

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 judgment, 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.

(signed)

Riccardo Trecroce
Chief Executive Officer

Toronto, Canada
December 15, 2006

(signed)

John Bell
Chief Financial Officer

Auditors' Report

To the Shareholders of Patheon Inc.

We have audited the consolidated balance sheets of Patheon Inc. as at October 31, 2006 and 2005 and the consolidated statements of earnings (loss) and retained earnings (deficit) 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed)

Ernst & Young LLP
Chartered Accountants

Toronto, Canada
December 15, 2006

Consolidated Balance Sheets

As at October 31 (in thousands of U.S. dollars)	2006 \$	2005 \$
(See note 1 – Going Concern Uncertainty)		
ASSETS		
Current		
Cash and cash equivalents (note 4)	50,723	22,507
Restricted cash (note 4)	—	7,805
Accounts receivable	121,956	143,646
Inventories (note 5)	75,962	72,818
Prepaid expenses and other	6,800	4,258
Total current assets	255,441	251,034
Capital assets (note 6)	494,088	474,793
Intangible assets (note 7)	41,447	110,095
Deferred costs (note 8)	9,717	12,342
Future tax assets (note 17)	21,827	21,368
Goodwill (note 9)	3,077	180,665
Investments	586	1,271
	826,183	1,051,568
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness (note 10)	3,829	14,357
Accounts payable and accrued liabilities	142,781	129,067
Income taxes payable	879	5,650
Current portion of long-term debt (note 11)	283,717	11,360
Total current liabilities	431,206	160,434
Long-term debt (note 11)	62,071	277,181
Other long-term liabilities (note 12)	25,681	22,755
Deferred revenues	23,366	14,587
Future tax liabilities (note 17)	33,128	36,760
Total liabilities	575,452	511,717
Shareholders' equity		
Share capital (note 14)	400,721	400,594
Contributed surplus (note 14)	3,829	2,901
Retained earnings (deficit)	(189,900)	98,250
Cumulative translation adjustment (note 14)	36,081	38,106
Total shareholders' equity	250,731	539,851
	826,183	1,051,568

See accompanying notes

On behalf of the Board:

(signed)

Peter A.W. Green
Director

(signed)

George L. Ploder
Director

Consolidated Statements of Earnings (Loss)

Years ended October 31 (in thousands of U.S. dollars except earnings (loss) per share)	2006 \$	2005 \$
Revenues	712,152	698,318
Operating expenses	638,363	600,356
Earnings before the following:	73,789	97,962
Repositioning expenses (note 21)	13,787	—
Asset impairment charge (note 3)	254,661	—
Depreciation and amortization	39,878	33,351
Amortization of intangible assets	11,871	11,188
Gain on sale of land (note 6)	—	(4,587)
Interest	21,333	16,449
Debt prepayment charges (note 8)	1,643	—
Amortization of deferred financing costs	944	4,824
Write-off of deferred financing costs (note 8)	6,332	2,010
Earnings (loss) before income taxes	(276,660)	34,727
Provision for (recovery of) income taxes (note 17)		
Current	17,725	10,464
Future	(6,235)	2,642
	11,490	13,106
Net earnings (loss) for the year	(288,150)	21,621
Earnings (loss) per share (note 16)		
Basic	(\$3.10)	\$0.25
Diluted	(\$3.10)	\$0.25

See accompanying notes

Consolidated Statements of Retained Earnings (Deficit)

Years ended October 31 (in thousands of U.S. dollars)	2006 \$	2005 \$
Retained earnings, beginning of year	98,250	76,629
Net earnings (loss) for the year	(288,150)	21,621
Retained earnings (deficit), end of year	(189,900)	98,250

