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EXECUTION

2ND QUARTER RESULTS 2003



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Dear Shareholders,

A number of important developments took place during Paladin's second quarter. We continued to make investments in our sales and marketing infrastructure, which is key to realizing our growth objectives. Our new sales and marketing personnel including our twenty-six full time contract sales representatives were actively engaged in promoting our key brands throughout the second quarter. Thus, the second quarter is the first full quarter to benefit from our expanded sales team. Our sales and marketing activities over the last several months have included a direct to consumer emergency contraceptive advertising campaign behind Plan B™ in Quebec, a targeted sales campaign to 7,500 high prescribing physicians across Canada, obtaining formulary approval in Alberta for Androderm®, increased advertising spend in trade journals promoting awareness of our key brands and increased participation at key medical conferences. We expect to gradually improve the sales performance of our key brands as we move forward. However, given the long selling cycle associated with introducing new pharmaceutical products, we do not expect to realize the full impact of our expansion until late in 2004.

We achieved record quarterly revenues of \$6.5 million, an increase of 13% from the second quarter a year ago. Revenues of the Company's key promoted products, Androderm®, Dostinex®, Dalacin®, Estring®, and Plan B™, grew by 65% for the quarter and over 40% for the six months compared to the corresponding periods last year. Specifically, sales of Androderm® more than doubled for the quarter and increased 85% for the six months compared to last year. The increase in revenues from these products was offset by a continued decline in Urispas® sales, which declined 86% for the quarter and 75% for the six months, as a result of the product's genericization, and a decline in sales of Valtaxin™ related to the manufacturing difficulties at Anthra Pharmaceuticals, Inc.

While gross margins remained robust at 76%, our second quarter net income was negatively impacted by a \$1.5 million write-down of our investment in Anthra, and increased selling and marketing expenses related to our expanded sales and marketing infrastructure.

For the second quarter of 2003 and 2002, net income, excluding write-downs, was \$1.4 million or \$0.10 per share. For the first half of 2003, net income, excluding write-downs, was \$2.1 million or \$0.14 per share compared to net income of \$2.8 million or \$0.22 per share in the corresponding period last year.

After giving effect to the write-down, we reported a net loss for the second quarter of \$83,000 or \$0.01 per share, compared to net income of \$1.4 million or \$0.10 per share in the second quarter of 2002. Net loss for the second quarter also included a \$226,000 gain on disposal of our investment in Connetics Corporation.

At June 30, 2003, Paladin's cash, cash equivalents and investments in both short-term and long-term marketable securities totalled \$46.6 million, compared to \$44.6 million as at June 30, 2002. From this strong cash position, we continue to pursue acquisition opportunities to support profitable growth.

I am pleased to report that during the second quarter, we acquired from InKine Pharmaceutical Company, Inc the Canadian license for Diacol[®], the first patented sodium phosphate purgative in a tablet format. Diacol[®], which is marketed in the U.S. under the name Visicol[®], is used to cleanse the bowel prior to a colonoscopy. As consideration for the license, we paid an up-front license fee, with additional royalties due to InKine based on future net sales of Diacol[®].

Another important product development was Health Canada's formal recommendation that Plan B[™] be switched from prescription to non-prescription status. Health Canada is now soliciting feedback from stakeholders to initiate the process required to change the regulations that will allow Plan B[™] to be sold without a prescription.

Paladin significantly strengthened its Board of Directors in the quarter with the appointments of Aldo R. Baumgartner, Ph.D., and Michael S. Cloutier. With the additions of Dr. Baumgartner and Mr. Cloutier, Paladin's Board now consists of former Canadian presidents of Merck Frosst, Novartis, Pharmacia and Wyeth. We look forward to the added contributions and guidance of Dr. Baumgartner and Mr. Cloutier as we move forward in executing on our business plan.

