

REPORT OF MANAGEMENT'S ACCOUNTABILITY

The accompanying consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

Management is responsible for ensuring that these statements, which include amounts based upon estimates and judgement, are consistent with other information and operating data contained in the annual report and reflect the Company's business transactions and financial position.


The integrity and reliability of Patheon's reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees, and appropriate delegation of authority and division of responsibilities. Patheon's Code of Business Conduct requires employees to maintain high standards in their conduct of the Company's affairs.

Our shareholders' independent auditors, Ernst & Young LLP, whose report on their examination follows, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards.

The Board of Directors annually appoints an Audit Committee comprised of directors who are not employees of the Company. This Committee meets regularly with management and the shareholders' auditors to review significant accounting, reporting and internal control matters. The shareholders' auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings. Following its review of the financial statements and the report of the shareholders' auditors, the Audit Committee submits its report to the Board of Directors for formal approval of the financial statements.



ROBERT C. TEDFORD
CHIEF EXECUTIVE OFFICER



RODGER RODEN
CHIEF FINANCIAL OFFICER

Toronto, Canada
December 9, 2005

(except for note 22(a) as to which the date is December 15, 2005 and note 22(b) as to which the date is December 22, 2005)

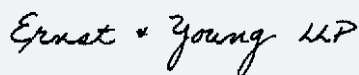
AUDITORS' REPORT

To the Shareholders of Patheon Inc.

We have audited the consolidated balance sheets of Patheon Inc. as at October 31, 2005 and 2004 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



ERNST & YOUNG LLP
CHARTERED ACCOUNTANTS

Toronto, Canada
December 9, 2005

(except for note 22(a) as to which the date is December 15, 2005 and note 22(b) as to which the date is December 22, 2005)

CONSOLIDATED BALANCE SHEETS

<i>As at October 31</i> <i>(in thousands of U.S. dollars)</i>	2005 \$	2004 \$
ASSETS		
Current		
Cash and cash equivalents (note 3)	22,507	7,626
Restricted cash (note 3)	7,805	—
Accounts receivable	143,646	95,305
Inventories (note 4)	72,818	58,763
Income taxes receivable	—	1,029
Prepaid expenses and other	4,258	2,768
Total current assets	251,034	165,491
Capital assets (note 5)	474,793	331,725
Intangible assets (note 6)	110,095	—
Deferred costs (note 7)	12,342	5,498
Future tax assets (note 16)	21,368	15,800
Goodwill (note 8)	180,665	2,837
Investment	1,271	1,232
	1,051,568	522,583
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness (note 9)	14,357	21,454
Accounts payable and accrued liabilities	129,067	105,567
Income taxes payable	5,650	—
Current portion of long-term debt (note 10)	11,360	11,146
Total current liabilities	160,434	138,167
Long-term debt (note 10)	277,181	113,116
Other long-term liabilities (note 11)	22,755	21,660
Deferred revenues	14,587	—
Future tax liabilities (note 16)	36,760	28,242
Total liabilities	511,717	301,185
Shareholders' equity		
Share capital (note 13)	400,594	118,954
Contributed surplus (note 13)	2,901	1,373
Retained earnings	98,250	76,629
Cumulative translation adjustment (note 13)	38,106	24,442
Total shareholders' equity	539,851	221,398
	1,051,568	522,583

See accompanying notes

On behalf of the Board:


PETER A. W. GREEN
DIRECTOR

ROBERT C. TEDFORD
DIRECTOR

CONSOLIDATED STATEMENTS OF EARNINGS

<i>Years ended October 31</i>	2005	2004
<i>(in thousands of U.S. dollars except earnings per share)</i>	\$	\$
Revenues	698,318	470,259
Operating expenses	598,828	416,374
Repositioning expenses (note 20)	—	4,407
Stock-based compensation (note 19)	1,528	1,373
Earnings before the following:	97,962	48,105
Depreciation and amortization	33,351	22,765
Amortization of intangible assets	11,188	—
Gain on sale of land (note 5)	(4,587)	—
Interest	16,449	5,609
Amortization of deferred financing costs	4,824	—
Write-off of deferred financing costs (note 7)	2,010	—
Earnings before income taxes	34,727	19,731
Provision for income taxes (note 16)		
Current	10,464	6,669
Future	2,642	2,384
	13,106	9,053
Net earnings for the year	21,621	10,678
Earnings per share (note 15)		
Basic	\$0.25	\$0.21
Diluted	\$0.25	\$0.21

See accompanying notes

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

<i>Years ended October 31</i>	2005	2004
<i>(in thousands of U.S. dollars)</i>	\$	\$
Retained earnings, beginning of year	76,629	65,951
Net earnings for the year	21,621	10,678
Retained earnings, end of year	98,250	76,629

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended October 31 (in thousands of U.S. dollars)	2005 \$	2004 \$
OPERATING ACTIVITIES		
Net earnings for the year	21,621	10,678
Add (deduct) charges to operations not requiring a current cash payment		
Depreciation and amortization	49,363	22,765
Write-off of deferred financing costs	2,010	—
Employee future benefits	1,639	2,688
Future income taxes	2,642	2,384
Gain on sale of land	(4,587)	—
Stock-based compensation	1,528	1,373
Amortization of deferred revenues	(898)	—
Other	217	704
	73,535	40,592
Net change in non-cash working capital balances related to operations (note 15)	(4,640)	(173)
Cash provided by operating activities	68,895	40,419
INVESTING ACTIVITIES		
Acquisition (note 2)	(211,823)	—
Cash acquired on acquisition	645	—
Acquisition net of cash acquired	(211,178)	—
Additions to capital assets		
Sustaining	(16,062)	(11,232)
Project-related	(40,730)	(51,372)
Total additions to capital assets	(56,792)	(62,604)
Proceeds on sale of land	4,748	—
Proceeds on sale of investment	—	265
Increase in deferred pre-operating costs	(3,254)	(655)
Cash used in investing activities	(266,476)	(62,994)
FINANCING ACTIVITIES		
Increase (decrease) in bank indebtedness	(6,195)	8,246
Increase in long-term debt	341,445	74,588
Repayment of long-term debt	(304,838)	(61,137)
Increase in deferred revenues	8,271	—
Increase in restricted cash	(116)	—
Proceeds on issue of common shares before costs (note 13)	199,241	22
Share issue costs (note 13)	(8,947)	—
Increase in deferred financing costs	(9,446)	(767)
Cash provided by financing activities	219,415	20,952
Effect of exchange rate changes on cash and cash equivalents	(6,953)	79
Net increase (decrease) in cash and cash equivalents during the year	14,881	(1,544)
Cash and cash equivalents, beginning of year	7,626	9,170
Cash and cash equivalents, end of year	22,507	7,626
Supplemental cash flow information		
Interest paid	16,906	5,788
Income taxes paid	5,200	12,497

See accompanying notes

*October 31, 2005 and 2004**(Dollar information in tabular form is expressed in thousands of U.S. dollars.)*

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Patheon Inc. ("Patheon" or the "Company") is a Canadian public company, which trades under the symbol PTI on The Toronto Stock Exchange. The Company is an independent provider of commercial manufacturing and pharmaceutical development services of prescription ("R_x") and over-the-counter ("OTC") drugs to the international pharmaceutical industry.