See accompanying notes

Consolidated Statements of Cash Flows

Years ended October 31 (in thousands of U.S. dollars)	2006 \$	2005 \$
OPERATING ACTIVITIES		
Net earnings (loss) for the year	(288,150)	21,621
Add (deduct) charges to operations not requiring a current cash payment		
Asset impairment charge	254,661	—
Depreciation and amortization	52,693	49,363
Write-off of deferred financing costs	6,332	2,010
Employee future benefits	1,564	1,639
Future income taxes	(6,235)	2,642
Gain on sale of land	—	(4,587)
Amortization of deferred revenues	(1,978)	(898)
Other	1,587	1,745
	20,474	73,535
Net change in non-cash working capital balances related to operations (note 16)	22,142	(4,640)
Increase in deferred revenues	9,614	8,271
Cash provided by operating activities	52,230	77,166
INVESTING ACTIVITIES		
Acquisition (note 2)	—	(211,823)
Cash acquired on acquisition	—	645
Acquisition net of cash acquired	—	(211,178)
Additions to capital assets		
Sustaining	(17,804)	(16,062)
Project-related	(49,695)	(40,730)
Total additions to capital assets	(67,499)	(56,792)
Proceeds on sale of land	—	4,748
Increase in investments	(49)	—
Increase in deferred pre-operating costs	(2,204)	(3,254)
Cash used in investing activities	(69,752)	(266,476)
FINANCING ACTIVITIES		
Decrease in bank indebtedness	(11,096)	(6,195)
Increase in long-term debt	416,389	341,445
Repayment of long-term debt	(364,800)	(304,838)
Decrease (increase) in restricted cash	7,805	(116)
Proceeds on issue of common shares before costs (note 14)	127	199,241
Share issue costs (note 14)	—	(8,947)
Increase in deferred financing costs	(3,965)	(9,446)
Cash provided by financing activities	44,460	211,144
Effect of exchange rate changes on cash and cash equivalents	1,278	(6,953)
Net increase in cash and cash equivalents during the year	28,216	14,881
Cash and cash equivalents, beginning of year	22,507	7,626
Cash and cash equivalents, end of year	50,723	22,507
Supplemental cash flow information		
Interest paid	22,573	16,906
Income taxes paid	11,460	5,200

See accompanying notes

October 31, 2006 and 2005
(Dollar information in tabular form is expressed in thousands of U.S. dollars)

Notes to Audited Consolidated Financial Statements

1. Going Concern Uncertainty, 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 ("TSX"). 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 manufacture 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:

Going Concern Uncertainty

These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future. As at October 31, 2006 the Company had a working capital deficiency of \$175,765,000. The deficiency includes the reclassification of \$263,842,000 of debt from long-term to short-term. The Company's ability to continue as a going concern is uncertain and is dependent upon the successful outcome of the review, announced on September 11, 2006, of strategic and financial alternatives (note 23). If the Company is not able to implement a long-term improvement in its capital structure as a result of this review, it anticipates that in the absence of any further amendment to its North American credit agreement, it will be in default of the covenants under the North American loan facilities as at April 30, 2007.

These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

Principles of Consolidation

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

The Company has adopted Accounting Guideline 15 "Consolidation of Variable Interest Entities". The Guideline requires consolidation of entities that are deemed to be subject to control on a basis other than through ownership of a voting interest in the entity. The Company has concluded that it does not have any variable interest entities and there is no impact on the consolidated financial statements as a result of adopting the Guideline.

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.

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

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 each month. 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.

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.

Certain foreign-denominated debt has been designated as a hedge against certain of the Company's foreign-denominated equity investments. Foreign exchange gains and losses on this debt are accumulated in the cumulative translation adjustment account in shareholders' equity.

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 forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The mark-to-market value of foreign exchange contracts 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 income 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 and charges for impairment. 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 five years.

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Impairment of Long-Lived Depreciable Assets

The Company reviews whether there are any indicators of impairment of its capital assets and identifiable intangible assets ("long-lived depreciable 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.

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.

Investments

Investments are 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 its investments, taking into consideration any events or circumstances which might have impaired the carrying values.

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 health care 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 and 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, 2006 is 11.8 years (2005 – 12 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.

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.

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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 (loss) and contributed surplus in the consolidated balance sheets. On the exercise of stock options, consideration received and the accumulated contributed surplus amount is credited to share capital.

For stock options granted prior to November 1, 2003, that are not accounted for at fair value, pro-forma earnings disclosure showing the impact of fair value accounting is included in note 20.

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 (Loss) Per Share

The calculation of earnings (loss) per share is based on the reported net earnings (loss) 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 in the denominator of the diluted earnings per share computation.

Government Financing

The Company makes periodic applications for financial assistance under available 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.

