



## Press Announcement

### **PALADIN ANNOUNCES RECORD THIRD QUARTER RESULTS**

**-- Announces 2003 Revenue and Earnings Guidance --**

**Montreal, Canada, October 31, 2002** – Paladin Labs Inc. (TSX: PLB), a Canadian specialty pharmaceutical company focused on marketing and selling urology, endocrinology and women's health products, today announced its financial results for the third quarter and nine-month periods ended September 30, 2002. For the quarter, the Company reported record revenue and net income performance. In addition, Paladin announced an increased investment in sales and marketing to accelerate future growth and its projected impact for 2003.

#### **Highlights of the quarter include:**

- Total revenues increased 25% for the third quarter to a record \$6.09 million
- Net income increased 4% for the third quarter to a record \$1.53 million
- Paladin obtained the Canadian distribution rights to GlucaGen<sup>®</sup> (recombinant glucagon) from Novo Nordisk Canada Inc.
- Paladin filed a New Drug Submission ("NDS") for the approval of Statex<sup>®</sup> SR (sustained-release morphine sulfate tablets) with the Therapeutic Products Directorate ("TPD") of Health Canada
- Paladin named one of Canada's fastest growing technology companies in the 2002 Deloitte & Touche, Canadian Technology Fast 50

"Our record third quarter revenue and net income demonstrates our effectiveness in executing our business strategy and the resulting value we are creating for all our stakeholders," said Jonathan Ross Goodman, President and CEO of Paladin Labs. "We are committed to ensuring that Paladin maintains its leadership position in the Canadian specialty pharmaceutical market. Today, we are announcing a strategic expansion of our sales and marketing efforts to accelerate Paladin's future growth."

#### **Financial Results**

Revenue for the third quarter of 2002 increased 25% to \$6.09 million, compared to \$4.86 million in the third quarter a year ago. Gross profit, as a percentage of revenue, was 73% for the three-month period ended September 30, 2002, compared to 71% in the same quarter last year. Net income for the third quarter increased 4% to \$1.53 million compared to \$1.47 million in the same period a year ago. Diluted earnings per share for the third quarter were \$0.10 per share compared to \$0.12 per share in the corresponding quarter of 2001.

Selling and administrative expenses for the quarter increased 41% to \$2.39 million from \$1.69 million in the third quarter last year. This increase was primarily due to increased sales and marketing spending associated with new product launches and higher staffing costs related to growth of the Company's product line during 2001 and 2002. Amortization expense increased 160% to \$0.43 million for the quarter ended September 30, 2002 from \$0.17 million for the same quarter last year. This increase reflects the impact of amortization expense related to the Company's acquisition of licenses, rights and intellectual property during fiscal 2001 and 2002.

For the nine-month period ended September 30, 2002, revenue increased 39% to \$17.81 million compared to \$12.89 million in the first nine months of 2001. Net income for the first nine months of 2002 increased 47% to \$4.37 million from \$2.98 million for the same period a year ago. Diluted earnings per share increased 29% to \$0.31 per share compared to \$0.24 per share in the corresponding period last year.

### **Product Developments**

During the quarter, Paladin obtained the Canadian distribution rights to GlucaGen<sup>®</sup> (recombinant glucagon) from Novo Nordisk Canada Inc. GlucaGen<sup>®</sup> is chemically identical to human glucagon, a naturally occurring peptide that is indicated for emergency treatment of hypoglycemia in insulin-dependent diabetics and for relaxation of the gastrointestinal tract during routine radiology procedures. Paladin will work with Novo Nordisk Canada Inc., to file a NDS for GlucaGen<sup>®</sup> with the Biologics and Gene Therapies Directorate of Health Canada within the coming year.

On September 5, 2002, Paladin announced it had filed a NDS for the approval of Statex<sup>®</sup> SR (sustained-release morphine sulfate tablets) with the TPD of Health Canada. The submission seeks Health Canada's approval for the use of Statex<sup>®</sup> SR in Canada for the relief of severe pain requiring the prolonged use of an opioid analgesic preparation. Studies performed by the National Cancer Institute of Canada (Clinical Trials Group) have demonstrated that Statex<sup>®</sup> SR is equivalent to Purdue Pharma L.P.'s MS-Contin<sup>®</sup>, a leading controlled release morphine sulfate tablet brand, in terms of average scores in pain, nausea, drowsiness and insomnia.

Paladin received a request from Health Canada in July 2002 for additional information on its application to have Plan B<sup>™</sup> switched to non-prescription status. The switch from prescription to non-prescription status will allow Canadian women to have more timely access to this highly effective emergency contraceptive pill. Paladin completed its response to Health Canada's request within the 90-calendar day window.

Subsequent to the end of Paladin's third quarter, on October 3, 2002, the Company announced that it had entered into a licensing agreement with Hydro Med Sciences, Inc., for the Canadian rights to its unique, once-yearly implant (Histrelin Hydrogel Implant) indicated for the treatment of advanced prostate cancer. It is anticipated that a regulatory submission will be filed in Canada by the end of the Company's first quarter of fiscal 2004.