Patheon's commercial manufacturing activities relate primarily to R_x and OTC products in solid, semi-solid, liquid and sterile dosage forms. The Company manufactures to client specifications a wide variety of products in many packaging formats. The Company can be responsible for each aspect of the manufacturing and packaging process, from sourcing raw materials and packaging components to delivering the finished product in consumer-ready form to the client's distribution facilities.

Patheon's pharmaceutical development services include dosage form development, analytical methods development, pilot batch manufacturing of new products for the regulatory drug approval process and the provision of scale-up services designed to show that a drug can be manufactured in commercial volumes.

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies followed by the Company are summarized as follows:

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. All significant inter-company transactions have been eliminated.

Revenue recognition

The Company recognizes revenue for its commercial manufacturing and pharmaceutical development services when services are completed in accordance with specific agreements with its clients and all costs connected with providing these services have been incurred, price is fixed or determinable and collectibility is reasonably assured. Customer deposits on pharmaceutical development services in progress are included in accounts payable and accrued liabilities.

Deferred revenues

The costs of certain capital assets are reimbursed to the Company by the pharmaceutical companies that are to benefit from the improvements in connection with the manufacturing and packaging agreements in force. These reimbursements are recorded as deferred revenues and are recognized as income over the remaining minimum term of the agreements.

Foreign exchange translation

The assets and liabilities of the Company's operations having a functional currency other than the U.S. dollar are translated into the Company's U.S. dollar reporting currency using the exchange rate in effect at the year end, and revenues and expenses are translated at the average rate during the year. Exchange gains or losses on translation of the Company's net equity investment in these operations are deferred as a separate component of shareholders' equity.

The appropriate amounts of exchange gains or losses accumulated in the separate component of shareholders' equity are reflected in earnings when there is a realized reduction, as a result of capital transactions, in the Company's net investment in the operations that gave rise to such exchange gains and losses.

Foreign exchange gains and losses on transactions occurring in a currency different than an operation's functional currency are reflected in earnings.

October 31, 2005 and 2004

*(Dollar information in tabular form is expressed in thousands of U.S. dollars.)***1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Derivative financial instruments**

Derivative financial instruments are utilized by the Company in the management of its foreign currency exposures. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes. Foreign exchange contracts have been designated as hedges against future net foreign currency cash flows arising from operating activities. Gains and losses on these instruments are unrecognized until realized.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific firm commitments or forecast transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The mark-to-market value of derivative financial instruments reflects the estimated amount that the Company would have been required to pay if required to settle all unfavourable outstanding contracts or the amount that would be received if required to settle all favourable contracts at the year end. The mark-to-market value represents a point-in-time estimate that may not be relevant in predicting the Company's future earnings or cash flows.

Cash and cash equivalents

Cash and cash equivalents include cash in interest-bearing accounts and term deposits with remaining maturities of less than three months at the date the term deposit was acquired.

Inventories

Inventories consisting of raw materials, packaging components and work-in-process are valued at the lower of weighted average cost and net realizable value.

Capital assets

Capital assets are carried at cost less accumulated depreciation. The cost of assets disposed of and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in earnings.

Depreciation is provided on the straight-line basis based on estimated useful lives as follows:

Buildings	40 – 50 years
Machinery and equipment	5 – 15 years
Office equipment	4 – 10 years
Furniture and fixtures	10 years

Repairs and maintenance costs are charged to operations as incurred.

In the consolidated statements of cash flows, additions to capital assets are classified as either project-related (additions related to revenue growth) or sustaining (additions related to the preservation of existing assets and capacity).

Intangible assets

Intangible assets represent the values assigned to acquired client contracts and relationships. They are amortized on a straight-line basis over their estimated economic lives of nine years.

Impairment of long-lived assets

On an annual basis, the Company reviews whether there are any indicators of impairment of its capital assets and identifiable intangible assets ("long-lived assets"). If such indicators are present, the Company assesses the recoverability of the assets or group of assets by determining whether the carrying value of such assets can be recovered through undiscounted future cash flows. If the sum of undiscounted future cash flows is less than the carrying amount, the excess of the carrying amount over the estimated fair value, based on discounted future cash flows, is recorded as a charge to earnings.

October 31, 2005 and 2004

*(Dollar information in tabular form is expressed in thousands of U.S. dollars.)***1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Deferred costs**

Deferred costs consist of deferred pre-operating and financing costs.

During the development and pre-operating phases of new businesses or facilities, incremental costs are deferred. Once commercial operations have commenced, the costs are amortized on a straight-line basis over five years. Grants under available government assistance programs, relating to these costs, are reflected as a reduction of amounts deferred.

The costs of obtaining bank and other debt financing are deferred and amortized on a straight-line basis over the term of the debt to which they relate.

Goodwill

Goodwill represents the excess of the purchase price of the Company's interest in subsidiary companies over the fair value of the underlying net identifiable assets arising on acquisitions. Goodwill is not subject to amortization but is subject to an annual review for impairment, or more frequently if events or changes in circumstances indicate that goodwill is impaired. Goodwill impairment is assessed based on a comparison of the fair value of an individual reporting unit to the underlying carrying value of the reporting unit's net assets including goodwill. When the carrying amount of the reporting unit exceeds its fair value, the fair value of the reporting unit's goodwill, determined in the same manner as in a business combination, is compared with its carrying amount to measure the amount of the impairment loss, if any.

Investment

The investment in the shares of a drug technology company is accounted for on the cost basis whereby the Company records, as earnings, its share of dividends as declared net of any impairment allowance. On an ongoing basis, management reviews the valuation of the investment, taking into consideration any events or circumstances that might have impaired its carrying value.

Employee benefit plans

The Company provides a number of benefit plans to its employees, including:

(a) defined benefit pension plans; (b) post-employment benefit plans; (c) defined contribution pension plans; and (d) unfunded termination indemnities.

