company's consolidated financial statements.

IFRS 7 *Financial Instruments: Disclosures* — Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The initial application of this standard is not expected to have a significant effect on the Company's consolidated financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

4. RECENT ACCOUNTING PRONOUNCEMENTS [CONT'D]

IFRS 9 *Financial Instruments*: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial asset. The completion of this project is expected over the course of 2011. The adoption of the first phase of IFRS 9 is anticipated to have an effect on the classification and measurement of the Company's financial assets but will likely have no impact on classification and measurements of financial liabilities. The Company will quantify the effect, if any, in conjunction with the application of the other phases, when issued, to present a comprehensive picture.

5. SIGNIFICANT TRANSACTIONS

On January 11, 2011, the Company invested £50,000 [\$77,230] in ProStrakan Group plc ["ProStrakan"] through the acquisition by way of assignment of ProStrakan's existing secured debt facility with the addition of certain conversion rights. In addition, Paladin has been granted the exclusive license to distribute all of ProStrakan's products, including Abstral[®], Sancuso[™], Rectogesic[®], Xomolix[®] and Tostran[®], in certain specific territories. These territories include: Canada, Central & South America, South Africa and Sub-Saharan Africa and Israel. During the term of the debt facility, Paladin will have the right to license any new products acquired or licensed by ProStrakan for those same territories and on the same terms and conditions.

On May 17, 2011, the Company received gross proceeds of \$86,432 representing the aggregate of: the principal of the ProStrakan secured debt facility of \$77,232, a break free of £2,000 [\$3,089] and the outstanding balance of interest payable for the first year of \$6,111. Moreover, the Company has retained the rights to the products it had previously been licensed in connection with the agreement. Refer to note 13 for additional details on the ProStrakan secured debt facility.

On February 24, 2011, the Company issued 1,150,000 common shares including an over-allotment option of 150,000 common shares pursuant to a bought deal share offering at a price of \$35.00 per common share for total gross proceeds to the Company of \$40,250. Refer to note 19 for additional details.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

6. CASH AND CASH EQUIVALENTS

	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Cash at banks	13,259	96,001	18,636
Short-term deposits	5,000	294	10,749
Commercial paper	1,382	—	1,842
	19,641	96,295	31,227

The effective interest rate on cash and cash equivalents at March 31, 2011 was approximately 1.11% [December 31, 2010: approximately 0.72%; January 1, 2010: approximately 0.32%].

Effective August 10, 2009, the Company entered into a one-year \$2,000 revolving unsecured credit facility with one of the Company's bankers. On July 29, 2010, the credit facility was renewed for an additional year and the revolving credit limit increased to \$5,000 of which, as at March 31, 2011, \$1,603 is being utilized for the Company's use of forward contracts to manage certain foreign exchange exposures. The credit facility may also be used for general corporate purposes.

7. MARKETABLE SECURITIES

	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Discount notes, earning effective interest at rates ranging from 1.29% to 2.40% [December 31, 2010: 1.29% to 2.40%; January 1, 2010: 0.55% to 2.36%] and maturing on various dates from May 2011 to November 2012	30,543	14,950	5,868
Guaranteed investment certificates, earning effective interest at rates ranging from 1.45% to 2.05% [December 31, 2010: 1.55% to 2.05%; January 1, 2010: 0.90% to 1.30%] and maturing on various dates from July 2011 to March 2012	26,255	18,756	12,700
Commercial paper, earning effective interest at rates ranging from 0.66% to 1.83% [December 31, 2010: 1.10% to 1.83%; January 1, 2010: 0.22% to 1.25%] and maturing on various dates from May 2011 to April 2012	21,840	7,397	13,766
Corporate bonds, earning effective interest at 1.60% [January 1, 2010: 0.39% to 4.20%] and maturing on April 2012	4,889	—	22,519
Government bonds, earning effective interest at rates ranging from 1.67% to 6.03% [December 31, 2010: 1.67% to 1.70%; January 1, 2010: 0.51% to 1.16%] and maturing on various dates from July 2011 to December 2011	2,540	1,991	19,289
	86,067	43,094	74,142

The entire balance of marketable securities is classified as "Available-for-sale". The effective rate of return on marketable securities is approximately 1.64% [December 31, 2010: 1.40%; January 1, 2010: 1.07%].

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

8. TRADE AND OTHER RECEIVABLES

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Trade receivables	14,931	19,222	11,155
Interest receivable	2,525	390	386
Investment tax credits receivable	—	—	57
Other receivables	2,062	2,300	3,645
	19,518	21,912	15,243

The following table provides the change in the provision for doubtful accounts and product returns for trade receivables:

Provision for doubtful accounts and product returns	2011	2010
	\$	\$
Balance as of January 1st	6,092	5,021
(Credit) charge for the period	(284)	11
Utilized	(159)	(178)
Balance as at March 31st	5,649	4,854

The following table provides details on trade receivables past due but not provisioned:

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Trade receivables not passed due	14,791	11,901	10,200
Trade receivables passed due and not provisioned			
Under 30 days	2,976	5,598	4,402
31 to 60 days	391	1,619	1,269
61 to 90 days	634	1,902	202
Over 90 days	1,683	4,191	—
Allowance for product returns	(5,544)	(5,989)	(4,918)
Total trade receivables, net of provisions	14,931	19,222	11,155

9. INVENTORIES

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Raw materials	760	816	871
Work in progress	327	1,323	378
Finished goods	12,381	12,493	11,517
Provision for obsolescence	(940)	(755)	(405)
Total inventories at the lower of cost and net realizable value	12,528	13,877	12,361

During the quarter ended March 31, 2011, inventories in the amount of \$6,578 were recognized as cost of sales, including provisions for write-downs to net realizable value of \$185. During the year ended December 31, 2010, inventories in the amount of \$29,337 were recognized as cost of sales, including provisions for write-downs to net realizable value of \$350.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

10. INCOME TAX

The major components of income tax expense for the periods ended March 31, 2011 and 2010 are:

Consolidated income statement	Three months ended March 31	
	2011	2010
	\$	\$
Current income tax:		
Current income tax charge	1,569	422
Deferred tax:		
Relating to origination and reversal of temporary differences	2,280	1,548
Provision for income taxes	3,849	1,970

Consolidated statement of comprehensive income	Three months ended March 31	
	2011	2010
	\$	\$
Deferred tax related to items charged or credited directly to shareholders' equity during the year:		
Benefit on tax deductible share issue costs	(614)	—
Unrealized loss on available-for-sale financial assets	(34)	1
Income tax charged directly to shareholders' equity	(648)	1

A reconciliation between tax expense and the product of accounting income multiplied by Canada's domestic tax rate for the period ended March 31, 2011 and 2010 is as follows:

	Three months ended March 31	
	2011	2010
	\$	\$
Accounting income before income tax	11,949	5,112
At Canada's statutory income tax rate of 28.4% [2010: 29.9%]	3,394	1,484
Utilization of previously unrecognized tax losses	(195)	—
Non-deductible expenses for tax purposes	504	503
Effect of income taxes recorded at rates different from the Canadian tax rate	(373)	(155)
Other differences	519	138
At the effective income tax rate of 32.2 % [2010: 38.5%]	3,849	1,970

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

10. INCOME TAX [CONT'D]

Deferred Tax

Deferred tax relates to the following:

Deferred tax asset (liability)	Consolidated Balance Sheet			Consolidated Income Statement	
	March 31, 2011	December 31, 2010	January 1, 2010	Three months ended March 31, 2011	March 31, 2010
	\$	\$	\$	\$	\$
Assets					
Tangible and intangible depreciable assets	5,475	5,334	6,121	141	(10)
Inventories	274	334	207	(60)	59
Receivables	1,558	1,672	1,456	(115)	30
Provisions	1,038	1,092	1,041	(54)	(162)
Donations	112	112	—	—	—
Financing fees	1,182	687	1,062	495	(94)
Losses available to offset against future taxable income	2,467	4,588	8,619	—	(1,362)
SR&ED expenditures	16,775	16,775	18,684	(2,120)	4
Losses available to offset against future taxable capital gains	—	—	101	—	—
Other	43	84	30	(41)	(8)
Deferred tax assets	28,924	30,678	37,321	(1,754)	(1,543)
Liabilities					
Investment tax credits	(3,964)	(3,997)	(4,241)	33	(5)
Other	(6)	(95)	(18)	89	—
Deferred tax liabilities	(3,970)	(4,092)	(4,259)	122	(5)
Net total deferred tax asset	24,954	26,586	33,062	(1,632)	(1,548)

Reconciliation of deferred tax assets, net

	2011	2010
	\$	\$
Opening balance as of January 1st	26,586	33,062
Tax expense during the period recognized in the consolidated income statement	(2,280)	(1,548)
Tax income during the period recognized in shareholders' equity	614	—
Other comprehensive income	34	—
Ending balance as of March 31st	24,954	31,514

The Company offsets tax assets and liabilities if and only if it has legally enforceable right to offset current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relating to income taxes levied by the same tax authorities.

