FOURTH QUARTER 2007
REPORT TO SHAREHOLDERS

PATHEON ANNOUNCES FOURTH QUARTER RESULTS

Toronto, Canada (December 14, 2007) – Patheon (TSX:PTI), a global provider of drug development and manufacturing services to the international pharmaceutical industry, today announced its results for the fourth quarter ended October 31, 2007. (All amounts are in U.S. dollars unless otherwise indicated.)

The consolidated results for the fourth quarter of 2007 and comparative prior periods presented in this report reflect the results for the Company's continuing operations. The results for Niagara-Burlington operations have been segregated and presented separately as discontinued operations in the consolidated financial statements.

Financial Results

Fourth Quarter Ended October 31, 2007
Compared With Fourth Quarter Ended October 31, 2006

- Revenues from continuing operations were $166.8 million, an increase of 1%;
- EBITDA before repositioning expenses from continuing operations was $21.2 million (12.7% of revenues), compared with $18.8 million (11.3% of revenues);
- EBITDA before repositioning expenses from continuing operations included foreign exchange gains of $5.8 million;
- Revenues and EBITDA before repositioning expenses from continuing operations, excluding Puerto Rico, were $151.9 million and $30.4 million, respectively, compared with $131.9 million and $18.5 million;
- Revenues and EBITDA before repositioning expenses from discontinued operations were $6.8 million and $0.5 million, respectively, compared with $9.4 million and $0.8 million a year ago;
- The loss from continuing operations for the quarter was $9.1 million (9.9 cents per share), compared with a loss of $22.2 million (23.8 cents per share) a year ago;
- The net loss including discontinued operations for the quarter was $7.5 million (8.2 cents per share) compared with a net loss of $22.4 million (24.1 cents per share) a year ago.

Patheon hosted a live audio webcast of its analysts' conference call. See page 42 for details.

Twelve Months Ended October 31, 2007
Compared With Twelve Months Ended October 31, 2006

- Revenues from continuing operations were $677.1 million versus $674.7 million;
- EBITDA before repositioning expenses from continuing operations improved by 27% to $90.3 million (13.3% of revenues), up from $70.9 million (10.5%);
- EBITDA before repositioning expenses from continuing operations included foreign exchange gains of $8.9 million;
- Revenues and EBITDA before repositioning expenses from continuing operations, excluding Puerto Rico, were $577.3 million and $108.6 million, respectively, compared with $544.9 million and $69.5 million;
- Revenues and EBITDA before repositioning expenses from discontinued operations were $35.2 million and $2.8 million, respectively, compared with $37.5 million and $2.9 million;
- The loss from continuing operations was $84.5 million (91.0 cents per share) compared with a loss of $288.7 million ($3.11 per share) a year ago;
- The net loss including discontinued operations for the year was $94.6 million ($1.02 per share) compared with a net loss of $288.2 million ($3.10 per share) a year ago.

"Fiscal 2007 was a year of considerable improvement in the financial performance of most of our operations," said Riccardo Trecroce of Patheon Inc. "Our European, Canadian and Cincinnati sites continued to grow, generating revenues of $577.3 million, up 6% over 2006. Growth was particularly strong in Europe, where R_x manufacturing revenues grew by 23% year-over-year due to high demand for our specialized manufacturing capabilities. Our global PDS revenues grew 19% to $116.5 million, and we successfully launched three more new products on behalf of our clients during the year.

"This strong performance has been overshadowed by the results of our Puerto Rico operations, which continued to deteriorate in the fourth quarter," Mr. Trecroce said. "Increased losses were driven in part by significantly lower revenues in the fourth quarter for Omnicef®, manufactured at the Carolina site, due to generic competition. There also were increased losses at the Caguas facility, due to lower volumes of several significant products and various operating inefficiencies."

Puerto Rico restructuring

As previously announced, Patheon has been conducting a comprehensive review of the Puerto Rico operations, with a focus on restructuring the operations, eliminating operating losses and developing a long-term plan for the business.

As a result of this review, Patheon has decided to retain and continue to streamline its facilities in Caguas and Manati, and divest its facility in Carolina, Puerto Rico.

The Carolina site is a 230,000-square-foot facility, with approximately 200 employees, that specializes in the manufacture of oral cephalosporin solid dosage forms, including tablets, capsules and powders for suspension. It currently manufactures four products on behalf of six clients.

"We have concluded that Carolina – a high-quality site with specialized capabilities and expertise – would be of greater strategic value to another company with a focus on manufacturing oral cephalosporins," said Mr. Trecroce. "This divestiture will allow us to focus on improving operating performance and growing our business at the Caguas and Manati facilities."

It is anticipated that the purchaser will assume responsibility for the staff at the facility, and contracts with third parties subject to their approval. Patheon has retained an advisor to manage the sale of the Carolina site.

Patheon plans to retain its facilities at Caguas and Manati, with the objective of returning the Puerto Rico operations to breakeven at the EBITDA level by the end of fiscal 2008. With new management in place in Puerto Rico, Patheon plans to continue an extensive program to improve operating performance, improve quality and training systems, reduce overhead costs and pursue new business opportunities for these sites. During the fourth quarter, the size of the workforce was reduced by an additional 40 positions at Caguas, resulting in a total workforce at Caguas and Manati of approximately 775 positions at fiscal year end. In the second half of fiscal 2007, the Company secured commitments to manufacture four additional products on behalf of three clients that it expects to begin contributing to results in the latter half of 2008.

Canadian site network restructuring

On December 6, 2007, Patheon announced that it had entered into a definitive agreement to sell its Niagara-Burlington over-the-counter pharmaceutical manufacturing business to Pharmetics Inc. Pharmetics will acquire the assets at Patheon's facilities in Fort Erie and Burlington (Gateway Drive), Ontario, provide employment to the active workforce and, subject to the assignment of third-party contracts, continue manufacturing the existing products at the sites. The transaction is expected to be completed on or about January 31, 2008, subject to closing conditions

"The agreement with Pharmetics marked the successful conclusion to the Niagara-Burlington OTC divestiture process," said Mr. Trecroce. "By divesting of this business, Patheon can now focus capital and resources on the areas of its business with the greatest potential for higher-margin growth."

Fourth-quarter operating results from continuing operations

Fourth-quarter revenues increased by $1.0 million, or 1%, to $166.8 million over the same period a year ago. Pharmaceutical development services ("PDS") revenues grew by $4.1 million and over-the-counter ("OTC") revenues by $2.3 million, while prescription ("R_x") revenues declined by $5.4 million.

Revenues from R_x manufacturing services declined by $5.4 million or 4% over the same period a year ago, with strong year-over-year growth in Europe offset by declines in Puerto Rico and Canada. The revenue growth in Europe reflects the full commercial production of multiple products transferred into Patheon's sites in Italy and France by two clients. R_x revenues declined in Puerto Rico year-over-year, due to significantly lower revenues for Omnicef® in the fourth quarter following the emergence of generic competition in May 2007, lower volumes of other products, and the absence of orders for Zocor®, which lost patent protection in 2006. R_x revenues were down in Canada, primarily due to API delivery delays for products manufactured on behalf of a major client at Toronto Region Operations.

Revenues from pharmaceutical development services increased by $4.1 million, or 14%, due to solid growth at the Swindon and Cincinnati PDS operations. Patheon is currently developing 199 new products on behalf of its clients, up from 171 a year ago.

Consolidated EBITDA before repositioning expenses was $21.2 million in the fourth quarter, up from $18.8 million a year ago. The EBITDA margin before repositioning expense was 12.7% in the fourth quarter, compared with 11.3% in the fourth quarter of 2006.

Operating expenses were reduced in the fourth quarter by foreign exchange gains of $5.8 million. These gains principally arose from the re-evaluation of the U.S. dollar denominated debt in Canada and benefits from the Company's cash flow hedging program. Operating expenses were further reduced in the fourth quarter as a result of an actuarial gain of $4.3 million arising from a decision to phase out certain post-retirement health benefits in Canada.

In Canada, despite a decline in revenues, particularly at Toronto Region Operations, EBITDA before repositioning expenses from commercial manufacturing operations was $6.9 million, or $1.7 million higher than the same period a year ago. This improvement reflects the inclusion of a significant portion of the actuarial gains resulting from the amendment to the Company's post-retirement health benefit plans. EBITDA before repositioning expenses was not significantly impacted by the strengthening of the Canadian dollar relative to the U.S. dollar in the fourth quarter, due to gains from the Company's foreign exchange cash flow hedging program.

EBITDA before repositioning expenses from U.S. operations was a loss of $4.5 million, compared with a profit of $5.7 million in the same period a year ago. The decline was attributable to significantly lower volumes of Omnicef at Carolina Operations and reduced volumes of high-margin products and operating inefficiencies at Caguas Operations. In Cincinnati, EBITDA before repositioning expenses continued to improve due to strong volume growth and increased operating efficiencies.

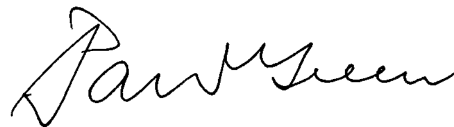
In Europe, EBITDA before repositioning expenses from the commercial manufacturing operations was $3.8 million, or $0.3 million lower than the same period a year ago. The benefits of higher revenues were offset by additional variable compensation costs, incremental costs relating to production delays at Swindon Operations and foreign exchange losses.

EBITDA before repositioning expenses from global pharmaceutical development services was $9.4 million, or $3.2 million higher than the same period a year ago. The increase reflects improved revenue growth at the Cincinnati and Swindon PDS operations.

Outlook

Due to normal shutdowns during December, revenues in the first quarter of 2008 are expected to be lower than the fourth quarter of 2007.

On behalf of the Board,



Riccardo Trecroce
Director

Peter A.W. Green
Chairman of the Board

December 14, 2007

FORWARD-LOOKING STATEMENTS

Cautionary Note
This report contains forward-looking statements which reflect management's expectations regarding the Company's future growth of operations, performance (both operational and financial) and business prospects and opportunities.

PLEASE REFER TO THE CAUTIONARY NOTE AT THE END OF THE MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ("MD&A") ATTACHED TO AND FORMING PART OF THIS REPORT.

Consolidated Statements of Earnings (Loss)

(unaudited)

	Three months ended October 31,			Twelve months ended October 31,		
	2007	2006	% change	2007	2006	% change
(in thousands of U.S. dollars, except per share amounts)	$	$		$	$	
Revenues	**166,792**	165,750	0.6%	**677,074**	674,659	0.4%
Operating expenses	**145,558**	146,988	-1.0%	**586,756**	603,783	-2.8%
Earnings before the following:	**21,234**	18,762	13.2%	**90,318**	70,876	27.4%
(as a % of revenues)	***12.7%***	*11.3%*		***13.3%***	*10.5%*	
Asset impairment charge (note 4)	**-**	-		**48,580**	254,661	-80.9%
Repositioning expenses (note 7)	**6,714**	12,998	-48.3%	**15,800**	12,998	21.6%
Depreciation and amortization	**10,436**	9,676	7.9%	**40,979**	38,766	5.7%
Amortization of intangible assets	**1,093**	2,182	-49.9%	**6,687**	11,871	-43.7%
Foreign exchange loss (note 8)	**-**	-		**858**	-	
Interest	**7,468**	6,247	19.5%	**29,167**	21,333	36.7%
Refinancing expenses (note 11)	**-**	-		**13,471**	1,643	719.9%
Amortization of deferred financing costs	**-**	346		**-**	944	
Write-off of deferred financing costs (note 11)	**-**	-		**-**	6,332	
Loss before income taxes	**(4,477)**	(12,687)	64.7%	**(65,224)**	(277,672)	76.5%
Provision for income taxes	**4,573**	9,475	51.7%	**19,234**	11,047	74.1%
Loss from continuing operations	**(9,050)**	(22,162)	59.2%	**(84,458)**	(288,719)	70.7%
(as a % of revenues)	**-5.4%**	-13.4%		**-12.5%**	-42.8%	
Earnings (loss) from discontinued operations (note 5)	**1,528**	(254)	701.6%	**(10,143)**	569	-1882.6%
Net loss for the period	**(7,522)**	(22,416)	66.4%	**(94,601)**	(288,150)	67.2%
Basic and diluted earnings (loss) per share						
From continuing operations	**(9.9¢)**	(23.8¢)	58.4%	**(91.0¢)**	(310.8¢)	70.7%
From discontinued operations	**1.7¢**	(0.3¢)	666.7%	**(10.9¢)**	0.6¢	-1916.7%
	(8.2¢)	(24.1¢)	66.0%	**(101.9¢)**	(310.2¢)	67.2%
Average number of shares outstanding during period (in thousands):			`			
Basic and diluted	**92,473**	92,919	-0.5%	**92,834**	92,868	0.0%

see accompanying notes

Consolidated Balance Sheets

(unaudited)