The cost of defined benefit pension plans and other post-employment benefits, which include healthcare and dental benefits, related to employees' current service is charged to earnings annually. The cost is computed on an actuarial basis using the projected benefit method pro-rated on service and management's best estimates of various actuarial factors, including salary escalation, other cost escalation and retirement ages of employees.

The valuation of defined benefit pension plan assets is at current market value for purposes of calculating the expected return on plan assets. Past service costs resulting from plan amendments are deferred and amortized on a straight-line basis over the remaining service life of employees active at the time of amendment.

Actuarial gains (losses) arise from the difference between the actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period, or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain or loss over 10% of the greater of the benefit obligations and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plans and the other retirement benefit plans at the measurement date of October 31, 2005 is 12 years (2004 - 13 years).

The cost of defined contribution pension plans is charged to earnings as funds are contributed by the Company.

Unfunded termination indemnities for the employees of the Company's subsidiary in Italy are accrued based on Italian severance pay statutes. The liability recorded on the consolidated balance sheets is the amount to which the employees would be entitled if the employees' employment with the Company ceased.

October 31, 2005 and 2004

*(Dollar information in tabular form is expressed in thousands of U.S. dollars.)***1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Income taxes**

The Company follows the liability method of income tax allocation. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Stock-based compensation plan

The fair value of stock options granted, modified or settled on or after November 1, 2003 is recognized on a straight-line basis over the applicable stock option vesting period as stock-based compensation expense in the consolidated statements of earnings and contributed surplus in the consolidated balance sheets. On the exercise of stock options, consideration received and the accumulated contributed surplus amounts are credited to share capital.

For stock options granted prior to November 1, 2003, which are not accounted for at fair value, pro-forma earnings disclosure showing the impact of fair value accounting is included in note 19.

The fair value of stock options is estimated at the grant date using the Black-Scholes option pricing model. This model requires the input of a number of assumptions including dividend yields, expected stock price volatility, expected time until exercise and risk-free interest rates. Although the assumptions used reflect management's best estimates, they involve assumptions based on market conditions generally outside of the control of the Company.

Earnings per share

The calculation of earnings per share is based on the reported net earnings divided by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflect the assumed conversion of all dilutive securities using the treasury stock method.

Under the treasury stock method:

- the exercise of options is assumed to be at the beginning of the period (or at the time of issuance, if later);
- options for which the closing fair market value exceeds the option price are the only ones that are assumed to be dilutive;
- the proceeds from the exercise of options, plus future period compensation expense on options granted on or after November 1, 2003, are assumed to be used to purchase common shares at the average price during the period; and
- the number of common shares assumed to be dilutive, plus the weighted average number of common shares outstanding during the year, is used as the denominator in the diluted earnings per share computation.

Government financing

The Company makes periodic applications for financial assistance available under government assistance programs in the various jurisdictions in which the Company operates. Grants relating to capital expenditures are reflected as a reduction of the cost of the related assets. Grants and tax credits relating to current operating expenditures are generally recorded as a reduction of expense at the time the eligible expenses are incurred. In the case of certain foreign subsidiaries, the Company receives investment incentive allowances, which are accounted for as a reduction of income tax expense.

Use of estimates

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect: the reported amounts of assets and liabilities; the disclosure of contingent assets and liabilities at the date of the consolidated financial statements; and the reported amounts of revenue and expenses in the reporting period. Management believes that the estimates and assumptions used in preparing its consolidated financial statements are reasonable and prudent; however, actual results could differ from those estimates.

October 31, 2005 and 2004

*(Dollar information in tabular form is expressed in thousands of U.S. dollars.)***2. ACQUISITION**

On December 23, 2004, the Company completed the acquisition of MOVA Pharmaceutical Corporation and MOVA Investments, Inc. (collectively "MOVA"), a leading U.S. prescription pharmaceutical contract manufacturer located in Puerto Rico, U.S.A.

The purchase price for the shares of MOVA was based on an enterprise value for MOVA at closing of \$350,000,000. The Company issued 12,684,866 common shares to the shareholders of MOVA in satisfaction of \$81,500,000 of the purchase price. The Company assumed approximately \$133,300,000 in debt and paid \$135,200,000 in cash at closing.

The agreement also provided for two earn-out arrangements relating to MOVA's operating results for two specific periods. The maximum amounts for the first and second earn-outs were \$65,000,000 and \$26,000,000, respectively. An agreement was reached with the former MOVA shareholders to pay the full amount of the first earn-out arrangement and \$65,000,000 was paid on June 23, 2005. An additional \$8,300,000 was paid as a result of other post-closing adjustments relating to working capital and assumed debt. It was determined that no amount was payable under the second earn-out.

The acquisition has been accounted for using the purchase method, and the accompanying consolidated financial statements include the results of operations from the date of purchase. The purchase price was allocated in the accounts based on the fair value of the assets acquired as follows:

	\$
Current assets	62,176
Capital assets	128,050
Other long-term assets	1,719
Intangible assets	116,274
Goodwill	170,161
Current liabilities	(34,430)
Deferred revenues	(7,096)
Future tax liabilities	(3,402)
Net assets acquired before assumed debt	433,452
Less debt assumed	(133,333)
Net assets acquired	300,119

The purchase price consideration was as follows:

	\$
Cash consideration	208,489
Transaction costs	3,334
Total cash consideration	211,823
Value of 12,684,866 common shares issued to shareholders of MOVA	88,296
Total consideration	300,119

In accordance with generally accepted accounting principles, the value of the 12,684,866 common shares was determined based on the average market price of the Company's common shares for the two trading days prior to the announcement of the transaction and the two trading days following the announcement.

October 31, 2005 and 2004

(Dollar information in tabular form is expressed in thousands of U.S. dollars.)

3. CASH AND CASH EQUIVALENTS

	2005 \$	2004 \$
Interest-bearing balances with banks	15,436	4,315
Term deposits	7,071	3,311
	<u>22,507</u>	<u>7,626</u>

Restricted cash consists of a certificate of deposit of \$4,824,000 and \$2,981,000 of cash that are held in support of certain debt agreements of MOVA. As part of the refinancing described in note 22(a), these funds are no longer required to be held on deposit and accordingly have been reflected as a current asset as at October 31, 2005.

4. INVENTORIES

	2005 \$	2004 \$
Raw materials and packaging components	48,174	39,934
Work-in-process	24,644	18,829
	<u>72,818</u>	<u>58,763</u>

5. CAPITAL ASSETS

	COST \$	ACCUMULATED DEPRECIATION \$	2005 NET BOOK VALUE \$	2004 NET BOOK VALUE \$
Land	43,595	—	43,595	17,484
Buildings	231,979	33,579	198,400	124,490
Machinery and equipment	310,167	119,613	190,554	129,643
Office equipment	27,115	20,259	6,856	6,609
Furniture and fixtures	15,993	10,299	5,694	4,333
Construction in progress	29,694	—	29,694	49,166
	<u>658,543</u>	<u>183,750</u>	<u>474,793</u>	<u>331,725</u>

The amount required to complete authorized capital projects at October 31, 2005 is approximately \$8,648,000. The majority of these expenditures are expected to be incurred during the year ending October 31, 2006.