2. Acquisition

On December 23, 2004, the Company completed the acquisition of MOVA Pharmaceutical Corporation and MOVA Investments, Inc. (collectively "MOVA"), a 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.

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During 2006, MOVA received a notice from the Puerto Rico Industrial Development Company ("PRIDCO") requesting the accelerated repayment of a grant that MOVA received in 1996. In accordance with the terms of the original agreement with PRIDCO, MOVA had been repaying the grant in the form of royalty payments that were tied to revenues generated from certain products that MOVA manufactures for its clients. At the time of the acquisition, escrow funds were set aside as a protection against PRIDCO exercising a right to an accelerated repayment of the grant, but these funds were released to the former owners of MOVA at the end of the escrow period in circumstances where, in retrospect, the Company did not have a full understanding of PRIDCO's position on whether it would exercise its right to accelerate repayment of the grant. The Company reached a settlement with the former owners of MOVA, who agreed to reimburse MOVA 50% of the amounts owing to PRIDCO. MOVA's remaining liability is \$2,387,000. The Company would have reflected this liability in the purchase price allocation had it been aware of it at the time it was finalized. Accordingly, an adjustment has been made to goodwill, accounts payable and future tax liabilities. The adjustment to goodwill had the effect of increasing the goodwill impairment charge (note 3).

The acquisition of MOVA 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, as amended, 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	172,477
Current liabilities	(36,817)
Deferred revenues	(7,096)
Future tax liabilities	(3,331)
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.

3. Asset Impairment Charge

During 2006 the Company determined that the carrying value of MOVA's intangible assets, tangible capital assets (collectively the "long-lived depreciable assets") and goodwill were impaired as a result of certain events which occurred during the third quarter of 2006. These events included: continued deterioration in revenues culminating in a significant increase in losses reported by MOVA in the third quarter; suspension of production of a major product due to concerns over product shelf life; the risk of a decline in revenue of another major product as a result of the approval by the U.S. Food and Drug Administration of a generic version of the product; and the completion of a long-range plan that showed a significant reduction in earnings relative to prior forecasts.

The Company tested the recoverability of MOVA's long-lived depreciable assets and determined that expected future cash flows over the economic life of the principal assets were less than the carrying value of the long-lived depreciable assets. As a result the Company recorded an impairment charge of \$81,428,000 allocated as \$51,921,000 for intangible assets and \$29,507,000 for tangible capital assets. The fair value of the intangible assets was determined using a discounted cash flow methodology and the fair value of tangible capital assets was based on a value in continued use, taking into account utilization levels.

The Company tested the recoverability of the goodwill associated with MOVA using a discounted cash flow methodology, and recorded an impairment charge of \$172,477,000 representing the full value of the MOVA goodwill.

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During 2006 the Company, as part of its ongoing review of long-term investments, concluded that its investment in the shares of a drug technology company which is accounted for on the cost basis had an other than temporary decline and wrote down its value by \$756,000 to its market value.

A summary of the asset impairment charges for the year ended October 31, 2006 is as follows:

	\$
MOVA intangible asset impairment	51,921
MOVA tangible capital asset impairment	29,507
MOVA goodwill impairment	172,477
Other investment impairment	756
	254,661

4. Cash and Cash Equivalents

	2006 \$	2005 \$
Interest-bearing balances with banks	18,899	15,436
Term deposits	31,824	7,071
	50,723	22,507

Restricted cash in 2005 consisted of a certificate of deposit of \$4,824,000 and \$2,981,000 of cash that was held in support of certain debt agreements of MOVA. As part of the refinancing completed in 2006, the Company was able to release all of the restricted cash.

5. Inventories

	2006 \$	2005 \$
Raw materials and packaging components	47,548	48,174
Work-in-process	28,414	24,644
	75,962	72,818

6. Capital Assets

	Cost \$	Accumulated Depreciation \$	2006 Net Book Value \$	2005 Net Book Value \$
Land	44,199	—	44,199	43,595
Buildings	255,429	66,958	188,471	198,400
Machinery and equipment	350,297	153,347	196,950	190,554
Office equipment	32,098	25,216	6,882	6,856
Furniture and fixtures	18,364	11,816	6,548	5,694
Construction in progress	51,038	—	51,038	29,694
	751,425	257,337	494,088	474,793

The amount required to complete authorized capital projects at October 31, 2006 is approximately \$17,758,000. The expenditures are expected to be incurred during the years ending October 31, 2007 and 2008.