### **Financial Guidance**

Paladin is comfortable with previously announced projected estimates for revenue of \$23 million for fiscal 2002. The Company expects diluted earnings for fiscal 2002 to be \$0.36 per share.

For 2003, Paladin is projecting total revenue of \$26 million and net income of \$2 million. This projection excludes the impact of acquisitions that may be made by the Company in 2003. The Company intends to significantly increase the sales and marketing efforts behind Androderm<sup>®</sup>, Muse<sup>®</sup>, Plan B<sup>™</sup>, Oesclim<sup>®</sup>, and Estring<sup>®</sup>. The increased sales and marketing efforts will boost Paladin's reach from 1,375 physicians to more than 7,500 physicians.

"Paladin has reached a pivotal point in its development. It's time to take the next step to strengthen our leadership position in the Canadian specialty pharmaceutical market. As Androderm<sup>®</sup>, Muse<sup>®</sup>, Plan B<sup>™</sup>, Oesclim<sup>®</sup>, and Estring<sup>®</sup> are at an early stage in their product life cycles, we are extending more marketing and sales support to them in order to capitalize on strong growth opportunities," said Jonathan Ross Goodman. "We expect these initiatives to result in greater long term value for our shareholders."

For more information about the fiscal 2003 financial guidance, a detailed presentation is now available in the products section of Paladin's Web site at:

[www.paladinlabs.com/forinvestors/presentations.html](http://www.paladinlabs.com/forinvestors/presentations.html)

### **Conference Call Notice**

Paladin will host a conference call to discuss its third quarter 2002 results on Thursday, October 31 at 10:00 a.m. EST. The dial in number for the conference call is 1-800-273-9672 or 1-416-695-5806 and the reference number is 1298925.

The call will be audio-cast live and archived for 90 days at [www.financialdisclosure.ca](http://www.financialdisclosure.ca) and [www.paladinlabs.com](http://www.paladinlabs.com)

### **About Androderm<sup>®</sup>**

Androderm<sup>®</sup>, the only testosterone patch available in Canada, is indicated for the treatment of testosterone deficiency in men. Unusually low testosterone levels in men can be due to the natural ageing process or as a result of a variety of other conditions. Testosterone deficiency is characterized by symptoms of fatigue, negative moods, and loss of sex drive.

It is estimated that testosterone deficiency or andropause afflicts more than one million Canadian men, only five per cent of whom are being treated in Canada today. Androderm<sup>®</sup>'s effectiveness in treating testosterone deficiency along with its convenient once-a-day format makes it an innovative new option for the treatment of testosterone deficiency. Launched by Paladin in 2001, Androderm<sup>®</sup> is competing in a \$23 million market that has grown at a four-year compounded annual growth rate of over 30%.

### **About Estring<sup>®</sup>**

Estring<sup>®</sup> is an intravaginal ring that provides sustained local release of estrogen over a three-month period. Estring<sup>®</sup> is indicated for the treatment of post-menopausal urogenital complaints. Estring<sup>®</sup> offers women the option of taking a local estrogen therapy over other systemic hormone replacement therapy.

Paladin obtained the rights to distribute Estring<sup>®</sup> from Pharmacia Canada Inc. in January 2002. Estring<sup>®</sup> competes in a \$150 million female hormone replacement therapy market, which is dominated by systemic therapies that have recently come under examination.

### **About Plan B<sup>™</sup>**

Plan B<sup>™</sup> is the first progestin-only pill indicated to prevent pregnancy after a contraceptive failure or unprotected sex. It is highly effective and produces significantly less nausea and vomiting than other emergency contraceptive regimens. Health Canada approved Plan B<sup>™</sup> as a prescription product in February 2000. During 2001, the provinces of British Columbia and Quebec authorized pharmacists to prescribe Plan B<sup>™</sup>. During 2002, Paladin, on behalf of Women's Capital Corp., submitted an application to Health Canada to change Plan B<sup>™</sup> from prescription-only to non-prescription status.

In Canada, there are approximately 3,000,000 cases of unprotected sex annually due to either lack of use of a contraceptive or a contraceptive failure. This results in an estimated 235,000 unintended pregnancies and 112,500 abortions annually.

### **About Paladin Labs Inc:**

Paladin Labs Inc., headquartered in Montreal, Quebec, is a rapidly growing pharmaceutical company focused on acquiring or in-licensing innovative pharmaceutical products for the Canadian market.

With this strategy, a focused national sales team and proven marketing expertise, Paladin has evolved into one of Canada's most profitable publicly-traded pharmaceutical companies. Paladin's shares trade on the Toronto Stock Exchange under the symbol *PLB*. For more information about Paladin, please visit the Paladin Web Site at [www.paladinlabs.com](http://www.paladinlabs.com).