Included in capital assets are assets under capital leases with a cost of \$17,758,000 at October 31, 2005. The depreciation of assets under capital leases of \$4,734,000 is included in accumulated depreciation at October 31, 2005.

On October 17, 2005, the Company disposed of a parcel of land owned by its French subsidiary. This land was not considered to be integral to the long-term operations or expansion plans for the site. The proceeds received on the sale were \$4,748,000 and the Company recorded a gain on the sale of \$4,587,000.

October 31, 2005 and 2004

(Dollar information in tabular form is expressed in thousands of U.S. dollars.)

6. INTANGIBLE ASSETS

	2005	2004
	\$	\$
Balance, beginning of the year	—	—
Acquisition (note 2)	116,274	—
Amortization	(11,188)	—
Foreign currency impact on intangible assets	5,009	—
Balance, end of year	110,095	—

7. DEFERRED COSTS

	COST	ACCUMULATED AMORTIZATION	2005 NET BOOK VALUE	2004 NET BOOK VALUE
	\$	\$	\$	\$
Pre-operating costs	11,144	5,166	5,978	4,865
Financing costs	12,877	6,513	6,364	633
	24,021	11,679	12,342	5,498

During the year, \$2,010,000 of deferred financing costs associated with commitment fees paid for financing that was not required as a result of the MOVA acquisition were written off.

8. GOODWILL

	2005	2004
	\$	\$
Balance, beginning of the year	2,837	2,619
Acquisition (note 2)	170,161	—
Foreign currency impact on goodwill	7,667	218
Balance, end of year	180,665	2,837

9. BANK INDEBTEDNESS

	2005	2004
	\$	\$
Italian short-term operating credit facilities totaling €14,500,000 (\$17,377,000), bearing interest at 3-month Euribor plus spreads between 0.50% and 1.25%. Certain of the short-term credit facilities are collateralized by accounts receivable. Amounts utilized at October 31, 2005 were €11,922,000; 2004 – €7,618,000.	14,288	9,748
U.K. operating line of credit of £4,000,000 (\$7,080,000) bearing interest at U.K. base rate plus 1.50%, collateralized by a first charge over U.K. property, a first debenture from the borrower and a guarantee by the Company. Amount utilized at October 31, 2005 was £39,000; 2004 – £2,307,000.	69	4,375
At October 31, 2004, the Company had a C\$45,000,000 (US\$36,946,000) operating facility bearing interest at floating rates based on bankers' acceptances, Canadian prime, U.S. base rate or U.S. LIBOR, and collateralized by substantially all of the assets of the Company's Canadian operations. Amount utilized at October 31, 2004 was C\$8,930,000.	—	7,331
	14,357	21,454

October 31, 2005 and 2004

(Dollar information in tabular form is expressed in thousands of U.S. dollars.)

10. LONG-TERM DEBT

	2005 \$	2004 \$
The following long-term debt obligations were refinanced after year end (note 22):		
Canadian and U.S. term facilities bearing interest at floating rates based on bankers' acceptances, Canadian and U.S. prime, U.S. base rate or U.S. LIBOR, maturing in 2006, collateralized by substantially all of the assets of the Company's North American operations.	81,494	53,366
U.S. mortgages, bearing interest at 3.0% and 3.5%, maturing in 2010 and 2008, respectively.	10,202	11,680
U.S. revolving facilities, bearing interest at floating rates based on U.S. prime and Eurodollar, maturing in 2006, collateralized by accounts receivable and inventory of the Company's operations in Puerto Rico.	14,882	—
U.S. term facilities bearing interest at floating rates based on U.S. prime, U.S. base rate or U.S. LIBOR, maturing in 2006, 2013 and 2021. The loans are collateralized by substantially all of the assets of the Company's operations in Puerto Rico.	82,389	—
Various U.S. term facilities bearing interest at rates between 3.0% to 10.0%, maturing between 2006 and 2015. One of the term facilities with an amount outstanding of \$6,779,000 is collateralized by a mortgage and a security agreement. The rest of the facilities are collateralized by specific assets.	25,059	—
Italian mortgages (€21,223,000; 2004 – €25,007,000), bearing interest at floating rates based on 3-month Euribor, maturing at various dates from 2006 to 2012.	25,434	32,003
Italian mortgage (€6,988,000; 2004 – €8,785,000), bearing interest at 4.68% per annum, maturing in 2009.	8,375	11,242
Total long-term debt refinanced after year end (note 22)	247,835	108,291
Other long-term-debt obligations:		
U.S. obligations under capital leases bearing interest at fixed rates between 0.0% and 9.2%, maturing over various dates from 2006 to 2012.	5,873	—
Italian mortgage (€14,000,000; 2004 – €6,000,000), bearing interest at floating rates based on 3-month Euribor, maturing in 2014.	16,777	7,678
Italian government loan (€3,098,000; 2004 – €1,274,000), bearing interest at 0.9% per annum, maturing in 2014, and is unsecured.	3,713	1,630
U.K. asset financing facilities (£8,103,000; 2004 – £3,625,000), bearing interest at floating rates based on U.K. base rate and U.K. LIBOR and are collateralized by the assets financed.	14,343	6,663
Total other long-term debt	40,706	15,971
Total long-term debt outstanding	288,541	124,262
Less current portion	11,360	11,146
	277,181	113,116

At October 31, 2005, the Canadian and U.S. term facilities available to the Company totaled \$136,494,000. The balance was comprised of a \$81,494,000 bridge facility and a \$55,000,000 three-year revolving credit facility. No amount was drawn on the revolving credit facility at year end.

The estimated minimum annual repayment of long-term debt based on current exchange rates for the next five fiscal years is: 2006 – \$11,360,000; 2007 – \$16,991,000; 2008 – \$23,074,000; 2009 – \$15,127,000; 2010 – \$16,280,000. The amounts shown in current portion of long term-debt and the minimum annual repayments, reflect the refinancings that took place subsequent to year end (note 22).

October 31, 2005 and 2004

*(Dollar information in tabular form is expressed in thousands of U.S. dollars.)***10. LONG-TERM DEBT (CONTINUED)**

At October 31, 2005, the Company was not in compliance with certain covenants in connection with some of the loans refinanced; however, waivers have been obtained from the lenders and the Company also obtained amendments to the covenants for specific periods of 2005 and 2006.