	As at October 31, 2007	As at October 31, 2006
(in thousands of U.S. dollars)	**$**	**$**
Assets		
Current		
Cash and cash equivalents	**30,557**	50,723
Accounts receivable	**130,801**	117,705
Inventories	**88,729**	72,057
Prepaid expenses and other	**12,347**	6,615
Assets held for sale (note 5)	**9,843**	8,341
Total current assets	**272,277**	255,441
Capital assets (note 4)	**487,423**	467,365
Intangible assets (note 4)	**8,718**	41,447
Deferred costs	**8,878**	9,717
Future tax assets	**31,055**	21,827
Goodwill	**3,658**	3,077
Investments	**946**	586
Assets held for sale (note 5)	**16,662**	26,723
	829,617	826,183
Liabilities and Shareholders' equity		
Current		
Bank indebtedness	**8,224**	3,829
Accounts payable and accrued liabilities	**163,721**	140,254
Income taxes payable	**4,684**	879
Current portion of long-term debt (note 10)	**11,902**	283,717
Liabilities related to assets held for sale (note 5)	**3,174**	2,527
Total current liabilities	**191,705**	431,206
Long-term debt (note 10)	**203,647**	62,071
Deferred revenues	**25,994**	23,366
Future tax liabilities	**47,578**	33,128
Convertible preferred shares - debt component (note 10)	**139,916**	-
Other long-term liabilities	**22,069**	24,265
Long-term liabilities related to assets held for sale (note 5)	**1,523**	1,416
Total liabilities	**632,432**	575,452
Shareholders' equity		
Convertible preferred shares - equity component (note 2 and 10)	**15,925**	-
Restricted voting shares (note 2)	**391,967**	400,721
Contributed surplus	**4,049**	3,829
Deficit	**(286,250)**	(189,900)
Accumulated other comprehensive income	**71,494**	36,081
Total shareholders' equity	**197,185**	250,731
	829,617	826,183

see accompanying notes

Consolidated Statements of Changes in Shareholders' Equity

(unaudited)

	Twelve months ended October 31,	
	2007	**2006**
(in thousands of U.S. dollars)	**$**	**$**
Convertible preferred shares - equity component		
Balance at beginning of period	**-**	-
Shares issued during the period, net of issue costs	**15,925**	-
Balance at end of period	**15,925**	-
Restricted voting shares		
Balance at beginning of period	**400,721**	400,594
Shares issued during the period, net of issue costs	**24**	127
Shares repurchased during the period, net of transaction costs	**(8,778)**	-
Balance at end of period	**391,967**	400,721
Contributed surplus		
Balance at beginning of period	**3,829**	2,901
Stock options	**220**	928
Balance at end of period	**4,049**	3,829
Retained earnings (deficit)		
Balance at beginning of period	**(189,900)**	98,250
Adjustment related to change in accounting policy (note 1)	**(1,749)**	-
Net loss for the period	**(94,601)**	(288,150)
Balance at end of period	**(286,250)**	(189,900)
Accumulated other comprehensive income		
Balance at beginning of period	**36,081**	38,106
Transition adjustment (note 1)	**(762)**	-
Other comprehensive income (loss) for the period	**36,175**	(2,025)
Balance at end of period	**71,494**	36,081
Total shareholders' equity at end of period	**197,185**	250,731

see accompanying notes

Consolidated Statements of Comprehensive Income (Loss)

(unaudited)

	Three months ended October 31, 2007	Twelve months ended October 31, 2007
(in thousands of U.S. dollars)	**$**	**$**
Net loss for the period	**(7,522)**	**(94,601)**
Other comprehensive income (loss), net of income taxes (note 12)		
Change in foreign currency gains on investments in subsidiaries, net of hedging activities	**18,145**	**30,787**
Foreign currency losses on investments in subsidiaries, net of hedging activities reclassified to consolidated statement of earnings (loss)	**-**	**2,793**
Change in value of derivatives designated as foreign currency and interest rate cash flow hedges	**2,522**	**3,723**
Gains on foreign currency and interest rate cash flow hedges reclassified to consolidated statements of earnings (loss)	**(1,450)**	**(1,128)**
Other comprehensive income for the period	**19,217**	**36,175**
Comprehensive income (loss) for the period	**11,695**	**(58,426)**

see accompanying notes

Consolidated Statements of Cash Flows

(unaudited)

(in thousands of U.S. dollars)	Three months ended October 31, 2007 $	Three months ended October 31, 2006 $	Twelve months ended October 31, 2007 $	Twelve months ended October 31, 2006 $
Operating activities				
Net loss from continuing operations	**(9,050)**	(22,162)	**(84,458)**	(288,719)
Add (deduct) charges to operations				
not requiring a current cash payment				
Asset impairment charge (note 4)	**-**	**-**	**48,580**	254,661
Depreciation and amortization	**11,529**	11,858	**47,666**	50,637
Foreign exchange loss (note 8)	**-**	-	**858**	-
Foreign exchange gain on debt, net of hedging	**(7,541)**	-	**(12,331)**	-
Accretive interest on convertible preferred shares (note 1)	**3,573**	-	**7,054**	-
Write-off of deferred financing costs (note 11)	**-**	-	-	6,332
Amortization of deferred financing costs	**151**	346	**1,657**	944
Employee future benefits, net of contributions	**(5,169)**	319	**(4,846)**	1,112
Future income taxes	**1,445**	(3,514)	**4,617**	(6,678)
Amortization of deferred revenues	**(505)**	(485)	**(2,021)**	(1,978)
Other	**1,117**	154	**2,087**	1,587
	(4,450)	(13,484)	**8,863**	17,898
Net change in non-cash working capital balances				
related to continuing operations	**21,742**	36,111	**(2,442)**	20,506
Increase in deferred revenues	**8**	-	**2,065**	9,614
Cash provided by operating activities of continuing operations	**17,300**	22,627	**8,486**	48,018
Cash provided by (used in) operating activities				
of discontinued operations (note 5)	**(1,127)**	715	**3,105**	4,212
Cash provided by operating activities	**16,173**	23,342	**11,591**	52,230
Investing activities				
Additions to capital assets - sustaining	**(9,166)**	(7,088)	**(18,034)**	(16,975)
- project related	**(5,519)**	(17,791)	**(17,768)**	(49,617)
Net increase in investments	**(25)**	(49)	**(202)**	(49)
Increase in deferred pre-operating costs	**(832)**	(625)	**(3,659)**	(2,204)
Cash used in investing activities of continuing operations	**(15,542)**	(25,553)	**(39,663)**	(68,845)
Cash used in investing activities of discontinued operations (note 5)	**-**	(476)	**(275)**	(907)
Cash used in investing activities	**(15,542)**	(26,029)	**(39,938)**	(69,752)
Financing activities				
Increase (decrease) in bank indebtedness	**(4,230)**	3,041	**3,532**	(11,096)
Increase in long-term debt	**15,456**	42,443	**198,108**	416,389
Repayment of long-term debt	**(17,380)**	(11,790)	**(337,452)**	(364,800)
Issue of convertible preferred shares (note 10)	**-**	-	**150,000**	-
Convertible preferred share issue costs - equity component (note 10)	**-**	-	**(1,213)**	-
Issue of restricted voting shares	**-**	47	**24**	127
Repurchase of restricted voting shares (note 2)	**(8,778)**	-	**(8,778)**	-
Decrease in restricted cash	**-**	-	**-**	7,805
Increase in deferred financing costs	**-**	(1,175)	**-**	(3,965)
Cash provided by (used in) financing activities	**(14,932)**	32,566	**4,221**	44,460
Effect of exchange rate changes on cash and cash equivalents	**4,362**	847	**3,960**	1,278
Net increase (decrease) in cash and cash equivalents during the period	**(9,939)**	30,726	**(20,166)**	28,216
Cash and cash equivalents, beginning of period	**40,496**	19,997	**50,723**	22,507
Cash and cash equivalents, end of period	**30,557**	50,723	**30,557**	50,723

see accompanying notes

Notes to Unaudited Consolidated Financial Statements for the Year Ended October 31, 2007
(Dollar information in tabular form is expressed in thousands of U.S. dollars)

1. Accounting policies

Basis of presentation

The accompanying unaudited consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("GAAP") on a basis consistent with those followed in the most recent audited consolidated financial statements except as noted below. These consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and notes for the year ended October 31, 2006.

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.

Changes in accounting policy

Effective November 1, 2006 the Company adopted the CICA Handbook Section 3855 "Financial Instruments – Recognition and Measurement", Section 3861 "Financial Instruments – Disclosure and Presentation", Section 3865 "Hedges" and Section 1530 "Comprehensive Income". The adoption of the new standards resulted in changes in accounting for financial instruments and hedges as well as the recognition of certain transition adjustments that have been recorded in accumulated other comprehensive income. The comparative interim consolidated financial statements have not been restated except as noted below. The principal changes in the accounting for financial instruments and hedges due to the adoption of these accounting standards are described below:

Financial Assets and Financial Liabilities

An investment in shares of a publicly traded company have been designated as held for trading and are accounted for at fair value, with changes in the fair value being recorded in the consolidated statement of earnings (loss). Prior to the adoption of the new standards, this investment was accounted for on a cost basis, as adjusted for an other than temporary decline in value. All other financial assets are accounted for on an amortized cost basis and financial liabilities are accounted for on an accruals basis, consistent with prior accounting policies.

Costs of obtaining bank and other debt financing that were previously reported in deferred costs are now netted against the carrying value of the related debt and amortized into interest expense using the effective interest rate method. Prior to the adoption of the new standards, the amortization of deferred financing costs was reported as a separate line in the consolidated statement of earnings (loss) and the amortized balance disclosed in deferred costs on the consolidated balance sheet.

In the second quarter of 2007 the Company also changed its accounting policy relating to costs of obtaining bank and other debt financing. Under the new policy all transaction costs, including fees paid to advisors and other related costs, are expensed as incurred. Financing costs, including underwriting and arrangement fees paid to lenders are deferred and netted against the carrying value of the related debt and amortized into interest expense using the effective interest rate method. The Company previously deferred all transaction and financing costs associated with obtaining bank and other debt financing. The Company believes that the new policy is reliable and more relevant as it results in a more transparent treatment of transaction costs that the Company has incurred in its recent refinancing activities and in the carrying value of debt.

The change in policy has been made retrospectively effective November 1, 2006 and had the effect of increasing the retained deficit at November 1, 2006 by $1,749,000 and reducing the interest expense and net loss for the three months ended January 31, 2007 by $612,000. Refinancing expenses for the twelve months ended October 31, 2007 include transaction costs incurred in connection with the completion of the Company's senior secured credit facilities and the debt component of the convertible preferred shares of $11,889,000 (see note 11).

In 2006, the Company cancelled its interest rate swaps that were used as a hedge against changes in interest payments on floating rate debt. Deferred gains from the cancellation of these interest rate swaps that had previously been recorded in accounts payable and accrued liabilities were recorded in accumulated other comprehensive income. In the second quarter of 2007, all remaining deferred gains on the interest rate swap were reclassified to the consolidated statement of earnings (loss).

Derivatives and Hedge Accounting

The Company enters into foreign exchange forward contracts to hedge its exposure in foreign currency denominated cash flows and holds foreign currency denominated debt as a hedge against the carrying value of its equity investment in certain foreign currency denominated operations.

Prior to the adoption of the new standards, the Company accounted for derivatives that met the requirements of hedge accounting on an accrual basis. Under the new standards all derivatives, other than those contracts that are entered into for the Company's own expected requirements, are recorded at their fair value.

The effective portion of changes in the fair value of cash flow hedges and hedges of net investments in foreign operations are recognized in other comprehensive income. Amounts accumulated in other comprehensive income are reclassified to the consolidated statement of earnings (loss) in the period in which the hedged item affects the earnings (loss). Any gain or loss in the fair value relating to the ineffective portion of a hedge is recognized immediately in the consolidated statement of earnings (loss).

Comprehensive Income (Loss) and Accumulated Other Comprehensive Income

Comprehensive income (loss) is comprised of the Company's net loss and other comprehensive income. Other comprehensive income includes foreign currency translation gains and losses on net investments in self-sustaining operations net of hedging activities and changes in the fair value of derivative instruments designated as foreign currency and interest rate cash flow hedges, all net of income taxes.

On transition to the new accounting standards, deferred after tax gains from interest rate swaps of $656,000 and after tax losses on the fair value of cash flow hedges of $1,418,000 were recorded in accumulated other comprehensive income. Accumulated other comprehensive income also includes gains on net investments in self sustaining foreign operations, net of hedging activities previously recorded in cumulative translation adjustment. As a result, the previously recorded cumulative translation adjustment account has been eliminated and the balances have been included in accumulated other comprehensive income. On transition to the new standards, the comparative amounts of other comprehensive income for the period only reflect the amounts previously recorded in the cumulative translation adjustment account.

Convertible preferred shares

On April 27, 2007 the Company issued $150 million of convertible preferred shares. The shares are considered to be a compound financial instrument that contains both a debt component and an equity component.

