



NEWS RELEASE

For Immediate Release

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PATHEON ANNOUNCES THIRD QUARTER RESULTS

Toronto, Canada (September 7, 2007) – Patheon (TSX:PTI), a global provider of drug development and manufacturing services to the international pharmaceutical industry, today announced its results for the third quarter ended July 31, 2007. (All amounts are in U.S. dollars unless otherwise indicated.)

The consolidated results for the third quarter of 2007 and comparative prior periods presented in this news release 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

Third Quarter Ended July 31, 2007

Compared With Third Quarter Ended July 31, 2006

- Revenues from continuing operations were \$175.5 million, a decrease of 2%;
- EBITDA before repositioning expenses from continuing operations improved by 54% to \$23.1 million (13.2% of revenues) from \$15.0 million (8.4% of revenues);
- Revenues and EBITDA before repositioning expenses from continuing operations, excluding Puerto Rico, were \$153.5 million and \$30.1 million, respectively, compared with \$150.8 million and \$18.0 million;
- Revenues and EBITDA before repositioning expenses from discontinued operations were \$10.5 million and \$0.9 million, respectively, virtually unchanged from a year ago;
- Before write downs and repositioning expenses, the loss from continuing operations was \$1.4 million (1.5 cents per share) versus a loss of \$5.6 million (6.0 cents per share);
- The loss from continuing operations for the quarter was \$50.7 million (54.5 cents per share), compared with a loss of \$257.7 million (\$2.78 per share) a year ago;
- The net loss including discontinued operations for the quarter was \$63.1 million (67.8 cents per share) compared with a net loss of \$257.2 million (\$2.77 per share) a year ago.

Nine Months Ended July 31, 2007

Compared With Nine Months Ended July 31, 2006

- Revenues from continuing operations were \$510.3 million versus \$508.9 million;
- EBITDA before repositioning expenses from continuing operations was \$69.1 million (13.5% of revenues), up from \$52.1 million (10.2%);
- Revenues and EBITDA before repositioning expenses from continuing operations, excluding Puerto Rico, were \$425.3 million and \$78.1 million, respectively, compared with \$413.0 million and \$50.9 million;
- Revenues and EBITDA before repositioning expenses from discontinued operations were \$28.4 million and \$2.2 million, respectively, compared with \$28.1 million and \$2.1 million;
- Before write downs, repositioning expenses and one-time refinancing expenses, the loss from continuing operations was \$7.0 million (7.5 cents per share) compared with a loss of \$8.3 million (9.0 cents per share);
- The loss from continuing operations was \$75.4 million (81.1 cents per share) compared with a loss of \$266.6 million (\$2.87 per share) a year ago;
- The net loss including discontinued operations for the year-to-date was \$87.1 million (93.7 cents per share) compared with a net loss of \$265.7 million (\$2.86 per share) a year ago.

Puerto Rico business review and asset impairment charge

In the third quarter ended July 31, 2007, Patheon recognized a \$48.6 million non-cash asset impairment charge in respect of depreciable intangible assets and tangible capital assets related to its operations in Carolina, Puerto Rico. Although the Carolina Operations have been performing consistently well during this fiscal year, the Company determined that the carrying value of these assets was impaired as a result of the genericization of Omnicef®, which will significantly reduce the profitability of the Carolina Operations going forward. This asset impairment charge is a non-cash item recognized to write these assets down to their estimated fair value.

The Company commenced a comprehensive review of the Puerto Rico Operations in the third quarter, with a focus on restructuring the operations, eliminating operating losses and developing a long-term plan for the business. The Company is being assisted in this review by Alix Partners, and the review and new operating plan is expected to be completed by the end of the calendar year 2007.

Asset impairment charge – discontinued operations

Patheon also recognized an asset impairment charge of \$13.0 million, or 14.0 cents per share, to write down to fair market value the capital assets of the facilities in Niagara and Burlington that the Company is in the process of divesting.

Third quarter commentary

“The business, with the exception of Puerto Rico, performed well in the third quarter, with consolidated revenues of \$175 million and EBITDA before repositioning costs of \$23 million,” said Riccardo Trecroce, Chief Executive Officer, Patheon Inc. “Results were particularly strong in Europe, where we are benefiting from volume gains in Italy and France and strong growth in pharmaceutical development services at Swindon, U.K. In Canada, EBITDA before repositioning costs improved on a lower revenue base, reflecting the success of our efforts to improve operating efficiencies and profitability, particularly in Whitby.”

In Puerto Rico, the Company recorded losses at its Caguas and Manati sites, which were partially offset by improved performance at the Carolina facility.

At Caguas, in addition to market-driven volume declines for two key products, the site incurred significant additional costs in connection with the launch of a new, large-volume product.

“We have taken several steps to adjust for declining revenues and to address operational challenges at the Caguas facility,” Mr. Trecroce said. “These have included reducing the size of the workforce at Caguas by an additional 130 positions since May, bringing the total number of reductions to 225 positions, or almost one-third of the site’s workforce, since the beginning of the fiscal year. We have appointed a new Site Director and are working diligently to improve the efficiency and operating performance of the site.”

At Manati, there were lower-than-expected volumes of a new product that was introduced to the site last year, which impacted the site’s revenues and profitability. At Carolina, declines in volumes of branded Omnicef® were almost entirely offset by the production of launch quantities of the authorized generic version of the product that Patheon manufactured for its client during the third quarter. In addition, the site achieved cost savings and efficiency improvements relative to the same period a year ago, contributing towards an improved year-over-year EBITDA performance.

“We have been and continue to be focused on restructuring the Puerto Rico operations to eliminate losses as soon as possible,” Mr. Trecroce said. “Our Puerto Rico management team, with the support of the external consulting firm Alix Partners, has developed cost reduction programs to realign operating costs with significantly reduced revenues, particularly at Carolina and Caguas. These initiatives are being implemented during the fourth quarter.

“We have also increased our efforts to secure new business for the Puerto Rico Operations,” Mr. Trecroce added. “We have already identified significant new business opportunities for Manati which, if successful, could begin to contribute to results in the latter half of 2008.

“We continue to evaluate the best way to improve the long-term profitability of the Puerto Rico operations,” Mr. Trecroce concluded. “We know that with the right mix of attractive capacity, first-rate management expertise and superior operational performance, we will be able to bring significant new products into the Puerto Rico sites.”

Update on Canadian site restructuring

“Our Canadian site restructuring initiative is proceeding on schedule,” reported Mr. Trecroce. “We have completed preliminary due diligence reviews with potential purchasers of our Niagara-Burlington OTC manufacturing business. We are moving forward as quickly as possible, and the next step in the process will be to negotiate a definitive offer with a preferred party.