As at March 31, 2011, the Company had Scientific Research and Experimental Development ["SR&ED"] expenditures available for Canadian federal and provincial income tax purposes, amounting to approximately \$74,175 and \$74,389, respectively, which may be applied against taxable income of future years indefinitely of which \$62,248 and \$62,506 respectively have been recognized in the financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

10. INCOME TAX [CONT'D]

The Company has non-capital tax losses which may be applied against taxable income for Canadian federal and Québec income tax purposes in the amount of \$49,904 and \$26,004, respectively, which expire between 2025 and 2028. The Company has recognized the tax benefit on \$14,815 and \$539 of these losses for Canadian federal and provincial tax purposes, respectively.

At March 31, 2011, the Company had capital tax losses which may only be used to offset future capital gains for Canadian federal and provincial income tax purposes in the amount of \$1,756 and \$2,449, respectively. The Company has not recognized the tax benefit of \$132 and \$146 on these losses for Canadian federal and Québec purposes, respectively.

	Investment tax credits	Non-capital losses	
	\$	Federal \$	Québec \$
Expires in			
2016	16	—	—
2017	496	—	—
2018	1,066	—	—
2019	375	—	—
2020	1,672	—	—
2021	2,941	—	—
2022	1,769	—	—
2023	2,847	—	—
2024	3,218	—	—
2025	1,764	1,451	63
2026	1,587	10,494	476
2027	1,441	9,051	—
2028	471	28,908	25,465
2029	267	—	—
2030	95	—	—
	20,025	49,904	26,004

No deferred tax is recognized on the unremitted earnings of subsidiaries to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. The temporary difference in respect of the amount of undistributed earnings of subsidiaries is \$nil at March 31, 2011 and 2010.

During the quarter ended March 31, 2010, in connection with the Company's previously disclosed tax contingency, the Company received notices of re-assessment from the Canada Revenue Agency ["CRA"] and the Ontario Minister of Finance ["OMF"] reversing their original position on the use of certain non-capital losses acquired as part of the Dimethaid Health Care Ltd. [subsequently renamed Squire Pharmaceuticals Inc. ["Squire"]] acquisition from Nuvo Research Inc. ["Nuvo"].

As previously disclosed, on various dates during fiscal 2008 and 2009 the Company had received notices of re-assessment from the CRA relating to the taxation years ending August 16, 2005, July 31, 2006, July 31, 2007, and December 31, 2008 and from the OMF for the taxation year ended August 16, 2005, containing adjustments relating to the use of certain non-capital losses. The notices of assessment and re-assessment, if they had stood as a result of the CRA's position, amounted to a total tax liability exposure to the federal and relevant provincial governments of approximately \$11,625 including interest and penalties. The Company filed Notices of Objection through the CRA appeals process on October 23, 2008. Furthermore, the Company, under the terms of the Share Purchase Agreement ["SPA"] for Squire with Nuvo holds indemnities with respect to the status of the Squire tax accounts and certain tax asset values the Company as well as all costs relating to reassessment including advisory fees, interest and penalties, as applicable. In addition, Nuvo had issued additional security over the indemnity obligations by entitling the Company to the benefit of security over certain assets and product revenue streams of Nuvo and certain of its subsidiaries.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

10. INCOME TAX [CONT'D]

In connection with the appeals process, during the years ended December 31, 2009 and 2008, the Company had posted a deposit of \$3,752 to the CRA and \$500 to the OMF, representing up to one half of the tax and interest assessed. In addition, during 2009, the Company issued a bank guarantee of \$720 to the OMF through its revolving unsecured credit facility. As a result of the Company's success in the appeal process, the Company received \$3,936 from the CRA on January 20, 2010 and \$524 from the OMF during the second quarter of 2010, representing a refund for the full amount of the deposits above, along with accrued interest of \$208. In addition, the bank guarantee previously issued to the OMF expired on February 1, 2010 without being drawn-down by the OMF.

11. OTHER CURRENT ASSETS

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Financial assets			
Deposits [i]	297	3,481	515
Non-financial assets			
Deferred costs and charges [ii]	973	866	874
Prepayments	397	370	203
	1,667	4,717	1,592

- [i] Deposits consist of an advance towards the purchase of Pharmaplan [Pty] Ltd. and deposits on account with suppliers
- [ii] Deferred costs consist of deferred product costs associated with deferred revenue and prepaid royalty payments

12. INVESTMENT IN AN ASSOCIATE

	March 31, 2011	December 31, 2010	March 31, 2010
	\$	\$	\$
Carrying values, beginning of year	15,739	—	—
Additions in the period	5,975	15,982	15,982
Share of net income for the period before adjustments	735	1,908	201
Adjustments to net income:			
Amortization of fair value adjustments	(436)	(1,108)	(70)
Taxation	(98)	—	—
Share of net income for the period	201	800	131
Share of dividends received in the period	—	(1,043)	—
Carrying values, end of period	21,915	15,739	16,113

Investment in Pharmaplan [Pty] Ltd ["Pharmaplan"]

On March 16, 2010, the Company entered into a strategic investment to acquire an initial 34.99% ownership interest in Pharmaplan, a privately-owned specialty pharmaceutical company based in Johannesburg, South Africa. The Company paid \$18,861 including a non-interest bearing loan of \$2,879 [R21,000]. In addition, the Company committed to additional future consideration by increasing its ownership position by 5% per year over the next 3 years to 49.99%, with such additional consideration based upon Pharmaplan's future financial results. In addition, the Company has the option to increase its ownership interest in Pharmaplan to 100% in 2013, at a purchase price determined using Pharmaplan's future financial results in ZAR.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

12. INVESTMENT IN AN ASSOCIATE [CONT'D]

The equity interest acquired in Pharmaplan represents an investment subject to significant influence which is accounted for using the equity method from the date of the acquisition, March 16, 2010. The investment was initially recorded at cost and adjustments are made to include the Company's share of Pharmaplan's net income. The Company's share of net income is adjusted to reflect the amortization of the fair value adjustments related to the Company's share of the net identifiable assets of Pharmaplan acquired and the tax impact on the distributable earnings.

The total cost was allocated to the Company's share of net identifiable assets acquired on the basis of their fair values using the purchase method of accounting. The allocation of the cost of the investment in Pharmaplan over the underlying net book value of assets acquired amounted to \$13,496 as at March 16, 2010, and represents definite life intangible assets [consisting mainly of exclusive distribution licenses] of \$10,665, indefinite life intangible assets of \$278, future income tax liabilities of \$3,064 and incremental goodwill of \$5,617.

On March 1, 2011, the Company entered into an agreement with Pharmaplan to accelerate the purchase of Pharmaplan shares leading to the acquisition of a total 10% ownership interest in Pharmaplan. This increased Paladin's ownership from 34.99% to 44.99% effective March 1, 2011. The Company paid \$5,975 including the settlement of the non-interest bearing loan mentioned above. The total cost was allocated to the Company's share of net identifiable assets acquired on the basis of their fair values using the purchase method of accounting. The purchase price allocations are preliminary and are subject to changes once the final valuation of the net identifiable assets acquired has been made. The preliminary allocation of the cost of the investment in Pharmaplan over the underlying net book value of assets acquired amounted to \$4,886 as at March 1, 2011, and represents definite life intangible assets [consisting mainly of exclusive distribution licenses] of \$3,723, indefinite life intangible assets of \$80, future income tax liabilities of \$1,065 and incremental goodwill of \$2,148. The Company is in the process of finalizing the purchase price allocation which will be completed during 2011.

The Company is presenting selected financial information derived from Pharmaplan's unaudited financial statements in South African Rand ["ZAR"] using South African GAAP converted into IFRS in Canadian dollars for information purposes.

