



NEWS RELEASE

For Immediate Release

Source: Patheon Inc.

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PATHEON ANNOUNCES FOURTH QUARTER AND YEAR END RESULTS

Toronto, Canada (December 13, 2006) – Patheon (TSX:PTI), a global provider of drug development and manufacturing services to the international pharmaceutical industry, today announced its results for the fourth quarter and year ended October 31, 2006. (All amounts are in U.S. dollars unless otherwise indicated.)

Financial Results

Fourth Quarter Ended October 31, 2006

Compared With Fourth Quarter Ended October 31, 2005

- Revenues declined 4% to \$175.1 million;
- EBITDA before repositioning expenses in the fourth quarter was \$19.6 million (11.2% of revenues) compared with \$26.2 million (14.4% of revenues);
- Repositioning expenses, consisting primarily of severance costs associated with a workforce reduction initiative, were \$13.8 million (\$12.2 million after tax);
- The provision for income taxes included a reserve of \$6.4 million against the carrying value of future tax assets in the Canadian operations;
- The net loss was \$22.4 million (24.1 cents per share) compared with net earnings of \$8.4 million (9.3 cents per share).

Twelve Months Ended October 31, 2006

Compared With Twelve Months Ended October 31, 2005

- Revenues increased 2% to \$712.2 million;
- EBITDA before repositioning expenses was \$73.8 million (10.4% of revenues), compared with \$98.0 million (14.0% of revenues);
- Before the asset impairment charge in the third quarter and repositioning expenses in the fourth quarter of 2006, the loss for the full year was \$23.9 million (25.6 cents per share) vs. net earnings of \$21.6 million (24.9 cents per share);
- The net loss was \$288.2 million (\$3.10 per share), compared with net earnings of \$21.6 million (24.9 cents per share).

“Fiscal 2006 was an exceptionally difficult year for our Puerto Rico operations and, consequently, for Patheon,” said Riccardo Trecroce, Chief Executive Officer, Patheon Inc. “Our Canadian, Cincinnati and European operations achieved growth in both revenues and EBITDA. Our overall earnings, however, were negatively impacted by a series of manufacturing issues and market-driven declines affecting several high-volume products at our Puerto Rico operations.”

During the twelve-month period, Patheon’s Canadian, Cincinnati and European facilities generated revenues of \$582.4 million, up \$33.2 million or 6% over fiscal 2005, and EBITDA before repositioning costs of \$72.4 million, up \$3.9 million or 6%. Full-year revenues at the three Puerto Rico sites, however, declined year-over-year by \$19.4 million to \$129.8 million, and EBITDA before repositioning costs by \$28.1 million to \$1.4 million.

“The manufacturing issues in Puerto Rico are being addressed and we saw an improvement in the results of these operations in the fourth quarter relative to the third,” Mr. Trecroce said. “With the current operations returning to normal, we will focus on implementing our manufacturing efficiency review process in Puerto Rico to improve the profitability of these operations.

Performance Enhancement Program

“During the fourth quarter, we made significant progress in implementing our previously announced Performance Enhancement Program, which we expect will have a positive impact on our overall earnings in 2007,” Mr. Trecroce said.

The Company accelerated its global procurement program, leveraging Patheon’s global purchasing power to negotiate contracts which are expected to achieve cost savings in fiscal 2007. These savings are expected to be derived from lower pricing and volume rebates on inventory items, such as excipients and packaging components, as well as non-inventory consumables and services, including laboratory supplies and waste management services.

In addition, Patheon is expanding the manufacturing efficiency review process completed at Whitby Operations to other sites in its network, including the Toronto Region, Cincinnati, Swindon and Carolina facilities. The Whitby project achieved significant gains in production throughput and labour efficiency, contributing towards the site’s improved year-over-year earnings performance.

Patheon reduced the size of its global workforce during the fourth quarter by approximately 250 positions, or approximately 4%, to approximately 5,600 full-time equivalent positions as at October 31, 2006. This reduction was implemented to allow the company to move forward into 2007 with a lower cost structure and to adjust for declining business volumes at some sites, particularly at Whitby. Virtually all of the reductions were at the Company’s North American facilities, and were achieved through retirements, attrition and terminations with severance packages. This was in addition to the more than 200 positions that were eliminated, mainly through attrition, during the third quarter of fiscal 2006.

Repositioning expenses

The Company recorded \$9.6 million in severance expenses in the fourth quarter of 2006 to cover the cost of the workforce reduction plan. In addition, during the fourth quarter, the Company also incurred \$4.2 million in consulting and professional fees related principally to work that preceded the decision by the Board to review strategic and financial alternatives for the Company, as well as the expansion of its manufacturing efficiency review process to other sites in its network and the amendment of its North American loan facilities. Total repositioning expenses in the fourth quarter were \$13.8 million, (\$12.2 million after tax).