“On the York Mills-Whitby consolidation, we have completed the planning discussions with our clients and will begin the transfer of products to Whitby this fall,” Mr. Trecroce continued.

Patheon also has entered into an agreement for the sale of the land and buildings at the York Mills location. Patheon will continue to occupy the site, leasing it from the purchaser, while it completes the process of transferring commercial manufacturing and development services to its Whitby facility over the next eighteen months.

Third-quarter operating results from continuing operations

Third-quarter revenues decreased by \$3.2 million, or 2%, to \$175.5 million over the same period a year ago. Growth in R_x and PDS revenues of \$8.7 million was offset by a decline of \$11.9 million in over-the-counter (OTC) manufacturing volumes at Whitby and Cincinnati, where clients decided in 2006 to repatriate certain products back to their own manufacturing networks.

Revenues from R_x manufacturing services increased by \$5.6 million or 4% over the same period a year ago, driven by strong year-over-year growth in Europe, partially offset by declines in Canada and Puerto Rico. 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 the absence of orders for Zocor®, which lost patent protection in 2006, and lower revenues for Omnicef® following the emergence of generic competition in May 2007. Patheon is manufacturing the authorized generic of Omnicef, partially offsetting the reduction in volumes for the branded product. R_x revenues were down modestly in Canada, due to lower volumes of a product for which the Company’s client was building inventory levels last year following its commercial launch.

Revenues from pharmaceutical development services (PDS) increased by \$3.2 million, or 12%, due to solid growth, particularly at the Swindon and Cincinnati PDS operations. Patheon is currently developing 187 new products on behalf of its clients, up from 165 a year ago. During the third quarter, one newly approved product that Patheon had developed on behalf of a client was launched and is being manufactured at the Company's Toronto Region facility. This brings the total number of new product launches since 2001 to 20.

Consolidated EBITDA before repositioning expenses was \$23.1 million in the third quarter, up 54% from \$15.0 million a year ago. The EBITDA margin before repositioning expense was 13.2% in the third quarter, compared with 8.4% in the third quarter of 2006.

In Canada, despite a decline in revenues, which was particularly significant at Whitby, EBITDA before repositioning expenses from commercial manufacturing operations was \$7.0 million, or \$0.9 million higher than the same period a year ago. This improvement reflects the success of the Performance Enhancement Program launched last year to improve operating results. This program, comprising a reduction in the size of the workforce, a review of manufacturing efficiency, and more effective procurement, resulted in improved profitability at all of the Canadian sites.

EBITDA before repositioning expenses from U.S. operations was a loss of \$4.3 million, compared with a loss of \$1.2 million in the same period a year ago. The decline reflects a significant year-over-year decrease at the Caguas, Puerto Rico facility, mainly attributable to the absence of volumes for Zocor®, which lost its patent protection in June 2006 and additional operating costs incurred in connection with the launch of a new high-volume product. At Carolina, EBITDA before repositioning costs remained steady year-over-year, as a result of cost savings and efficiency gains from the manufacturing review process completed at the site earlier this year. In Cincinnati, OTC revenue declines were replaced with R_x volumes, reflecting the site's continuing shift towards higher-margin revenues.

In Europe, EBITDA before repositioning expenses from the commercial manufacturing operations was \$14.7 million, or \$6.4 million higher than the same period a year ago, reflecting volume gains at all four European sites. The strengthening European currencies relative to the U.S. dollar also had the impact of increasing EBITDA before repositioning expenses by approximately \$0.9 million.

EBITDA before repositioning expenses from global pharmaceutical development services was \$6.4 million, or \$0.5 million higher than the same period a year ago. The increase reflects improved revenue growth and operational efficiency savings in Canada, Cincinnati and Europe.

Outlook

Due to normal summer shut downs, particularly in Europe, and declining volumes in Puerto Rico, particularly at the Carolina site, revenues for the fourth quarter of 2007 are expected to be lower than the third quarter of 2007.

FORWARD-LOOKING STATEMENTS

Cautionary Note

This news release 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 NEWS RELEASE.

WEBCAST CONFERENCE CALL WITH ANALYSTS

Patheon Inc. will host a webcast conference call with financial analysts on its third quarter results on Friday, September 7, 2007 at 10:00 a.m. (Eastern Daylight Time). Representing Patheon on the call will be: Riccardo Trecroce, Chief Executive Officer; Nick DiPietro, President and Chief Operating Officer; John Bell, Chief Financial Officer; and Shelley Jourard, Director, Corporate Communications. The call will begin with a brief presentation, followed by a question-and-answer period with investment analysts. Interested parties are invited to access the live call, via telephone, in listen-only mode, at (416) 644-3414 (Toronto and International) or toll free at (800) 733-7571 (U.S., including Puerto Rico). Listeners are encouraged to dial in five to 15 minutes in advance to avoid delays. A live audio webcast, with a slide presentation, will also be available via the web at www.patheon.com. An archived version of the Q3 webcast will be available on www.patheon.com for three months.

ABOUT PATHEON

Patheon (TSX:PTI; www.patheon.com) is a leading global provider of drug development and manufacturing services to the international pharmaceutical industry. Patheon operates a network of 14 facilities in the United States, Canada and Europe, employing more than 5,100 people and serving a client base of 250 pharmaceutical and biotechnology companies.

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Consolidated Statements of Earnings (Loss)

(unaudited)