Included in capital assets are assets under capital leases with a cost of \$17,758,000 at October 31, 2006. The depreciation of assets under capital leases of \$5,765,000 is included in accumulated depreciation at October 31, 2006.

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 were \$4,748,000 and the Company recorded a gain on the sale of \$4,587,000.

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7. Intangible Assets

	2006 \$	2005 \$
Balance, beginning of year	110,095	—
Acquisition (note 2)	—	116,274
Amortization	(11,871)	(11,188)
Impairment (note 3)	(51,921)	—
Foreign currency impact on intangible assets	(4,856)	5,009
Balance, end of year	41,447	110,095

8. Deferred Costs

	Cost \$	Accumulated Amortization \$	2006 Net Book Value \$	2005 Net Book Value \$
Pre-operating costs	14,360	7,848	6,512	5,978
Financing costs	3,899	694	3,205	6,364
	18,259	8,542	9,717	12,342

During 2006, the Company incurred charges of \$1,643,000 in connection with the cancellation and prepayment of certain of its North American credit facilities. The Company also wrote off \$6,332,000 in related deferred financing costs.

During 2005, \$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.

9. Goodwill

	2006 \$	2005 \$
Balance, beginning of year	180,665	2,837
Acquisition (note 2)	2,316	170,161
Impairment (note 3)	(172,477)	—
Foreign currency impact on goodwill	(7,427)	7,667
Balance, end of year	3,077	180,665

10. Bank Indebtedness

	2006 \$	2005 \$
Italian short-term operating credit facilities totaling €19,200,000 (2005 – €14,500,000), bearing interest at 3-month Euribor plus spreads between 0.5% and 1.25%. Certain of the short-term credit facilities are collateralized by accounts receivable. Amounts utilized at October 31, 2006 were €3,000,000 (2005 – €11,922,000).	3,829	14,288
U.K. operating line refinanced during 2006.	—	69
	3,829	14,357

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

11. Long-Term Debt

	2006 \$	2005 \$
Canadian and U.S. revolving and 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 2008, 2010 and 2011, collateralized by substantially all of the assets of the Company's North American operations.	245,977	—
U.S. obligations under capital leases bearing interest at fixed rates between 0.0% and 7.1%, maturing over various dates from 2006 to 2011.	3,972	5,873
Italian mortgage (€20,706,000; 2005 – €14,000,000), bearing interest at floating rates based on 3-month Euribor maturing in 2014.	26,427	16,777
Italian mortgage (€26,917,000), bearing interest at floating rates based on 3-month Euribor maturing in 2014.	34,354	—
Italian government loan (€3,098,000; 2005 – €3,098,000), bearing interest at 0.9% per annum, maturing in 2014, and is unsecured.	3,954	3,713
U.K. asset financing facilities (£9,804,000; 2005 – £8,103,000), bearing interest at floating rates based on U.K. base rate or fixed rates between 5.8% and 7.3%, maturing in 2011, collateralized by the assets financed.	18,704	14,343
U.K. revolving credit facilities (£11,500,000) bearing interest rates based on U.K. base rate, maturing in 2009, collateralized by a first charge over U.K. property, a first debenture from the borrower and a guarantee by the Company. The amount utilized was £6,500,000.	12,400	—
Various long-term debt obligations refinanced during 2006.	—	247,835
Total long-term debt outstanding	345,788	288,541
Less current portion	283,717	11,360
	62,071	277,181

On December 15, 2005, the Company completed the negotiation of Canadian and U.S. revolving and term facilities (the "North American loan facilities") 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 credit facilities comprise two term loans in the aggregate amount of \$215,000,000 and revolving facilities in an aggregate amount of \$75,000,000.

During the fourth quarter of 2006, the Company entered into an agreement with its lenders to amend the North American loan facilities. The agreement reduced the amount of the revolving credit facilities from \$75,000,000 to \$60,000,000 and established amended financial covenants, including trailing 12-month debt-to-EBITDA covenants. The amended covenants cover a six-month period ending on March 31, 2007.