Pharmaplan's statement of income data	Three months ended March 31, 2011	15 days ended March 31, 2010
	\$	\$
Revenues	10,581	2,509
Cost of sales	5,109	1,146
Gross income	5,472	1,363
Operating expenses	2,908	562
Earnings before under-noted items	2,564	801
Interest, depreciation and income taxes	721	226
Net income for the period	1,843	575

Pharmaplan's balance sheet data	March 31, 2011	December 31, 2010
	\$	\$
Total assets	18,698	18,943
Total liabilities	6,689	8,281

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

13. FINANCIAL ASSETS

	Three months ended March 31, 2011				
	Carrying value beginning of period	Additions	Net fair value movements	Disposals	Carrying value end of period
	\$	\$	\$	\$	\$
Available-for-sale investments	7,394	3,105	(376)	(3,320)	6,803
Loans and receivables	14,725	67,807	869	(267)	83,134
Derivatives	716	9,426	(1,296)	—	8,846
	22,835	80,338	(803)	(3,587)	98,783

	Year ended December 31, 2010				
	Carrying value beginning of period	Additions	Net fair value movements	Disposals	Carrying value end of period
	\$	\$	\$	\$	\$
Available-for-sale investments	62	7,622	99	(389)	7,394
Loans and receivables	—	15,175	(215)	(235)	14,725
Derivatives	—	576	140	—	716
	62	23,373	24	(624)	22,835

[a] Available-for-sale investments

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Investment in common shares of Isotechnika Pharma Inc., a public company listed on the Toronto Stock Exchange [see note [i] below]	2,343	5,862	—
Other quoted equity shares	4,460	1,532	62
	6,803	7,394	62

[i] Isotechnika Pharma Inc. ["IsoPharma"] is an international biopharmaceutical company dedicated to the discovery, development and commercialization of novel immunosuppressive therapeutics for the treatment of autoimmune diseases and for use in the prevention of organ rejection in transplantation. On June 18, 2009, as part of the acquisition of Isotechnika Inc., the Company, as per applicable accounting standards, eliminated the value assigned to its investment in common shares of IsoPharma against the excess of the amounts assigned to assets acquired and undiscounted liabilities assumed over the cost of the total purchase price ["negative goodwill"]. As a result the Company's investment in IsoPharma had a carrying value of \$nil effective June 18, 2009. The Company accounted for its interest in common shares of IsoPharma using the equity method of accounting. Since the Company's acquisition, IsoPharma has incurred net losses from operations. As the Company was not committed to make further capital contributions to IsoPharma, the Company has not recorded its share of IsoPharma's net loss since acquisition as per applicable accounting standards. Effective October 27, 2010, the Company lost its significant influence over IsoPharma at which time its investment was measured at fair value and for which the Company recorded an unrealized gain of \$6,207. This investment is classified as available-for-sale from that date.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

13. FINANCIAL ASSETS [CONT'D]

[b] Loans and receivables and derivatives

	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Investment in a Loan in Labopharm Inc. a public company listed on the Toronto Stock Exchange and NASDAQ [see note [i] below]	9,498	9,765	—
Investment in a Secured Convertible Debenture in SpePharm Holding B.V., a private company in the Netherlands [see note [ii] below]			
<i>Loans and receivables allocated amount</i>	5,185	4,960	—
<i>Conversion option</i>	576	576	—
<i>Foreign exchange forward</i>	62	140	—
Investment in a Secured Convertible Debenture in ProStrakan [see note [iii] below]			
<i>Loans and receivables allocated amount</i>	68,451	—	—
<i>Early redemption option</i>	8,208	—	—
Loans and receivables	83,134	14,725	—
Derivatives at fair value through profit and loss	8,846	716	—

[i] On October 13, 2010 the Company advanced \$10,000 to Labopharm Inc. ["Labopharm"] against the future product supply of Tridural[®] for distribution in Canada. Labopharm will repay the cash advance through partial credits against future product supplied to the Company. The cash advance bears interest at a rate of 16% per annum and matures on May 1, 2012. The loan was classified as "Loans and receivables" and recorded at fair value upon initial measurement and subsequently recorded at amortized cost using the effective interest rate method.

[ii] On February 26, 2010, the Company invested \$5,781 [€4,000] in SpePharm Holding B.V. ["SpePharm"] through a secured convertible debenture ["Debenture"] bearing 15% interest. The Company also received 250,000 warrants and has the option to convert both the Debenture and the warrants into common shares of SpePharm [representing a less than 15% ownership in SpePharm common shares] at the earliest of the receipt of a repayment notice or September 30, 2012 at an average conversion price of €2.40 per share. According to financial instruments accounting standards, the Debenture and warrants were initially recognized at their respective fair value through the bifurcation of the conversion option using the fair value of the debt component, calculated using comparable market rates for SpePharm at an effective interest rate of 20%, and the conversion option and warrants using residual method. The conversion option and warrants were classified as "Derivatives" and in compliance with IFRS 9 are carried at cost as there are no quoted market prices in an active market for such instruments. Fair value has not been disclosed because fair value cannot be measured reliably. The loan portion was classified as "Loans and receivables", recorded at fair value upon initial measurement and subsequently recorded at amortized cost using the effective interest method.

On March 31, 2010, the Company entered into a foreign exchange forward contract ["Forward"] expiring on October 15, 2012 to cover the foreign exchange exposure related to the SpePharm investment. The Forward was classified as "Derivatives" and subsequently re-measured at fair value. The Forward has a notional amount of €4,000 and a conversion rate CAD/EURO of 1.3901.

For the three months ending March 31, 2011, the Company recorded an unrealized loss on the forward of \$78 [2010: \$nil] and recorded accreted interest on the allocated loan portion of the above debenture of \$55 [2010: \$17] in the consolidated statement of income.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

13. FINANCIAL ASSETS [CONT'D]

- [iii] On January 11, 2011, the Company invested £50,000 [\$77,230] in ProStrakan through the acquisition by way of assignment of ProStrakan's existing secured debt facility with the addition of certain conversion rights. The secured facility was amended and provided by the Company in Canadian dollars at a rate of interest of 10.5%. The amended secured facility ["Facility"] is repayable in full at the end of three years and the Company had the option to convert the outstanding principal debt into new ProStrakan ordinary shares at any point after the initial six months of the term of the amended agreement. In the event of a change in control of ProStrakan during this same initial time period, along with the Company consenting to early redemption, the Company will receive a payment equivalent to the balance of interest for the first year of the loan together with a break fee of £2,000 [\$3,089]. The strike price for the conversion rights are set at £1.10 per share, a 24% premium to the closing price of ProStrakan's common shares on December 14, 2010.

According to financial instruments accounting standards, the Facility was initially recognized at its respective fair value through the bifurcation of the conversion option and early redemption option being classified and subsequently re-measured as derivative assets. The fair value of the conversion option was obtained by using the Black-Scholes option pricing model, adjusted for credit risk and a 25% likelihood of conversion, using the following assumptions, as at January 11, 2011: volatility factor: 59.43%, risk free interest rate: 2.01% and time to expiry: 3 years. The fair value of the early redemption option, as at January 11, 2011, was obtained using a probability factor of 75% and a discount factor of 20.8%. The allocated loan portion of the Facility was classified as "Loans and receivables" and recorded at fair value upon initial measurement and subsequently recorded at amortized cost using the effective interest rate method at a rate of 20.8% per year.

On February 21, 2011, in connection with the proposed acquisition of ProStrakan by Kyowa Hakko Kirin Co., Ltd. ["KHK"], the Company consented to the repayment of its secured debt facility subject to closing of the acquisition. On March 31, 2011, the general meeting of Prostrakan's shareholders approved the acquisition of ProStrakan by KHK. As a result the conversion option was deemed to have a fair value of \$nil and the early redemption option was re-measured using a probability factor of 100%.

For the three months ending March 31, 2011, the Company recorded a net unrealized loss on the conversion option and early redemption option of \$1,218 and recorded accreted interest on the allocated loan portion of the above Facility of \$644 in the interim consolidated income statement.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

14. PROPERTY, PLANT AND EQUIPMENT

	Machinery and equipment \$	Furniture and fixtures \$	Computer equipment and software \$	Total \$
Cost as at January 1, 2010	687	347	352	1,386
Additions	57	22	14	93
Disposals and write-offs	(669)	(33)	(181)	(883)
Cost as at December 31, 2010	75	336	185	596
Additions	48	—	7	55
Disposals and write-offs	—	—	—	—
Cost as at March 31, 2011	123	336	192	651
Accumulated depreciation as at January 1, 2010	384	112	199	695
Depreciation charge	304	176	83	563
Disposals and write-offs	(669)	(33)	(181)	(883)
Accumulated depreciation as at December 31, 2010	19	255	101	375
Depreciation charge	20	69	16	105
Disposals and write-offs	—	—	—	—
Accumulated depreciation as at March 31, 2011	39	324	117	480
Net book value as at January 1, 2010	303	235	153	691
Net book value as at December 31, 2010	56	81	84	221
Net book value as at March 31, 2011	84	12	75	171

Depreciation expense of \$20 [2010: \$316] has been charged to cost of goods sold and \$85 [2010: \$247] in selling, general and administrative expenses.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

15. PHARMACEUTICAL PRODUCT LICENSES AND RIGHTS

	\$
Cost as at January 1, 2010	105,987
Additions	895
Disposals and write-offs	—
Cost as at December 31, 2010	106,882
Additions	7,567
Disposals and write-offs	—
Cost as at March 31, 2011	114,449
Accumulated amortization as at January 1, 2010	63,444
Amortization charge	22,844
Disposals and write-offs	—
Accumulated amortization as at December 31, 2010	86,288
Amortization charge	5,330
Disposals and write-offs	—
Accumulated amortization as at March 31, 2011	91,618
Net book value as at January 1, 2010	42,543
Net book value as at December 31, 2010	20,594
Net book value as at March 31, 2011	22,831

The carrying amount and the remaining amortization period of the major product licenses and rights are as follows:

	Carrying amount		Remaining
	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	period in months
Dexedrine® and Tempra®	13,795	8,865	17,230
			9 and 34, respectively

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

16. PAYABLES, ACCRUALS AND PROVISIONS

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Trade payables	16,266	21,678	10,210
Accrued expenses	8,578	11,289	10,558
Provisions	2,690	2,812	2,047
Payables to related parties	1,140	835	1,122
Other payables	226	287	119
	28,900	36,901	24,056

The following table presents the change in the provisions:

	\$
Balance at January 1, 2010	2,047
Charges	1,001
Utilization	(236)
Balance at December 31, 2010	2,812
Charges	144
Utilization	(266)
Balance at March 31, 2011	2,690

17. RELATED PARTY DISCLOSURES

Joddes Limited ["Joddes"], a private Canadian corporation, together with its affiliates own in aggregate approximately 35% of the outstanding shares of the Company as at March 31, 2011, and one director of the Company, the Company's President and CEO, is related to this group.