	Three months ended July 31,			Nine months ended July 31,		
	2007	2006	% change	2007	2006	% change
(in thousands of U.S. dollars, except per share amounts)	\$	\$		\$	\$	
Revenues	175,508	178,739	-1.8%	510,282	508,909	0.3%
Operating expenses	152,370	163,749	-6.9%	441,198	456,795	-3.4%
Earnings before the following: (as a % of revenues)	23,138	14,990	54.4%	69,084	52,114	32.6%
	<i>13.2%</i>	<i>8.4%</i>		<i>13.5%</i>	<i>10.2%</i>	
Asset impairment charge (note 4)	48,580	254,661	-80.9%	48,580	254,661	-80.9%
Repositioning expenses (note 7)	1,466	-		9,086	-	
Depreciation and amortization	9,826	9,941	-1.2%	30,543	29,090	5.0%
Amortization of intangible assets	1,231	2,794	-55.9%	5,594	9,689	-42.3%
Foreign exchange loss (note 8)	-	-		858	-	
Interest	7,364	5,188	41.9%	21,699	15,086	43.8%
Refinancing expenses (note 11)	-	-		13,471	1,643	719.9%
Amortization of deferred financing costs	-	136		-	598	
Write-off of deferred financing costs (note 11)	-	-		-	6,332	
Earnings (loss) before income taxes	(45,329)	(257,730)	82.4%	(60,747)	(264,985)	77.1%
Provision for (recovery of) income taxes	5,339	(32)	16784.4%	14,661	1,572	832.6%
Loss from continuing operations (as a % of revenues)	(50,668)	(257,698)	80.3%	(75,408)	(266,557)	71.7%
	<i>-28.9%</i>	<i>-144.2%</i>		<i>-14.8%</i>	<i>-52.4%</i>	
Earnings (loss) from discontinued operations (note 5)	(12,401)	485	-2656.9%	(11,671)	823	-1518.1%
Net loss for the period	(63,069)	(257,213)	75.5%	(87,079)	(265,734)	67.2%
Basic and diluted earnings (loss) per share						
From continuing operations	(54.5¢)	(277.5¢)	80.4%	(81.1¢)	(287.1¢)	71.8%
From discontinued operations	(13.3¢)	0.5¢	-2760.0%	(12.6¢)	0.9¢	-1500.0%
	(67.8¢)	(277.0¢)	75.5%	(93.7¢)	(286.2¢)	67.3%
Average number of shares outstanding during period (in thousands):						
Basic and diluted	92,959	92,860	0.1%	92,956	92,851	0.1%

see accompanying notes

Consolidated Balance Sheets

(unaudited)

	As at July 31, 2007	As at October 31, 2006
<i>(in thousands of U.S. dollars)</i>	\$	\$
Assets		
Current		
Cash and cash equivalents	40,496	50,723
Accounts receivable	130,887	117,705
Inventories	82,567	72,057
Prepaid expenses and other	13,414	6,615
Assets held for sale (note 5)	8,357	8,341
Total current assets	<u>275,721</u>	<u>255,441</u>
Capital assets (note 4)	457,844	467,365
Intangible assets (note 4)	9,811	41,447
Deferred costs	8,369	9,717
Future tax assets	26,999	21,827
Goodwill	3,239	3,077
Investments	979	586
Assets held for sale (note 5)	14,052	26,723
	<u>797,014</u>	<u>826,183</u>
Liabilities and Shareholders' equity		
Current		
Bank indebtedness	12,143	3,829
Accounts payable and accrued liabilities	136,236	140,254
Income taxes payable	7,443	879
Current portion of long-term debt (note 10)	10,284	283,717
Liabilities related to assets held for sale (note 5)	3,974	2,527
Total current liabilities	<u>170,080</u>	<u>431,206</u>
Long-term debt (note 10)	203,935	62,071
Deferred revenues	25,256	23,366
Future tax liabilities	39,690	33,128
Convertible preferred shares - debt component (note 10)	136,343	-
Other long-term liabilities	27,494	25,681
Total liabilities	<u>602,798</u>	<u>575,452</u>
Shareholders' equity		
Convertible preferred shares - equity component (note 10)	15,925	-
Restricted voting shares	400,745	400,721
Contributed surplus	3,997	3,829
Deficit	(278,728)	(189,900)
Accumulated other comprehensive income	52,277	36,081
Total shareholders' equity	<u>194,216</u>	<u>250,731</u>
	<u>797,014</u>	<u>826,183</u>

see accompanying notes

Consolidated Statements of Changes in Shareholders' Equity

(unaudited)

	Nine months ended July 31,	
	2007	2006
(in thousands of U.S. dollars)	\$	\$
Convertible preferred shares - equity component		
Balance at beginning of period	-	-
Shares issued, 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
Issued during the period, net of issue costs	24	80
Balance at end of period	400,745	400,674
Contributed surplus		
Balance at beginning of period	3,829	2,901
Stock options	168	925
Balance at end of period	3,997	3,826
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	(87,079)	(265,734)
Balance at end of period	(278,728)	(167,484)
Accumulated other comprehensive income		
Balance at beginning of period	36,081	38,106
Transition adjustment (note 1)	(762)	-
Other comprehensive income for the period	16,958	2,314
Balance at end of period	52,277	40,420
Total shareholders' equity at end of period	194,216	277,436

see accompanying notes

Consolidated Statements of Comprehensive Loss

(unaudited)

	Three months	Nine months
	ended July 31,	ended July 31,
(in thousands of U.S. dollars)	2007	2007
	\$	\$
Net loss for the period	(63,069)	(87,079)
Other comprehensive income, net of income taxes (note 12)		
Change in foreign currency gains on investments in subsidiaries, net of hedging activities	5,545	12,642
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 (Gains) losses on foreign currency cash flow hedges reclassified to consolidated statement of earnings (loss)	370	1,201
Gains on interest rate hedges reclassified to consolidated statement of earnings (loss)	(399)	978
Other comprehensive income for the period	5,516	16,958
Comprehensive loss for the period	(57,553)	(70,121)

see accompanying notes

Consolidated Statements of Cash Flows

(unaudited)