Included within the future principal repayments of long-term debt are obligations under capital leases. Future minimum lease payments for the obligations under capital leases in effect at October 31, 2005 are as follows:

	\$
2006	2,492
2007	1,456
2008	903
2009	665
2010	654
Thereafter	709
Total payments	6,879
Less capital lease minimum payments representing interest	1,006
	5,873

Interest on long-term debt amounted to \$16,180,000 (2004 – \$4,912,000) for the year.

11. OTHER LONG-TERM LIABILITIES

	2005 \$	2004 \$
Unfunded termination indemnities (€5,900,000; 2004 – €5,200,000)	7,064	6,647
Employee future benefits (note 12)	15,691	15,013
Preferred shares (note 13)	—	76
	22,755	21,736
Less current portion included in accounts payable and accrued liabilities	—	76
	22,755	21,660

The unfunded termination indemnities relate to the employees of the Company's Italian subsidiary. In accordance with Italian severance pay statutes, an employee benefit is accrued for service to date and is payable when the employee's employment with the Company ceases. The termination indemnity liability is calculated in accordance with local civil and labour laws based on each employee's length of service, employment category and remuneration. The termination liability is adjusted annually by a cost-of-living index provided by the Italian Government. There is no vesting period or funding requirement associated with the liability. The liability recorded in the consolidated balance sheets is the amount to which the employees would be entitled if their employment with the Company ceased. The expense for the year amounted to \$1,916,000 (2004 – \$1,324,000).

12. EMPLOYEE FUTURE BENEFITS

The Company has a number of defined benefit pension plans. In addition, it has other benefit plans that provide post-retirement, healthcare and dental benefits. The Company measured the accrued benefit obligation and the fair value of plan assets for accounting purposes as at October 31, 2005 for the pension and other benefit plans.

October 31, 2005 and 2004

(Dollar information in tabular form is expressed in thousands of U.S. dollars.)

12. EMPLOYEE FUTURE BENEFITS (CONTINUED)

Information about the Company's defined benefit pension and other benefit plans, in aggregate, is as follows:

	DEFINED BENEFIT PENSION PLANS 2005 \$	OTHER BENEFIT PLANS 2005 \$	DEFINED BENEFIT PENSION PLANS 2004 \$	OTHER BENEFIT PLANS 2004 \$
Change in benefit obligation				
Benefit obligation, beginning of year	53,220	6,881	67,691	4,314
Current service cost	3,542	810	3,889	456
Interest cost	3,112	412	1,501	304
Plan amendments	(311)	—	613	—
Past service costs	—	—	399	—
Member contributions during the year	738	—	722	—
Benefits paid	(1,415)	(35)	(1,054)	(39)
Actuarial loss	636	1,882	6,725	1,317
Settlement of pension plan obligation	—	—	(32,828)	—
Currency translation	(1,157)	308	5,562	529
Benefit obligation, end of year	58,365	10,258	53,220	6,881
Change in plan assets				
Market value of plan assets, beginning of year	33,818	—	46,134	—
Actual return of plan assets	1,573	—	6,010	—
Member contributions during the year	738	—	722	—
Employer contributions	4,873	35	3,243	39
Benefits paid	(1,415)	(35)	(1,054)	(39)
Settlement of pension plan assets	—	—	(24,892)	—
Currency translation	(671)	—	3,655	—
Market value of plan assets, end of year	38,916	—	33,818	—
Reconciliation of funded status				
Funded status, deficit	(19,449)	(10,258)	(19,402)	(6,881)
Unamortized net actuarial loss	9,942	4,046	8,425	2,207
Unamortized past service costs	28	—	638	—
Accrued benefit liability	(9,479)	(6,212)	(10,339)	(4,674)

The accrued benefit liability of \$15,691,000 (2004 - \$15,013,000) is included in other long-term liabilities (note 11). For all of the Company's plans, the accrued benefit obligations are in excess of plan assets as at October 31, 2005 and October 31, 2004.

Defined benefit pension plan assets consist of:

	2005 %	2004 %
Equity securities	84	73
Debt securities	11	23
Other	5	4
Total	100	100

October 31, 2005 and 2004

(Dollar information in tabular form is expressed in thousands of U.S. dollars.)

12. EMPLOYEE FUTURE BENEFITS (CONTINUED)

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligation and benefit plan costs in connection with its defined benefit pension and other benefit plans are as follows (weighted average assumptions as at October 31):

	DEFINED BENEFIT PENSION PLANS 2005 %	OTHER BENEFIT PLANS 2005 %	DEFINED BENEFIT PENSION PLANS 2004 %	OTHER BENEFIT PLANS 2004 %
Accrued benefit obligation				
Discount rate	5.3	5.3	6.0	6.0
Rate of compensation increase	3.5	—	3.5	—
Benefit costs recognized				
Discount rate	5.3	5.3	6.5	6.0
Expected long-term rate of return on plan assets	7.0	—	7.0	—
Rate of compensation increase	3.5	—	3.5	—

In connection with the other benefit plans, a 4% to 11% annual rate of increase in the per capita cost of covered health-care and dental benefits was assumed for 2005 (2004 – 4% to 12%). The rate was assumed to decrease gradually over the next six years to 6% and remain at that level thereafter (2004 – 6% and thereafter). The following table outlines the effects of a one-percentage-point increase and decrease in the assumed healthcare and dental benefit trend rates:

		BENEFIT OBLIGATION \$	BENEFIT EXPENSE \$
Impact of:	1% increase	2,013	342
	1% decrease	(1,666)	(385)

The cost components of the Company's defined benefit pension plan and other benefit plans are aggregate are as follows:

	DEFINED BENEFIT PENSION PLANS 2005 \$	OTHER BENEFIT PLANS 2005 \$	DEFINED BENEFIT PENSION PLANS 2004 \$	OTHER BENEFIT PLANS 2004 \$
Current service cost	3,542	810	3,889	456
Interest cost	3,112	412	1,501	304
Actual return on plan assets	(1,573)	—	(6,010)	—
Actuarial loss	636	1,882	6,725	1,317
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefits	5,717	3,104	6,105	2,077
Adjustments to recognize the long-term nature of employee future benefit costs:				
Difference between expected return and actual return on plan assets for the year	(1,223)	—	4,934	—
Difference between amortization of the net actuarial loss for the year and actual actuarial loss on accrued benefit obligation for the year	(373)	(1,718)	(6,685)	(1,287)
Difference between amortization of past service costs for the year and actual plan amendments for the year	352	—	444	—
Net benefit cost recognized	4,473	1,386	4,798	790

October 31, 2005 and 2004

(Dollar information in tabular form is expressed in thousands of U.S. dollars.)