The Company engages a wholly-owned subsidiary of Joddes to provide logistics services including: customer service, warehousing, shipping, invoicing, collection services and certain manufacturing and selling services on behalf of the Company. The Company also engages this affiliate to perform certain research and development and selling services on a contractual pay-for-use basis. In addition, the Company leases its office facilities from another wholly-owned subsidiary of Joddes. This lease is for a period of 10 years, ending in 2013 and includes minimum annual payments for a total remaining committed amount of \$479 as at March 31, 2011 and is included in the purchase and service based commitments in Note 27.

The Company has also entered into contractual royalty agreements with a wholly-owned subsidiary of Joddes for certain legacy and over-the-counter products. The terms of these arrangements vary whereby the Company may earn a royalty fee based on certain established terms relating to the performance of the respective products such as through a percentage of net sales, certain guaranteed minimum annual payments, or as a percentage of a defined product contribution.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

17. RELATED PARTY DISCLOSURES [CONT'D]

Effective November 1, 2006, the Company acquired the Canadian distribution rights to Metadol[®] from a wholly-owned subsidiary of Joddes for cash consideration of \$15,000. Under the terms of the agreement, the Company had the option to purchase the Canadian license for Metadol[®] on the fourth anniversary of the agreement for \$1 and receive a reimbursement of up to \$3,750 subject to certain acquisition related conditions. The Company exercised its right and acquired the Canadian license for Metadol[®] on November 1, 2010. Furthermore, the Company has not received or earned any reimbursement with respect to the acquisition related conditions which have expired as at December 31, 2010. The acquisition of the Canadian distribution rights and license to Metadol[®] was not in the normal course of operations and was recorded at an agreed upon exchange amount in accordance with the requirements of applicable accounting standard.

The table below reflects all transactions and services with Joddes carried in the normal course of operations, which include those referred to in the agreements described above, as well as revenues from a wholly-owned subsidiary of Joddes:

	Three months ended March 31	
	2011	2010
	\$	\$
Revenues	871	1,064
Purchases	2,339	4,162
Selling, general and administrative	1,896	1,701
Research and development	206	1,131

As at March 31, 2011, the Company has a balance payable to a wholly-owned subsidiary of Joddes, included in Payables, accruals and provisions on the interim consolidated balance sheets, of \$1,140 [December 31, 2010: \$834; January 1, 2010: \$1,122].

The Company owns an approximate 5% interest in the common shares of IsoPharma as at March 31, 2011. The Company accounted for IsoPharma as an investment subject to significant influence during 2010 and effective October 27, 2010 was no longer considered to have significant influence and thus, no longer considered IsoPharma a related party. The Company, settled with IsoPharma on December 31, 2009 the contingent Balance of sale payable over a seven-year period for an amount of \$1,991, of which \$1,650 was paid on February 26, 2010 and \$341, representing the discounted present value on December 31, 2009, was due for payment on January 31, 2011. This transaction was not in the normal course of operations and was recorded at an agreed upon exchange amount in accordance with the requirements of applicable accounting standards. In addition, as part of a Research and Development Agreement the Company was committed to pay a \$400 milestone payment in the event IsoPharma attained a regulatory milestone.

On November 11, 2010, the Company agreed to amend its agreement with IsoPharma in order to support a transaction between IsoPharma and ILJIN Life Science Co., Ltd ["ILJIN"] in exchange for the forgiveness of the remaining contingent balance of sale payable in the current amount of \$348 discussed in the paragraph above, as well as an earned and payable milestone by the Company to IsoPharma of \$400, resulting in a gain of \$348 recorded in "Other income" during the year ended December 31, 2010. In addition, the Company earned \$185 in royalty revenue during the quarter ended September 30, 2010 from IsoPharma's licensing activities during the same period.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

17. RELATED PARTY DISCLOSURES [CONT'D]

The Company owns a 44.99% interest in the common shares of Pharmaplan and considers this investment a related party. During the year ended December 31, 2010, Pharmaplan declared dividends of R20,000 the Company's share amounting to \$1,043, of which \$792 was received during the year ended December 31, 2010 and \$251 was received during the three months ended March 31, 2011. On March 1, 2011, the Company entered into an agreement with Pharmaplan to accelerate the purchase of Pharmaplan shares leading to an acquisition of a total of 10% ownership interest in Pharmaplan, as further discussed in note 12. The Company paid \$5,975 which included the settlement of a previous investment in a non-interest bearing loan in Pharmaplan of \$2,879. The Company is committed to an additional future consideration by increasing its ownership position to 49.99% by March 2013, with such additional consideration based upon Pharmaplan's future financial results.

All transactions with related parties, except for the Metadol[®] and IsoPharma transactions described above, are carried out in the normal course of operations, and are recorded at an agreed upon exchange amount. The accounts payable to related parties are on normal commercial terms and conditions and are non-interest bearing.

The key management personnel compensation is disclosed in Note 21.

The following table presents the principal subsidiaries and associates of the Company as at March 31, 2011. The equity share capital of these undertakings is wholly-owned by the Company except where its percentage interest is shown otherwise and where the Company has significant influence.

Name of subsidiary/associate	Country of registration	%	Nature of business
Paladin Labs (Barbados) Inc.	Barbados	100	Develop, acquire, in-license, market and distribute innovative pharmaceutical products internationally
Paladin Labs (USA) Inc.	USA	100	Develop, acquire, in-license, market and distribute innovative pharmaceutical products in the United States
Pharmaplan (Pty) Ltd.	South Africa	45	Search, acquire, commercialize specialty pharmaceutical products in South Africa and sub-Saharan African region

18. BALANCES OF SALE PAYABLE

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Balances of sale payable from business acquisitions	—	—	1,991
Balances of sale payable from acquisition of pharmaceutical product licenses and rights	1,434	1,684	1,402
	1,434	1,684	3,393
Short-term portion of the balances of sale payable	895	1,145	1,650
Long-term portion of the balances of sale payable	539	539	1,743

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

19. SHARE CAPITAL

Authorized

100,000,000 common shares without nominal or par value.

Issued and outstanding

Three months ended March 31, 2011					
	Balance beginning of year	Issued upon common share offering [i]	Exercise of share options	Employee share purchase plan	Balance end of period
Number of shares	18,803,384	1,150,000	157,376	2,442	20,113,202
Amount (\$)	123,136	38,607	2,099	80	163,922

Twelve months ended December 31, 2010					
	Balance beginning of year	Issued upon common share offering [i]	Exercise of share options	Employee share purchase plan	Balance end of year
Number of shares	18,563,250	—	231,526	8,608	18,803,384
Amount (\$)	119,652	—	3,274	210	123,136

[i] On February 24, 2011, the Company issued 1,150,000 common shares including an over-allotment of 150,000 common shares pursuant to a bought deal share offering at a price of \$35.00 per common share for total gross proceeds to the Company of \$40,250. In conjunction with the offering, the Company incurred share issue costs of approximately \$1,643, net of taxes, and recorded these as a reduction of share capital.

SHARE OPTION PLAN

The Company has an equity-settled Share Option Plan ["Plan"] in place for the benefit of key employees, directors, officers and consultants of the Company to purchase an aggregate maximum of 3,000,000 [2010 – 3,000,000] common shares. Options issued to employees under the Plan expire seven years from the grant date and generally vest over three to four years. A significant portion of the Company's share options issued to employees are exercisable and may become vested depending upon the level of achievement of financial performance targets by the Company, as measured cumulatively over three financial years beginning with the reference financial year in which the options are granted. Certain other options vest in equal annual tranches with the passage of time. Options issued to the Board of Directors under the Plan expire seven years from the grant date, vest immediately upon grant and are expensed in the year they are granted. In addition, share options issued to non-employees vest immediately and are expensed in the year they are granted. Share-based compensation is accounted for using the fair value method using the Black-Scholes option-pricing model. The attributed exercise price for option grants per the Plan cannot be less than the closing price per common share on the date of the grant. As at March 31, 2011, 178,922 [December 31, 2010 – 438,794] common share options remain available under the Plan.

SHARE PURCHASE PLAN

The Company has a Share Purchase Plan ["Purchase Plan"] allowing permanent employees to purchase up to 200,000 common shares at fair market value from treasury. During the three months ended March 31, 2011, 2,442 [8,608 during the year ended December 31, 2010] shares were issued from treasury at fair market value under the Purchase Plan. As at March 31, 2011, 113,922 [December 31, 2010: 116,364] common shares reserved for stock purchase arrangements remain available under the Purchase Plan.