On issuance of the convertible preferred shares, the fair value of the debt component was determined by discounting the expected future cash flows over the expected life using a market interest rate for a non-convertible debt instrument with similar terms. The value is carried as debt on an amortized cost basis until extinguished on conversion or redemption. The remainder of the proceeds were allocated as a separate component of shareholders' equity, net of transaction costs. Transaction costs are apportioned between the debt and equity components based on their respective carrying amounts when the instrument was issued.

On conversion, the carrying amount of the debt component and the equity component are transferred to share capital and no gain or loss is recognized.

The interest cost recognized in respect of the debt component represents the accretion of the liability, over its expected life using the effective interest method, to the amount that would be payable if redeemed. The interest expense for the three and twelve months ended October 31, 2007 includes a charge of $3,573,000 and $7,054,000, respectively, for the accretive interest on the convertible preferred shares.

2. Convertible preferred shares and restricted voting shares

The following table summarizes information on convertible preferred shares, and restricted voting shares and related matters at October 31, 2007:

	Outstanding	**Exercisable**
Convertible preferred shares		
Class I preferred shares series C and D	150,000	
Restricted voting shares (previously common shares)	90,624,388	
Restricted voting share stock options	3,857,916	3,706,249

During the fourth quarter of 2007, the Company repurchased, through a normal course issuer bid, 2,334,300 restricted voting shares at a cost of $8,778,000.

The Company's articles were amended on April 26, 2007 to re-designate the common shares as restricted voting shares. This occurred in connection with the issuance of the convertible preferred shares. The holders of the convertible preferred shares have the right to appoint three of nine members of the Board of Directors. The holders of Patheon's restricted voting shares have the right to elect the remaining members of the Board of Directors. Under the rules of the Toronto Stock Exchange, voting equity securities are not to be designated, or called, common shares unless they have a right to vote in all circumstances that is not less, on a per share basis, than the voting rights of each other class of voting securities. Accordingly, the Company has amended its articles to re-designate the common shares as restricted voting shares. This re-designation involves only a change in the name of the securities; the number of shares outstanding and the terms and conditions of the outstanding shares are not affected by the change.

3. Segmented information

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

Notes to Unaudited Consolidated Financial Statements for the Year Ended October 31, 2007

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

Canadian and foreign continuing operations consist of*:*

	Manufacturing location Three months ended October 31, 2007			
	Canada	**USA**	**Europe**	**Total**
	$	**$**	**$**	**$**
Revenues by client's billing location:				
Canada	**3,529**	**166**	**233**	**3,928**
USA	**32,472**	**41,428**	**6,741**	**80,641**
Europe	**12,503**	**900**	**64,497**	**77,900**
Other geographic areas	**1,406**	**1,854**	**1,063**	**4,323**
Total revenues	**49,910**	**44,348**	**72,534**	**166,792**
Capital assets	**120,808**	**119,483**	**247,132**	**487,423**
Goodwill	**3,658**	**-**	**-**	**3,658**

	Manufacturing location Three months ended October 31, 2006			
	Canada	**USA**	**Europe**	**Total**
	$	**$**	**$**	**$**
Revenues by client's billing location:				
Canada	5,138	364	1,337	6,839
USA	35,731	57,719	3,768	97,218
Europe	9,661	339	49,565	59,565
Other geographic areas	499	-	1,629	2,128
Total revenues	51,029	58,422	56,299	165,750
Capital assets	103,002	142,491	221,872	467,365
Goodwill	3,077	-	-	3,077

	Manufacturing location Twelve months ended October 31, 2007			
	Canada	**USA**	**Europe**	**Total**
	$	**$**	**$**	**$**
Revenues by client's billing location:				
Canada	**14,270**	**1,069**	**1,128**	**16,467**
USA	**137,389**	**196,690**	**17,757**	**351,836**
Europe	**39,235**	**3,127**	**254,547**	**296,909**
Other geographic areas	**4,197**	**2,146**	**5,519**	**11,862**
Total revenues	**195,091**	**203,032**	**278,951**	**677,074**

	Manufacturing location Twelve months ended October 31, 2006			
	Canada	**USA**	**Europe**	**Total**
	$	**$**	**$**	**$**
Revenues by client's billing location:				
Canada	21,323	856	1,930	24,109
USA	138,587	231,184	13,751	383,522
Europe	53,010	846	202,842	256,698
Other geographic areas	4,696	190	5,444	10,330
Total revenues	217,616	233,076	223,967	674,659

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.

Revenue information by service activity is as follows:

	Three months ended October 31,			
	2007		**2006**	
	$		**$**	
Commercial manufacturing - prescription	**119,226**	**71%**	124,592	75%
Commercial manufacturing - over-the-counter	**14,855**	**9%**	12,581	8%
Development services	**32,711**	**20%**	28,577	17%
	166,792	**100%**	165,750	100%

	Twelve months ended October 31,			
	2007		**2006**	
	$		**$**	
Commercial manufacturing - prescription	**514,069**	**76%**	506,711	75%
Commercial manufacturing - over-the-counter	**46,549**	**7%**	69,973	10%
Development services	**116,456**	**17%**	97,975	15%
	677,074	**100%**	674,659	100%

4. Asset impairment charge

During the third quarter of 2007 it was determined that the carrying value of the intangible assets and depreciable tangible capital assets (collectively the "long-lived depreciable assets") at the Company's operations in Carolina, Puerto Rico were impaired as a result of volume declines arising from the genericization of Omnicef®, this being the largest single product that is manufactured at the facility. The Company tested the recoverability of the long-lived depreciable assets at the Carolina operations and determined that the 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 $48,580,000; $26,043,000 for intangible assets and $22,537,000 for tangible capital assets. The fair value of the intangible assets was determined using a discounted cash flow methodology and the fair value of the tangible capital assets was based on a weighted average continued use and liquidation value.

During the third quarter of 2006 the Company determined that the carrying value of the long-lived depreciable assets at the Company's operations in Caguas and Manati, Puerto Rico and the goodwill associated with all of the Puerto Rico operations 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 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 the long-lived depreciable assets for all the Puerto Rico operations and determined that in Caguas and Manati the expected future cash flows over the economic life of the principal assets was less than the carrying value of the long-lived depreciable assets. As a result the Company recorded an impairment charge of $81,428,000; $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. During the third quarter of 2006 the Company also tested the recoverability of the goodwill associated with Puerto Rico operations using a discounted cash flow methodology, and recorded an impairment charge of $172,477,000 representing the full value of the Puerto Rico goodwill.

During the third quarter of 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 was accounted for on the cost basis had an other than temporary decline and wrote down its value by $756,000 to its market value as of July 31, 2006.

A summary of the asset impairment charges is as follows:

	Twelve months ended October 31,	
	2007	**2006**
	$	**$**
Intangible asset impairment	**26,043**	51,921
Tangible capital asset impairment	**22,537**	29,507
Goodwill impairment	**-**	172,477
Other investment impairment	**-**	756
	48,580	254,661

5. Discontinued operations and assets held for sale

On April 17, 2007 the Company announced that as part of its strategy to focus on developing and manufacturing prescription pharmaceutical products and to improve the Company's profitability, it plans to restructure its current network of six pharmaceutical manufacturing facilities in Canada.

In connection with this initiative, on December 6, 2007 the Company announced that it had entered into a definitive agreement to sell its Niagara-Burlington operations focused on the manufacturing of OTC products to Pharmetics Inc. See the subsequent events note 14.

The Company also plans to close its York Mills, Toronto facility and transfer substantially all commercial production and development services to its site in Whitby and sell the land and buildings. The process of transferring production to other facilities is expected to be completed by the first half of fiscal 2009.

The results of the Niagara-Burlington operations have been reported as discontinued operations and prior period amounts have been reclassified to conform to the current period presentation. During the third quarter of 2007 the Company recorded an impairment charge of $13,029,000 to write down the carrying value of Niagara-Burlington operations long-lived assets to their fair value less estimated disposition costs. In the fourth quarter of 2007 the Company recorded an adjustment of $564,000 to reduce the impairment charge to reflect the Company's revised estimate of the fair value of the long-lived assets.

The results of discontinued operations for the three and twelve months ended October 31, 2007 and 2006 are as follows:

	Three months ended October 31,		**Twelve months ended October 31,**	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
Revenues	**6,815**	9,365	**35,244**	37,493
Operating expenses	**6,281**	8,562	**32,475**	34,580
Earnings before the following:	**534**	803	**2,769**	2,913
(as a % of revenues)	***7.8%***	*8.6%*	***7.9%***	*7.8%*
Asset impairment charge	**(564)**	-	**12,465**	-
Repositioning expenses (recovery)	**(430)**	789	**(397)**	789
Depreciation and amortization	**-**	268	**844**	1,112
Earnings (loss) before income taxes	**1,528**	(254)	**(10,143)**	1,012
Provision for income taxes	**-**	-	**-**	443
Net earnings (loss) for the period	**1,528**	(254)	**(10,143)**	569

Assets held for sale and the related liabilities include the Niagara-Burlington Operations and the land and buildings at York Mills. In accordance with Section 3475 of the CICA Handbook, long-lived assets held for sale are measured at the lower of their carrying amount or fair value less cost to sell. Assets held for sale and the related liabilities, as at October 31, are as follows:

	As at October 31,	
	2007	**2006**
	$	**$**
Current Assets		
Accounts receivable	**4,376**	4,251
Inventories	**5,307**	3,905
Prepaid expenses and other	**160**	185
Total current assets	**9,843**	8,341
Capital assets	**16,662**	26,723
Current Liabilities		
Accounts payable and accrued liabilities	**3,174**	2,527
Other long-term liabilities	**1,523**	1,416

6. Stock-based compensation

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 Patheon. The plan provides that the maximum number of shares that may be issued under the plan is 7.5% of the issued and outstanding restricted voting shares of the Company at any point in time. As of October 31, 2007, the total number of restricted voting shares listed and reserved at the TSX for issuance under the plan was 6,850,427 of which there are stock options outstanding to purchase 3,857,916 shares under the plan. The exercise price of restricted voting 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 restricted voting shares of Patheon 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 vest over one to three years, with one-third vesting on each of the first, second and third anniversaries of the grant date for those vesting over three years.

For the purposes of calculating the stock-based compensation expense, the fair value of stock options is estimated at the date of the grant using the Black-Scholes option pricing model and the cost is amortized over the vesting period. No options were granted in the fourth quarter of 2007 and 2006. The weighted average fair value of 100,000 options granted for the twelve months ended October 31, 2007 was $1.92. The weighted average fair value for the stock options granted for the twelve months ended October 31, 2006 was $1.73. The following assumptions were used in arriving at the fair value of options issued during the twelve months ended October 31, 2007:

Risk free interest rate	4.2%
Expected volatility	42%
Expected weighted average life of options	6 years
Expected dividend yield	0%

Stock-based compensation expense recorded in the three months ended October 31, 2007 was $52,000 (2006 - $3,000) for options granted on or after November 1, 2003. Stock-based compensation expense recorded in the twelve months ended October 31, 2007 was $220,000 (2006 - $928,000) for options granted on or after November 1, 2003.

7. Repositioning expenses

The Company has 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 work force, project management costs and consulting fees from external specialists who are assisting in identifying operational improvements.

During 2007 the Company also incurred professional fees and other costs in connection with its review of strategic and financial alternatives.

The following is a summary of expenses associated with these initiatives (collectively "repositioning expenses") for the three and twelve months ended October 31:

	Three months ended October 31,		Twelve months ended October 31,	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
Performance enhancement program:				
-Employee-related expenses	**6,111**	8,821	**8,938**	8,821
-Consulting, professional and project management costs	**603**	1,193	**3,507**	1,193
Strategic alternatives review	**-**	2,984	**3,355**	2,984
	6,714	12,998	**15,800**	12,998

As at October 31, 2007, $6,048,000 of the repositioning expenses are unpaid and are recorded in accounts payable and accrued liabilities. Repositioning expenses paid during the three months and twelve months ended October 31, 2007 amounted to $2,276,000 and $18,998,000 respectively.

8. Other information

Foreign exchange

During the three months ended October 31, 2007, the foreign exchange gain on operating exposures, (including benefits from cash flow hedges and the revaluation of all foreign currency denominated assets and liabilities, other than those liabilities designated as a hedge against foreign currency denominated net investments) recorded in operating expenses was $5,828,000 (2006 - $941,000). During the twelve months ended October 31, 2007, the foreign exchange gain on operating exposures was $8,921,000 (2006 - $817,000).

During the twelve months ended October 31, 2007, the Company recorded a foreign exchange loss of $858,000 in connection with a change in the Company's internal capital structure, which resulted in the recognition of foreign exchange translation losses previously recorded in accumulated other comprehensive income.

Employee future benefits

The employee future benefit expense in connection with defined benefit pension plans and other post retirement benefit plans for the three months ended October 31, 2007 was a recovery of $2,872,000 (2006 expense – $2,806,000). For the twelve months ended October 31, 2007 the employee future benefit expense was $1,752,000 (2006 - $6,214,000). The employee future benefit expense for the three months and twelve months ended October 31, 2007 includes a curtailment gain of $4,292,000 in connection with a decision made to phase out benefits under one of the Company's post retirement benefit plans.