Fourth quarter operating results

Although the Company's overall fourth-quarter revenues and EBITDA were lower on a year-over-year basis, EBITDA before repositioning expenses improved over the third quarter, due mainly to improved profitability at the Puerto Rico operations, offset in part by the impact of summer shutdowns in Europe.

Consolidated EBITDA before repositioning expenses of \$19.6 million in the fourth quarter represented a decline of \$6.6 million or 25% compared with the same period a year ago, but an increase from \$16.0 million in the third quarter. The EBITDA margin before repositioning was 11.2% in the fourth quarter, compared with 14.4% a year ago and 8.5% in the third quarter of 2006.

The Puerto Rico commercial manufacturing operations, which had generated a loss in the third quarter, were EBITDA-positive in the fourth quarter, generating EBITDA before repositioning expenses of \$0.9 million. This represented a decline of \$2.8 million over the same period a year ago, primarily attributable to a year-over-year decline in volumes of Zocor®, as well as the loss of revenues and earnings from a generic product as a result of the client losing a major account earlier this year. The decline was also partially attributable to a decision taken during the third quarter to temporarily suspend production and shipment of a major product due to stability concerns. Shipments of this product did not resume until September 7, 2006, thereby impacting fourth quarter results.

In Canada, EBITDA before repositioning expenses from commercial manufacturing operations was \$6.0 million, or \$4.8 million higher than the same period a year ago. The results reflect improved profitability from all operations, in particular from Whitby Operations, which achieved significant improvements in manufacturing efficiencies relative to last year.

In Europe, EBITDA before repositioning expenses from commercial manufacturing operations was \$4.2 million, or \$6.2 million lower than the same period a year ago. Gains in volumes at Swindon, U.K. and Bourgoin-Jallieu, France were offset by lower capacity utilization at the two sites in Italy. The Italian operations had experienced an exceptionally strong fourth quarter in 2005, attributable to the launch of a new product,

as well as a payment received from a client in Europe transferring multiple products to Patheon, for services provided during the 2005 fiscal year relating to the transfer of these products into the Italian facilities.

EBITDA before repositioning expenses from global pharmaceutical development services (PDS) operations was \$6.3 million, or \$1.5 million lower than the same period in 2005. The PDS operations at Swindon, U.K., Ferentino, Italy and Cincinnati, U.S.A. continued to perform well. The decline reflects lower revenues and profitability in the Puerto Rico and Canadian PDS operations.

Strategic alternatives review process

As previously announced on September 11, 2006, Patheon's Board of Directors has formed a special committee to evaluate a range of strategic and financial alternatives for the Company. As announced on November 16, 2006, the Company is in discussions with a number of parties with regard to various alternatives. As previously announced on October 16, 2006, Patheon negotiated an amendment to its North American credit agreement for the period up to April 30, 2007, establishing amended financial covenants until March 31, 2007. Although the Company is working diligently to implement a long-term improvement to its capital structure before April 30, 2007, there can be no assurance that a transaction or other material development will result from this process prior to that date or at all. No further announcements will be made by the Company with regard to this process unless and until circumstances so warrant.

Outlook

Revenues from the current operations for fiscal 2007 are expected to be comparable to 2006, with decreases in revenues from manufacturing OTC products in Canada offset by increases in revenues from pharmaceutical development services and the manufacture of R_x products in the United States and Europe.

Revenues for the first quarter of 2007 are anticipated to be slightly higher than the same period in fiscal 2006, but less than the fourth quarter of 2006, due in part to seasonal variability of results.

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 fourth quarter and year end results on Wednesday, December 13, 2006 at 10:00 a.m. (Eastern Standard 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) 644-3433 (Toronto and International) or toll free at (800) 814-4941 (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 Q4 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 5,600 people and serving a client base of 200 pharmaceutical and biotechnology companies.

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Consolidated Statements of Earnings (Loss)

(unaudited)