Under the Purchase Plan, the Company will contribute 25% of employees' contributions to a maximum of 6% of the employees' salary in the form of common shares if the employee remains employed by the Company and has held the original shares for two years from the original purchase date. The Company's contribution in common shares is calculated using the lesser of the original common share value at the original purchase date and the date of the Company's contribution.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

19. SHARE CAPITAL [CONT'D]

During the three months ended March 31, 2011, the Company issued 790 shares [1,610 during the year ended December 31, 2010] representing its 25% contribution.

Stock option issuances and option compensation expense

The Company recorded share option compensation expense with a corresponding credit to other paid-in capital and determined the fair value of share options under the Black-Scholes option pricing model using the following assumptions:

	Three months ended March 31	
	2011	2010
Share-based compensation expense	\$423	\$361
Weighted average fair value of options	\$9.82	\$6.21
Weighted average risk-free interest rate	2.31%	2.29%
Dividend yield	Nil	Nil
Weighted average volatility factor	31%	34%
Weighted average expected life	4 years	4 years

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

	2011		2010	
	Weighted average exercise price		Weighted average exercise price	
	#	\$	#	\$
Balance at January 1st	1,286,177	13.38	1,246,518	10.65
Options granted	265,039	35.00	330,201	19.67
Options exercised	(157,376)	8.53	(72,411)	9.80
Options expired/forfeited	(5,167)	18.21	(50,329)	13.72
Balance at March 31st	1,388,673	18.03	1,453,979	12.63
Options exercisable at March 31st	512,418	11.31	541,272	8.95

The range of exercise prices for options outstanding at March 31, 2011 was \$4.19 to \$35.00. The weighted average remaining contractual life for the share options outstanding at March 31, 2011 is 42 months. The expected life of the share options is based on historical data and current expectation and is not necessarily indicative of exercise patterns that may occur. Volatility is determined based on the four-year share price history. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

SHARE BUYBACK

On March 1, 2010, the Company received regulatory approval from the Toronto Stock Exchange ["TSX"] to carry out a normal course issuer bid effective March 3, 2010. The Company had been authorized to purchase up to 1,102,000 of its common shares, or approximately 10% of its public float of 11,020,019 common shares as at February 24, 2010, in the twelve-month period following the bid's effective date.

The Company had an automatic share purchase plan with a broker in order to facilitate repurchases of its common shares under its normal course issuer bid. The Company's broker may repurchase shares under the normal course issuer bid at any time including, without limitation, when the Company would ordinarily not be permitted to due to regulatory restrictions or self-imposed blackout periods.

During the three month period ended March 31, 2011, under the terms of a normal course issuer bid approved in 2010, the Company did not repurchase any of its common shares. The normal course issuer bid expired March 3, 2011.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

20. REVENUES

	Three months ended March 31	
	2011	2010
	\$	\$
Product revenues	29,473	29,575
Royalty and license revenues	2,279	1,262
	31,752	30,837

21. EMPLOYEE BENEFIT EXPENSES

	Three months ended March 31	
	2011	2010
	\$	\$
Wages and salaries	2,758	3,636
Cost of share-based incentive plans	435	350
Other employee costs	574	523
	3,767	4,509

The compensation earned by key management personnel [including Directors] in aggregate was as follows:

	Three months ended March 31	
	2011	2010
	\$	\$
Wages and salaries	626	614
Cost of share-based incentive plans	252	182
Other employee costs	219	128
	1,097	924

22. RESEARCH AND DEVELOPMENT

The Company incurred research and development expenditures, which are eligible for investment tax credits. The investment tax credits recorded are based on management's estimates of amounts expected to be recovered and are subject to audit by the taxation authorities.

The amounts can be summarized as follows:

	Three months ended March 31	
	2011	2010
	\$	\$
Research and development expenditures	2,084	2,818
Investment tax credits related to prior years	(13)	(56)
Investment tax credits	—	(19)
	2,071	2,743

The Company has Canadian federal investment tax credits from SR&ED expenditures amounting to \$20,025 [December 31, 2010: \$20,025; January 1, 2010: \$23,187] which expire between 2016 and 2029 of which \$14,736 [December 31, 2010: \$14,736; January 1, 2010: \$14,903] have been recognized in the consolidated financial statements under the caption "Investment tax credits recoverable".

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

23. FINANCE (INCOME) EXPENSE

	Three months ended March 31	
	2011	2010
	\$	\$
Interest income arising from:		
- cash and cash equivalents	(350)	(209)
- loans and receivables	(2,319)	(74)
	(2,669)	(283)
Other finance expense (income):		
- accreted interest income	(699)	(18)
- gain on disposal of equity investments	(24)	(7)
- unrealized loss on derivative financial instruments	1,296	—
	573	(25)

24. EARNINGS PER SHARE

Basic

Basic earnings per share are calculated by dividing the net income attributable to shareholders of the Company by the weighted average number of common shares outstanding during the year.

	Three months ended March 31	
	2011	2010
Net income attributable to shareholders of the Company	\$8,100	\$3,142
Weighted average number of common shares outstanding	19,290,851	18,595,616
Basic earnings per share	\$0.42	\$0.17

Diluted

Diluted earnings per share have been calculated after adjusting the weighted average number of shares used in the basic calculation to assume the conversion of all potentially dilutive shares. A potentially dilutive share forms part of the employee share option plan where its exercise price is below the average market price of the Company's shares during the year and any performance conditions attached to the plan have been met at the balance sheet date.

	Three months ended March 31	
	2011	2010
Net income attributable to shareholders of the Company	\$8,100	\$3,142
Weighted average number of common shares outstanding	19,290,851	18,595,616
Adjustment for share options	751,905	565,209
Weighted average number of common shares outstanding [diluted]	20,042,756	19,160,825
Diluted earnings per share	\$0.40	\$0.16

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

25. SEGMENT INFORMATION

The Company operates in a single business segment focused on researching, developing, acquiring, in-licensing, marketing and distributing pharmaceutical products in Canada and internationally. In addition, the Company earns interest income from the investment of its excess cash. The Company carries out business in Canada, Barbados, the United States, Europe, Australia and New Zealand, and substantially all of the Company's tangible assets are located in Canada.

Revenues by geographic region are detailed as follows:

	Three months ended March 31	
	2011	2010
	\$	\$
Canada	30,782	28,130
International	970	2,707
	31,752	30,837

Long-term assets by geographic region are comprised of pharmaceutical product licenses and rights, property, plant and equipment and an investment in an associate and are detailed as follows:

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Canada	19,997	16,414	33,246
International	24,920	20,140	9,988
	44,917	36,554	43,234

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES

The Company's Investment Policy regulates the investment activities relating to cash resources. An Investment Committee composed of representatives from management and the Board of Directors monitors compliance with said policy. The Company invests in strategic investments in the form of equity or strictly in liquid, high-grade investment securities with varying terms to maturity, selected with regard to the expected timing of investments and expenditures for continuing operations and prevailing interest rates.

	Carrying amount			Fair Value		
	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Financial assets						
Cash and cash equivalents	19,641	96,295	31,227	19,641	96,295	31,227
Marketable securities	86,067	43,094	74,142	86,067	43,094	74,142
Trade and other receivables	19,010	21,894	14,553	19,010	21,894	14,553
Other current assets	297	3,480	515	297	3,480	515
Other financial assets						
Loans and other receivables	83,134	14,725	—	83,134	14,725	—
Available-for-sale financial investments	6,803	7,394	62	6,803	7,394	62
Derivatives at value through income and loss	8,846	716	—	8,846	716	—
Total financial assets	223,798	187,598	120,499	223,798	187,598	120,499
Financial liabilities						
Payables, accruals and provisions	28,900	36,901	24,056	28,900	36,901	24,056
Balances of sale payable	895	1,145	1,650	895	1,145	1,650
Long-term balances of sale payable	539	539	1,743	539	539	1,743
Total financial liabilities	30,334	38,585	27,449	30,334	38,585	27,449

Financial assets and liabilities – fair values

The carrying amounts of cash and cash equivalents, marketable securities, trade and other receivables, certain other current assets, payables, accruals and provisions, and the short term portion of the balances of sale payable are a reasonable estimate of their fair values because of the short maturity of these instruments.

The long-term portion of the balances of sale payable has been recorded at its discounted value, using a discount rate of 3.25% [December 31, 2010: 3.25%; January 1, 2010: 2.50%], and approximates its fair value.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted [unadjusted] prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES [CONT'D]

	March 31, 2011	Level 1	Level 2	Level 3
	\$	\$	\$	\$
Assets measured at fair value				
Marketable securities	86,067	86,067	—	—
Available-for-sale financial investments	6,803	6,803	—	—
Fair value through income and loss	8,846	62	8,784	—
Total	101,716	92,932	8,784	—

	December 31, 2010	Level 1	Level 2	Level 3
	\$	\$	\$	\$
Assets measured at fair value				
Marketable securities	43,094	43,094	—	—
Available-for-sale financial investments	7,394	7,394	—	—
Fair value through income and loss	716	140	576	—
Total	51,204	50,628	576	—

	January 1, 2010	Level 1	Level 2	Level 3
	\$	\$	\$	\$
Assets measured at fair value				
Marketable securities	74,142	74,142	—	—
Available-for-sale financial investments	62	62	—	—
Fair value through income and loss	—	—	—	—
Total	74,204	74,204	—	—

MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders;
- to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk.