9. Financial instruments

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

As at October 31, 2007 the Company's Canadian operations had entered into foreign exchange forward contracts to sell an aggregate amount of US$34,172,000. These contracts hedge the Canadian operations expected exposure to U.S. dollar denominated cash flows and mature at the latest on April 21, 2008, at an exchange rate of $1.0535 Canadian. The mark-to-market value on these financial instruments as at October 31, 2007 was an unrealized gain of $4,052,000 which has been recorded in accumulated other comprehensive income in shareholders' equity.

As at October 31, 2007 the Company's Canadian operations had entered into a foreign exchange contract to purchase US$45,000,000. The contract matures on January 28, 2010, at an exchange rate of $1.0015 Canadian. The contract hedges the Canadian operations net US dollar balance sheet exposure. The mark-to-market value of this contract was a loss of $2,699,000, which has been recorded in operating expenses.

As at October 31, 2007 the Company has designated $141.6 million of U.S. dollar denominated debt as a hedge against its net investment in its subsidiaries in the U.S.A. and Puerto Rico. The exchange gains and losses arising from this debt, from the date so designated, are recorded in accumulated other comprehensive income in shareholders' equity.

The Company has entered into interest rate swap contracts to convert all of the interest costs on its senior secured term loan from a floating to a fixed rate of interest until March 30, 2010. The mark-to-market value of these financial instruments at October 31, 2007 was an unrealized loss of $2,593,000 which has been recorded in accumulated other comprehensive income in shareholders' equity.

10. Refinancing

Convertible Preferred Shares

On April 27, 2007 JLL Partners, through its investment vehicle, JLL Patheon Holdings, LLC, purchased 150,000 convertible preferred shares of Patheon for $150 million. Until October 27, 2009, no cash dividends will be paid on the preferred shares, but the liquidation preference and conversion rate will increase on a quarterly basis by 2.125%. After October 27, 2009, these increases in the liquidation preference and conversion rate will continue until the maturity or prior conversion, unless the Company elects to pay a cash dividend for any applicable quarter, in which case the Company will pay a cash dividend for such quarter based on an annual dividend rate of 8.5% on the aggregate liquidation preference of the convertible preferred shares.

Each convertible preferred share is convertible into 218.7154 restricted voting shares, as adjusted for any non-cash dividends noted above, at any time at the holder's option. The Company is entitled to require the holder to convert into restricted voting shares if, at any time after October 27, 2009, the market price of the restricted voting shares on the Toronto Stock Exchange exceeds a price equivalent to US$7.87 for a period of at least 60 days.

If not previously converted, the Company is required to redeem the convertible preferred shares for cash on April 27, 2017 at a price equal to the aggregate liquidation preference of the convertible preferred shares, plus accrued and unpaid dividends thereon. The Company is also required to redeem the convertible preferred shares upon the occurrence of a change of control of Patheon at a price equal to the greater of the aggregate liquidation preference of the convertible preferred shares, plus accrued and unpaid dividends thereon, or the price per share paid to holders of restricted voting shares in the change of control transaction, multiplied by the number of restricted voting shares into which the convertible preferred shares are then convertible.

On issuance, the fair value of the debt component of the preferred shares was $132,862,000. The remainder of the proceeds attributable to shareholders' equity was $15,925,000, net of apportioned transaction costs of $1,213,000.

Senior Secured Credit Facilities

On April 27, 2007, the Company completed new credit facilities in the aggregate amount of $225 million, comprising a seven-year $150 million senior secured term loan and a five-year $75 million asset based revolving credit facility. The Company is required to make quarterly installment payments of $375,000 on the term loan facility, along with additional mandatory repayments based on certain excess cash flow measures. Interest on the facilities is at floating rates based on LIBOR, US prime, or the federal funds effective rate, plus applicable margins. The facilities are secured by substantially all of the assets of the Company's operations in Canada, U.S.A., Puerto Rico and the U.K. and the Company's investments in the shares of all other operating subsidiaries.

Net proceeds from the issue of the convertible preferred shares and the senior secured term loan facility were used to repay the Company's obligations under its existing North American and U.K. credit facilities.

11. Refinancing expenses and write-off of deferred financing costs

During the second quarter of 2007 the Company incurred expenses of $13,471,000 in connection with its refinancing activities. The expenses consist of transaction costs relating to the new credit facilities, costs allocated to the debt portion of the convertible preferred shares and prepayment charges in connection with cancellation of certain of the Company's U.K. debt facilities.

During the first quarter of 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.

12. Other comprehensive income

The amounts disclosed in other comprehensive income have been recorded net of income taxes and take into account valuation reserves for future income taxes in the Company's Canadian operations. For the three and twelve months ended October 31, 2007 there is no tax expense in connection with the change in foreign currency gains on investments in subsidiaries, net of hedging activities. Foreign currency losses on investments in subsidiaries, net of hedging activities reclassified to the consolidated statement of earnings (loss) are net of an income tax benefit of $1,935,000 for the twelve months ended October 31, 2007. The change in value of derivatives designated as foreign currency and interest rate cash flow hedges have been reported net of a tax benefit of $257,000 and $373,000 for the three and twelve months ended October 31, 2007, respectively. The gains on foreign currency and interest rate cash flow hedges reclassified to the consolidated statement of earnings (loss) are net of an income tax benefit of $343,000 for the twelve months ended October 31, 2007.

13. Related party transactions

Revenues from companies controlled by a director and significant shareholder of the Company were in the amount of $66,000 and $473,000 for the three and twelve months ended October 31, 2007, respectively. These transactions were conducted in the normal course of business and are recorded at the exchanged amount which management believes to be at fair value. Accounts receivable at October 31, 2007 includes a balance of $392,000.

At October 31, 2007 the Company has an investment of $739,000 representing an 18% interest in two Italian companies (collectively referred to as "BSP Pharmaceuticals") whose largest investor is an officer of the Company. These newly formed companies will specialize in the manufacturing of cytotoxic pharmaceutical products.

The Company has accrued management fees owing to it under a management services agreement with BSP Pharmaceuticals of $484,000 and $1,593,000 for the three months and twelve months end October 31, 2007, respectively. These fees will be invoiced to BSP Pharmaceuticals once it has finalized all of its bank financing. These services were conducted in the normal course of business and are recorded at the exchanged amounts which management believes to be at fair value.

In connection with certain of BSP Pharmaceuticals' bank financing, the Company has made commitments that it will not dispose of its interest in BSP Pharmaceuticals prior to January 1, 2011.

14. Subsequent events

On December 6, 2007 the Company announced that it had entered into a definitive agreement to sell its Niagara-Burlington commercial manufacturing business to Pharmetics Inc. Under the terms of the agreement Pharmetics will acquire the assets, including equipment facilities and land at the Company's facilities in Fort Erie and Burlington (Gateway Drive). Pharmetics will provide employment to all of the commercial manufacturing employees at the two sites and, subject to assignment of third party contracts, will continue to manufacture and supply all of the products currently manufactured at these sites.

The transaction is expected to be completed on or about January 31, 2008, subject to closing conditions including regulatory approvals, the assignment of client and other contracts and the completion of financing arrangements by the purchaser. The purchase price for the business is CAD$5.75 million plus working capital, subject to adjustments.

On December 14, 2007 the Company announced that as a result of its review of the Puerto Rico operations, with a focus on restructuring the operations, eliminating operating losses and developing a long-term plan for the business, it has decided to retain and continue to streamline its facilities in Caguas and Manati and divest its facility in Carolina.

Revenues for the three months and twelve months ended October 31, 2007 for the Carolina operations were $5.0 million and $42.9 million respectively. The Carolina operations reported a loss before repositioning expenses, asset impairment charge, depreciation and amortization, foreign exchange losses reclassified from other comprehensive income, interest, refinancing charges, write-off of deferred financing costs and income taxes for the three month period ended October 31, 2007 of $2.5 million and a profit of $6.1 million for the twelve month period ended October 31, 2007.

15. Comparative amounts

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

Patheon Inc.
Management's Discussion and Analysis of Financial Condition and Results of Operations

The following management discussion and analysis of financial condition and results of operations ("MD&A") of Patheon Inc. ("Patheon" or "the Company") for the three-month and twelve-month periods ended October 31, 2007 and 2006 should be read in conjunction with the Company's consolidated financial statements and related notes contained in this interim report. All amounts are in US dollars unless otherwise indicated. This MD&A is dated as of December 14, 2007.

The purpose of this 2007 fourth quarter report is to provide an update to the information contained in the Company's Management's Discussion and Analysis section of the Company's 2006 Annual Report, which contains a more comprehensive discussion of the Company's strategy, capabilities to deliver results, risks and key performance indicators. Management assumes that the reader of this document has access to the MD&A section of the Company's 2006 Annual Report. This document and other information can be downloaded in portable document format (PDF) from the Company's web site at www.patheon.com or from the SEDAR web site for Canadian regulatory filings at www.sedar.com. To request a printed copy, the reader may also contact Patheon's transfer agent, Computershare Investor Services Inc., at 1-800-564-6253 or via email at service@computershare.com, or Patheon at www.patheon.com.

Use of Non-GAAP Financial Measures

Except as otherwise indicated, references in this MD&A to "EBITDA before repositioning expenses" are to earnings from continuing operations before repositioning expenses, asset impairment charges, depreciation and amortization, foreign exchange losses reclassified from other comprehensive income, interest, refinancing expenses, write-off of deferred financing costs, and income taxes. "EBITDA margin before repositioning expenses" is EBITDA before repositioning expenses divided by revenues. EBITDA before repositioning expenses and EBITDA margin before repositioning expenses are measures of earnings or earnings margin not recognized by generally accepted accounting principles in Canada ("Canadian GAAP"). Since each of these measures is a non-GAAP measure that does not have a standardized meaning, it may not be comparable to similar measures presented by other issuers. Prospective investors are cautioned that these, and other non-GAAP measures should not be construed as alternatives to net earnings determined in accordance with Canadian GAAP as indicators of performance. The Company has included these measures because it believes that this information is used by certain investors to assess the financial performance of the Company, in particular the operating earnings before non-cash charges and large and non-recurring costs.

Overview of Patheon

Patheon is focused exclusively on providing commercial manufacturing and pharmaceutical development services to pharmaceutical, biotechnology and specialty pharmaceutical companies located primarily in North America, Europe and Japan. Patheon serves its international clientele from its operating facilities in North America (including Puerto Rico) and Europe.

Patheon commercially manufactures prescription ("R_x") and over-the-counter ("OTC") products in solid, semi-solid and liquid dosage forms. Conventional dosage forms include compressed tablets, hard-shell capsules, powders, ointments, creams, gels, syrups, suspensions, solutions and suppositories. Sterile dosage forms include liquids and powders filled in ampoules, vials, bottles or pre-filled syringes. Sterile lyophilized products are also manufactured in both vials and ampoules.

Patheon provides manufacturing services for a broad range of products in many dosage forms and packaging formats in accordance with client specifications. Depending on the particular client, Patheon may be responsible for most or all aspects of the manufacturing and packaging process, from sourcing excipient raw materials and packaging components to delivering the finished product in consumer-ready form to the client. Typically, Patheon's clients supply the active pharmaceutical ingredients ("API") used in the production process.

The pharmaceutical development services provided by Patheon include most of the pharmaceutical development services typically required by companies conducting clinical trials and preparing for full-scale commercial production of a new drug.

At October 31, 2007, there were a total of 199 client products in Patheon's pharmaceutical development services ("PDS") pipeline, including nine drug candidates at the New Drug Application ("NDA") stage. This compares with a total of 171 client products a year ago, of which five were at the NDA stage. During the fourth quarter of 2007, no products developed on behalf of clients were launched from the Company's facilities.

Vision and Strategy

Patheon's vision is to be the leader in pharmaceutical contract manufacturing. Patheon strives to be the preferred manufacturing and pharmaceutical development services partner to the global pharmaceutical industry. Patheon's strategy is focused on providing "best-in-class" manufacturing and development services effectively balancing high product quality and reliability of supply with cost.

Patheon expects that stronger manufacturing and development relationships will continue to emerge between pharmaceutical companies and service companies as the pharmaceutical industry continues to re-evaluate its internal manufacturing capabilities and streamlines its external service-provider network. The Company is using its position as a comprehensive provider of commercial manufacturing and development services to establish and maintain long-term, strategic relationships with clients on a global basis.

Prior to 2006, a key aspect of Patheon's strategy was a plan to expand capacity, expertise and capabilities through acquisitions, positioning the Company to be the preferred manufacturing services partner to the pharmaceutical industry. This led to the acquisition of several pharmaceutical manufacturing facilities and the entry into long-term manufacturing relationships in conjunction with certain of these acquisitions. More recently Patheon has focused on growing the business internally by expanding the level of business from existing clients, attracting new clients, and entering into commercial manufacturing agreements for newly approved products for which the Company has provided development services.