	Three months ended October 31,			Twelve months ended October 31,		
	2006	2005	% change	2006	2005	% change
<i>(in thousands of U.S. dollars, except per share amounts)</i>						
	\$	\$		\$	\$	
Revenues	175,115	181,893	-3.7%	712,152	698,318	2.0%
Operating expenses	155,550	155,690	-0.1%	638,363	600,356	6.3%
Earnings before the following: (as a % of revenues)	19,565	26,203	-25.3%	73,789	97,962	-24.7%
	11.2%	14.4%		10.4%	14.0%	
Repositioning expenses (note 8)	13,787	-		13,787	-	
Asset impairment charge (note 3)	-	-		254,661	-	
Depreciation and amortization	9,944	7,806	27.4%	39,878	33,351	19.6%
Amortization of intangible assets	2,182	3,443	-36.6%	11,871	11,188	6.1%
Gain on sale of land (note 9)	-	(4,587)		-	(4,587)	
Interest	6,247	4,652	34.3%	21,333	16,449	29.7%
Debt prepayment charges (note 13)	-	-		1,643	-	
Amortization of deferred financing costs	346	1,303	-73.4%	944	4,824	-80.4%
Write-off of deferred financing costs (note 13)	-	-		6,332	2,010	215.0%
Earnings (loss) before income taxes	(12,941)	13,586	-195.3%	(276,660)	34,727	-896.7%
Provision for income taxes	9,475	5,207	82.0%	11,490	13,106	-12.3%
Net earnings (loss) for the period	(22,416)	8,379	-367.5%	(288,150)	21,621	-1432.7%
(as a % of revenues)	-12.8%	4.6%		-40.5%	3.1%	
Earnings (loss) per share						
Basic	(24.1¢)	9.3¢	-359.1%	(\$3.10)	24.9¢	-1345.0%
Diluted	(24.1¢)	9.3¢	-359.1%	(\$3.10)	24.8¢	-1350.0%
Average number of shares (note 4) outstanding during period:						
Basic (in thousands)	92,919	92,846	0.1%	92,868	86,828	7.0%
Diluted (in thousands)	92,919	93,076	-0.2%	92,868	87,206	6.5%

see accompanying notes

Consolidated Statements of Retained Earnings (Deficit)

(unaudited)

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

Consolidated Balance Sheets

(unaudited)

(See note 1 - Going Concern Uncertainty)

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

see accompanying notes

Consolidated Statements of Cash Flows

(unaudited)

	Three months ended October 31,		Twelve months ended October 31,	
	2006	2005	2006	2005
<i>(in thousands of U.S. dollars)</i>	\$	\$	\$	\$
Operating activities				
Net earnings (loss) for the period	(22,416)	8,379	(288,150)	21,621
Add (deduct) charges to operations not requiring a current cash payment				
Asset impairment charge (note 3)	-	-	254,661	-
Depreciation and amortization	12,472	12,552	52,693	49,363
Write-off of deferred financing costs (note 13)	-	-	6,332	2,010
Employee future benefits	434	244	1,564	1,639
Future income taxes	(3,514)	1,971	(6,235)	2,642
Gain on sale of land (note 9)	-	(4,587)	-	(4,587)
Amortization of deferred revenues	(485)	(280)	(1,978)	(898)
Other	154	371	1,587	1,745
	<u>(13,355)</u>	<u>18,650</u>	<u>20,474</u>	<u>73,535</u>
Net change in non-cash working capital balances related to operations	36,697	5,674	22,142	(4,640)
Increase in deferred revenues	-	-	9,614	8,271
Cash provided by operating activities	<u>23,342</u>	<u>24,324</u>	<u>52,230</u>	<u>77,166</u>
Investing activities				
Acquisition	-	3,343	-	(211,823)
Cash acquired on acquisition	-	-	-	645
Acquisition net of cash acquired	-	3,343	-	(211,178)
Additions to capital assets - sustaining	(7,555)	(6,734)	(17,804)	(16,062)
- project - related	(17,800)	(11,177)	(49,695)	(40,730)
Proceeds on sale of land	-	4,748	-	4,748
Increase in investments	(49)	-	(49)	-
Increase in deferred pre-operating costs	(625)	(703)	(2,204)	(3,254)
Cash used in investing activities	<u>(26,029)</u>	<u>(10,523)</u>	<u>(69,752)</u>	<u>(266,476)</u>
Financing activities				
Increase (decrease) in bank indebtedness	3,041	1,536	(11,096)	(6,195)
Increase in long-term debt	42,443	46,355	416,389	341,445
Repayment of long-term debt	(11,790)	(55,667)	(364,800)	(304,838)
Decrease (increase) in restricted cash	-	(364)	7,805	(116)
Decrease (Increase) in deferred financing costs	(1,175)	3	(3,965)	(9,446)
Proceeds on issue of common shares before costs	47	-	127	199,241
Share issue costs	-	-	-	(8,947)
Cash provided by (used in) financing activities	<u>32,566</u>	<u>(8,137)</u>	<u>44,460</u>	<u>211,144</u>
Effect of exchange rate changes on cash and cash equivalents	847	494	1,278	(6,953)
Net increase in cash and cash equivalents during the period	30,726	6,158	28,216	14,881
Cash and cash equivalents, beginning of period	19,997	16,349	22,507	7,626
Cash and cash equivalents, end of period	<u>50,723</u>	<u>22,507</u>	<u>50,723</u>	<u>22,507</u>

see accompanying notes

Notes to Unaudited Consolidated Financial Statements for the Year Ended October 31, 2006

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

1. Accounting policies

Going Concern Uncertainty

The accompanying unaudited consolidated financial statements of Patheon Inc. (the “Company”) have been prepared on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future. As at October, 2006 the Company had a working capital deficiency of \$175,765,000. The deficiency includes the reclassification of \$263,842,000 of debt from long term to short term (see note 12). The Company’s ability to continue as a going concern is uncertain and is dependent upon the successful outcome of the review, announced on September 11, 2006, of strategic and financial alternatives (see note 15). If the Company is not able to implement a long term improvement in its capital structure as a result of this review, it anticipates that it will be in default of the covenants under the North American loan facilities as at April 30, 2007.