Subsequent to the end of the quarter, we announced the appointment of Mr. Mark Nawacki, CA, MBA, to the position of Vice President, Business Development, effective September 1, 2003. Prior to joining Paladin, Mr. Nawacki held senior leadership positions in business development and finance with Pharmacia Canada. As Vice President, Business Development, Mr. Nawacki will play a lead role in identifying and pursuing acquisition opportunities for new products to support Paladin's continued growth.

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

Sincerely,

"Jonathan Ross Goodman"
(signed)

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

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Management Discussion And Analysis:

(All numbers are in thousands of Canadian dollars)

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

Overview

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

Second quarter highlights:

- Revenues reached \$6,453, an increase of 13% over the same period last year.
- Net loss was \$82, a decrease of 106% over the same period last year.
- Obtained Canadian license to Diacol[®] from InKine Pharmaceutical Company, Inc. the first patented sodium phosphate purgative in a tablet format.
- Received Health Canada's recommendation to switch Plan B[™] from prescription to non-prescription.

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

Results of Operations

Revenues

Revenues increased \$766 or 13%, to \$6,453 for the three-month period ended June 30, 2003 from \$5,687 for the three-month period ended June 30, 2002. For the six-month period ending June 30, 2003, revenues increased \$488 or 4% to \$11,518 from \$11,030 for the six-month period ended June 30, 2002. This is primarily due to increased sales of the Company's promoted products including Androderm[®], Dostinex[®], Dalacin[®], Estring[®], and Plan B[™]. The increase in revenues from these products was partially offset by a decline in Urispas[®] sales as a result of the product's genericization, and a decline in sales of Valtaxin[™] related to the manufacturing difficulties at Anthra Pharmaceuticals, Inc ("Anthra"). During the second quarter of fiscal 2002, Anthra advised Paladin that it was having difficulties manufacturing Valtaxin[™], a treatment for BCG-refractory bladder cancer, and that it is not able to determine when it will resume production. Paladin acquired the exclusive license for Valtaxin[™] from Anthra in September 1999 and recorded its first sale in May 2001.

Gross Profit

Total gross profit increased \$772 or 19% to \$4,920 for the three-month period ended June 30, 2003 from \$4,148 for the three-month period ended June 30, 2002. For the six-month period ended June 30, 2003, gross profit increased \$866 or 11% to \$8,748 from \$7,882 for the six-month period ended June 30, 2002. Gross profit, as a percentage of revenues, improved to 76% for the

three-month period ended June 30, 2003 from 73% for the three-month period ended June 30, 2002. For the six-month period ended June 30, 2003, gross profit, as a percentage of revenues, improved to 76% from 71% for the six-month period ended June 30, 2002. This increase resulted primarily from a higher proportion of products sold for which the Company earns a distribution fee and consequently does not incur costs of sales related to these products.

Selling and Marketing Expense

Selling and marketing expense increased \$1,149 or 73% to \$2,719 for the three-month period ended June 30, 2003 from \$1,570 for the three-month period ended June 30, 2002. For the six-month period ended June 30, 2003, selling and marketing expense increased \$2,384 or 80% to \$5,373 from \$2,989 for the six-month period ended June 30, 2002. Selling and marketing expense, as percentage of revenues, increased to 42% for the three-month period ended June 30, 2003 from 28% for the three-month period ended June 30, 2002. For the six-month period ended June 30, 2003, selling and marketing expense, as a percentage of revenues, increased to 47% from 27% for the six-month period ended June 30, 2002. This increase was primarily attributed to increased spending associated with the expansion of the sales and marketing infrastructure behind Androderm[®], Dalacin[®], Dostinex[®], Estring[®], Muse[®], Oesclim[®], and Plan B[™]. The Company has expanded its sales force from 14 sales representatives focused on urologists and endocrinologists to 48 sales representatives focused on urologists, endocrinologists, obstetricians/gynaecologists and targeted high prescribing general practitioners. This sales force includes 26 full time contract sales representatives. As at March 31, 2003, all sales representatives had been trained on the Company's key products and had begun the selling process. Given the long selling cycle associated with the pharmaceutical industry, the Company does not expect to see the full impact of the sales force expansion until next fiscal year.