In implementing its strategy, the Company will continue to maximize capacity utilization and improve efficiency, broaden its services to include other specialized manufacturing capabilities and seek to increase the percentage of more profitable products manufactured at its facilities. In addition, the Company will seek to expand its PDS capabilities in North America and Europe to better serve the needs of the global pharmaceutical industry. Pharmaceutical development services are an important source of new business for commercial manufacturing of prescription pharmaceuticals.

Key Performance Drivers

In Patheon's 2006 Annual Report, several key performance drivers for the Company were identified: (i) generating higher quality revenues by increasing the percentage of higher margin R_x manufacturing and pharmaceutical development services; (ii) improving capacity utilization at the Company's sites which have a large fixed-cost base in the short term; (iii) improving operating efficiencies through a performance enhancement program with initiatives focused on a global procurement program, a workforce reduction program and a manufacturing efficiency review process; and (iv) mitigating the impact of changes in the foreign exchange trading relationship between the Canadian and U.S. dollar, since the Company's contracts in North America are primarily denominated in U.S. dollars, but the operating expenses of its Canadian sites are primarily denominated in Canadian dollars. An update on our interim performance relating to these key issues is provided in the sections below entitled "Recent Developments" and "Results of Operations".

Recent Developments

Financing Arrangements and Strategic 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. As a result of this review, on April 27, 2007 JLL Partners, through its investment vehicle, JLL Patheon Holdings, LLC ("JLL Partners") purchased $150 million of convertible preferred shares of the Company through a private placement. On April 27, 2007 the Company also completed new credit facilities in the aggregate amount of $225 million, comprising a seven-year $150 million term loan and a five-year $75 million revolving facility.

The net proceeds from the JLL Partners investment and the seven-year term loan were used to repay the Company's obligations under its existing North American and U.K. credit facilities.

Restructuring the Canadian Site Network

On April 17, 2007 the Company announced that as part of its strategy to focus on developing and manufacturing R_x pharmaceutical products and to improve the Company's profitability, it plans to restructure its current network of six pharmaceutical manufacturing facilities in Canada.

In connection with this initiative, on December 6, 2007 the Company announced that it had entered into a definitive agreement to sell its Niagara-Burlington commercial manufacturing business to Pharmetics Inc. Under the terms of the agreement Pharmetics will acquire the assets, including equipment facilities and land at the Company's facilities in Fort Erie and Burlington (Gateway Drive). Pharmetics will provide employment to all of the commercial manufacturing employees at the two sites and, subject to assignment of third party contracts, will continue to manufacture and supply all of the products currently manufactured at these sites.

The transaction is expected to be completed on or about January 31, 2008, subject to closing conditions including regulatory approvals, the assignment of client and other contracts and the completion of financing arrangements by the purchaser. The purchase price for the business is CAD$5.75 million plus working capital, subject to adjustments.

The Company also plans to close its York Mills, Toronto facility and transfer substantially all commercial production and development services to its site in Whitby and sell the land and buildings. The process of transferring production to other facilities is expected to be completed by the first half of fiscal 2009.

The assets and the related liabilities of the Niagara-Burlington Operations, along with the York Mills real estate have been classified as held for sale on the balance sheet in the consolidated financial statements.

Restructuring the Puerto Rico Operations

On December 14, 2007 the Company announced that as a result of its comprehensive review of the Puerto Rico operations, with a focus on restructuring the operations, eliminating operating losses and developing a long-term plan for the business it has decided to retain and continue to streamline its facilities in Caguas and Manati, and divest its facility in Carolina, Puerto Rico.

The Carolina site is a 230,000-square-foot facility, with approximately 200 employees, that specializes in the manufacture of oral cephalosporin solid dosage forms, including tablets, capsules and powders for suspension. It currently manufactures four products on behalf of six clients. .

The Company has concluded that Carolina, a high-quality site with specialized capabilities and expertise, would be of greater strategic value to another company with a focus on manufacturing oral cephalosporins. The divestiture will allow the Company to focus on improving operating performance and growing the business at the Caguas and Manati facilities.

It is anticipated that the purchaser will assume responsibility for the staff at the facility, and contracts with third parties subject to their approval. Patheon has retained an advisor to manage the sale of the Carolina site.

Results of Operations

The results of operations of the Niagara-Burlington Operations have been segregated and presented separately as discontinued operations. All comparative amounts have been reclassified to conform to the current period presentation.

Revenues by Geographic Region and Service Activity

U.S.$ '000	Three months ended October 31,			Twelve months ended October 31,		
	2007	**2006**	**% Change**	**2007**	**2006**	**% Change**
North America						
Commercial Manufacturing						
Prescription	**56,543**	77,388	-27%	**270,515**	309,379	-13%
Over-the-counter	**14,564**	11,411	28%	**43,076**	66,327	-35%
	71,107	88,799	-20%	**313,591**	375,706	-17%
Development Services	**23,151**	20,652	12%	**84,532**	74,986	13%
	94,258	**109,451**	**-14%**	**398,123**	**450,692**	-12%
Europe						
Commercial Manufacturing						
Prescription	**62,683**	47,204	33%	**243,554**	197,332	23%
Over-the-counter	**291**	1,170	-75%	**3,473**	3,646	-5%
	62,974	48,374	30%	**247,027**	200,978	23%
Development Services	**9,560**	7,925	21%	**31,924**	22,989	39%
	72,534	**56,299**	**29%**	**278,951**	**223,967**	25%
TOTAL						
Commercial Manufacturing						
Prescription	**119,226**	124,592	-4%	**514,069**	506,711	1%
Over-the-counter	**14,855**	12,581	18%	**46,549**	69,973	-33%
	134,081	137,173	-2%	**560,618**	576,684	-3%
Development Services	**32,711**	28,577	14%	**116,456**	97,975	19%
CONSOLIDATED REVENUES	**166,792**	**165,750**	**1%**	**677,074**	**674,659**	0%

Three Months Ended October 31, 2007 Compared with Three Months Ended October 31, 2006

Revenues

Consolidated revenues from continuing operations for the three-month period ended October 31, 2007 increased 1%, or $1.0 million, to $166.8 million from $165.8 million in the same period in 2006. In the fourth quarter, revenues increased for OTC manufacturing and PDS, but decreased for R_x manufacturing. On a consolidated basis, compared with the fourth quarter of 2006, OTC and PDS revenues increased by 18% and 14%, respectively, and R_x revenues declined by 4%.

For the three-month period ended October 31, 2007 revenues excluding the Puerto Rico operations were $151.9 million, compared with $131.9 million in the same period last year.

Prescription manufacturing and development services represented 91% of revenues, compared with 92% for the comparable period in 2006. The decline reflects a significant decrease in R_x manufacturing volumes in Puerto Rico.

Geographically, in North America, revenues declined in the fourth quarter by $15.2 million or 14% over the same period a year ago. The decrease reflects a significant decline in R_x revenues in the Carolina and Caguas facilities in Puerto Rico as a result of lower revenues for Omnicef®, which was impacted by the launch of generic competitive products in May of 2007, the elimination of manufacturing of Zocor® and lower volumes of Levothyroxine sodium, where the client has suffered a significant decline in market share. R_x revenues were also slightly lower in Canada, in part due to delays in the availability of active pharmaceutical ingredients. These declines were offset in part by higher PDS and OTC manufacturing volumes in the Canadian and Cincinnati operations.

In Europe, revenues for the fourth quarter of 2007 increased by $16.2 million or 29% over the same period of 2006. The year-over-year increase reflects higher R_x manufacturing revenues from operations in France and Italy, reflecting the continuing benefits from two carve out initiatives, where the Company is manufacturing a range of products for two clients that have closed down facilities within their own manufacturing network. In Swindon, U.K., PDS revenues showed continued growth, but commercial manufacturing volumes were lower as a result of production delays, which are expected to be recovered during the first half of 2008. The Euro strengthened approximately 9% and U.K. sterling strengthened approximately 7% against the U.S. dollar relative to the same period last year, increasing reported revenues by approximately $5.8 million. Had European currencies remained constant to the rates of the prior year, European revenues would have been 18% higher than the same period in 2006.

Operating Expenses

Operating expenses comprise processing costs (principally materials, employee and other site-related costs), marketing, sales, service, corporate support, administrative expenses and foreign exchange gains and losses. In the fourth quarter of 2007, operating expenses were $145.6 million, being $1.4 million lower than the same period a year ago. Operating expenses were reduced in the fourth quarter by net foreign exchange gains of $5.8 million. The foreign exchange gains have arisen from the revaluation of US dollar denominated debt in Canada and benefits from the Company's cash flow hedging program, offset in part by losses arising from the revaluation of foreign denominated working capital. Operating expenses were further reduced in the fourth quarter as a result of an actuarial gain of $4.3 million arising from a decision to phase out certain post retirement benefits in the Canadian operations. Ongoing expenses were impacted by the strengthening of European and Canadian currencies relative to the U.S. dollar. Operating expenses as a percentage of revenues were 87.3%, compared with 88.7% in the same period a year ago.

EBITDA Before Repositioning Expenses and EBITDA Margin Before Repositioning Expenses

On a consolidated basis in the fourth quarter of 2007, EBITDA before repositioning expenses, representing earnings from continuing operations before repositioning expenses, asset impairment charge, depreciation and amortization, foreign exchange losses reclassified from other comprehensive income, interest, refinancing expenses, write-off of deferred financing costs, and income taxes was $21.2 million, compared with $18.8 million in the same period a year ago. EBITDA margin before repositioning expenses was 12.7% in the three-month period, compared with 11.3% in the same period a year ago.

For the three-month period ended October 31, 2007 EBITDA before repositioning expenses excluding the Puerto Rico operations was $30.4 million, compared with $18.5 million in the same period last year. This represents an EBITDA margin before repositioning expenses of 20.0% in the three month period, compared with 14.0% in the same period last year.

In Canada, EBITDA before repositioning expenses from the commercial operations was $6.9 million in the fourth quarter of 2007, being $1.7 million higher than the same period last year. This improvement was achieved despite lower production volumes and includes a significant portion of the actuarial gains arising from a change in the Company's post retirement benefit plans. EBITDA before repositioning expenses was not significantly impacted by foreign exchange in the fourth quarter of 2007, as the negative earnings impact of the strengthening Canadian dollar relative to the U.S. dollar, was offset by gains from the Company's foreign exchange cash flow hedging program.

In the U.S.A. (including Puerto Rico), EBITDA before repositioning expenses for the commercial operations was a loss of $4.5 million in the fourth quarter of 2007, compared with a profit of $5.7 million in the same period last year. The significant deterioration in earnings principally reflects a reduction in R_x manufacturing volumes in the Carolina and Caguas facilities in Puerto Rico.

In Europe, EBITDA before repositioning expenses from the commercial operations was $3.8 million in the fourth quarter of 2007, being $0.3 million lower than the same period a year ago. The benefits of higher volumes were offset by additional variable compensation costs, incremental costs associated with production delays in Swindon, UK and foreign exchange losses. The strengthening European currencies relative to the US dollar compared with the same period last year had the impact of increasing EBITDA before repositioning expenses by approximately $0.3 million.

EBITDA before repositioning expenses from the global PDS operations was $9.4 million in the fourth quarter of 2007, being $3.2 million higher than the same period in 2006. The increase reflects revenue growth across the network.

Corporate costs in the fourth quarter of 2007 reflected a net recovery of $5.5 million, compared with costs of $2.6 million in the same period last year. This reported gain resulted from foreign exchange gains of $7.5 million arising from the revaluation of US dollar denominated debt held in the Canadian legal entity. In October 2007 the Company hedged its net US dollar balance sheet exposure, which will reduce future volatility.

Repositioning Expenses

During the fourth quarter of 2007 the Company incurred $6.7 million of expenses in connection with its performance enhancement program. The expenses were associated with cost saving initiatives being undertaken in the Caguas and Carolina facilities in Puerto Rico and in the restructuring of the Canadian site network.

Depreciation and Amortization Expense

Depreciation and amortization expense was $10.4 million in the fourth quarter of 2007, compared with $9.7 million in the fourth quarter of 2006. The increase reflects the impact of the strengthening European and Canadian currencies relative to the US dollar, offset in part by lower depreciation charges in Carolina as a result of the asset impairment charge booked in the third quarter of 2007.

Amortization of Intangible Assets

Amortization of intangible assets was $1.1 million in the fourth quarter of 2007, compared with $2.2 million for the fourth quarter of 2006. The amortization of intangible assets relates to the Puerto Rico operations. The charge is lower than for the same period last year due to the impact of the impairment charge booked in the third quarter of 2007.

Interest Expense and Amortization of Deferred Financing Costs

Interest expense for the fourth quarter of 2007 was $7.5 million, compared with $6.2 million in the fourth quarter of 2006. The increase in interest costs principally reflects the impact of the new financing arrangements that were put in place on April 27, 2007 and includes a non-cash accretive interest charge of $3.6 million in respect of the debt component of the convertible preferred shares.