At October 31, 2006, amounts available to the Company under the North American loan facilities totaled \$269,126,000. The balance was composed of term facilities of \$209,126,000 and revolving credit facilities of \$60,000,000. Amounts drawn on the revolving credit facility at year end totaled \$36,851,000.

If the Company is not able to implement a long-term improvement in its capital structure as a result of its review of strategic and financial alternatives (note 23), it anticipates that, in the absence of any further amendment, it will be in default of the covenants under the North American loan facilities as at April 30, 2007 and the lenders could issue a notice of default and proceed with a demand for the repayment of all amounts outstanding under these credit facilities, as provided for in the agreement. Accordingly, in accordance with Emerging Issues Committee Abstract-59 the Company has re-classified \$239,952,000 of debt from long-term to short-term, representing the long-term portion of debt outstanding under the North American loan facilities. Any future default under the Company's North American loan facilities would cause a cross default under certain lending facilities in its U.K. subsidiary. Accordingly, the Company has also reclassified \$23,890,000 of related debt from long-term to short-term.

Assuming lenders under the Company's North American and U.K. loan facilities do not demand early repayment, the estimated minimum annual repayment of long-term debt based on current exchange rates for the next five fiscal years is: 2007 – \$19,875,000; 2008 – \$20,133,000; 2009 – \$67,563,000; 2010 – \$19,304,000; 2011 – \$155,110,000.

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Included within the above 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, 2006 are as follows:

	\$
2007	1,688
2008	974
2009	675
2010	654
2011	654
Thereafter	55
Total payments	4,700
Less capital lease minimum payments representing interest	728
	3,972

Interest on long-term debt amounted to \$22,265,000 (2005 – \$16,180,000).

12. Other Long-Term Liabilities

	2006 \$	2005 \$
Unfunded termination indemnities (€6,450,000; 2005 – €5,900,000)	8,228	7,064
Employee future benefits (note 13)	17,453	15,691
	25,681	22,755

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 employees' 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 \$1,971,000 (2005 – \$1,916,000).

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13. 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, 2006 for the defined benefit pension and other benefit plans.

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

	Defined Benefit Pension Plans 2006 \$	Other Benefit Plans 2006 \$	Defined Benefit Pension Plans 2005 \$	Other Benefit Plans 2005 \$
Change in benefit obligation				
Benefit obligation, beginning of year	58,365	10,258	53,220	6,881
Current service cost	4,999	1,556	3,542	810
Interest cost	3,221	556	3,112	412
Plan amendments	(146)	—	(311)	—
Member contributions during the year	—	—	738	—
Benefits paid	(1,984)	(89)	(1,415)	(35)
Actuarial loss	(2,669)	70	636	1,882
Currency translation	4,134	560	(1,157)	308
Benefit obligation, end of year	65,920	12,911	58,365	10,258
Change in plan assets				
Market value of plan assets, beginning of year	38,916	—	33,818	—
Actual return on plan assets	4,569	—	1,573	—
Member contributions during the year	—	—	738	—
Employer contributions	4,852	89	4,873	35
Benefits paid	(1,984)	(89)	(1,415)	(35)
Currency translation	3,796	—	(671)	—
Market value of plan assets, end of year	50,149	—	38,916	—
Reconciliation of funded status				
Funded status, deficit	(15,771)	(12,911)	(19,449)	(10,258)
Unamortized net actuarial loss	7,436	3,935	9,942	4,046
Unamortized past service costs	(142)	—	28	—
Accrued benefit liability	(8,477)	(8,976)	(9,479)	(6,212)

The accrued benefit liability of \$17,453,000 (2005 – \$15,691,000) is included in other long-term liabilities (note 12). For all of the Company's plans, the accrued benefit obligations are in excess of plan assets as at October 31, 2006 and October 31, 2005.