12. EMPLOYEE FUTURE BENEFITS (CONTINUED)

The Company also provides retirement benefits for the majority of its employees at its Canadian, U.S. and Puerto Rican sites under defined contribution pension plans. The total expense for the plans amounted to \$3,939,000 (2004 – \$3,238,000).

Total cash payments for employee future benefits for 2005 totaled \$8,847,000 (2004 – \$6,520,000), consisting of cash contributed by the Company to its defined benefit pension plans of \$4,873,000 (2004 – \$3,243,000), cash payments directly to beneficiaries for its other benefit plans of \$35,000 (2004 – \$39,000) and cash contributed to its defined contribution pension plans of \$3,939,000 (2004 – \$3,238,000).

13. SHAREHOLDERS' EQUITY**Share capital**

Share capital consists of the following:

	2005	2004
	\$	\$
Authorized		
Unlimited Class I preferred shares issuable in series, eligible for a cumulative cash dividend of C\$6.00 (US\$4.93) per share payable annually in arrears. Redeemable at the option of the Company for C\$100 (US\$85) per share with 1,331 preferred shares being required to be redeemed annually		
Unlimited common shares		
Issued and outstanding		
▪ Nil Class I preferred shares, Series A (2004 – 1,029)	—	76
▪ 92,845,688 common shares (2004 – 51,555,822)	400,594	118,954

Preferred shares

Due to their mandatory redemption provisions, the Company's preferred shares were classified as other long-term liabilities in the prior year, and associated dividends paid were reflected as interest expense. During 2005 and 2004, the Company redeemed 1,029 and 1,331, respectively, of its preferred shares at C\$100 (US\$85) (2004 – US\$82) per share. The Company's preferred shares were fully redeemed in 2005.

Common shares issued

On December 23, 2004, the Company completed a public offering of 26,000,000 common shares for gross proceeds of \$180,952,000 (net proceeds of \$172,741,000 after offering costs). Also on December 23, 2004, the Company issued 12,684,866 common shares in connection with the acquisition of MOVA with an ascribed value of \$88,296,000 (note 2).

On January 11, 2005, the underwriters of the public offering exercised the over-allotment option granted to purchase an additional 2,600,000 common shares for gross proceeds of \$18,256,000 (net proceeds of \$17,520,000 after offering costs).

During the year, the Company issued 5,000 (2004 – 50,000) common shares under the stock option plan for proceeds of \$33,000 (2004 – \$22,000).

Contributed surplus

	2005	2004
	\$	\$
Balance, beginning of year	1,373	—
Amortization of fair value of stock options	1,528	1,373
Balance, end of year	2,901	1,373

October 31, 2005 and 2004

(Dollar information in tabular form is expressed in thousands of U.S. dollars.)

13. SHAREHOLDERS' EQUITY (CONTINUED)

Cumulative translation adjustment

The cumulative translation adjustment amount is impacted by fluctuations in the value of the U.S. dollar relative to the Canadian dollar, the euro and U.K. sterling.

Unrealized translation adjustments, which arise on the translation to U.S. dollars of assets and liabilities of the Company's self-sustaining foreign operations, resulted in an unrealized currency translation gain of \$13,664,000 for the year ended October 31, 2005 (2004 – unrealized currency translation gain of \$15,402,000). For the year ended October 31, 2005, the net unrealized gain of \$13,664,000 is attributable to the weakening of the U.S. dollar against the Canadian dollar, the euro and U.K. sterling, as measured at October 31, 2005 and October 31, 2004.

Incentive stock option plan

The Company has an incentive stock option plan. Persons eligible to participate in the plan are directors, officers and key employees of the Company and its subsidiaries or any other person engaged to provide ongoing management or consulting services to the Company. The plan provides that the maximum number of shares that may be issued under the plan is 7.5% of the issued and outstanding common shares of the Company at any point in time. At October 31, 2005, the total number of common shares available for issuance under the plan was 6,963,427, of which 3,886,840 were reserved for options granted and outstanding under the plan. The exercise price of common shares subject to an option is determined at the time of grant and the price cannot be less than the weighted average market price of the common shares of the Company on the Toronto Stock Exchange during the two trading days immediately preceding the grant date. Options generally expire 10 years after the grant date and are also subject to early expiry in the event of death, resignation, dismissal or retirement of an optionee. Options generally vest over three years, one-third on each of the first, second and third anniversaries of the grant date.

A summary of the plan and changes during each of 2005 and 2004 are as follows:

	SHARES #	2005 WEIGHTED AVERAGE EXERCISE PRICE \$	SHARES #	2004 WEIGHTED AVERAGE EXERCISE PRICE \$
<i>(Dollar amounts in Canadian)</i>				
Outstanding, beginning of year	3,551,713	10.99	3,015,278	10.81
Granted	450,000	8.60	622,000	11.20
Exercised	(5,000)	8.26	(50,000)	0.60
Forfeited	(109,873)	13.05	(35,565)	13.81
Outstanding, end of year	3,886,840	10.66	3,551,713	10.99
Options exercisable at year end	3,145,990	10.86	2,705,893	10.77

The following table summarizes information about options outstanding, and options exercisable, at October 31, 2005:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING	2005 WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	2005 WEIGHTED AVERAGE EXERCISE PRICE
\$1.32 – 3.53	385,000	2.5 years	\$2.91	385,000	\$2.91
\$7.21 – 9.91	1,134,000	6.2 years	\$8.47	684,000	\$8.39
\$10.91 – 13.95	1,766,974	6.9 years	\$12.17	1,478,960	\$12.27
\$14.01 – 15.96	600,866	5.0 years	\$15.31	598,030	\$15.31
	3,886,840		\$10.66	3,145,990	\$10.86

Restricted Share Unit Plan

During the year, the Company established a Restricted Share Unit Plan (the "Plan"). Under the Plan, eligible participants are granted performance share units, which vest over a three-year period (one-third on each of the first, second and third anniversary dates of the grant). On each vesting anniversary date, each participant shall be paid cash equal to the then market price of the Company's common shares. During the year, 201,348 units were granted at a price of C\$10.36. The liability is being amortized to income over the three-year vesting period on a straight-line basis. The liability is being marked-to-market based on changes in the market price of the Company's shares. During 2005, \$217,000 was charged to earnings in connection with the Plan.