Effective November 1, 2006, the Company adopted CICA Accounting Standard Section 3855 for the accounting of financial instruments, including its policy on deferring costs of obtaining bank and other debt financing (see “Critical Accounting Policies and Estimates”). As a result, amounts that in prior periods were recorded as amortization of deferred financing costs are now recorded in interest expense.

Loss Before Income Taxes from Continuing Operations

The Company reported a loss before income taxes of $4.5 million in the fourth quarter of 2007, compared with a loss of $12.7 million in the same period a year ago.

Income Taxes

The Company recorded an income tax charge of $4.6 million in the fourth quarter of 2007, compared with a charge of $9.5 million in the same period last year. The income tax charge in 2007 principally reflects operating losses in Puerto Rico, where the tax benefits recognized were minimal, compounded by high tax rates in Italy where the Company reported significant profits. Offsetting these was the benefit of pre tax earnings in Canada, which were sheltered by the draw down of prior period unrecognized losses. In 2006 the income tax expense included a valuation reserve charge of $6.4 million against future tax asset balances in the Canadian operations.

Loss and Loss Per Share from Continuing Operations

The Company recorded a loss from continuing operations in the fourth quarter of 2007 of $9.1 million, compared with a loss of $22.2 million in the same period last year. The loss per share was 9.9¢, compared with a loss of 23.8¢ per share a year earlier. The loss in 2007 included after tax repositioning expenses of $6.8 million or 7.3¢ per share. The loss in 2006 included after tax asset repositioning expenses of $12.2 million or 13.2¢ per share.

Because the Company reported a loss in the fourth quarter of 2007 and 2006, there is no impact of dilution.

Earnings (Loss) and Earnings (Loss) Per Share from Discontinued Operations

Discontinued operations include the results of the Niagara-Burlington Operations. Financial details of the operating activities are disclosed in note 5 in the interim consolidated financial statements. Earnings from discontinued operations in the fourth quarter of 2007 were $1.5 million, or 1.7¢ compared with a loss of $0.3 million or 0.3¢ in the same period last year. The improvement reflects the reversal of repositioning expense accruals in the fourth quarter, compared with a charge in the same period last year. In the fourth quarter of 2007 the Company also recorded a $0.6 million reduction to the asset impairment charge that had been booked in the third quarter of 2007, to reflect the Company's revised estimate of the fair value of the long-lived assets.

Twelve Months Ended October 31, 2007 Compared with Twelve Months Ended October 31, 2006

Revenues

Consolidated revenues from continuing operations for the twelve-month period ended October 31, 2007 increased $2.4 million to $677.1 million from $674.7 million in the same period in 2006. R_x manufacturing and PDS revenues grew by 1% and 19%, respectively, while OTC manufacturing revenues declined by 33%.

For the twelve-month period ended October 31, 2007 revenues excluding the Puerto Rico operations were $577.3 million, compared with $544.9 million in the same period last year.

Prescription manufacturing and development services represented 93% of revenues, compared with 90% for the comparable period in 2006. This improvement is consistent with one of the Company's key performance drivers of increasing the percentage of higher margin R_x and PDS business.

Geographically, in North America, revenues for the twelve months ended October 31, 2007 declined by $52.5 million or 12% over the same period a year ago. The decline reflects a significant reduction in OTC volumes in the Whitby and Cincinnati operations as certain clients have repatriated products back to their own manufacturing network. R_x volumes declined in Caguas and Carolina, Puerto Rico as a result of lower production of Zocor®, Levothyroxine sodium and Omnicef®. R_x revenues were also lower in Canada principally as a result of lower volumes for a product where in 2006 the Company's client was building trade inventory levels for a newly launched product. The declines in commercial manufacturing revenues were offset in part by an increase in PDS revenues in Canada and Cincinnati.

In Europe, revenues for the twelve months ended October 31, 2007 were $55.0 million or 25% higher than the same period of 2006. The year-over-year increase in revenues reflects higher R_x manufacturing revenues from operations in Italy and France arising from the continuing benefits from two carve out initiatives, where the Company is manufacturing a range of products for two clients that have closed down facilities within their own manufacturing network. In Swindon, U.K. PDS operations also continued to show further increases in volumes. These gains were offset in part by lower pre-launch commercial revenues for the cephalosporin lyophilization services and production delays during the fourth quarter. The Euro and U.K. sterling strengthened approximately 9% and 10%, respectively, against the U.S. dollar relative to the same period last year, increasing reported revenues by approximately $22.9 million. Had European currencies remained constant to the rates of the prior year, European revenues would have been 14% higher than the same period in 2006.

Operating Expenses

Operating expenses comprise processing costs (principally materials, employee and other site-related costs), marketing, sales, service, corporate support, administrative expenses and foreign exchange gains and losses. In the twelve-month period ended October 31, 2007 operating expenses were $586.8 million, compared with $603.8 million in the same period a year ago, a decline of 3%. The decline reflects savings from the performance enhancement program, offset in part by the strengthening European and Canadian currencies relative to the U.S. dollar. Operating expenses in 2007 are net of foreign exchange gains of $8.9 million and an actuarial gain of $4.3 million arising from a decision to phase out certain post retirement benefits in the Canadian operations.

Operating expenses as a percentage of revenues were 86.7%, compared with 89.5% in the prior year.

EBITDA Before Repositioning Expenses and EBITDA Margin Before Repositioning Expenses

On a consolidated basis for the twelve-month period ended October 31, 2007, EBITDA before repositioning expenses, representing earnings from continuing operations before repositioning expenses, asset impairment charges, depreciation and amortization, foreign exchange losses reclassified from other comprehensive income, interest, refinancing expenses, write-off of deferred financing costs, and income taxes was $90.3 million, an increase of $19.4 million, or 27%, from the comparable period in 2006. EBITDA margin before repositioning expenses was 13.3% in the twelve-month period ended October 31, 2007, compared with 10.5% in the same period a year ago.

For the twelve-month period ended October 31, 2007, EBITDA before repositioning expenses excluding the Puerto Rico operations was $108.6 million, compared with $69.5 million in the same period last year. This represents an EBITDA margin before repositioning expenses of 18.8% in 2007, compared with 12.7% in the same period last year.

The Canadian commercial operations reported EBITDA before repositioning expenses of $32.1 million for the twelve months ended October 31, 2007, or $6.9 million higher than the same period last year. This improvement was achieved despite lower R_x and OTC volumes and reflects savings from the performance enhancement program, in particular at the Whitby operations. The improvement also includes a significant portion of the actuarial gains booked in the fourth quarter of 2007 arising from a change in the Company's post retirement benefit plans. EBITDA before repositioning expenses was not significantly impacted by foreign exchange, as the negative earnings impact of the 3% increase in the average Canadian dollar exchange rate relative to the U.S. dollar was offset by foreign exchange gains from the Company's cash flow hedging program.

EBITDA before repositioning expenses from the U.S.A. commercial operations (including Puerto Rico) for the twelve months ended October 31, 2007 was a loss of $7.2 million, compared with a profit of $14.0 million in the same period last year. The decline principally reflects a reduction in R_x manufacturing volumes in the Caguas facility in Puerto Rico. In Cincinnati, volume declines were offset by savings from the performance enhancement program and a change in the revenue mix to higher margin R_x business.

In Europe, EBITDA before repositioning expenses from commercial operations for the twelve months ended October 31, 2007 was $36.9 million, being $10.1 million higher than the same period last year. The improvement reflects increased volumes in the operations in Italy and France, offset in part in Swindon by lower pre-launch revenues for the cephalosporin lyophilization services and fourth quarter production delays. The strengthening European currencies against the US dollar compared with the same period last year also had the impact of increasing EBITDA before repositioning expense by approximately $2.9 million.

EBITDA before repositioning expenses from the global PDS operations for the twelve months ended October 31, 2007 was $30.7 million, being $10.7 million higher than the same period in 2006. This reflects improved profitability arising from growing volumes across all operations.

Corporate costs for the twelve-month period ended October 31, 2007 reflected a net recovery of $0.4 million, compared with costs of $12.4 million for the same period last year. This reported gain included foreign exchange gains of $12.3 million arising from the revaluation of US dollar denominated debt held in the Canadian legal entity. In October 2007 the Company hedged its net US dollar balance sheet exposure, which will reduce future volatility.

Asset Impairment Charge

During the third quarter of 2007 it was determined that the carrying value of the intangible assets and depreciable tangible capital assets (collectively the “long-lived depreciable assets”) at the Company’s operations in Carolina, Puerto Rico were impaired as a result of volume declines arising from the genericization of Omnicef®, this being the largest single product that is manufactured at the facility. The Company tested the recoverability of the long-lived depreciable assets at the Carolina operations and determined that the expected future cash flows over the economic life of the principal assets was less than the carrying value of the long-lived depreciable assets. As a result, in the third quarter of 2007, the Company recorded an impairment charge of $48.6 million; $26.1 million for intangible assets and $22.5 million for tangible capital assets. The fair value of the intangible assets was determined using a discounted cash flow methodology and the fair value of the tangible capital assets was based on a weighted average continued use and liquidation value.

During the third quarter of 2006 the Company determined that the carrying value of the long-lived depreciable assets at the Company’s operations in Caguas and Manati, Puerto Rico and the goodwill associated with all of the Puerto Rico operations 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 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 the long-lived depreciable assets for all of the Puerto Rico operations and determined that at Caguas and Manati the 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, in the third quarter of 2006, the Company recorded an impairment charge of $81.4 million; $51.9 million for intangible assets and $29.5 million 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.

During the third quarter of 2006 the Company also tested the recoverability of the goodwill associated with Puerto Rico operations using a discounted cash flow methodology, and recorded an impairment charge of $172.5 million representing the full value of the Puerto Rico goodwill.

During the third quarter of 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 was accounted for on the cost basis had an other than temporary decline and wrote down its value by $0.8 million to its market value as of July 31, 2006.

Repositioning Expenses

During the twelve-month period ended October 31, 2007 the Company incurred $15.8 million of expenses in connection with its performance enhancement program, the site rationalization program in Puerto Rico and Canada and its review of strategic and financial alternatives. The expenses include consulting fees associated with the manufacturing efficiency review, costs associated with reductions in the work force and professional and other costs in connection with the strategic alternatives review.

Depreciation and Amortization Expense

Depreciation and amortization expense was $41.0 million for the twelve months ended October 31, 2007, compared with $38.8 million in the same period of 2006, an increase of $2.2 million, or 6%. The increase principally reflects the effect of the strengthening European and Canadian currencies relative to the U.S. dollar, offset in part by lower depreciation charges from the Puerto Rico operations as a result of the impairment charges booked in the third quarters of 2007 and 2006.

Amortization of Intangible Assets

The amortization of intangible assets was $6.7 million in the twelve months ended October 31, 2007, compared with $11.9 million in the same period of 2006. The amortization of intangible assets relates to the Puerto Rico operations. The charge is lower than for the same period last year due to the impact of the impairment charges made during the third quarters of 2007 and 2006.

Interest Expense and Amortization of Deferred Financing Costs

Interest expense for the twelve months ended October 31, 2007 was $29.2 million, compared with $21.3 million in the same period a year ago. The increase in interest costs in the first half of the year reflected higher debt levels, along with increased borrowing costs as a result of the amendments to the Company's North American loan facilities. The interest expense in the second half of 2007 reflects the impact of the Company's refinancing that was completed on April 27, 2007 and includes a non-cash accretive interest charge of $7.1 million in respect of the debt component of the convertible preferred shares.

In 2007, the Company has adopted CICA Accounting Standard Section 3855 for the accounting of financial instruments, including its policy on deferring costs of obtaining bank and other debt financing (see "Critical Accounting Policies and Estimates"). As a result, amounts that in prior periods were recorded as amortization of deferred financing costs are now recorded in interest expense.

Refinancing Expenses and Write-off of Deferred Financing Costs

All refinancing expenses of $13.5 million for the twelve months ended October 31, 2007 were incurred in connection with the Company's refinancing on April 27, 2007. The expenses are made up of transaction costs for the new credit facilities, transaction costs allocated to the debt portion of the convertible preferred shares and repayment charges in connection with the cancellation of certain of the Company's U.K. debt facilities.

During the first quarter of 2006, the Company incurred charges of $1.6 million in connection with the cancellation and prepayment of certain of its North American credit facilities. The Company also wrote off $6.3 million in related deferred financing costs.

Loss Before Income Taxes from Continuing Operations

The Company reported a loss before income taxes of $65.2 million in the twelve months ended October 31, 2007, compared with a loss of $277.7 million in the same period a year ago.

Income Taxes

The income tax expense for the twelve months ended October 31, 2007 was $19.2 million, compared with an expense of $11.0 million for the same period last year. The income tax charge in 2007 principally reflects high tax rates in Italy where the Company reported significant profits, compounded by tax losses in certain entities in Puerto Rico and Canada, where the tax benefit after valuation reserves has not been recognized. The 2007 expense includes a charge of $2.1 million in connection with an inter-company dividend payment and a charge of $1.9 million in connection with the transfer of net foreign exchange losses from accumulated other comprehensive income. The 2006 charge includes a valuation reserve charge of $6.4 million against future tax asset balances in the Canadian operations.