General and Administrative Expense

General and administrative expense increased \$21 or 4% to \$550 for the three-month period ended June 30, 2003 from \$529 for the three-month period ended June 30, 2002. For the six-month period ended June 30, 2003, general and administrative expense decreased \$75 or 6% to \$1,099 from \$1,174 for the six-month period ended June 30, 2002. General and administrative expense, as a percentage of revenues, was 9% for the three-month period ended June 30, 2003 and for the three-month period ended June 30, 2002. For the six-month period ended June 30, 2003, general and administrative expense, as a percentage of revenues, decreased to 10% from 11% for the six-month period ended June 30, 2002.

Research and Development Expense

Research and development expense decreased \$61 or 30% to \$145 for the three-month period ended June 30, 2003 from \$206 for the three-month period ended June 30, 2002. For the six-month period ended June 30, 2003, research and development expense decreased \$107 or 18% to \$482 from \$589 for the six-month period ended June 30, 2002. This decrease is primarily due to the timing of research and development projects and related expenditures. Research and development expense consists of staffing costs and associated costs required to support DHEA and other products in various stages of development, including further Canadian regulatory expense for currently marketed products.

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Amortization Expense

Amortization expense increased \$70 or 17% to \$493 for the three-month period ended June 30, 2003 from \$423 for the three-month period ended June 30, 2002. For the six-month period ended June 30, 2003, amortization expense increased \$89 or 11% to \$935 from \$846 for the six-month period ended June 30, 2002. This increase reflects the impact of amortization expense related to the Company's additions to licenses, rights, and intellectual property during fiscal 2002 and 2003.

Interest Income

Interest income increased \$97 or 36% to \$365 for the three-month period ended June 30, 2003 from \$268 for the three-month period ended June 30, 2002. For the six-month period ended June 30, 2003 interest income increased \$356 or 103% to \$701 from \$345 for the six-month period ended June 30, 2002. This increase reflects the impact of increased cash available for investment during the three and six-month periods ended June 30, 2003 compared to the same periods last year.

Other Income

Other income was \$27 for the three-month period ended June 30, 2003. For the six-month period ended June 30, 2003, other income decreased \$314 or 45% to \$381 from \$695 for the six-month period ended June 30, 2002. Other income includes a one-time compensation payment for lost revenues of Dalacin[®] Vaginal Cream and other payments related to certain license and trademark license agreements.

Gain of Disposal

During the three-month period ended June 30, 2003, the Company recorded a gain on disposal of \$226 related to the sale of its investment in Connetics Corporation. During the six-month period ended June 30, 2003, the Company recorded a gain on disposal of \$504 related to assignment and sale of licenses to certain over-the-counter products and the sale of its investment in Connetics Corporation.

Write-down of Investments

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

Income Tax Expense

Income tax expense decreased \$31 or 13% to \$217 for the three-month period ended June 30, 2003 from \$248 for the three-month period ended June 30, 2002. For the six-month period ended June 30, 2003, income tax expense increased \$124 or 26% to \$359 from \$483 for the six-month period ended June 30, 2003. For the three and six-month periods ended June 30, 2003, the Company did not record any tax benefit related to the write-down of its investment in Anthra. The effective tax rate was 162% for the three-month period ended June 30, 2003 compared to 15% for the three-month period ended June 30, 2002. For the six-month period ended June 30, 2003, the effective tax rate was 38% compared to 15% for the six-month period ended June 30, 2002.

Net Income

Due to the factors set forth above, net income decreased \$1,523 or 106% to a net loss of \$83 for the three-month period ended June 30, 2003 from net income of \$1,440 for the three-month period ended June 30, 2002 and decreased \$2,252 or 79% for the six-month period ended June 30, 2003 from \$2,841 for the six-month period ended June 30, 2002.