In the management of capital, the Company includes shareholders' equity alone in the definition of capital. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new common shares, issue debt, acquire or dispose of assets or adjust the amount of cash, short-term and long-term investments balances.

The Company expects that its current capital resources will be sufficient to carry on its operations for the foreseeable future and is not subject to any capital requirements imposed by a regulator or third parties.

LIQUIDITY RISK

All financial liabilities with the exception of the long-term portion of the Balances of sale payable are current. The Company generates sufficient cash from operating activities to fund its operations and fulfill its obligations as they become due. The Company has sufficient funds available through its cash, cash equivalents and marketable securities, should its cash requirements exceed cash generated from operations to cover all financial liability obligations. As at March 31, 2011, there were no restrictions on the flow of these funds nor have any of these funds been committed in any way, except as set out in Note 27.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES [CONT'D]

CONCENTRATION OF CREDIT RISK AND MAJOR CUSTOMERS

The Company considers its maximum credit risk to be \$110,990 [December 31, 2010: \$37,335; January 1, 2010: \$14,553] which is the total of the following financial assets: trade and other receivables, loans and other receivables and derivatives at fair value through profit and loss. The Company's cash, cash equivalents, marketable securities, short-term and long-term investments are held through various institutions. Marketable securities are mainly investments in liquid, high-grade investment securities. They are subject to minimal risk of changes in value and generally have an original maturity from three months to twenty-four months from the date of purchase.

The Company is exposed to credit risk from its customers and continually monitors its customers' credit. It establishes the provision for doubtful accounts based upon the credit risk applicable to each customer. In line with other pharmaceutical companies, the Company sells its products through a small number of wholesalers and retail pharmacy chains in addition to hospitals, pharmacies, physicians and other groups. For the three-months ended March 31, 2011, two customers, a major wholesale distributor and a major retail chain, represented 28% and 13% of revenues, respectively [March 31, 2010: 29% and 16%]. As at March 31, 2011, two customers, a major wholesale distributor and a major retail chain, represented 13% and 15% of trade accounts receivable, respectively [December 31, 2010: 6% and 13%; January 1, 2010: 32% and 13%]. These above concentrations on the Company's customers are considered normal for the Company and its industry.

The marketable securities balance, further discussed in note 7, is invested within four large Canadian and one large US financial institutions [December 31, 2010 and January 1, 2010: four large Canadian and one large US financial institutions], comprised of thirteen investments in discount notes [December 31, 2010: seven; January 1, 2010: two], eight guaranteed investment certificate investments [December 31, 2010: five; January 1, 2010: five], eight investments in commercial paper [December 31, 2010: three; January 1, 2010: seven], one investment in corporate bonds [December 31, 2010: nil; January 1, 2010: thirteen] and four investments in bonds guaranteed by various Canadian, Provincial, and foreign governments [December 31, 2010: two; January 1, 2010: seven].

Another source of credit risk for the Company arises from its strategic investments in third-parties with whom it has strategic commercial relationships. In connection with a license agreement with ProStrakan, Paladin invested \$77,232 through a convertible debenture; in connection with a licensing arrangement with Labopharm, Paladin advanced Labopharm \$10,000 against future product supply, with a balance outstanding as at March 31, 2011 of \$9,498; and in connection with a license arrangement with SpePharm, Paladin invested €4,000 through a secured convertible debenture. The Company continuously monitors the risks associated with these amounts.

FOREIGN EXCHANGE RISK

The Company principally operates within Canada, however, a portion of the Company's revenues, expenses, and current assets and liabilities, are denominated in United States dollars ["USD"], EURO and ZAR. This results in financial risk due to fluctuations in the value of the USD, EURO and ZAR relative to CAD. The Company has significant monetary assets and liabilities denominated in USD, EURO and ZAR that are required to be revalued in CAD at each period end. On March 31, 2010, the Company entered into a €4,000 notional amount forward foreign exchange contract expiring on October 15, 2012 to cover the foreign exchange exposure related to a certain investment denominated in EURO. With the exception of the forward contract described above, the Company does not currently use derivative financial instruments to reduce its foreign exchange exposure and often relies on natural hedges to mitigate foreign currency risk. Fluctuations in foreign exchange rates could cause unanticipated fluctuations in the Company's operating results, financial position or cash flows. The significant balances in foreign currencies are as follows:

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES [CONT'D]

	March 31, 2011			December 31, 2010			January 1, 2010		
	USD	EURO	ZAR	USD	EURO	ZAR	USD	EURO	ZAR
Cash and cash equivalents	1,183	854	3,014	1,869	2,588	21,000	1,845	581	—
Marketable securities	—	2,000	7,047	—	—	—	—	—	—
Trade and other receivables	115	473	—	647	209	1,750	138	1,499	—
Other current assets	—	—	—	—	—	5,249	—	—	—
Payables, accruals and provisions	(1,468)	(32)	—	(3,078)	(344)	—	(660)	(209)	—

These three currencies are the major currencies in which the Company's financial instruments are denominated. The Company has considered movements in these currencies over the last three years and has concluded that a 10% movement in rates is a reasonable benchmark. Based on the aforementioned net exposure as at March 31, 2011, and assuming that all other variables remain constant, a ten-point increase or decrease in the CAD/USD, CAD/EURO and CAD/ZAR exchange rate would have an effect of \$582 [December 31, 2010: \$694; January 1, 2010: \$419] on net income.

EQUITY PRICE RISK

Equity price risk arises from changes in market prices of the available-for-sale equity securities. The carrying values of investments subject to equity price risk are, in almost all instances, based on quoted market prices as of the balance sheet dates with an estimated fair value of \$6,803 at March 31, 2011 [December 31, 2010: \$7,394; January 1, 2010: \$62]. The Company monitors its equity investments for impairment on a periodic basis. Market prices are subject to fluctuation and, consequently, the amount realized in the subsequent sale of an investment may significantly differ from the reported market value. Fluctuation in the market price of a security may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments and general market conditions. Furthermore, amounts realized in the sale of a particular security may be affected by the relative quantity of the security being sold.

The Company manages the equity price risk through the use of strict investment policies approved by the Board of Directors. Reports on the equity portfolio are submitted to the Company's senior management on a regular basis. The Company's Board of Directors reviews and approves all equity investment decisions.

A hypothetical 10% adverse change in the stock prices of the Company's available-for-sale equity securities would result in a loss of approximately \$680 [December 31, 2010: \$739; January 1, 2010: \$6]. The Company does not include in the analysis above investments which are subject to significant influence. The adverse change above does not reflect what could be considered the best or worst case scenarios. Indeed, results could be worse due both to the nature of equity markets and the concentrations existing in the Company's equity investment portfolio, in particular where there is less liquidity available as in the case of the small capitalization companies included in the available-for-sale equity securities.

INTEREST RATE RISK

The Company is subject to interest rate risk on its cash, cash equivalents and marketable securities. Details regarding maturity dates and effective interest rates are described in Notes 6 and 7.

The Company does not believe that the results of operations or cash flows would be materially affected to any significant degree by a sudden change in market interest rates relative to interest rates on the investments, owing to the relative short-term nature of the marketable securities.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

27. COMMITMENTS

In the normal course of business, the Company secures development, sales, marketing and distribution rights to innovative drug products requiring royalties or product payments considered normal operating commitments and as such not included herein. The Company has entered into various agreements which include contractual obligations extending beyond the current year. These obligations due to their significance and/or being considered outside of the Company's normal course of business are separately disclosed and are classified into three major categories: revenue based, milestone based, and purchase and services based commitments.

REVENUE BASED COMMITMENTS

The Company may have to pay up to \$11,790 [2010 – \$11,922] including US\$5,250 [2010 – US\$5,250] if it achieves specific sales volumes on specific products in the future, over a maximum of ten years [2010 – ten years].

MILESTONE BASED COMMITMENTS

The Company has also committed to fund certain research and development expenditures of third parties in the amount of \$1,483 [2010 – \$1,499] including €713 [2010 – €750] over the next three years. In addition, certain additional payments may be 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 \$6,493 [2010 – \$6,611], including US\$4,861 [2010 – US\$4,861] and £500 [2010 – £500], over a maximum period of 15 years [2010 – 15 years].

PURCHASE AND SERVICE BASED COMMITMENTS

The Company is committed to making minimum purchases of inventory, and minimum expenditures for regulatory, selling and marketing services in the amount of \$10,046 [2010 – \$17,921], including €3,216 [2010 – €3,385], to retain exclusive distribution agreements for certain products. The Company, as further discussed in note 12 is also committed to purchase an additional 5% interest in Pharmaplan's common shares in 2013, currently estimated to amount to \$2,900 [R20,195] and subject to change based upon Pharmaplan's future operating results. These commitments end in 2015.