Loss and Loss Per Share from Continuing Operations

The Company recorded a loss from continuing operations for the twelve months ended October 31, 2007 of $84.5 million, compared with a loss of $288.7 million in the same period a year ago. The loss per share was 91.0¢ compared with $3.11 a year earlier. The loss for the twelve months ended October 31, 2007 included an after tax asset impairment charge of $47.8 million, or 51.4¢ per share, after tax repositioning expenses of $14.9 million, or 16.0¢ per share and after tax refinancing expenses of $12.6 million, or 13.5¢ per share. The loss for the twelve months ended October 31, 2006 included an after tax asset impairment charge of $252.1 million, or $2.72 per share and after tax costs for debt prepayment charges and the write-off of deferred financing costs of $6.2 million, or 6.6¢ per share.

Because the Company reported a loss in the twelve months ended October 31, 2007 and 2006 there is no impact of dilution.

Earnings (Loss) and Earnings (Loss) Per Share from Discontinued Operations

The net loss from discontinued operations in the twelve months ended October 31, 2007 was $10.1 million, or 10.9¢ compared with net earnings of $0.6 million or 0.6¢ in the same period last year. The net loss in 2007 includes an asset impairment charge of $12.5 million, or 13.4¢ per share to write down the capital assets to their fair market value less the estimated cost to sell.

Seasonal Variability of Results

Historically, the Company's manufacturing and PDS revenues are lower in the first fiscal quarter. The Company attributes this to several factors, including: (i) many clients reassess their need for additional product in the last quarter of the calendar year in order to use existing inventories of products; (ii) the lower production of seasonal cough and cold remedies; (iii) many small pharmaceutical and small biotechnology clients involved in PDS projects limit their project activity toward the end of the calendar year in order to reassess progress on their projects and manage cash resources; and (iv) the Patheon-wide plant shut-down during a portion of the traditional holiday period in December and January.

Liquidity and Capital Resources

Summary of Cash Flows

The following table summarizes the Company's cash flows for the periods indicated:

	Three months ended October 31,		Twelve months ended October 31,	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
Net loss from continuing operations	**(9,050)**	(22,162)	**(84,458)**	(288,719)
Depreciation and amortization	**11,529**	11,858	**47,666**	50,637
Write-off of deferred financing costs	**-**	-	**-**	6,332
Asset impairment charge	**-**	-	**48,580**	254,661
Foreign exchange loss	**-**	-	**858**	-
Foreign exchange gain on debt, net of hedging	**(7,541)**	-	**(12,331)**	-
Amortization of deferred financing costs	**151**	346	**1,657**	944
Employee future benefits, net of contributions	**(5,169)**	319	**(4,846)**	1,112
Future income taxes	**1,445**	(3,514)	**4,617**	(6,678)
Accretive interest on convertible preferred shares	**3,573**	-	**7,054**	-
Amortization of deferred revenues	**(505)**	(485)	**(2,021)**	(1,978)
Other	**1,117**	154	**2,087**	1,587
Working capital	**21,742**	36,111	**(2,442)**	20,506
Increase in deferred revenues	**8**	-	**2,065**	9,614
Cash provided by operating activities	**17,300**	22,627	**8,486**	48,018
Cash used in investing activities	**(15,542)**	(25,553)	**(39,663)**	(68,845)
Cash provided by (used in) financing activities	**(14,932)**	32,566	**4,221**	44,460
Net increase (decrease) in cash and cash equivalents from discontinued operations	**(1,127)**	239	**2,830**	3,305
Other	**4,362**	847	**3,960**	1,278
Net increase (decrease) in cash and cash equivalents	**(9,939)**	30,726	**(20,166)**	28,216

Cash Provided by Operating Activities – Continuing Operations

Cash provided by operating activities from continuing operations was $17.3 million in the fourth quarter of 2007 compared with a $22.6 million for the comparable period in 2006. On a year-to-date basis, cash provided by operating activities from continuing operations was $8.5 million, compared with $48.0 million in the same period last year. The year-to-date deterioration reflects lower earnings before non-cash charges. Cash flows in 2006 also benefitted from a net reduction in the investment in working capital of $20.5 million, compared with an increase in working capital of $2.0 million in 2007. In 2007, the Company received $2.1 million from clients to assist in the funding of capital expenditure projects that are tied to specific manufacturing and supply agreements. This compares with $9.6 million that was received during the same period last year. These amounts are recorded as an increase in deferred revenues and will be recognized as income over the life of the commercial manufacturing contract.

Cash Used in Investing Activities – Continuing Operations

Cash used in investing activities from continuing operations in the fourth quarter of 2007 was $15.5 million, compared with $25.6 million in the same period a year ago. On a year-to-date basis, cash used in investing activities was $39.7 million, compared with $68.8 million in the same period last year. The decrease for the fourth quarter and year-to-date principally reflects lower project related capital expenditures on the cephalosporin lyophilization capacity in the Swindon, U.K. facility. The major expenditures for this expansion were incurred in 2006.

A summary of cash used in investing activities is as follows:

	Three months ended October 31, 2007	2006	Twelve months ended October 31, 2007	2006
	$	$	$	$
Additions to capital assets-sustaining	**(9,166)**	(7,088)	**(18,034)**	(16,975)
-project related	**(5,519)**	(17,791)	**(17,768)**	(49,617)
Net increase in investments	**(25)**	(49)	**(202)**	(49)
Increase in deferred pre-operating costs	**(832)**	(625)	**(3,659)**	(2,204)
Cash used in investing activities of continuing operations	**(15,542)**	(25,553)	**(39,663)**	(68,845)

Cash Provided by (Used in) Financing Activities

In the fourth quarter of 2007 the Company used $8.8 million of cash to repurchase 2,334,300 of its restricted voting shares under a normal course issuer bid.

The principal financing activity for the twelve months ended October 31, 2007 was the issue, through a private placement, of $150 million of convertible preferred shares of the Company to JLL Partners and the completion of new credit facilities in the aggregate amount of $225 million, comprising of a seven-year $150 million term loan and a five-year $75 million revolving facility. The net proceeds from the JLL Partners investment and the seven-year term loan were used to repay the Company's obligations under its existing North American and U.K. credit facilities.

The principal financing activity during the twelve months ended October 31, 2006 was the completion of new credit facilities in North America in the aggregate amount of $290.0 million to refinance existing debt of the Company and its U.S. subsidiaries. The Company was able to release $7.8 million of restricted cash that had previously been held as security for certain of the cancelled facilities. During the first quarter of 2006 the Company's Italian subsidiary also entered into a new long-term debt facility in the amount of €28.5 million ($33.9 million) to replace existing loans.

A summary of cash provided by financing activities is as follows:

	Three months ended October 31, 2007	2006	Twelve months ended October 31, 2007	2006
	$	$	$	$
Increase (decrease) in bank indebtedness	**(4,230)**	3,041	**3,532**	(11,096)
Increase in long-term debt	**15,456**	42,443	**198,108**	416,389
Repayment of long-term debt	**(17,380)**	(11,790)	**(337,452)**	(364,800)
Issue of convertible preferred shares	**-**	-	**150,000**	-
Convertible preferred share issue costs - equity component	**-**	-	**(1,213)**	-
Issue of restricted voting shares	**-**	47	**24**	127
Repurchase of restricted voting shares	**(8,778)**	-	**(8,778)**	-
Decrease in restricted cash	**-**	-	**-**	7,805
Increase in deferred financing costs	**-**	(1,175)	**-**	(3,965)
Cash provided by (used in) financing activities of continuing operations	**(14,932)**	32,566	**4,221**	44,460

Financing Arrangements and Ratios

Convertible Preferred Shares

The $150 million 8.5% convertible preferred shares purchased by JLL Partners on April 27, 2007 represent 150,000 units, each consisting of one Class I Preferred Share, Series C (a convertible preferred share) and one Class I Preferred Share, Series D (a special voting preferred share) at a purchase price of $1,000 per unit.

Until October 27, 2009, no cash dividends will be paid, but the liquidation preference and conversion rate will increase on a quarterly basis by 2.125%. After October 27, 2009, these increases in the liquidation preference and conversion rate will continue until the maturity or prior conversion of the convertible preferred shares, unless the Company elects to pay a cash dividend for any applicable quarter, in which case the Company will pay a cash dividend for such quarter based on an annual dividend rate of 8.5% on the aggregate liquidation preference of the convertible preferred shares.

Each convertible preferred share is convertible into 218.7154 Patheon restricted voting shares, as adjusted for any non-cash dividends noted above, at any time at the holder's option. The Company will be entitled to require the holder to convert into restricted voting shares if, at any time after October 27, 2009, the market price of the restricted voting shares on the Toronto Stock Exchange exceeds a price equivalent to US$7.87 for a period of at least 60 days.

If not previously converted, the Company is required to redeem the convertible preferred shares for cash on April 27, 2017 at a price equal to the aggregate liquidation preference of the convertible preferred shares, plus accrued and unpaid dividends thereon. The Company is also required to redeem the convertible preferred shares upon the occurrence of a change of control of Patheon at a price equal to the greater of the aggregate liquidation preference of the convertible preferred shares, plus accrued and unpaid dividends thereon, or the price per share paid to holders of restricted voting shares in the change of control transaction, multiplied by the number of restricted voting shares into which the convertible preferred shares are then convertible.

The convertible preferred shares have the right to vote, together with the holders of the restricted voting shares, on an as-if converted basis, in respect of all matters other than the election of directors. As at October 31, 2007 these voting rights represent approximately 27% of the voting rights of Patheon. The special voting preferred shares have the right to appoint up to three directors.

The convertible preferred shares are considered to be a compound financial instrument with both a debt and equity component. On issuance, the fair value of the debt component was $132.9 million. The remainder of the proceeds, attributable to shareholders' equity was $15.9 million, net of apportioned transaction costs of $1.2 million. See Convertible Preferred Shares in "Critical Accounting Policies and Estimates" below with regard to how the Convertible Preferred Shares have been accounted for.

$225 Million Credit Facilities

On April 27, 2007 the Company completed new credit facilities in the aggregate amount of $225 million, comprising a seven-year $150 million senior secured term loan and a five-year $75 million asset based revolving credit facility. The Company is required to make quarterly installment payments of $375,000 on the term loan facility, along with additional mandatory repayments based on certain excess cash flow measures. Interest on the facilities is at floating rates based on LIBOR, US or CAD prime, or the federal funds effective rate, plus applicable margins. The Company has entered into interest rate swaps to convert the interest expense on the $150 million senior secured term loan from a floating interest rate to a fixed interest rate. The facilities are secured by substantially all of the assets of the Company's operations in Canada, U.S.A., Puerto Rico and the U.K and the Company's investments in the shares of all other operating subsidiaries.

Financial Ratios

Total interest bearing debt, including the debt component of the convertible preferred shares, at October 31, 2007 was $363.7 million, being $14.1 million higher than at October 31, 2006. At October 31, 2007, the Company's consolidated ratio of interest-bearing debt to shareholders' equity was 184.4%, compared with 139.4% at October 31, 2006. The increase principally reflects the reduction in shareholders' equity arising from the losses that the Company has incurred in the twelve months ended October 31, 2007.

Adequacy of Financial Resources

With the completion of the new financing arrangements on April 27, 2007, the Company believes that its financial resources are sufficient to fund projected capital expenditures, debt service requirements and employee future benefit obligations in the normal course of business. The risks associated with going concern uncertainty reported in the Company's 2006 Annual Report have now been eliminated.

Critical Accounting Policies and Estimates

Changes in and Significant New Accounting Policies

Effective November 1, 2006 the Company adopted the Canadian Institute of Chartered Accountants Handbook Section 3855 "Financial Instruments – Recognition and Measurement", Section 3865 "Hedges", Section 1530 "Comprehensive Income" and Section 3861 "Financial Instruments – Disclosure and Presentation". The adoption of the new standards resulted in changes in accounting for financial instruments and hedges as well as the recognition of certain transition adjustments that have been recorded in accumulated other comprehensive income. The comparative interim consolidated financial statements have not been restated, except for the reclassification of amounts previously recorded as cumulative translation adjustment, which are now included in accumulated other comprehensive income. For a description of the principal changes in accounting policy see Note 1 to the consolidated financial statements.

In the second quarter of 2007 the Company changed its accounting policy relating to costs of obtaining bank and other debt financing. Under the new policy all transaction costs, including fees paid to advisors and other related costs, are expensed as incurred. Financing costs, including underwriting and arrangement fees paid to lenders are deferred and netted against the carrying value of the related debt and amortized into interest expense using the effective interest rate method. The Company previously deferred all transaction and financing costs associated with obtaining bank and other debt financing. Under the new requirements of CICA Handbook Section 3855, all deferred costs are netted off against the fair value of the debt. The Company believes that the new policy is reliable and more relevant as it results in a more transparent treatment of transaction costs that the Company has incurred in its recent refinancing activities and in the carrying value of debt. The change in policy has been made retrospectively effective November 1, 2006 and had the effect of increasing the retained deficit at November 1, 2006 by $1.7 million and reducing the interest expense and net loss for the three months ended January 31, 2007 by $0.6 million.