October 31, 2005 and 2004

*(Dollar information in tabular form is expressed in thousands of U.S. dollars.)***14. SHAREHOLDER RIGHTS PLAN**

On March 31, 2005, the shareholders approved the renewal of an amended and restated shareholder rights plan (the "Renewal Plan"), which continued the rights granted under a shareholder rights plan approved by shareholders on March 23, 1999. The Renewal Plan applies to all common shares and all future issues of common shares. The Renewal Plan is designed to encourage fair treatment of all the Company's shareholders in the event of a take-over bid, to provide shareholders and the Board of Directors with more time to fully consider any unsolicited take-over bid for the Company, to allow the Board of Directors to pursue, if appropriate, other alternatives to enhance shareholder value, and to allow additional time for competing bids to emerge. The Renewal Plan will be in effect until the close of the 2008 annual shareholders' meeting of the Company.

Under the terms of the Renewal Plan, one right has been granted for each common share. The rights granted under the Renewal Plan become exercisable only when a person, including any party related to it, acquires or announces its intention to acquire 20% or more of the Company's outstanding common shares without complying with the "Permitted Bid" provisions or without approval of the Board of Directors. Should the rights become exercisable, each right would entitle a holder, other than the acquiring person and persons related to it, to purchase C\$100 (US\$85) worth of common shares of the Company for C\$50 (US\$43).

A Permitted Bid is a bid made to all shareholders that is open for at least 60 days. If at the end of 60 days at least 50% of the outstanding shares, other than those owned by the offeror and certain related parties, have been tendered, then the offeror may take up and pay for the shares and must extend the bid for a further 10 business days to allow other shareholders to tender.

15. OTHER INFORMATION

Earnings per share

Earnings per share data is as follows:

	2005	2004
Net earnings for the year	\$21,621	\$10,678
<i>(in thousands)</i>		
Weighted average number of shares outstanding	86,828	51,521
Effect of dilutive stock options	378	446
Diluted weighted average number of shares outstanding	87,206	51,967
Earnings per share <i>(in U.S. dollars)</i>		
Basic	\$0.25	\$0.21
Diluted	\$0.25	\$0.21

Options to purchase 2,725,000 and 1,771,000 common shares for the years ended October 31, 2005 and 2004, respectively, were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares in the period.

Foreign exchange

Foreign exchange gain recognized for the year amounted to \$2,603,000 (2004 gain – \$24,000).

October 31, 2005 and 2004

*(Dollar information in tabular form is expressed in thousands of U.S. dollars.)***15. OTHER INFORMATION (CONTINUED)****Net change in non-cash working capital balances related to operations**

The net change in non-cash working capital balances related to operations is as follows:

	2005 \$	2004 \$
Accounts receivable	(7,463)	2,008
Inventories	2,758	(8,412)
Income taxes receivable	—	(2,886)
Prepaid expenses and other	(1,490)	159
Accounts payable and accrued liabilities	(5,422)	8,958
Income taxes payable	6,977	—
	<u>(4,640)</u>	<u>(173)</u>

Related party transactions

Revenues from companies controlled by a director and significant shareholder of the Company were in the amount of \$2,331,000 (2004 – nil). These transactions were conducted in the normal course of business at fair value. Accounts receivable at October 31, 2005 include a balance of \$317,000 (2004 – nil) resulting from these transactions.

16. INCOME TAXES

The following is a reconciliation of the expected income tax expense obtained by applying the combined corporate tax rates to income before income taxes:

	2005 \$	2004 \$
Expected income tax expense using statutory tax rates	11,849	6,732
Permanent differences and other		
Foreign	2,169	1,392
Domestic	542	274
Foreign rate differentials	(1,677)	455
Large Corporations Tax-domestic	223	200
Provision for income taxes	<u>13,106</u>	<u>9,053</u>
Effective tax rate	<u>37.7%</u>	<u>45.9%</u>

October 31, 2005 and 2004

(Dollar information in tabular form is expressed in thousands of U.S. dollars.)

16. INCOME TAXES (CONTINUED)

Components of future income taxes by jurisdiction are summarized as follows:

	2005 \$	2004 \$
Canada		
Future income tax assets – long-term		
Share issue costs	2,524	143
Deferred financing costs	1,097	48
Accounting provisions not currently deductible for tax purposes	2,872	1,866
	6,493	2,057
Foreign		
Future income tax assets – long-term		
Accounting provisions not currently deductible for tax purposes	7,550	6,839
Net operating loss carryforward	6,324	6,336
Other	1,001	568
	14,875	13,743
Future tax assets	21,368	15,800
Canada		
Future income tax liabilities – long-term		
Tax depreciation in excess of book depreciation	10,395	9,356
Investment tax credits	3,180	2,324
Other	619	286
	14,194	11,966
Foreign		
Future income tax liabilities – long-term		
Tax depreciation in excess of book depreciation	22,240	15,870
Other	326	406
	22,566	16,276
Future tax liabilities	36,760	28,242

17. SEGMENTED INFORMATION

The Company is organized and managed as a single business segment, being the provider of commercial manufacturing and pharmaceutical development services.

Canadian and foreign operations consist of the following:

	Year ended October 31, 2005			
	CANADA \$	U.S.A. \$	EUROPE \$	TOTAL \$
Revenues				
Canada	32,066	1,294	1,611	34,971
U.S.A.	161,645	253,996	9,765	425,406
Europe	39,883	715	190,980	231,578
Other geographic areas	3,548	387	2,428	6,363
Total revenues	237,142	256,392	204,784	698,318
Capital assets	122,445	170,334	182,014	474,793
Goodwill	2,926	177,739	—	180,665

October 31, 2005 and 2004

(Dollar information in tabular form is expressed in thousands of U.S. dollars.)

17. SEGMENTED INFORMATION (CONTINUED)

	Year ended October 31, 2004			
	CANADA \$	U.S.A. \$	EUROPE \$	TOTAL \$
Revenues				
Canada	25,169	2,081	622	27,872
U.S.A.	113,807	113,905	5,715	233,427
Europe	34,761	2,507	165,131	202,399
Other geographic areas	2,936	516	3,109	6,561
Total revenues	176,673	119,009	174,577	470,259
Capital assets	113,484	33,808	184,433	331,725
Goodwill	2,837	—	—	2,837

Revenues are attributed to countries based on the location of the client's billing address, capital assets are attributed to the country in which they are located, and goodwill is attributed to the country in which the entity to which the goodwill pertains is located. During the year ended October 31, 2005, two (2004 – two) clients accounted for more than 10% of the Company's total revenues. As a percentage of total revenues, these clients amounted to 16% and 12% (2004 – 20% and 13%).