Liquidity and Capital Resources

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

Cash flows from operating activities were \$1,936 and \$1,766 for the three-month periods ended June 30, 2003 and 2002, respectively. Cash flows from operating activities were \$2,662 and \$3,589 for the six-month periods ended June 30, 2003 and 2002, respectively. Cash flows from operating activities represent the cash flows from net earnings, excluding revenues and expenses not affecting cash, principally amortization, write-down of intellectual property and investments, future income taxes, gain on disposal of licenses, and imputed interest.

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

For the six-month period ended June 30, 2003, cash flows from operating activities were due to net income, amortization, write-down of investments, and future income taxes offset by a decrease in net change in non-cash balances relating to operations. For the six-month period ended June 30, 2002, cash flows from operating activities were due to net income, amortization and net change in non-cash balances relating to operations offset by a decrease in future income taxes.

The Company's investing activities used cash of \$10,603 and \$8,274 for the three-month periods ended June 30, 2003 and 2002, respectively. During the three-month period ended June 30, 2003, the Company invested \$569 in acquisitions of patents, pharmaceutical product licenses and rights and intellectual property and received \$529 related to the sale of its investment in Connetics Corporation. In addition, the Company had net purchases of \$7,852 in short-term marketable securities during the three-month period ended June 30, 2003. For the three-month period ended June 30, 2002, the Company invested \$663 in acquisitions of patents, pharmaceutical product licenses and rights and intellectual property and had net purchases of short-term marketable securities of \$7,606.

Cash used in investing activities was \$3,312 and \$20,480 for the six-month periods ended June 30, 2003 and 2002, respectively. During the six-month period ended June 30, 2003, the Company invested \$1,087 in acquisitions of patents, pharmaceutical product licenses and rights

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and intellectual property and received \$869 related to the sale of its investment in Connetics Corporation and the assignment and sale of certain over-the-counter products. In addition, the Company had net purchases of marketable securities of \$358. For the six-month period ended June 30, 2002, the Company invested \$2,752 in acquisitions of patents, pharmaceutical product licenses and rights and intellectual property and had net purchases of short-term marketable securities of \$18,891. This was offset by \$1,179 in accounts payable related to the above-mentioned acquisitions.

Cash flows from financing activities were \$51 and \$132 for the three-month periods ended June 30, 2003 and 2002, respectively. For the three-month period ended June 30, 2003, \$31 was provided from common stock option exercises and the issuance of common shares under the Company's stock purchase plan. For the three-month period ended June 30, 2002, \$112 was provided from common stock option exercises and the issuance of common shares under the Company's stock purchase plan.

Cash flows from financing activities were \$61 and \$20,118 for the six-month periods ended June 30, 2003 and 2002, respectively. For the six-month period ended June 30, 2003, \$112 was provided from common stock option exercises and the issuance of common shares under the Company's stock purchase plan. For the six-month period ended June 30, 2002, \$19,895 was raised from the issuance of special warrants less related issuance costs. In addition, \$203 was provided from common stock option exercises and the issuance of common shares under the Company's stock purchase plan.

Forward-Looking Statements

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

BALANCE SHEET

[In thousands of Canadian dollars]

	June 30 2003	December 31 2002
	\$ (unaudited)	\$
ASSETS		
Current		
Cash and cash equivalents <i>[note 3]</i>	1,431	2,020
Short-term marketable securities <i>[note 3]</i>	43,950	36,572
Accounts receivable and other assets	2,621	2,586
Inventories	—	21
Income tax credits receivable	254	325
Future income tax assets	1,221	1,221
Total current assets	49,477	42,745
Long-term marketable securities <i>[note 3]</i>	1,253	7,020
Property plant and equipment	92	72
Intangible assets	12,162	12,703
Deferred charges	2,148	1,515
Investments, at cost	2,403	2,771
Future income tax credits receivable	470	470
Future income tax assets	669	1,359
	68,674	68,655
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	3,464	3,658
Income taxes payable	107	109
Balance of sale payable	624	597
Deferred credit	650	1,113
Total current liabilities	4,845	5,477
Shareholders' equity <i>[note 4]</i>		
Capital stock	57,396	57,334
Contributed surplus	87	87
Other paid-in capital	23	23
Retained earnings	6,323	5,734
Total shareholders' equity	63,829	63,178
	68,674	68,655