As a result of the issuance of the convertible preferred shares on April, 27 2007, the Company has also added a new accounting policy for convertible preferred shares as detailed below.

General

Patheon's significant accounting policies are described in Note 1 to the 2006 audited consolidated financial statements. The most critical of these policies are those related to revenue recognition, deferred revenues, intangible assets, impairment of long lived depreciable assets, goodwill, employee future benefits, and income taxes, (Notes 1, 7, 9, 13 and 17 of the 2006 audited consolidated financial statements).

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.

The Company's accounting policies have been reviewed and discussed with the Company's Audit Committee.

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 when all costs connected with providing these services have been incurred, the price is fixed or determinable and collectibility is reasonably assured. Client deposits on pharmaceutical development services in progress are included in accounts payable and accrued liabilities.

The Company does not receive any fees on signing of contracts. In the case of pharmaceutical development services, revenue is recognized on the achievement of specific milestones in accordance with the respective development service contracts. In the case of commercial manufacturing services, revenue is recognized when services are complete and the product has met rigorous quality assurance testing.

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. During the fourth quarter of 2007, $0.5 million was recognized as earnings. During the twelve months ended October 31, 2007, $2.0 million was recognized as earnings and $2.1 million was received as a capital expenditure reimbursement.

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 life. During the fourth quarter of 2007, $1.1 million was charged to earnings. During the twelve months ended October 31, 2007, $6.7 million was charged to earnings.

Impairment of Long-Lived Depreciable Assets

On an ongoing basis, 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 net earnings. In the third quarter of 2007 the Company recorded an impairment charge of $48.6 million relating to the long-lived depreciable assets in Carolina, Puerto Rico.

Valuation of Goodwill

The Company evaluates goodwill for impairment at least annually and reviews if there are any indicators of impairment on an ongoing basis. If the carrying value of the reporting unit exceeds its fair value, the fair value of the reporting units goodwill, determined in the same manner as in a business combination, is compared with its carrying amount to measure the amount of any impairment loss, if any.

The goodwill shown on the financial statements for the period ended October 31, 2007 was $3.7 million and relates to the acquisition in 2000 of the remaining shares of Global Pharm Inc., which now operates as Toronto York Mills Operations. The goodwill and the business supporting its value will be transferred to the Whitby operations on the closure of the York Mills facility.

Income Taxes

In accordance with Canadian GAAP, the Company uses the liability method of accounting for future income taxes and provides for future income taxes for significant temporary timing differences.

Preparation of the consolidated financial statements requires an estimate of income taxes in each of the jurisdictions in which the Company operates. The process involves an estimate of the Company's current tax exposure and an assessment of temporary differences resulting from differing treatment of items such as depreciation and amortization for tax and accounting purposes. These differences result in future tax assets and liabilities and are reflected in the consolidated balance sheet.

Future tax assets of $31.1 million have been recorded at October 31, 2007. The future tax assets are primarily composed of accounting provisions related to pension and post-retirement benefits not currently deductible for tax purposes, the tax benefit of net operating loss carry forwards related to the U.K., unclaimed R&D expenditures and deferred financing and share issue costs. The Company evaluates quarterly the ability to realize its future tax assets. The factors used to assess the likelihood of realization are the Company's forecast of future taxable income and available tax planning strategies that could be implemented to realize the future tax assets.

Future tax liabilities of $47.6 million have been recorded at October 31, 2007. This liability has arisen primarily on tax depreciation in excess of book depreciation.

The Company's tax filings are subject to audit by taxation authorities. Although management believes that it has adequately provided for income taxes based on the information available, the outcome of audits cannot be known with certainty and the potential impact on the financial statements is not determinable.

Convertible Preferred Shares

On April 27, 2007 the Company issued $150.0 million of convertible preferred shares. The shares are considered to be a compound financial instrument that contains both a debt component and an equity component.

On issuance of the convertible preferred shares, the fair value of the debt component is determined by discounting the expected future cash flows using a market interest rate for a non-convertible debt instrument with similar terms. The resulting value is carried as debt on an amortized cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated as a separate component of shareholders' equity, net of transaction costs. Transaction costs are apportioned between the debt and equity components based on their respective carrying amounts when the instrument was issued.

On conversion, the carrying amount of the debt component and the equity component are transferred to share capital and no gain or loss is recognized.

Employee Future Benefits

The Company provides to certain retired employees pensions and post-employment benefits, including medical benefits and dental care. The determination of the obligation and expense for defined benefit pensions and post-employment benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are disclosed in note 13 to the Company's 2006 audited consolidated financial statements.

Risk Management

The following are updates to certain risks and uncertainties described in the Company's Management's Discussion and Analysis for the year ended October 31, 2006, available on SEDAR (www.sedar.com) or on Patheon's website (www.patheon.com).

Foreign Currency

The Company's business activities are conducted in several currencies – Canadian dollars and U.S. dollars for the Canadian operations, U.S. dollars for the U.S. operations and euros and U.K. sterling for the European operations.

Since the European and U.S. operations conduct business principally in their respective local currencies, the exposure to foreign currency gains and losses is not significant. However, the Company's Canadian operations negotiate sales contracts for payment in both U.S. and Canadian dollars, and materials and equipment are purchased in both U.S. and Canadian dollars. The majority of its non-material costs (including payroll, facilities' costs and costs of locally sourced supplies and inventory) are denominated in Canadian dollars. Approximately 70% of revenues of the Canadian operations and approximately 20% of its operating expenses are transacted in U.S. dollars. As a result, the Company may experience trading and translation gains or losses because of volatility in the exchange rate between the Canadian dollar and the U.S. dollar. Based on the Company's current U.S. denominated net inflows, for each one-cent change in the Canadian-U.S. rate, the impact on annual pre-tax earnings, excluding any hedging activities, is approximately $0.9 million.

The Company mitigates its foreign exchange risk by engaging in foreign currency hedging activities using derivative financial instruments. At October 31, 2007 the Company had outstanding foreign exchange forward contracts to sell US$34.2 million at an exchange rate of $1.0535 Canadian. The contracts mature at the latest on April 21, 2008 and cover approximately 75% of the Company's expected foreign exchange exposure for the first half of the 2008 fiscal year. The mark-to-market value at October 31, 2007 that is recorded in accumulated other comprehensive income is an unrealized gain of $4.1 million. At October 31, 2007 the Company also had an outstanding foreign exchange forward contract to buy US$45.0 million at an exchange rate of $1.0015 Canadian. The contract matures on January 28, 2010 and hedges the Canadian operations US dollar balance sheet exposure. The mark-to-market value at October 31, 2007 that is recorded in earnings is an unrealized loss of $2.7 million. The Company does not purchase any derivative instruments for speculative purposes.

Translation gains and losses related to the carrying value of the Company's foreign operations and certain foreign currency denominated debt held by the Company and designated as a hedge against the carrying value of certain foreign subsidiaries, are included in accumulated other comprehensive income in shareholders' equity. At October 31, 2007, the Company had designated $141.6 million of US dollar denominated debt as a hedge against its investment in its U.S.A. and Puerto Rico subsidiaries.

Interest Rate Exposure

The Company has exposure to movements in interest rates. The Company has entered into interest rate swaps to convert the interest expense on the $150 million senior secured term loan from a floating interest rate to a fixed interest rate. Taking this interest rate swap into account, at October 31, 2007, 19% of the Company's total debt portfolio, including the debt component of the convertible preferred shares, was subject to movements in floating interest rates. Assuming no change to the structure of the debt portfolio, a 1% change in floating interest rates has an impact on annual pre-tax earnings of approximately $0.7 million.

Effectiveness of Disclosure Controls and Internal Controls

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure. An evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted as of October 31, 2006 by and under the supervision of the Company's management, including the CEO and the CFO. Based on this evaluation, the CEO and the CFO have concluded that the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings of the Canadian Securities Administrators) are effective to ensure that the information required to be disclosed in reports that the Company files or submits under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in such legislation. There have been no changes, since this last formal assessment, that have materially affected, or are reasonably likely to materially affect the Company's disclosure controls and procedures.

Under the supervision of the CEO and CFO, the Company has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. This design evaluation included documentation activities, management inquiries and other reviews as deemed appropriate by management in consideration of the size and nature of the Company's business. There were no changes in the Company's internal controls over financial reporting during the most recent interim period that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Selected Quarterly Financial Information

The following is selected financial information for the eight most recent quarters:

QUARTER ENDED (In thousands of U.S. dollars, except per share amounts)	REVENUES $	EBITDA BEFORE REPOSITIONING EXPENSES $	NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS $	EARNINGS (LOSS) PER SHARE FROM CONTINUING OPERATIONS Basic $	 Diluted $
2007					
October 31	**166,792**	**21,234**	**(9,050)**	**($0.10)**	**($0.10)**
July 31	**175,508**	**23,138**	**(50,668)**	**($0.55)**	**($0.55)**
April 30	**171,966**	**23,153**	**(22,552)**	**($0.24)**	**($0.24)**
January 31	**162,808**	**22,793**	**(2,188)**	**($0.02)**	**($0.02)**
2006					
October 31	165,750	18,762	(22,162)	($0.24)	($0.24)
July 31	178,739	14,990	(257,698)	($2.78)	($2.78)
April 30	180,157	23,244	2,549	$0.03	$0.03
January 31	150,013	13,880	(11,408)	($0.12)	($0.12)

Additional Information

Share Capital

As of October 31, 2007, the Company had 90,624,388 restricted voting shares (previously common shares) outstanding and 150,000 each of Class I Preferred Shares, Series C (convertible preferred shares) and Series D (special voting preferred shares).

On October 9, 2007 the Company announced that it would undertake a normal course issuer bid to repurchase up to 4.6 million of its restricted voting shares. By October 31, 2007 the Company had repurchased 2.3 million restricted voting shares under this program for a net cost of $8.8 million.

The Company's articles were amended on April 26, 2007 to redesignate the common shares as restricted voting shares. This occurred in connection with the issuance of the convertible preferred shares. The holders of the special voting preferred shares have the right to elect up to three of nine members of the Board of Directors. The holders of Patheon's restricted voting shares have the right to elect the remaining members of the Board of Directors. Under the rules of the Toronto Stock Exchange, voting equity securities are not to be designated, or called, common shares unless they have a right to vote in all circumstances that is not less, on a per share basis, than the voting rights of each other class of voting securities. Accordingly, the Company has amended its articles to redesignate the common shares as restricted voting shares. This redesignation involves only a change in the name of the securities; the number of shares outstanding and the terms and conditions of the outstanding shares are not affected by the change.

Public Securities Filings

Other information about the Company, including the annual information form and other disclosure documents, reports, statements or other information that is filed with Canadian securities regulatory authorities can be accessed through SEDAR at www.sedar.com.

Outlook

Due to normal shut downs during December, revenues in the first quarter of 2008 are expected to be lower than the fourth quarter of 2007.

Auditor Review

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of management. The Company's independent auditor has not performed a review of the financial statements for the three-month and twelve-month periods ended October 31, 2007, or for the comparative periods ended October 31, 2006.

FORWARD-LOOKING STATEMENTS

This report and MD&A contains forward-looking statements which reflect management's expectations regarding the Company's future growth, results of operations, performance (both operational and financial) and business prospects and opportunities. Wherever possible, words such as "plans", "expects" or "does not expect", "forecasts", "anticipates" or "does not anticipate", "believes", "intends" and similar expressions or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved have been used to identify these forward-looking statements. Although the forward-looking statements contained in this report and MD&A reflect management's current assumptions based upon information currently available to management and based upon what management believes to be reasonable assumptions, the Company cannot be certain that actual results will be consistent with these forward-looking statements. Forward-looking statements necessarily involve significant known and unknown risks, assumptions and uncertainties that may cause the Company's actual results, performance, prospects and opportunities in future periods to differ materially from those expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things: the market demand for client products; credit and client concentration; the ability to identify and secure new contracts; regulatory matters, including compliance with pharmaceutical regulations; management of expanded operations; international operations risks; currency; competition; product liability claims; intellectual property; environmental; and interest rates. Although the Company has attempted to identify important risks and factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors and risks that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date of this report and MD&A and, except as required by law, the Company assumes no obligation to update or revise them to reflect new events or circumstances.

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Share Information

As at October 31, 2007, except recent price
Listing: Toronto Stock Exchange (TSX)
Symbol: PTI

Shares Outstanding:	90,624,388
Public Float:	79,296,000
52-Week High/Low/Close:	$6.72/$2.85/$3.50
Recent Price: December 14, 2007	$3.22

Audio Webcast

Patheon hosted an audio webcast of its quarterly call with analysts at 10.00 a.m. (EST) on Friday, December 14, 2007. An archived version of the webcast is available on Patheon’s website at www.patheon.com.