	Three months ended July 31,		Nine months ended July 31,	
	2007	2006	2007	2006
(in thousands of U.S. dollars)	\$	\$	\$	\$
Operating activities				
Net loss from continuing operations	(50,668)	(257,698)	(75,408)	(266,557)
Add (deduct) charges to operations not requiring a current cash payment				
Asset impairment charge (note 4)	48,580	254,661	48,580	254,661
Depreciation and amortization	11,057	12,735	36,137	38,779
Foreign exchange loss (note 8)	-	-	858	-
Accretive interest on convertible preferred shares (note 1)	3,481	-	3,481	-
Write-off of deferred financing costs (note 11)	-	-	-	6,332
Amortization of deferred financing costs	126	136	1,506	598
Employee future benefits	(65)	941	323	793
Future income taxes	3,104	(5,757)	3,172	(3,164)
Amortization of deferred revenues	(547)	(498)	(1,516)	(1,493)
Other	(3,171)	562	(3,820)	1,433
	<u>11,897</u>	<u>5,082</u>	<u>13,313</u>	<u>31,382</u>
Net change in non-cash working capital balances related to continuing operations	(17,189)	2,896	(24,184)	(15,605)
Increase in deferred revenues	2,057	-	2,057	9,614
Cash provided by (used in) operating activities of continuing operations	<u>(3,235)</u>	<u>7,978</u>	<u>(8,814)</u>	<u>25,391</u>
Cash provided by (used in) operating activities of discontinued operations (note 5)	(89)	1,207	4,232	3,497
Cash provided by (used in) operating activities	<u>(3,324)</u>	<u>9,185</u>	<u>(4,582)</u>	<u>28,888</u>
Investing activities				
Additions to capital assets - sustaining	(3,364)	(3,766)	(8,868)	(9,887)
- project related	(5,040)	(10,680)	(12,249)	(31,826)
Net increase in investments	(293)	-	(177)	-
Increase in deferred pre-operating costs	(1,116)	(1,122)	(2,827)	(1,579)
Cash used in investing activities of continuing operations	<u>(9,813)</u>	<u>(15,568)</u>	<u>(24,121)</u>	<u>(43,292)</u>
Cash used in investing activities of discontinued operations (note 5)	(121)	(153)	(275)	(431)
Cash used in investing activities	<u>(9,934)</u>	<u>(15,721)</u>	<u>(24,396)</u>	<u>(43,723)</u>
Financing activities				
Increase (decrease) in bank indebtedness	9,078	(1,446)	7,762	(14,137)
Increase in long-term debt	6,812	62,803	182,652	373,946
Repayment of long-term debt	(7,119)	(41,665)	(320,072)	(353,010)
Issue of convertible preferred shares	-	-	150,000	-
Convertible preferred share issue costs - equity component	-	-	(1,213)	-
Issue of restricted voting shares	-	80	24	80
Decrease in restricted cash	-	-	-	7,805
Increase in deferred financing costs	-	-	-	(2,790)
Cash provided by financing activities of continuing operations	<u>8,771</u>	<u>19,772</u>	<u>19,153</u>	<u>11,894</u>
Cash provided by financing activities	<u>8,771</u>	<u>19,772</u>	<u>19,153</u>	<u>11,894</u>
Effect of exchange rate changes on cash and cash equivalents	(1,555)	534	(402)	431
Net increase (decrease) in cash and cash equivalents during the period	<u>(6,042)</u>	<u>13,770</u>	<u>(10,227)</u>	<u>(2,510)</u>
Cash and cash equivalents, beginning of period	46,538	6,227	50,723	22,507
Cash and cash equivalents, end of period	<u>40,496</u>	<u>19,997</u>	<u>40,496</u>	<u>19,997</u>

see accompanying notes

Notes to Unaudited Consolidated Financial Statements for the Nine Months Ended July 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

Notes to Unaudited Consolidated Financial Statements for the Nine Months Ended July 31, 2007

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

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 three months ended April 30, 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, changes in the fair value of derivative instruments designated as cash flow hedges and the reclassification to net loss of deferred gains on interest rate swaps, 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.

Notes to Unaudited Consolidated Financial Statements for the Nine Months Ended July 31, 2007

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

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 nine months ended July 31, 2007 includes a charge of \$3,481,000 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 July 31, 2007:

	Outstanding	Exercisable
Convertible preferred shares		
Class I preferred shares series C and D	150,000	
Restricted voting shares (previously common shares)	92,958,688	
Restricted voting share stock options	3,899,516	3,740,349

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 common 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 Nine Months Ended July 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 July 31, 2007			
	Canada	USA	Europe	Total
	\$	\$	\$	\$
Revenues				
Canada	4,515	554	36	5,105
USA	35,223	45,026	4,257	84,506
Europe	7,669	1,272	74,670	83,611
Other geographic areas	1,221	153	912	2,286
Total revenues	48,628	47,005	79,875	175,508
Capital assets	105,699	118,483	233,662	457,844
Goodwill	3,239	-	-	3,239

	Manufacturing location			
	Three months ended July 31, 2006			
	Canada	USA	Europe	Total
	\$	\$	\$	\$
Revenues				
Canada	3,648	204	185	4,037
USA	38,418	53,182	6,055	97,655
Europe	18,055	172	55,637	73,864
Other geographic areas	1,693	19	1,471	3,183
Total revenues	61,814	53,577	63,348	178,739
Capital assets	101,318	155,103	208,351	464,772
Goodwill	3,054	-	-	3,054

	Manufacturing location			
	Nine months ended July 31, 2007			
	Canada	USA	Europe	Total
	\$	\$	\$	\$
Revenues				
Canada	10,741	903	895	12,539
USA	104,917	155,262	11,016	271,195
Europe	26,732	2,227	190,050	219,009
Other geographic areas	2,791	292	4,456	7,539
Total revenues	145,181	158,684	206,417	510,282

	Manufacturing location			
	Nine months ended July 31, 2006			
	Canada	USA	Europe	Total
	\$	\$	\$	\$
Revenues				
Canada	16,186	492	593	17,271
USA	102,855	173,465	9,983	286,303
Europe	43,350	507	153,277	197,134
Other geographic areas	4,196	190	3,815	8,201
Total revenues	166,587	174,654	167,668	508,909

Notes to Unaudited Consolidated Financial Statements for the Nine Months Ended July 31, 2007

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

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 July 31,			
	2007		2006	
	\$		\$	
Commercial manufacturing - prescription	135,467	77%	129,917	73%
Commercial manufacturing - over-the-counter	11,229	6%	23,171	13%
Development services	28,812	17%	25,651	14%
	175,508	100%	178,739	100%

	Nine months ended July 31,			
	2007		2006	
	\$		\$	
Commercial manufacturing - prescription	394,843	77%	382,116	75%
Commercial manufacturing - over-the-counter	31,694	6%	57,412	11%
Development services	83,745	17%	69,381	14%
	510,282	100%	508,909	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

Notes to Unaudited Consolidated Financial Statements for the Nine Months Ended July 31, 2007

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

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:

	Three and nine months ended July 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.

The Company plans to divest its Niagara-Burlington Operations business that is focused on the commercial manufacturing of OTC products. The Niagara-Burlington Operations to be divested consist of facilities in Fort Erie and Burlington Gateway and the commercial operations at Burlington Century. The Company plans to retain the Burlington Century facility where its central quality control laboratory is also based.

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 take eighteen months.

The results of operations 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. In 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. The results of discontinued operations for the three and nine months ended July 31, 2007 and July 31, 2006 are as follows:

Notes to Unaudited Consolidated Financial Statements for the Nine Months Ended July 31, 2007

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

	Three months ended July 31,		Nine months ended July 31,	
	2007	2006	2007	2006
	\$	\$	\$	\$
Revenues	10,499	10,452	28,429	28,128
Operating expenses	9,559	9,443	26,194	26,018
Earnings before the following:	940	1,009	2,235	2,110
<i>(as a % of revenues)</i>	9.0%	9.7%	7.9%	7.5%
Asset impairment charge	13,029	-	13,029	-
Repositioning expenses	-	-	33	-
Depreciation and amortization	312	262	844	844
Earnings (loss) before income taxes	(12,401)	747	(11,671)	1,266
Provision for income taxes	-	262	-	443
Net earnings (loss) for the period	(12,401)	485	(11,671)	823

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 at July 31, 2007, with comparatives as at October 31, 2006 are as follows:

	As at July 31,	As at October 31,
	2007	2006
	\$	\$
Current Assets		
Accounts receivable	4,939	4,251
Inventories	3,317	3,905
Prepaid expenses and other	101	185
Total current assets	8,357	8,341
Capital assets	14,052	26,723
Current Liabilities		
Accounts payable and accrued liabilities	3,974	2,527

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 July 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 3,899,516 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 on each of the first, second and third anniversary of the grant date for those vesting over three years.