See accompanying notes

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STATEMENTS OF INCOME AND RETAINED EARNINGS

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

	Three-month period ended		Six-month period ended	
	2003	June 30 2002	2003	June 30 2002
	\$ (unaudited)	\$ (unaudited)	\$ (unaudited)	\$ (unaudited)
Revenues	6,453	5,687	11,518	11,030
Cost of sales	1,533	1,539	2,770	3,148
Gross profit	4,920	4,148	8,748	7,882
Selling and marketing	2,719	1,570	5,373	2,989
General and administrative	550	529	1,099	1,174
Research and development	145	206	482	589
Amortization	493	423	935	846
Interest income, net	(365)	(268)	(701)	(345)
Other income	(27)	—	(381)	(695)
Gain on disposal of assets <i>[note 6]</i>	(226)	—	(504)	—
Income before under noted items	1,631	1,688	2,445	3,324
Write down of long-term investment <i>[note 7]</i>	(1,497)	—	(1,497)	—
Income before income taxes	134	1,688	948	3,324
Provision for income taxes				
Current	30	39	60	60
Future	187	209	299	423
	217	248	359	483
Net income	(83)	1,440	589	2,841
Retained earnings, beginning of period	6,406	1,973	5,734	572
Retained earnings, end of period	6,323	3,413	6,323	3,413
Earnings per share				
Basic	(0.01)	0.10	0.04	0.22
Diluted	(0.01)	0.10	0.04	0.21
Weighted average number of shares outstanding <i>[note 5]</i>				
Basic	14,784,725	13,820,655	14,782,677	13,188,718
Diluted	14,800,111	14,085,539	14,791,495	13,460,467

See accompanying notes

STATEMENTS OF CASH FLOWS

[In thousands of Canadian dollars]

	Three-month period ended		Six-month period ended	
	2003	June 30 2002	2003	June 30 2002
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Operating activities				
Net income	(83)	1,440	589	2,841
Add items not affecting cash				
Amortization	509	429	964	856
Write-down of long-term investment	1,497	—	1,497	—
Future income taxes	173	175	227	(212)
Imputed interest on balance of sale	14	13	27	26
Gain on disposal of assets	(226)	—	(504)	—
	1,884	2057	2,800	3,511
Net change in non-cash balances relating to operations	52	(291)	(138)	78
Cash flows from operating activities	1,936	1,766	2,662	3,589
Investing activities				
Additions to pharmaceutical product licenses and rights and deferred charges	(569)	(663)	(1,087)	(2,752)
Accounts payable related to the acquisition of intellectual property	—	—	—	1,179
Investment in other companies	(1,434)	—	(1,434)	—
Acquisition of property plant and equipment	(24)	(5)	(49)	(16)
Purchases of short-term marketable securities	(26,416)	(26,095)	(30,836)	(44,940)
Maturities of short-term marketable securities	18,564	18,489	30,478	26,049
Purchases of long-term marketable securities	(1,253)	—	(1,253)	—
Proceeds from disposal of assets	529	—	869	—
Cash flows used in investing activities	(10,603)	(8,274)	(3,312)	(20,480)
Financing activities				
Common shares issued for cash	31	112	41	203
Issuance of special warrants	—	—	—	20,952
Share issue costs, net of tax	—	—	—	(1,057)
Repayment of share purchase loan	20	20	20	20
Cash flows from financing activities	51	132	61	20,118
Net change in cash and cash equivalents during the period	(8,616)	(6,376)	(589)	3,227
Cash and cash equivalents, beginning of period	10,047	11,581	2,020	1,978
Cash and cash equivalents, end of period	1,431	5,205	1,431	5,205
Cash and cash equivalents	1,431	5,205		
Short-term marketable securities	43,950	39,362		
Long-term marketable securities	1,253	—		
	46,634	44,567		

See accompanying notes

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NOTES TO FINANCIAL STATEMENTS