OPERATING LEASE COMMITMENTS

The Company has various non-cancellable operating lease agreements for office space, a manufacturing facility and certain Company vehicles.

	2011	2010
	\$	\$
Rental payments due within one year	347	487
Rental payments due between one and five years	705	705
Rental payments due after five years	—	—
	1,052	1,192

Lease and rental expense for the three months ended March 31, 2011 were \$129 [March 31, 2010: \$167], which is predominately included in selling, general and administrative expenses in the consolidated income statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

28. PRODUCT PRICING REGULATION ON CERTAIN PATENTED DRUG PRODUCTS

Certain patented drug products within the Company's portfolio of products are subject to product pricing regulation by the Patented Medicine Prices Review Board [PMPRB]. The PMPRB's objective is to ensure that prices of patented products in Canada are not excessive. For new patented products, the price in Canada is limited to either the cost of existing drugs sold in Canada or the median of prices for the same drug sold in other specified industrial countries. For existing patented products prices cannot increase by more than the Consumer Price Index. The PMPRB monitors compliance through a review of the average transaction price of each patented drug product as reported by the Company over a recurring six-month reporting period.

29. SUBSEQUENT EVENTS

On May 17, 2011, the Company received gross proceeds of \$86,432 representing the aggregate of: the principal of the ProStrakan secured debt facility of \$77,232, a break free of £2,000 [\$3,089] and the outstanding balance of interest payable for the first year of \$6,111. Moreover, the Company has retained the rights to the products it had previously been licensed in connection with the agreement. Please refer to note 13 for additional details.

30. TRANSITION TO IFRS

The consolidated financial statements for the period ended March 31, 2011 are the Company's first interim financial statements that comply with IFRS. These consolidated financial statements have been prepared as described in Note 2.

The Company's transition date was January 1, 2010. The Company prepared its opening IFRS balance sheet at that date. The reporting date of these interim consolidated financial statements is March 31, 2011. The Company's IFRS adoption date is January 1, 2011.

In preparing these interim consolidated financial statements in accordance with IFRS 1, the Company has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS for first time adopters. The Company has also applied the transitional provision in IFRIC 4, "Determining whether an arrangement contains a lease", and has assessed all arrangements as at the date of transition.

IFRS EXEMPTION OPTIONS

[a] Business combinations exemption

The Company has elected to apply the business combinations exemption and it has not restated business combinations that took place prior to the January 1, 2010 transition date.

[b] Share-based payment transaction exemption

The Company has elected to apply the share-based payment exemption. It applied IFRS 2 from January 1, 2010 to those options that were issued after November 7, 2002 but that have not vested by January 1, 2010.

IFRS MANDATORY EXCEPTIONS

[a] Estimates

Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS.

[b] Derecognition of financial assets and financial liabilities

The derecognition requirements in IAS39 were applied prospectively for transactions occurring on or after January 1, 2004.

[c] Hedge accounting

Hedge accounting can only be applied prospectively from the transition date to transactions that satisfy the hedge accounting criteria in IAS 39 at that date. Hedging relationships cannot be designated retrospectively and the supporting documentation cannot be created retrospectively.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. TRANSITION TO IFRS [CONT'D]

[d] Non-controlling interests

Some of the requirements of IAS27 were applied prospectively from the date of transition to IFRS, January 1, 2010.

RECONCILIATION OF CANADIAN GAAP TO IFRS

IFRS 1 requires an entity to reconcile shareholder's equity, comprehensive income and cash flows for prior periods. The Company's first time adoption of IFRS did not have a significant impact on the total consolidated operating, investing or financing cash flows. The following represents the reconciliations from Canadian GAAP to IFRS on the Company's consolidated financial statements as of January 1, 2010 and December 31, 2010 and for the year to date periods ended March 31, 2010 and December 31, 2010.

[a] Shareholders' equity

For the periods ended	December 31, 2010 \$	March 31, 2010 \$	January 1, 2010 \$
Shareholders' equity under Canadian GAAP	228,587	198,982	194,802
Differences increasing reported shareholders' equity:			
Income taxes	258	201	96
Total shareholders' equity under IFRS	228,845	199,183	194,898

[b] Comprehensive income

For the year to date periods ended	December 31, 2010 \$	March 31, 2010 \$
Comprehensive income under Canadian GAAP	29,824	3,048
Differences increasing (decreasing) reported income:		
Share-based compensation	(53)	(8)
Income taxes	162	105
Comprehensive income under IFRS	29,933	3,145

CHANGES IN ACCOUNTING POLICIES

SHARE-BASED COMPENSATION

IFRS 2 is effective for the Company as of January 1, 2010 and is applicable to stock options and grants that are unvested at that date. The transition rules in IFRS 1 and IFRS 2 as applied by the Company result in the following:

- Share options prior to November 7, 2002 are not taken into account for IFRS 2;
- Share options subsequent to November 7, 2002 are only taken into account if they have not vested as at January 1, 2010; and,
- From January 1, 2010, all share options and other share-based payments will be expensed in accordance with the policy stated in note 2.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. TRANSITION TO IFRS [CONT'D]

The table below reflects the significant differences between the Company's previous Canadian GAAP accounting policies and the current IFRS policies applied by the Company:

	CANADIAN GAAP	IFRS
SHARE-BASED COMPENSATION		
RECOGNITION OF EXPENSE	For grants of share-based awards with graded vesting, the total fair value of the award is recognized on a straight-line basis over the employment period necessary to vest the award.	Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis. As a result, the Company adjusted its expense for share-based awards to reflect this difference in recognition.
FORFEITURES	Forfeitures of awards are recognized as they occur.	An estimate is required of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. As a result, the Company adjusted its expense to reflect this difference.
INCOME TAXES		
INTERCOMPANY TRANSACTIONS	Recognition of a deferred tax asset or liability for a temporary difference arising from intercompany transactions is prohibited. Such temporary differences may arise when the tax base of the asset in the buyer's jurisdiction differs from the carrying amount of the asset in the consolidated financial statements. Further, cash tax paid or recovered as a result of a transfer of an asset is recorded as a deferred tax asset or liability in the financial statements and recognized through tax expense when the asset leaves the Company or is otherwise utilized.	There are no such exceptions under IFRS. Therefore, deferred tax is recognized for temporary differences arising on intercompany transactions measured at the tax rate of the buyer, and cash tax paid or recovered on intercompany transactions is recognized in the period incurred. As a result, the Company reversed certain tax deferrals on intercompany transactions.
ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES IN BUSINESS COMBINATIONS	Changes to provisions for uncertain tax position relating to pre-acquisition periods are adjusted through the purchase price allocation, first reducing goodwill and intangible assets associated with the business combination and, only after exhausting those amounts, reducing income tax expense.	Changes to pre-acquisition provisions for uncertain tax positions beyond 12 months of the acquisition date are recorded to the consolidated income statement. As a result, the Company adjusted its tax expense to reflect this difference.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. TRANSITION TO IFRS [CONT'D]

PRESENTATION RECLASSIFICATIONS

The table below reflects the presentation reclassifications between the Company's previous Canadian GAAP and the current IFRS consolidated financial statements:

	CANADIAN GAAP	IFRS
DEFERRED TAX	Deferred taxes are split between current and non-current components on the basis of either the underlying asset or liability or the expected reversal of items not related to an asset or liability.	All deferred tax assets and liabilities are classified as non-current.
OTHER RECEIVABLES	Other receivables and interest receivable were classified under "Other current assets" on the consolidated balance sheet.	Other receivables and interest receivable are classified under "Trade and other receivables" on the consolidated balance sheet.
ACCOUNTS PAYABLE TO RELATED PARTIES	Accounts payable to related parties were disclosed separately on the consolidated balance sheet.	Accounts payable to related parties are classified under "Payables, accruals and provisions" on the consolidated balance sheet.
INVESTMENT IN AN ASSOCIATE	Investment in an associate was classified under "Investments" on the consolidated balance sheet.	Investment in an associate is disclosed separately on the consolidated balance sheet.
GENERAL AND ADMINISTRATIVE EXPENSES	General and administrative expenses were disclosed separately on the consolidated income statement.	General and administrative expenses are classified under "Selling, general and administrative" on the consolidated income statement.
ACCRETED INTEREST	Accreted interest was classified under "Interest Income" on the consolidated income statement.	Accreted interest is classified under "Other Finance Expense (Income)" on the consolidated income statement.
TRANSLATION OF FOREIGN CURRENCY DEFERRED TAX BALANCES	The translation of foreign currency deferred tax balances was classified under "Foreign exchange loss" on the consolidated income statement.	The translation of foreign currency deferred tax balances is classified under "Provision for income taxes" on the consolidated income statement.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. TRANSITION TO IFRS [CONT'D]