Notes to Unaudited Consolidated Financial Statements for the Nine Months Ended July 31, 2007

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

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. No options were granted in the third quarter of 2007. The weighted average fair value of 100,000 options granted for the nine months ended July 31, 2007 was \$1.92. The weighted average fair value for the stock options granted for the three months and nine months ended July 31, 2006 was \$1.22 and \$2.11, respectively. The following assumptions were used in arriving at the fair value of options issued during the nine months ended July 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 July 31, 2007 was \$74,000 (2006 - \$433,000) for options granted on or after November 1, 2003. Stock-based compensation expense recorded in the nine months ended July 31, 2007 was \$168,000 (2006 - \$925,000) 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 and consulting fees from external specialists who are assisting in identifying operational improvements.

During the first half of 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 nine months ended July 31, 2007:

	Three months ended July 31, 2007	Nine months ended July 31, 2007
	\$	\$
Performance enhancement program:		
-Employee-related expenses	1,048	2,827
-Consulting and professional fees	418	2,904
Strategic alternatives review	-	3,355
	1,466	9,086

As at July 31, 2007, \$1,492,000 of the repositioning expenses are unpaid and are recorded in accounts payable and accrued liabilities. This includes amounts accrued during the 2006 fiscal year. Repositioning expenses paid during the three months and nine months ended July 31, 2007 amounted to \$5,117,000 and \$16,722,000 respectively.

Notes to Unaudited Consolidated Financial Statements for the Nine Months Ended July 31, 2007

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

8. Other information

Foreign exchange

During the three months ended July 31, 2007, the foreign exchange gain on operating exposures, net of cash flow hedges, (including 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 \$3,325,000 (2006 loss - \$271,000). During the nine months ended July 31, 2007, the foreign exchange gain on operating exposures, net of cash flow hedges, was \$3,094,000 (2006 loss - \$124,000).

During the nine months ended July 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 July 31, 2007 was \$1,630,000 (2006 - \$1,410,000). For the nine months ended July 31, 2007 the employee future benefit expense was \$4,624,000 (2006 - \$3,408,000).

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 July 31, 2007 the Company's Canadian operations had entered into foreign exchange forward contracts to sell an aggregate amount of US\$27,000,000. These contracts hedge the Company's expected exposure to U.S. dollar denominated cash flows and mature at the latest on October 29, 2007 at exchange rates varying between \$1.0847 and \$1.16698 Canadian. The mark-to-market value on these financial instruments as at July 31, 2007 was an unrealized gain of \$1,450,000 which has been recorded in accumulated other comprehensive income in shareholders' equity.

As at July 31, 2007 the Company has designated \$143.8 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 \$150 million 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 July 31, 2007 was an unrealized loss of \$805,000 which has been recorded in accumulated other comprehensive income in shareholders' equity.

Notes to Unaudited Consolidated Financial Statements for the Nine Months Ended July 31, 2007

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

10. Refinancing

Convertible Preferred Shares

On April 27, 2007 JLL Partners, through its investment vehicle, JLL 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 214.1644 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.

Notes to Unaudited Consolidated Financial Statements for the Nine Months Ended July 31, 2007

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

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 are made up of transaction costs for 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 are net of income taxes and take into account valuation reserves for future income taxes in the Company's Canadian operations. For the three and nine months ended July 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 nine months ended July 31, 2007. The change in value of derivatives designated as foreign currency and interest rate cash flow hedges are net of a tax benefit of \$116,000 for the three and nine months ended July 31, 2007. For the three and nine months ended July 31, 2007 there is no income tax associated with the gains and losses on foreign currency cash flow hedges reclassified to the consolidated statement of earnings (loss). The gains on interest rate hedges reclassified to the consolidated statement of earnings (loss) are net of an income tax benefit of \$343,000 for the nine months ended July 31, 2007.

13. Related party transactions

Revenues from companies controlled by a director and significant shareholder of the Company were in the amount of \$52,000 and \$735,000 for the three and nine months ended July 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 July 31, 2007 includes a balance of \$88,000 resulting from these transactions.

At July 31, 2007 the Company has an investment of \$698,000 representing an 18% interest in two Italian companies whose largest investor is an officer of the Company. These newly formed companies will specialize in the manufacturing of cytotoxic pharmaceutical products.

14. 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 nine-month periods ended July 31, 2007 and 2006 should be read in conjunction with the Company's consolidated financial statements and related notes contained in this interim report. This MD&A is dated as of September 7, 2007.

The purpose of this 2007 third 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 ("Rx") 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 July 31, 2007, there were a total of 187 client products in the Patheon's pharmaceutical development services ("PDS") pipeline, including eight drug candidates at the New Drug Application ("NDA") stage. This compares with a total of 165 client products a year ago. During the third quarter of 2007, one product developed on behalf of a client was 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 Rx 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.

The Company plans to divest its Niagara-Burlington Operations business that is focused on the commercial manufacturing of OTC products. The Niagara-Burlington Operations to be divested consist of facilities in Fort Erie and Burlington Gateway and the commercial operations at Burlington Century. The Company plans to retain the Burlington Century facility where its central quality control laboratory is also based. The results of operations of the Niagara-Burlington Operations have been segregated and presented separately as discontinued operations in the consolidated financial statements.

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 take eighteen months.

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.