*This news release may contain forward-looking statements or predictions. These statements represent our judgement as of this date and are subject to risks and uncertainties that could cause actual results or events to differ materially from those expressed in such forward-looking statements. Potential risks and uncertainties include, without limitation, those associated with product development, clinical trials, future revenues and profitability, and obtaining marketing approval and other factors that are discussed in the Management Discussion and Analysis published in the Company's annual report.*

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# BALANCE SHEET

[In thousands of Canadian dollars]

	September 30 2002 \$	December 31 2001 \$
	(unaudited)	
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	7,437	1,978
Temporary investments	39,973	20,470
Accounts receivable	1,944	2,067
Inventories	—	50
Income tax credits receivable	579	487
Future income tax assets	2,275	2,275
<b>Total current assets</b>	<b>52,208</b>	<b>27,327</b>
Capital assets	14,545	12,530
Investments, at cost	2,771	2,771
Future income tax credits receivable	1,267	347
Future income tax assets	347	2,216
	<b>71,138</b>	<b>45,191</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	6,277	3,924
Income taxes payable	169	181
Deferred credit	1,638	1,638
<b>Total current liabilities</b>	<b>8,084</b>	<b>5,743</b>
Balance of sale payable	584	544
Deferred credit	—	935
Future income tax liability	133	133
	<b>8,801</b>	<b>7,355</b>
<b>Shareholders' equity</b>		
Capital stock	57,281	37,154
Contributed surplus	87	87
Other paid-in capital	23	23
Retained earnings	4,946	572
<b>Total shareholders' equity</b>	<b>62,337</b>	<b>37,836</b>
	<b>71,138</b>	<b>45,191</b>

## STATEMENTS OF INCOME AND RETAINED EARNINGS

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

	Three-month period ended September 30		Nine-month period ended September 30	
	2002	2001	2002	2001
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues	6,087	4,859	17,812	12,858
Cost of sales	1,615	1,407	4,764	4,112
<b>Gross profit</b>	<b>4,472</b>	<b>3,452</b>	<b>13,048</b>	<b>8,746</b>
Selling and administrative	2,393	1,691	6,546	5,263
Research and development	203	248	791	492
Amortization	433	167	1,289	476
Interest income, net	(365)	(232)	(710)	(828)
<b>Income before under noted items</b>	<b>1,808</b>	<b>1,578</b>	<b>5,132</b>	<b>3,343</b>
Gain on disposal of license	—	109	—	109
<b>Income before income taxes</b>	<b>1,808</b>	<b>1,687</b>	<b>5,132</b>	<b>3,452</b>
Provision for income taxes				
Current	21	5	81	15
Future	254	209	677	454
	275	214	758	469
<b>Net income</b>	<b>1,533</b>	<b>1,473</b>	<b>4,374</b>	<b>2,983</b>
<b>Earnings per share</b>				
Basic	0.10	0.12	0.32	0.24
Diluted	0.10	0.12	0.31	0.24
<b>Weighted average number of shares outstanding</b>				
Basic	14,777,171	12,428,420	13,724,021	12,410,020
Diluted	15,052,244	12,486,145	13,956,901	12,476,703

## STATEMENTS OF CASH FLOWS

[In thousands of Canadian dollars]

	Three-month period ended September 30		Nine-month period ended September 30	
	2002	2001	2002	2001
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Operating activities</b>				
Net income	1,533	1,473	4,374	2,984
Add items not affecting cash				
Amortization	433	167	1,289	476
Future income taxes	227	173	15	371
Imputed interest on balance of sale	13	12	40	37
Gain on disposal of license	—	(109)	—	(109)
	<b>2,206</b>	<b>1,716</b>	<b>5,718</b>	<b>3,759</b>
Net change in non-cash balances relating to operations	<b>1,163</b>	<b>(518)</b>	<b>1,241</b>	<b>(514)</b>
Cash flows from (used in) operating activities	<b>3,369</b>	<b>1,198</b>	<b>6,959</b>	<b>3,245</b>
<b>Investing activities</b>				
Acquisition of capital assets	(16)	—	(33)	(11)
Additions to pharmaceutical product licenses and rights	(519)	(2,311)	(3,270)	(5,126)
Accounts payable related to the acquisition of intellectual property	—	—	1,179	—
Investments	—	(211)	—	(211)
Net decrease (increase) in temporary investments	(611)	(7,400)	(19,503)	1,627
Cash flows (used in) from financing activities	<b>(1,146)</b>	<b>(9,922)</b>	<b>(21,627)</b>	<b>(3,722)</b>
<b>Financing activities</b>				
Issuance of common shares	9	103	232	236
Issuance/conversion of special warrants	—	—	20,952	—
Share issue costs	—	—	(1,057)	—
Cash flows from financing activities	<b>9</b>	<b>103</b>	<b>20,127</b>	<b>236</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>2,232</b>	<b>(8,621)</b>	<b>5,459</b>	<b>(241)</b>
Cash and cash equivalents, beginning of period	<b>5,205</b>	<b>11,238</b>	<b>1,978</b>	<b>2,858</b>
<b>Cash and cash equivalents, end of period</b>	<b>7,437</b>	<b>2,617</b>	<b>7,437</b>	<b>2,617</b>
Cash and cash equivalents	<b>7,437</b>	2,617		
Temporary investments	<b>39,973</b>	19,855		
	<b>47,410</b>	22,472		