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

1. BASIS OF PRESENTATION

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

2. ACCOUNTING POLICIES

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

3. CASH AND MARKETABLE SECURITIES

Cash, short-term marketable securities and long-term marketable securities increased by \$490 during the three-month period ended June 30, 2003 and increased by \$1,022 during the six-month period ended June 30, 2003

4. CAPITAL STOCK

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

Issued and outstanding:

	Number of shares	Amount
Balance at December 31, 2002	14,780,247	\$57,334
Issued on exercise of stock options	5,000	21
Issued under employee share purchase plan	4,220	20
Employee share purchase loan	—	20
Balance at June 30, 2003	14,785,247	\$57,395

Stock option plan

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

	2003		2002	
	#	Weighted average exercise price	#	Weighted average exercise price
		\$		\$
Balance at December 31	706,524	6.18	694,833	5.71
Granted	163,318	4.23	88,258	9.89
Exercised	(5,000)	4.25	(30,041)	6.10
Expired or forfeited	(59,056)	6.43	(19,221)	7.36
Balance at June 30	805,786	5.78	733,829	6.15
Options exercisable at June 30	353,352	5.64	266,856	5.47

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

	Three-month period ended		Six-month period ended	
	2003	June 30 2002	2003	June 30 2002
	\$	\$	\$	\$
Net income as reported	(83)	1,440	589	2,841
Less: Amortization of fair value related to option grants	(47)	(26)	(184)	(272)
Amortization of fair value related to option life amendment in fiscal 2002	(27)	—	(54)	—
Pro-forma net income	(157)	1,414	351	2,569
Basic Earnings per share				
As reported	(0.01)	0.10	0.04	0.22
Pro-forma	(0.01)	0.10	0.02	0.19
Diluted Earnings per share				
As reported	(0.01)	0.10	0.04	0.21
Pro-forma	(0.01)	0.10	0.02	0.19

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5. EARNINGS PER SHARE

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

	Three-month period ended June 30		Six-month period ended June 30	
	2003	2002	2003	2002
Basic weighted average number of shares outstanding	14,784,725	13,820,655	14,782,677	13,188,718
Dilutive effect of options	15,386	257,743	8,818	265,681
Dilutive effect of warrants	—	6,641	—	6,068
Diluted weighted average number of shares outstanding	14,800,111	14,085,039	14,791,495	13,460,467

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

6. RELATED PARTY TRANSACTION

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

7. WRITE-DOWN OF INVESTMENT

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

8. COMMITMENTS

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

Revenue based commitments

Most pharmaceutical product license agreements require that the Company make royalty payments; ranging from 5% to 10% of sales, or require payments for products at rates ranging from 40% to 50% of the net selling price, or 60% of the net profit on sales.

In addition, the Company may have to pay up to \$4,134 [US\$3,050] and \$100 if the Company achieves specific sales volumes on specific products in the future. Payments related to sales volume may be due over the next 10 years.

Milestone based commitments

The Company has also committed to fund certain research and development expenditures of third parties for \$203 [US\$150] over the next two years. In addition, specific payments are required under these agreements if milestones are met, such as regulatory approval in Canada. Based on the outcome of these milestones, the Company may have to pay up to \$990 including US\$668.

Purchase and service based commitments

The Company is committed to making minimum spending related to inventory purchases, regulatory, sales and marketing expenditures in the amount of \$12,758 in order to retain exclusive distribution agreements for certain products. These commitments end in 2011 and annual amounts are as follows:

	\$
July 1, 2003 to December 31, 2003	1,958
2004	3,295
2005	1,786
2006	1,792
2007	851
2008-2011	3,076

9. COMPARATIVE FIGURES

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

Stock Exchange Listing

Toronto Stock Exchange

Trading Symbol: PLB

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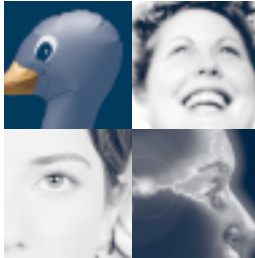
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