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 July 31,			Nine months ended July 31,		
	2007	2006	% Change	2007	2006	% Change
North America						
Commercial Manufacturing						
Prescription	65,221	74,437	-12%	213,972	231,971	-8%
Over-the-counter	10,058	21,566	-53%	28,512	54,936	-48%
	75,279	96,003	-22%	242,484	286,907	-15%
Development Services	20,354	19,388	5%	61,381	54,334	13%
	95,633	115,391	-17%	303,865	341,241	-11%
Europe						
Commercial Manufacturing						
Prescription	70,246	55,480	27%	180,871	150,145	20%
Over-the-counter	1,171	1,605	-27%	3,182	2,476	29%
	71,417	57,085	25%	184,053	152,621	21%
Development Services	8,458	6,263	35%	22,364	15,047	49%
	79,875	63,348	26%	206,417	167,668	23%
TOTAL						
Commercial Manufacturing						
Prescription	135,467	129,917	4%	394,843	382,116	3%
Over-the-counter	11,229	23,171	-52%	31,694	57,412	-45%
	146,696	153,088	-4%	426,537	439,528	-3%
Development Services	28,812	25,651	12%	83,745	69,381	21%
CONSOLIDATED REVENUES	175,508	178,739	-2%	510,282	508,909	0%

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

Revenues

Consolidated revenues for the three-month period ended July 31, 2007 decreased 2%, or \$3.2 million, to \$175.5 million from \$178.7 million in the same period in 2006. In the third quarter, revenues increased for R_x manufacturing and PDS, but decreased in OTC. On a consolidated basis, compared with the third quarter of 2006, R_x and PDS revenues increased by 4% and 12%, respectively, and OTC revenues declined by 52%.

For the three-month period ended July 31, 2007 revenues excluding the Puerto Rico operations were \$153.5 million, compared with \$150.8 million in the same period last year.

Prescription manufacturing and development services represented 94% of revenues, compared with 87% 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 declined in the third quarter by \$19.8 million or 17% over the same period a year ago. The decrease reflects a significant decline in OTC revenues in Whitby and Cincinnati, where certain clients have repatriated products back to their own manufacturing networks. R_x revenues declined in Puerto Rico as a result of the elimination of manufacturing of Zocor®, which lost its patent protection in June 2006 and lower revenues for Omnicef®, which was impacted by the launch of generic competitive products in May of 2007. The Company is manufacturing the authorized generic of

Omnicef® and revenues for the pipeline fill of this product in the third quarter partially offset the reduction in revenues for the branded product.

In Europe, revenues for the third quarter of 2007 increased by \$16.5 million or 26% over the same period of 2006. The year-over-year increase reflects higher R_x manufacturing revenues from all operations. Gains in France and Italy reflect 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. PDS operations in Swindon also continued to show further increases in volumes. The Euro strengthened approximately 7% and U.K. sterling strengthened approximately 8% against the U.S. dollar relative to the same period last year, increasing reported revenues by approximately \$5.3 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 third quarter of 2007, operating expenses were \$152.4 million, being \$11.4 million lower than the same period a year ago. Operating expenses were principally impacted by lower commercial manufacturing volumes, savings from the performance enhancement program and foreign exchange gains, offset in part by the strengthening of European and Canadian currencies relative to the U.S. dollar. Operating expenses as a percentage of revenues were 86.8%, compared with 91.6% in the same period a year ago.

EBITDA Before Repositioning Expenses and EBITDA Margin Before Repositioning Expenses

On a consolidated basis in the third quarter of 2007, EBITDA before repositioning expenses, representing earnings 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 \$23.1 million, compared with \$15.0 million in the same period a year ago. EBITDA margin before repositioning expenses was 13.2% in the three-month period, compared with 8.4% in the same period a year ago.

For the three-month period ended July 31, 2007 EBITDA before repositioning expenses excluding the Puerto Rico operations was \$30.1 million, compared with \$18.0 million in the same period last year. This represents an EBITDA margin before repositioning expenses of 19.6% in the three month period, compared with 11.9% in the same period last year.

In Canada, EBITDA before repositioning expenses from the commercial operations was \$7.0 million, being \$0.9 million higher than the same period last year. This improvement is despite a significant reduction in volumes at Whitby and reflects operating efficiency gains and cost savings arising from the profit enhancement program. EBITDA before repositioning expenses was not significantly impacted by foreign exchange in the third 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 \$4.3 million, compared with a loss of \$1.2 million in the same period last year. The significant decline principally reflects a reduction in R_x manufacturing volumes in the Caguas, Puerto Rico facility, which previously manufactured Zocor®. The Carolina operations were able to offset volume declines in Omnicef® with cost savings and efficiency improvements relative to the same period last year. OTC revenue declines in Cincinnati were replaced with higher margin R_x business.

In Europe, EBITDA before repositioning expenses from the commercial operations was \$14.7 million, being \$6.4 million higher than the same period a year ago. The improvement reflects the volume gains in all operations. The strengthening European currencies relative to the US dollar compared with the same

period last year also had the impact of increasing EBITDA before repositioning expense by approximately \$0.9 million.

EBITDA before repositioning expenses from the global PDS operations was \$6.4 million, being \$0.5 million higher than the same period in 2006. The increase reflects revenue growth across all of the operations, with the exception of Puerto Rico.

Corporate costs in the third quarter of 2007 were \$3.4 million lower than the same period last year. This reduction principally reflects the benefit of foreign exchange gains arising from the revaluation of US dollar denominated debt held in the Canadian legal entity and lower administrative costs.

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 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 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 third quarter of 2007 the Company incurred \$1.5 million of expenses in connection with its performance enhancement program. The expenses were principally associated with cost saving initiatives being undertaken in the Caguas and Carolina facilities in Puerto Rico.

Depreciation and Amortization Expense

Depreciation and amortization expense was \$9.8 million in the third quarter of 2007, being comparable with the expense of \$9.9 million in the third quarter of 2006.

Amortization of Intangible Assets

Amortization of intangible assets was \$1.2 million in the third quarter of 2007, compared with \$2.8 million for the third 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 quarters of 2007 and 2006.

Interest Expense and Amortization of Deferred Financing Costs

Interest expense for the third quarter of 2007 was \$7.4 million, compared with \$5.2 million in the third 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 \$3.5 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 \$45.3 million, compared with a loss of \$257.7 million in the same period a year ago.

Income Taxes

The Company recorded an income tax charge of \$5.3 million in the third quarter of 2007, compared with a minor recovery in the same period last year. The income tax charge in 2007 principally reflects the asset impairment charge and 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.

Loss and Loss Per Share from Continuing Operations

The Company recorded a loss from continuing operations in the third quarter of 2007 of \$50.7 million, compared with a loss of \$257.7 million in the same period last year. The loss per share was 54.5¢, compared with a loss of \$2.78 per share a year earlier. The loss in 2007 included an after tax asset impairment charge of \$47.8 million or 51.4¢ per share and after tax repositioning expenses of \$1.5 million or 1.6¢ per share. The loss in 2006 included after tax asset impairment charge of \$252.1 million, or \$2.72 per share.

Because the Company reported a loss in the third 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. The net loss from discontinued operations in the third quarter of 2007 was \$12.4 million, or 13.3¢ compared with net earnings of \$0.5 million or 0.5¢ in the same period last year. The net loss in 2007 includes an asset impairment charge of \$13.0 million, or 14.0¢ per share, to write down the capital assets to their fair market value less cost to sell.

