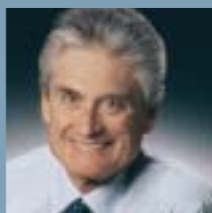


# WE ARE ENTERING A NEW ERA



**ROBERT C. TEDFORD**  
CHIEF EXECUTIVE OFFICER

Our achievements in 2004 attest to the soundness of our business model and the strength of our long-term strategic plan.

We have begun to see clear validation of our full-service approach. A growing number of our clients' new products in our drug development (PDS) pipeline are gaining regulatory approval and those clients are selecting Patheon as their commercial manufacturer. As our PDS pipeline grows, so does the potential for our commercial manufacturing business.

We are reaching new heights as an organization. In fiscal 2004, the lyophilization expansion program at our two sites in Italy received positive inspections by the U.S. Food and Drug Administration (FDA). This allows these important sites in the Patheon network to manufacture clients' drugs for distribution in the U.S. as well as Europe.

With the recent addition of MOVA Pharmaceutical Corporation to our organization, Patheon is entering a new era. We now have the necessary resources, global presence and capacity to be the world leader in our market.



**PETER A. W. GREEN**  
CHAIRMAN OF THE BOARD

## **MOVA BRINGS STRATEGIC MANUFACTURING CAPACITY**

FDA approval is a key competitive advantage that reinforces our positioning as a preferred partner to global pharmaceutical companies. At the end of fiscal 2004, Patheon had seven facilities that were approved by the FDA to manufacture products destined for the U.S., the world's largest pharmaceutical market.

On December 23, 2004, Patheon concluded the acquisition of U.S.-based MOVA Pharmaceutical Corporation, an experienced contract manufacturing organization located in Puerto Rico, which is the second largest pharmaceutical manufacturing centre in the U.S. The combined organization represents a transformation for your company – it creates one of the largest suppliers of pharmaceutical manufacturing and development services in the world.

MOVA brings three FDA-approved sites, greater R<sub>x</sub> capacity in the U.S. and a stronger global presence. With MOVA, Patheon has more than 5,600 employees, 14 facilities including 10 FDA-approved sites, and 3.2 million square feet of capacity located in North America and Europe. This gives us the platform to capitalize fully on the growing opportunity for dosage form manufacturing and development services in the world's two major pharmaceutical markets.

Consistent with our disciplined acquisition criteria, the contribution from MOVA is expected to be accretive to margins and net earnings beginning in fiscal 2005.

## **FISCAL 2004 RESULTS**

Despite major strategic achievements in fiscal 2004, our financial performance fell short of expectations. Revenue growth was affected by declines in over-the-counter (“OTC”) volumes, while margins and profitability were reduced by a higher-than-anticipated operating loss at our Swindon, U.K. facility, the strength of the Canadian dollar, the recording of stock-based compensation as well as higher depreciation and interest costs.

For the year ended October 31, 2004, revenues amounted to \$470 million, an increase of \$63 million. Internal growth of \$50 million was attributable to a strong performance by all our PDS units and a significant increase in revenues from R<sub>x</sub> manufacturing at our Cincinnati site. The remainder of \$13 million reflected a full year’s contribution from the Cincinnati site compared with ten months in the previous year. (All figures are in U.S. dollars.)

In July 2004, a repositioning plan was put in place at our Swindon facility to improve its operating performance – this site is currently on track to return to profitability in fiscal 2006, as planned.

Before the Swindon repositioning costs, EBITDA increased 6% to \$53 million, representing 11.2% of revenues compared with 12.2% a year ago. While EBITDA was positively affected by the improved mix of revenues from PDS services and R<sub>x</sub> manufacturing, this was offset by the stronger Canadian dollar and the recording of stock-based compensation in fiscal 2004.

Net earnings were also affected by higher depreciation and interest costs due primarily to capital programs in Italy and Cincinnati. Before repositioning costs, net earnings per share amounted to 26.7 cents in fiscal 2004, compared with 36.2 cents a year earlier. Total repositioning costs of \$4.4 million resulted in net earnings per share of 20.7 cents in fiscal 2004. Cash provided from operations of \$41 million was comparable with the previous year.

In fiscal 2004, revenues from our North American operations grew by 17% and our European operations by 13% (1% on a constant exchange rate basis). Our sites in North America and Europe accounted for 63% and 37% of revenues, respectively, which was comparable with the previous year.

## **OUR FULL-SERVICE BUSINESS MODEL GAINS MOMENTUM**

Our PDS pipeline continues to grow and gain momentum. In 2004, four of the projects in our PDS pipeline received regulatory approval on behalf of clients. In all four cases, Patheon was selected to be the commercial manufacturer of these newly approved drugs.

At the end of fiscal 2004, our PDS pipeline included 112 projects compared with 97 a year earlier. In addition to the overall quantity, the size of individual projects in our PDS pipeline is also increasing. In fiscal 2004, revenues from our PDS business grew 41% in North America and 177% in Europe.

In our commercial manufacturing services, revenues from R<sub>x</sub> manufacturing grew 28% in North America and 9% in Europe. Our OTC business was down slightly for the full year but improved significantly in the fourth quarter. In fiscal 2004, PDS, R<sub>x</sub> and OTC activities accounted for 14%, 64% and 22% of consolidated revenues, comparable with the previous year.

### **ACKNOWLEDGEMENTS**

We thank our employees for their dedication and efforts during a year of intense activity, and we extend a warm welcome to our new MOVA colleagues.

We express our gratitude to our fellow members of the Board of Directors for their counsel and support. In particular, we offer our sincere thanks to Mr. Bryce Douglas, who resigned from our Board for personal reasons this year. Mr. Douglas had served with commitment and distinction on our Board since September 2000.

A formal welcome goes to Mr. Joaquín Viso, who joins the Board in his capacity as founder, President and Chief Executive Officer of MOVA Pharmaceutical Corporation. Mr. Viso brings a wealth of experience gained during a 35-year career in the pharmaceutical industry, including almost 20 years at the helm of his own company. In addition to his Board responsibilities, Mr. Viso will continue to oversee MOVA's operations during the transition period and will play a key role in developing strategic growth opportunities for the combined organization.

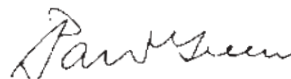
### **LEADING THE WAY IN A NEW ERA OF PROFITABLE GROWTH**

Fiscal 2005 ushers in a new period of profitable growth for Patheon. We are beginning to realize the benefits of our full-service approach as our PDS pipeline gains momentum and our commercial manufacturing business continues to grow. Our recently completed lyophilization expansion and related FDA site approvals position us to meet the demand for high-quality manufacturing services. The added strength of the MOVA organization, which is located in a tax-advantaged, U.S.-based, FDA-approved manufacturing environment, further reinforces our positioning as a preferred supplier to the global pharmaceutical industry.

This new period of growth coincides with a time when the market is growing for those players who can deliver the scale and expertise required by global pharmaceutical companies. Within this context, Patheon is built to deliver value to its clients and its shareholders while continuing to be a leader in the outsourced pharmaceutical manufacturing sector.



**ROBERT C. TEDFORD**  
CHIEF EXECUTIVE OFFICER



**PETER A. W. GREEN**  
CHAIRMAN OF THE BOARD

February 18, 2005