Reconciliation of Consolidated Balance Sheet as of January 1, 2010

Canadian GAAP accounts	Canadian GAAP balance	Adjustments	Reclassifications	IFRS balance	IFRS accounts
ASSETS					
Current					
Cash and cash equivalents	31,227			31,227	Cash and cash equivalents
Marketable securities	74,142			74,142	Marketable securities
Accounts receivable	14,167		1,076	15,243	Trade and other receivables
Inventories	12,361			12,361	Inventories
Investment tax credits recoverable	776			776	Investment tax credits recoverable
Income taxes receivable	4,630			4,630	Income tax receivable
Future income tax assets	6,196		(6,196)	—	N/A
Other current assets	2,668		(1,076)	1,592	Other current assets
Total current assets	146,167	—	(6,196)	139,971	Total current assets
N/A	—			—	Investment in an associate
Investments	62			62	Long-term financial assets
Investment tax credits recoverable	14,903			14,903	Investment tax credits recoverable
Future income tax assets	31,029	96	1,937	33,062	Deferred income tax assets
Property, plant and equipment	691			691	Property, plant and equipment
Pharmaceutical product licenses and rights	42,543			42,543	Pharmaceutical product licenses and rights
Total assets	235,395	96	(4,259)	231,232	Total assets
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current					
Accounts payable and accrued liabilities	22,934		1,122	24,056	Payables, accruals and provisions
Accounts payable to related parties	1,122		(1,122)	—	N/A
Income taxes payable	7,109			7,109	Income tax payable
Deferred revenue	1,776			1,776	Deferred revenue
Balance of sale payable	1,650			1,650	Balances of sale payable
Future income tax liabilities	252		(252)	—	N/A
Total current liabilities	34,843	—	(252)	34,591	Total current liabilities
Balance of sale payable	1,743			1,743	Long-term balances of sale payable
Future income tax liabilities	4,007		(4,007)	—	N/A
Total liabilities	40,593	—	(4,259)	36,334	Total liabilities
Shareholders' equity					
Capital stock	119,652			119,652	Share capital
Other paid-in capital	4,408	(46)		4,362	Other paid-in capital
Accumulated other comprehensive	98			98	Other capital reserves
Retained earnings	70,644	142		70,786	Retained earnings
Total shareholders' equity	194,802	96	—	194,898	Total shareholders' equity
Total liabilities and shareholders' equity	235,395	96	(4,259)	231,232	Total liabilities and shareholders' equity

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. TRANSITION TO IFRS [CONT'D]

Reconciliation of Consolidated Balance Sheet as of December 31, 2010

Canadian GAAP accounts	Canadian GAAP balance	Adjustments	Reclassifications	IFRS balance	IFRS accounts
ASSETS					
Current					
Cash and cash equivalents	96,295			96,295	Cash and cash equivalents
Marketable securities	43,094			43,094	Marketable securities
Accounts receivable	21,504		408	21,912	Trade and other receivables
Inventories	13,877			13,877	Inventories
Investment tax credits recoverable	—			—	Investment tax credits recoverable
Income taxes receivable	17			17	Income tax receivable
Future income tax assets	8,042		(8,042)	—	N/A
Other current assets	5,125		(408)	4,717	Other current assets
Total current assets	187,954	—	(8,042)	179,912	Total current assets
N/A	—		15,739	15,739	Investment in an associate
Investments	38,574		(15,739)	22,835	Long-term financial assets
Investment tax credits recoverable	14,736			14,736	Investment tax credits recoverable
Future income tax assets	22,378	258	3,950	26,586	Deferred income tax assets
Property, plant and equipment	221			221	Property, plant and equipment
Pharmaceutical product licenses and rights	20,594			20,594	Pharmaceutical product licenses and rights
Total assets	284,457	258	(4,092)	280,623	Total assets
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current					
Accounts payable and accrued liabilities	36,066		835	36,901	Payables, accruals and provisions
Accounts payable to related parties	835		(835)	—	N/A
Income taxes payable	11,254			11,254	Income tax payable
Deferred revenue	1,939			1,939	Deferred revenue
Balance of sale payable	1,145			1,145	Balances of sale payable
Future income tax liabilities	26		(26)	—	N/A
Total current liabilities	51,265	—	(26)	51,239	Total current liabilities
Balance of sale payable	539			539	Long-term balances of sale payable
Future income tax liabilities	4,066		(4,066)	—	N/A
Total liabilities	55,870	—	(4,092)	51,778	Total liabilities
Shareholders' equity					
Capital stock	123,136			123,136	Share capital
Other paid-in capital	4,885	7		4,892	Other paid-in capital
Accumulated other comprehensive	175			175	Other capital reserves
Retained earnings	100,391	251		100,642	Retained earnings
Total shareholders' equity	228,587	258	—	228,845	Total shareholders' equity
Total liabilities and shareholders' equity	284,457	258	(4,092)	280,623	Total liabilities and shareholders' equity

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. TRANSITION TO IFRS [CONT'D]

Reconciliation of Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the Three Months ended March 31, 2010

Canadian GAAP accounts	Canadian GAAP balance	Adjustments	Reclassifications	IFRS Balance	IFRS accounts
Revenues	30,837			30,837	Revenues
Cost of sales	8,780			8,780	Cost of sales
Gross income	22,057	—	—	22,057	Gross income
Expenses (income)					Expenses (income)
Selling and marketing	5,788	2	2,287	8,077	Selling, general and administrative
General and administrative	2,287		(2,287)	—	N/A
Research and development	2,737	6		2,743	Research and development
Interest income	(301)		18	(283)	Interest income
Earnings before under-noted items	11,546	(8)	(18)	11,520	Earnings before under-noted items
Amortization of pharmaceutical product licenses and rights	6,270			6,270	Amortization of pharmaceutical product licenses and rights
Net (gain) loss on investments	(7)		(18)	(25)	Other finance expense (income)
Foreign exchange loss	320		(26)	294	Foreign exchange (gain) loss
Share of net income in companies subject to significant influence	(131)			(131)	Share of net income of an associate
Income before income tax	5,094	(8)	26	5,112	Income before income tax
Provision for income taxes	2,049	(105)	26	1,970	Provision for income taxes
Net income for the period	3,045	97	—	3,142	Net income for the period
Change in fair value of available- for-sale financial instruments	13			13	Change in fair value of available-for-sale financial instruments
Reclassification adjustments for gains on available-for-sale financial instruments included in net income	(10)			(10)	Reclassification adjustments for gains on available-for-sale financial instruments included in net income
Other comprehensive income for the period	3	—	—	3	Other comprehensive income for the period
Total comprehensive income for the period	3,048	97	—	3,145	Total comprehensive income for the period
Basic earnings per share	0.16	0.1	—	0.17	Basic earnings per share
Diluted earnings per share	0.16	—	—	0.16	Diluted earnings per share

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. TRANSITION TO IFRS [CONT'D]

Reconciliation of Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the Twelve Months ended December 31, 2010

Canadian GAAP accounts	Canadian GAAP balance	Adjustments	Reclassifications	IFRS Balance	IFRS accounts
Revenues	127,989			127,989	Revenues
Cost of sales	34,127			34,127	Cost of sales
Gross income	93,862	—	—	93,862	Gross income
Expenses (income)					Expenses (income)
Selling and marketing	22,079	29	8,417	30,525	Selling, general and administrative
General and administrative	8,417		(8,417)	—	N/A
Research and development	9,094	24		9,118	Research and development
Interest income	(2,380)		158	(2,222)	Interest income
Earnings before under-noted items	56,652	(53)	(158)	56,441	Earnings before under-noted items
Amortization of pharmaceutical product licenses and rights	22,844			22,844	Amortization of pharmaceutical product licenses and rights
Unrealized gain on investments	(6,347)	9	(158)	(6,496)	Other finance expense (income)
Net realized loss on investments	9	(9)		—	N/A
Other income	(540)			(540)	Other income
Foreign exchange loss	100		(41)	59	Foreign exchange (gain) loss
Share of net income in companies subject to significant influence	(800)			(800)	Share of net income of an associate
Income before income tax	41,386	(53)	41	41,374	Income before income tax
Provision for income taxes	11,639	(162)	41	11,518	Provision for income taxes
Net income for the period	29,747	109	—	29,856	Net income for the period
Change in fair value of available- for-sale financial instruments	251			251	Change in fair value of available-for-sale financial instruments
Reclassification adjustments for gains on available-for-sale financial instruments included in net income	(174)			(174)	Reclassification adjustments for gains on available-for-sale financial instruments included in net income
Other comprehensive income for the period	77	—	—	77	Other comprehensive income for the period
Total comprehensive income for the period	29,824	109	—	29,933	Total comprehensive income for the period
Basic earnings per share	1.59	0.1	—	1.60	Basic earnings per share
Diluted earnings per share	1.54	—	—	1.54	Diluted earnings per share

Reconciliation of Consolidated Statement of Cash Flows the Three Months ended March 31, 2010

There are no material differences between the consolidated statement of cash flows presented under IFRS and the consolidated statement of cash flows presented under previous Canadian GAAP.

Stock Exchange

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