Nine Months Ended July 31, 2007 Compared with Nine Months Ended July 31, 2006

Revenues

Consolidated revenues for the nine-month period ended July 31, 2007 increased \$1.4 million to \$510.3 million from \$508.9 million in the same period in 2006. R_x manufacturing and PDS revenues grew by 3% and 21%, respectively, while OTC manufacturing revenues declined by 45%.

For the nine-month period ended July 31, 2007 revenues excluding the Puerto Rico operations were \$425.3 million, compared with \$413.0 million in the same period last year.

Prescription manufacturing and development services represented 94% of revenues, compared with 89% 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 nine-months ended July 31, 2007 declined by \$37.4 million or 11% 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, Puerto Rico as a result of lower production of Zocor® and Levothyroxine sodium. This was offset in part by increased volumes in Carolina during the first quarter of 2007, where in the prior year the facility had been impacted by a temporary shut down in production to resolve issues with regard to a warning letter issued by the U.S. Food and Drug Administration ("FDA"). 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 a significant increase in PDS revenues in Canada and Cincinnati.

In Europe, revenues for the nine-months ended July 31, 2007 were \$38.7 million or 23% 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. PDS operations in Swindon, U.K. also continued to show further increases in volumes. These gains were offset in part in the first half of the year by lower pre-launch commercial revenues for the cephalosporin lyophilization services in Swindon. The Euro strengthened approximately 9% and U.K. sterling strengthened approximately 10% against the U.S. dollar relative to the same period last year, increasing reported revenues by approximately \$17.0 million. Had European currencies remained constant to the rates of the prior year, European revenues would have been 13% 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 nine-month period ended July 31, 2007 operating expenses were \$441.2 million, compared with \$456.8 million in the same period a year ago, a decline of 3%. The decline reflects savings from the performance enhancement program and foreign exchange gains, offset in part by the strengthening European and Canadian currencies relative to the U.S. dollar.

Operating expenses as a percentage of revenues were 86.5%, compared with 89.8% in the prior year.

EBITDA Before Repositioning Expenses and EBITDA Margin Before Repositioning Expenses

On a consolidated basis for the nine-month period ended July 31, 2007, EBITDA before repositioning expenses, representing earnings 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 \$69.1 million, an increase of \$17.0 million, or 33%, from the comparable period in 2006. EBITDA margin before repositioning expenses was 13.5% in the nine-month period ended July 31, 2007, compared with 10.2% in the same period a year ago.

For the nine-month period ended July 31, 2007, EBITDA before repositioning expenses excluding the Puerto Rico operations was \$78.1 million, compared with \$50.9 million in the same period last year. This represents an EBITDA margin before repositioning expenses of 18.4% in the nine month period, compared with 12.3% in the same period last year.

The Canadian commercial operations reported EBITDA before repositioning expenses of \$22.5 million, or \$5.2 million higher than the same period last year. The improvement reflects savings from the performance enhancement program, in particular at the Whitby operations, offset in part by lower R_x and OTC volumes. EBITDA before repositioning expenses was not significantly impacted by foreign exchange, as the negative earnings impact of the 1% 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) was a loss of \$2.7 million, compared with a profit of \$8.3 million in the same period last year. The decline principally reflects a reduction in R_x manufacturing volumes in the Caguas facility, offset in part by higher profitability in Carolina, which in the first quarter of 2006 was impacted by a temporary shut down in production. The Caguas operations also incurred significant costs in the third quarter of 2007 in connection with the launch of a new large-volume product.

In Europe, EBITDA before repositioning expenses from commercial operations was \$33.1 million being \$10.5 million higher than the same period last year. The improvement reflects increased volumes in the operations in Italy and France, offset in part in the first half of the year by lower pre-launch revenues for the cephalosporin lyophilization services in Swindon. 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 \$2.5 million.

EBITDA before repositioning expenses from the global PDS operations was \$21.2 million, being \$7.6 million higher than the same period in 2006. This reflects improved profitability in Europe, Canada and Cincinnati.

Corporate costs for the nine-month period ended July 31, 2007 were \$4.7 million lower than the same period last year, reflecting cost savings and the benefit of foreign exchange gains in the third quarter of 2007.

Repositioning Expenses

During the nine-month period ended July 31, 2007 the Company incurred \$9.1 million of expenses in connection with its performance enhancement program 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 \$30.5 million for the nine months ended July 31, 2007, compared with \$29.1 million in the same period of 2006, an increase of \$1.4 million, or 5%. The increase principally reflects the effect of the strengthening European currencies relative to the U.S. dollar.

Amortization of Intangible Assets

The amortization of intangible assets was \$5.6 million in the nine months ended July 31, 2007, compared with \$9.7 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 nine months ended July 31, 2007 was \$21.7 million, compared with \$15.1 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. Interest expense in the third quarter of 2007 reflects the impact of the Company's refinancing that was completed on April 27, 2007 and includes a non-cash expense of \$3.5 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 nine months ended July 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 \$60.7 million in the nine months ended July 31, 2007, compared with a loss of \$265.0 million in the same period a year ago.

Income Taxes

The income tax expense for the nine months ended July 31, 2007 was \$14.7 million, compared with an expense of \$1.6 million for the same period last year. The income tax charge in 2007 principally reflects tax losses in certain entities in Puerto Rico and Canada, where the tax benefit after valuation reserves has not been recognized, compounded by high tax rates in Italy where the Company reported significant profits. 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.