Defined benefit pension plan assets consist of:

	2006 %	2005 %
Equity securities	88	84
Debt securities	10	11
Other	2	5
Total	100	100

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The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligation and benefit plan expense 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 2006 %	Other Benefit Plans 2006 %	Defined Benefit Pension Plans 2005 %	Other Benefit Plans 2005 %
Accrued benefit obligation				
Discount rate	5.0	5.3	5.3	5.3
Rate of compensation increase	3.5	—	3.5	—
Benefit costs recognized				
Discount rate	5.0	5.5	5.3	5.3
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 10% annual rate of increase in the per capita cost of covered health care and dental benefits was assumed for 2006 (2005 – 4% to 11%). The rate was assumed to decrease gradually over the next five years to 6% and remain at that level thereafter (2005 – 6% and thereafter). The following table outlines the effects of a one-percentage-point increase and decrease in the assumed health care and dental benefit trend rates:

	Benefit Obligation \$	Benefit Expense \$
Impact of: 1% increase	2,482	556
1% decrease	(2,061)	(261)

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

	Defined Benefit Pension Plans 2006 \$	Other Benefit Plans 2006 \$	Defined Benefit Pension Plans 2005 \$	Other Benefit Plans 2005 \$
Current service cost	4,999	1,556	3,542	810
Interest cost	3,221	556	3,112	412
Actual return on plan assets	(4,569)	—	(1,573)	—
Actuarial (gain) loss	(2,669)	70	636	1,882
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefits	983	2,182	5,717	3,104
Adjustments to recognize the long-term nature of employee future benefit costs:				
Settlement gains	(1,447)	—	—	—
Difference between expected return and actual return on plan assets for the year	1,462	—	(1,223)	—
Difference between amortization of the net actuarial loss for the year and actual actuarial loss on accrued benefit obligation for the year	3,166	299	(373)	(1,718)
Difference between amortization of past service costs for the year and actual plan amendments for the year	20	—	352	—
Net benefit cost recognized	4,184	2,481	4,473	1,386

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 \$4,212,000 (2005 – \$3,939,000).

Total cash payments for employee future benefits for 2006 totaled \$9,153,000 (2005 – \$8,847,000), consisting of cash contributed by the Company to its defined benefit pension plans of \$4,852,000 (2005 – \$4,873,000), cash payments directly to beneficiaries for its other benefit plans of \$89,000 (2005 – \$35,000) and cash contributed to its defined contribution pension plans of \$4,212,000 (2005 – \$3,939,000).

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14. Shareholders' Equity

Share Capital

Share capital consists of the following:

	2006 \$	2005 \$
Authorized		
Unlimited Class I preferred shares issuable in series, eligible for a cumulative cash dividend of C\$6.00 (US\$5.34) per share payable annually in arrears. Redeemable at the option of the Company for C\$100 (US\$89) per share with 1,331 preferred shares being required to be redeemed annually		
Unlimited common shares		
Issued and outstanding		
92,950,688 common shares (2004 – 92,845,688)	400,721	400,594

Common Shares Issued

During the year, the Company issued 105,000 (2005 – 5,000) common shares under the stock option plan for proceeds of \$127,000 (2005 – \$33,000).

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).

Contributed Surplus

	2006 \$	2005 \$
Balance, beginning of year	2,901	1,373
Amortization of fair value of stock options	928	1,528
Balance, end of year	3,829	2,901

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 loss of \$2,025,000 for the year ended October 31, 2006 (2005 – unrealized currency translation gain of \$13,664,000).

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. As of October 31, 2006, the total number of common shares listed and reserved at the TSX for issuance under the plan was 6,858,427, of which there are stock options outstanding to purchase 3,949,815 shares 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 TSX 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 anniversary of the grant date.

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A summary of the plan and changes during each of 2006 and 2005 are as follows:

	2006		2005	
	Shares #	Weighted Average Exercise Price \$	Shares #	Weighted Average Exercise Price \$
(Dollar amounts in Canadian dollars)				
Outstanding, beginning of year	3,886,840	10.66	3,551,713	10.99
Granted	547,500	6.66	450,000	8.60
Exercised	(105,000)	1.36	(5,000)	8.26
Forfeited	(379,525)	8.75	(109,873)	13.05
Outstanding, end of year	3,949,815	10.53	3,886,840	10.66
Options exercisable at year end	3,617,304	10.73	3,145,990	10.86

The following table summarizes information about options outstanding at October 31, 2006:

(Dollar amounts in Canadian dollars)	Options Outstanding			Options Exercisable	
	Number Outstanding	2006 Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	2006 Weighted Average Exercise Price
Range of Exercise Prices					
\$2.55 – 3.53	280,000	1.8 years	\$3.50	280,000	\$3.50
\$6.17 – 7.57	347,500	4.8 years	\$6.67	200,000	\$6.87
\$8.15 – 9.91	1,054,833	3.7 years	\$8.48	973,166	\$8.47
\$10.91 – 13.95	1,695,482	4.8 years	\$12.16	1,592,138	\$12.22
\$14.12 – 15.96	572,000	3.6 years	\$15.30	572,000	\$15.30
	3,949,815		\$10.53	3,617,304	\$10.73

Restricted Share Unit Plan

The Company established a Restricted Share Unit Plan (the "Plan") during 2005. 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 is paid cash equal to the then market price of the Company's common shares. During the year, 311,135 units (2005 – 201,348) were granted at a weighted average price of C\$6.76 (2005 – 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 2006, \$644,000 (2005 – \$217,000) was charged to earnings in connection with the Plan.

15. 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\$89) worth of common shares of the Company for C\$50 (US\$45).

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 but must extend the bid for a further 10 business days to allow other shareholders to tender.

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

16. Other Information

Earnings (Loss) Per Share

Earnings (loss) per share data is as follows:

	2006	2005
Net earnings (loss) for the year	(\$288,150)	\$21,621
(Shares outstanding in 000's)		
Weighted average number of shares outstanding	92,868	86,828
Effect of dilutive stock options	—	378
Diluted weighted average number of shares outstanding	92,868	87,206
Earnings (loss) per share (in U.S. dollars)		
Basic	(\$3.10)	\$0.25
Diluted	(\$3.10)	\$0.25

Options to purchase 2,725,000 common shares for the year ended October 31, 2005, 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 \$1,065,000 (2005 gain – \$2,603,000).

Net Change in Non-cash Working Capital Balances Related to Operations

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

	2006	2005
	\$	\$
Accounts receivable	11,833	(7,463)
Inventories	(368)	2,758
Prepaid expenses and other	(2,320)	(1,490)
Accounts payable and accrued liabilities	5,423	(5,422)
Income taxes payable	7,574	6,977
	22,142	(4,640)

Related Party Transactions

Revenues and recharges for cost recoveries from companies controlled by a director and significant shareholder of the Company were in the amount of \$3,145,000 (2005 – \$2,331,000). These transactions were conducted in the normal course of business and are recorded at the exchange amount which management believes to be at fair value. Accounts receivable at October 31, 2006 include a balance of \$446,000 (2005 – \$317,000) resulting from these transactions.

At October 31, 2006 the Company has an investment of \$173,000, (2005 – nil) representing an 18% interest in two Italian companies whose largest investor is an officer of the Company. These newly formed companies will specialize in the manufacturing of cytotoxic pharmaceutical products.

17. Income Taxes

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

	2006	2005
	\$	\$
Expected income tax expense (recovery) using statutory tax rates	(95,337)	11,849
Valuation reserve	6,381	—
Permanent differences and other		
Foreign	4,067	2,169
Domestic	1,483	542
Goodwill impairment	59,436	—
Foreign rate differentials	35,412	(1,677)
Large Corporations Tax-domestic	48	223
Provision for income taxes	11,490	13,106
Effective tax rate	(4.2%)	37.7%

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

	2006 \$	2005 \$
Canada		
Future income tax assets – long-term		
Share issue costs	1,946	2,524
Deferred financing costs	2,509	1,097
Accounting provisions not currently deductible for tax purposes	3,096	2,872
Unclaimed R&D expenditures	4,667	—
Valuation reserve	(6,311)	—
	5,907	6,493
Foreign		
Future income tax assets – long-term		
Accounting provisions not currently deductible for tax purposes	7,537	7,550
Net operating loss carryforward	7,386	6,324
Other	997	1,001
	15,920	14,875
Future tax assets	21,827	21,368
Canada		
Future income tax liabilities – long-term		
Tax depreciation in excess of book depreciation	5,200	10,395
Investment tax credits	—	3,180
Other	1,025	619
	6,225	14,194
Foreign		
Future income tax liabilities – long-term		
Tax depreciation in excess of book depreciation	26,549	22,240
Other	354	326
	26,903	22,566
Future tax liabilities	33,128	36,760

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18. 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:

	Manufacturing Location			
	Canada	USA	Europe	Total
Year ended October 31, 2006	\$	\$	\$	\$
Revenues:				
Canada	38,697	856	1,930	41,483
USA	158,706	231,184	13,751	403,641
Europe	53,010	846	202,842	256,698
Other geographic areas	4,696	190	5,444	10,330
Total revenues	255,109	233,076	223,967	712,152
Capital assets	129,725	142,491	221,872	494,088
Goodwill	3,077	—	—	3,077

	Manufacturing Location			
	Canada	USA	Europe	Total
Year ended October 31, 2005	\$	\$	\$	\$
Revenues:				
Canada	32,066	1,294	1,611	34,971
USA	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

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, 2006, two (2005 – two) clients accounted for more than 10% of the Company's total revenues. As a percentage of total revenues, these clients amounted to 13% and 12% (2005 – 16% and 12%).

Revenue information by service activity is as follows:

Years ended October 31	2006		2005	
	\$	%	\$	%
Commercial manufacturing – prescription	508,233	71%	498,113	71%
Commercial manufacturing – over-the-counter	104,908	15%	109,153	16%
Development services	99,011	14%	91,052	13%
	712,152	100%	698,318	100%

19. 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: 2007 – \$2,449,000, 2008 – \$1,552,000, 2009 – \$1,224,000, 2010 – \$409,000, 2011 – \$237,000 and thereafter – \$632,000.

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20. Stock-Based Compensation

The Company recorded stock-based compensation expense in the year of \$928,000 (2005 – \$1,528,000) 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, 2006 was \$1.73 (2005 – \$3.01).

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:

	2006	2005
Risk free interest rate	4.2%	3.5%
Expected volatility	42%	46%
Expected weighted average life of the options	4 years	5 years
Expected dividend yield	0%	0%

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:

	2006 \$	2005 \$
Net earnings (loss) as reported	(288,150)	21,621
Pro-forma compensation expense	(28)	(98)
Pro-forma net earnings (loss)	(288,178)	21,523
Pro-forma earnings (loss) per share (in U.S. dollars):		
Basic	(\$3.10)	\$0.25
Diluted	(\$3.10)	\$0.25

21. Repositioning Expenses

During 2006, the Company incurred a number of expenses associated with its performance enhancement program, which is intended to identify operational improvements and cost reduction initiatives. The related expenses include costs associated with a reduction in the workforce and consulting fees from external specialists who are assisting in identifying operational improvements.

During 2006, the Company also incurred professional fees in connection with the amendment to its North American loan facilities (note 11) and its review of strategic and financial alternatives (note 23).

The following is a summary of expenses associated with these initiatives (collectively "repositioning expenses") for the year ended October 31, 2006:

	\$
Performance enhancement program:	
Employee-related expenses	9,610
Consulting and professional fees	1,193
Loan amendments and strategic alternatives review	2,984
	13,787

As at October 31, 2006 \$9,487,000 of the repositioning expenses were unpaid and are recorded in accounts payable and accrued liabilities.

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22. 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 forward contracts with an aggregate amount of US\$60,000,000 as at October 31, 2006 (2005 – between US\$12,000,000 and US\$18,500,000). These contracts mature at the latest on October 29, 2007 at exchange rates varying between \$1.0856 and \$1.096 Canadian.

The mark-to-market value of these financial instruments as at October 31, 2006 was an unrealized loss of US\$1,418,000 (2005 – unrealized gain US\$220,000).

As at October 31, 2006 the Company has designated \$200,000,000 of US dollar-denominated debt as a hedge against its equity investment in its operations in the U.S.A. and Puerto Rico. The exchange gains and losses arising from this debt accumulate in the cumulative translation adjustment account in shareholders' equity.

(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.

(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 which 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 Company currently has no outstanding interest rate swap contracts that mitigate this risk.

23. Review of Strategic and Financial Alternatives

On September 11, 2006 the Company announced that its Board of Directors had established a special committee to evaluate a range of strategic and financial alternatives for the Company. Financial advisors were also appointed to assist the special committee and the Company in this process. The Company is in discussions with a number of parties with regard to various alternatives. There can be no assurance that a transaction or other material development will result from this process.

24. Comparative Amounts

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