Revenue information by service activity is as follows:

	Year ended October 31			
	2005 \$		2004 \$	
Commercial manufacturing – prescription	498,113	71%	302,315	64%
Commercial manufacturing – over-the-counter	109,153	16%	102,165	22%
Development services	91,052	13%	65,779	14%
	698,318	100%	470,259	100%

18. COMMITMENTS AND CONTINGENCIES

Long-term operating leases

The Company has entered into long-term rental agreements expiring at various dates until 2014. The future rental payments for the next five years and thereafter are estimated as follows: 2006 – \$1,328,000, 2007 – \$1,134,000, 2008 – \$615,000, 2009 – \$538,000, 2010 – \$307,000 and thereafter – \$826,000.

19. STOCK-BASED COMPENSATION

The Company recorded stock-based compensation expense in the year of \$1,528,000 (2004 – \$1,373,000) for options granted on or after November 1, 2003.

The fair value of stock options is estimated at the date of the grant. The weighted average fair value of stock options granted for the year ended October 31, 2005 was \$3.01 (2004 – \$3.94).

The fair value of stock options for purposes of determining stock-based compensation and pro-forma disclosures is estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2005	2004
Risk free interest rate	3.5%	3.7%
Expected volatility	46%	48%
Expected weighted average life of the options	5 years	5 years
Expected dividend yield	0%	0%

October 31, 2005 and 2004

*(Dollar information in tabular form is expressed in thousands of U.S. dollars.)***19. STOCK-BASED COMPENSATION (CONTINUED)**

Stock options granted prior to November 1, 2003 are accounted for using the intrinsic value method, which does not give rise to compensation expense. Had compensation expense been determined based on the fair value at grant dates for stock options granted prior to November 1, 2003, the Company's pro-forma results would have been:

	2005	2004
Net earnings as reported	\$21,621	\$10,678
Pro-forma compensation expense	(98)	(869)
Pro-forma net earnings	\$21,523	\$9,809
Pro-forma earnings per share <i>(in U.S. dollars)</i>		
Basic	\$0.25	\$0.19
Diluted	\$0.25	\$0.19

20. REPOSITIONING EXPENSES

During 2004, the Company adopted a repositioning plan for its U.K. operations designed to reduce operating losses. The plan included both a reduction in the work force and a reorganization of production processes. No amount was recorded for the year ended October 31, 2005, as the repositioning plan was completed by October 31, 2004. The total cost of the plan for the year ended October 31, 2004 was \$4,407,000, which was comprised of:

	2004 \$
Employee-related expenses	2,255
Equipment write-down	671
Other	1,481
	4,407

21. FINANCIAL INSTRUMENTS**(a) Foreign exchange forward contracts**

The Company utilizes financial instruments to manage the risk associated with fluctuations in foreign exchange rates.

The Company has entered into foreign exchange expandable forward contracts with an aggregate amount of between US\$12,000,000 and US\$18,000,000 as at October 31, 2005 (2004 – US\$17,000,000 and US\$25,500,000). These contracts mature at the latest on December 31, 2005 at exchange rates varying between 1.1850 and 1.2360 Canadian.

The mark-to-market value of these financial instruments as at October 31, 2005 was an unrealized gain of US\$220,000 (2004 – unrealized gain US\$2,352,000).

(b) Fair value

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. Accordingly, these estimated fair values are not necessarily indicative of the amounts the Company could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair value of financial instruments are described below:

Cash and cash equivalents, restricted cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and income taxes payable

Due to the short period to maturity of these instruments, the carrying values as presented in the consolidated balance sheets are reasonable estimates of fair value.

Long-term debt

The fair value of the Company's long-term debt, based on current rates for debt with similar terms and maturities, is not materially different from its carrying value.

October 31, 2005 and 2004

*(Dollar information in tabular form is expressed in thousands of U.S. dollars.)***21. FINANCIAL INSTRUMENTS (CONTINUED)****(c) Credit risk**

The Company's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents, accounts receivable and foreign exchange forward contracts with positive fair values.

Cash and cash equivalents, which include short-term investments, are only invested in entities with an investment grade credit rating. Credit risk is further reduced by limiting the amount which is invested in any one government or corporation.

The Company, in the normal course of business, is exposed to credit risk from its clients, substantially all of which are in the pharmaceutical industry. These accounts receivable are subject to normal industry credit risks.

The Company is also exposed to credit risk from potential default by any of its counterparties on its foreign exchange forward contracts. The Company manages this credit risk by dealing with counterparties that are major financial institutions and which the Company anticipates will satisfy their obligations under the contracts.

(d) Interest rate risk

A significant portion of the Company's debt bears interest at floating rates. The exposure to floating interest rates has been mitigated with the refinancing after year end (note 22) under which 50% of the new North American term loans bear interest at fixed rates.

22. SUBSEQUENT EVENTS

(a) On December 15, 2005, the Company completed new credit facilities in North America in the aggregate amount of \$290,000,000 to refinance existing debt of the Company and its U.S. subsidiaries including its subsidiaries in Puerto Rico. The new facilities replace: (i) existing credit facilities that were available to the Company's North American operations including those that were established at the time of acquisition of MOVA in December 2004; and (ii) debt of MOVA that was assumed at the time of acquisition by the Company. The new credit facilities comprise two term loans in the aggregate amount of \$215,000,000 and three-year revolving facilities in the aggregate totaling \$75,000,000. The term loans consist of a five-year term loan of \$50,000,000 and a six-year term loan of \$165,000,000. The new credit facilities bear interest at floating rates based on bankers' acceptances, Canadian and U.S. prime, U.S. base rate, or U.S. LIBOR, plus spreads between 0.75% and 2.5%. The Company has entered into a hedge agreement which has effectively fixed the interest rate on one half of the principal of the new term credit facilities, at an interest rate of approximately 7.25%. The new facilities are collateralized by the North American assets of the Company and its subsidiaries, including those of Puerto Rico.

As a result of the refinancing, in 2006 there will be a charge to earnings of approximately \$8,000,000 associated with the write-off of deferred financing costs and pre-payment penalties. The Company will also incur costs of approximately \$2,700,000 associated with completing the refinancing, which will be amortized over the term of the new facilities.

(b) On December 22, 2005, the Company's Italian subsidiary entered into a new long-term debt facility. The new loan replaced four separate term loans it had with an Italian bank. The new loan in the amount of €28,500,000 (\$34,156,000) bearing interest at floating rates based on three-month Euribor, maturing in 2014, has equal semi-annual principal payments over the term of the nine-year loan, and is collateralized by a mortgage over land and buildings.

23. COMPARATIVE AMOUNTS

Certain of the comparative amounts have been reclassified to conform to the current year presentation.