Loss and Loss Per Share from Continuing Operations

The Company recorded a loss from continuing operations for the nine months ended July 31, 2007 of \$75.4 million, compared with a loss of \$266.6 million in the same period a year ago. The loss per share was 81.1¢ compared with \$2.87 a year earlier. The loss for the nine months ended July 31, 2007 included an after tax asset impairment charge of \$47.8 million, or 51.4¢ per share, after-tax repositioning expenses of \$8.1 million, or 8.7¢ per share and after-tax refinancing expenses of \$12.6 million, or 13.5¢ per share. The loss for the nine months ended July 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 nine months ended July 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 nine months ended July 31, 2007 was \$11.7 million, or 12.6¢ compared with net earnings of \$0.8 million or 0.9¢ in the same period last year. The net loss in 2007 includes an asset impairment charge of \$13.0 million, or 14.0¢ per share to write down the capital assets to their fair market value less 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 July 31,		Nine months ended July 31,	
	2007	2006	2007	2006
	\$	\$	\$	\$
Net loss from continuing operations	(50,668)	(257,698)	(75,408)	(266,557)
Depreciation and amortization	11,057	12,735	36,137	38,779
Write-off of deferred financing costs	-	-	-	6,332
Asset impairment charge	48,580	254,661	48,580	254,661
Foreign exchange loss	-	-	858	-
Amortization of deferred financing costs	126	136	1,506	598
Employee future benefits	(65)	941	323	793
Future income taxes	3,104	(5,757)	3,172	(3,164)
Accretive interest on convertible preferred shares	3,481	-	3,481	-
Amortization of deferred revenues	(547)	(498)	(1,516)	(1,493)
Other	(3,171)	562	(3,820)	1,433
Working capital	(17,189)	2,896	(24,184)	(15,605)
Increase in deferred revenues	2,057	-	2,057	9,614
Cash provided by (used in) operating activities	(3,235)	7,978	(8,814)	25,391
Cash used in investing activities	(9,813)	(15,568)	(24,121)	(43,292)
Cash provided by financing activities	8,771	19,772	19,153	11,894
Net increase (decrease) in cash and cash equivalents				
from discontinued operations	(210)	1,054	3,957	3,066
Other	(1,555)	534	(402)	431
Net increase (decrease) in cash and cash equivalents	(6,042)	13,770	(10,227)	(2,510)

Cash Provided by (Used in) Operating Activities – Continuing Operations

Cash used in operating activities was \$3.2 million in the third quarter of 2007 compared with a cash inflow of \$8.0 million for the comparable period in 2006. On a year-to-date basis, cash used in operating activities was \$8.8 million, compared with a cash inflow of \$25.4 million in the same period last year. The year-to-date deterioration principally reflects lower earnings before non-cash charges and the impact of higher receivable and inventory levels. In addition in 2007, the Company has 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 in the third quarter of 2007 was \$9.8 million, compared with \$15.6 million in the same period a year ago. On a year-to-date basis, cash used in investing activities was \$24.1 million, compared with \$43.3 million in the same period last year. The decrease for the third 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 July 31,		Nine months ended July 31,	
	2007	2006	2007	2006
	\$	\$	\$	\$
Additions to capital assets-sustaining	(3,364)	(3,766)	(8,868)	(9,887)
-project related	(5,040)	(10,680)	(12,249)	(31,826)
Net increase in investments	(293)	-	(177)	-
Increase in deferred pre-operating costs	(1,116)	(1,122)	(2,827)	(1,579)
Cash used in investing activities of continuing operations	(9,813)	(15,568)	(24,121)	(43,292)

Cash Provided by Financing Activities

The principal financing activity for the nine months ended July 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 nine months ended July 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 July 31,		Nine months ended July 31,	
	2007	2006	2007	2006
	\$	\$	\$	\$
Increase (decrease) in bank indebtedness	9,078	(1,446)	7,762	(14,137)
Increase in long-term debt	6,812	62,803	182,652	373,946
Repayment of long-term debt	(7,119)	(41,665)	(320,072)	(353,010)
Issue of convertible preferred shares	-	-	150,000	-
Convertible preferred share issue costs - equity component	-	-	(1,213)	-
Issue of restricted voting shares	-	80	24	80
Decrease in restricted cash	-	-	-	7,805
Increase in deferred financing costs	-	-	-	(2,790)
Cash provided by financing activities of continuing operations	8,771	19,772	19,153	11,894

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 and one Class I Preferred Share, Series D 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 214.1644 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. These voting rights represent approximately 25% 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 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.

Financial Ratios

Total interest bearing debt, including the debt component of the convertible preferred shares, at July 31, 2007 was \$362.7 million, being \$13.1 million higher than at October 31, 2006. At July 31, 2007, the Company's consolidated ratio of interest-bearing debt to shareholders' equity was 186.8%, 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 nine months ended July 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 third quarter of 2007, \$0.5 million was recognized as earnings and \$2.1 million was received as a capital expenditure reimbursement. During the nine months ended July 31, 2007, \$1.5 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 third quarter of 2007, \$1.2 million was charged to earnings. During the nine months ended July 31, 2007, \$5.6 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 July 31, 2007 was \$3.2 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 \$27.0 million have been recorded at July 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 \$39.7 million have been recorded at July 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 60% to 70% of revenues of the Canadian operations and approximately 10% to 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 pretax earnings, excluding any hedging activities, is approximately \$1.1 million.

The Company mitigates its foreign exchange risk by engaging in foreign currency hedging activities using derivative financial instruments. At July 31, 2007 the Company had outstanding foreign exchange forward contracts to sell US\$27.0 million. The contracts mature at the latest on October 29, 2007 and cover approximately 90% of the Company's expected foreign exchange exposure for the balance of the 2007 fiscal year. The mark-to-market value at July 31, 2007 that is recorded in accumulated other comprehensive income is an unrealized gain of \$1.5 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 designated as a hedge against the carrying value of certain foreign operations, are included in accumulated other comprehensive income in shareholders' equity. At July 31, 2007, the Company had designated \$143.8 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. On May 25, 2007 the Company 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 July 31, 2007, 17% 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 \$0.6 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	REVENUES	EBITDA BEFORE REPOSITIONING EXPENSES	NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS	EARNINGS (LOSS) PER SHARE FROM CONTINUING OPERATIONS	
				Basic	Diluted
<i>(In thousands of U.S. dollars, except per share amount)</i>	\$	\$	\$	\$	\$
2007					
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	(22,943)	(\$0.25)	(\$0.25)
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)
2005					
October 31	171,086	25,251	7,910	\$0.09	\$0.08

Additional Information

Share Capital

As of July 31, 2007, the Company had 92,958,688 restricted voting shares (previously common shares) outstanding and 150,000 each of Class I Preferred Shares, Series C and Series D.

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 convertible preferred shares have the right to elect up to three of nine members of the Board of Directors. The holders of Patheon's common 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 summer shut downs, particularly in Europe, and declining volumes in Puerto Rico, particularly at the Carolina site, revenues for the fourth quarter of 2007 are expected to be lower than the third 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 auditors have been engaged to perform a review of these financial statements. The independent auditors have advised the Company that they have satisfactorily completed their review, except for procedures that have not yet been completed in respect of the asset impairment charge that the Company recognized for the third quarter ended July 31, 2007. The independent auditors were unable to complete the review procedures in respect of the asset impairment charge before the filing of the accompanying unaudited interim consolidated financial statements because the valuation of the relevant assets related to the Company's Carolina, Puerto Rico operations was not substantially completed until shortly before the deadline for filing the financial statements.

FORWARD-LOOKING STATEMENTS

This news release 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 news release 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; interest rates; and conditions of MOVA's tax exemptions. 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 news release 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.