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

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles on a basis consistent with those followed in the most recent audited consolidated financial statements. 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 included in the Company’s Annual Report for the year ended October 31, 2005.

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.

In the third quarter of 2006 the Company recorded an impairment charge against the carrying-value of intangible assets. The company has re-assessed the estimated economic lives of the assets and is amortizing the remaining balance on a straight line basis over a period of five years.

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

2. MOVA Acquisition

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

The acquisition was accounted for using the purchase method and the accompanying consolidated financial statements include the results of operations from the date of purchase.

Notes to Unaudited Consolidated Financial Statements for the Year Ended October 31, 2006

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

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

3. Asset Impairment Charge

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

The Company tested the recoverability of MOVA's long lived depreciable assets and determined that expected future cash flows over the economic life of the principal assets 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. Based on preliminary analysis, the impairment charge as at July 31, 2006 was allocated as to \$66,249,000 for intangible assets and \$15,179,000 for tangible capital assets. Upon finalization of the analysis the impairment charge for long lived depreciable assets has been re-allocated as to \$51,921,000 for intangible assets and \$29,507,000 for tangible capital assets. The change in allocation has no impact on the overall impairment charge. 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 MOVA using a discounted cash flow methodology, and recorded an impairment charge of \$172,477,000 representing the full value of the MOVA 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 is accounted for on the cost basis had an other than temporary decline and wrote down its value by \$756,000 to its market value as of July 31, 2006.

Notes to Unaudited Consolidated Financial Statements for the Year Ended October 31, 2006

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

A summary of the asset impairment charges is as follows:

	Twelve months ended, October 31, 2006
	— \$
MOVA intangible asset impairment	51,921
MOVA tangible capital asset impairment	29,507
MOVA goodwill impairment	172,477
Other investment impairment	756
	254,661

4. Average number of shares

The following is a reconciliation of the weighted average number of basic and diluted shares:

	Three months ended October 31,	
	2006	2005
Weighted average number of common shares outstanding	92,919,384	92,845,688
Effect of dilutive stock options	-	230,179
Weighted average number of common shares outstanding – diluted	92,919,384	93,075,867

	Twelve months ended October 31,	
	2006	2005
Weighted average number of common shares outstanding	92,867,894	86,827,570
Effect of dilutive stock options	-	378,029
Weighted average number of common shares outstanding – diluted	92,867,894	87,205,599

5. Share capital

The following table summarizes information on share capital and related matters at October 31, 2006:

	Outstanding	Exercisable
Common shares	92,950,688	
Common share stock options	3,949,815	3,617,304

Notes to Unaudited Consolidated Financial Statements for the Year Ended October 31, 2006

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

6. Segmented information

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

Canadian and foreign operations consist of:

Manufacturing Location	Three months ended Oct 31, 2006			
	Canada	USA	Europe	Total
	\$	\$	\$	\$
Revenues:				
Canada	9,201	364	1,337	10,902
USA	41,033	57,719	3,768	102,520
Europe	9,660	339	49,565	59,564
Other geographic areas	500	-	1,629	2,129
Total revenues	60,394	58,422	56,299	175,115
Capital assets	129,725	142,491	221,872	494,088
Goodwill	3,077	-	-	3,077

Manufacturing Location	Three months ended Oct 31, 2005			
	Canada	USA	Europe	Total
	\$	\$	\$	\$
Revenues:				
Canada	11,339	476	202	12,017
USA	37,487	68,913	2,307	108,707
Europe	8,302	371	51,088	59,761
Other geographic areas	582	103	723	1,408
Total revenues	57,710	69,863	54,320	181,893
Capital assets	122,445	170,334	182,014	474,793
Goodwill	2,926	177,739	-	180,665

Manufacturing Location	Twelve months ended Oct 31, 2006			
	Canada	USA	Europe	Total
	\$	\$	\$	\$
Revenues:				
Canada	38,697	856	1,930	41,483
USA	158,706	231,184	13,751	403,641
Europe	53,010	846	202,842	256,698
Other geographic areas	4,696	190	5,444	10,330
Total revenues	255,109	233,076	223,967	712,152

Manufacturing Location	Twelve months ended Oct 31, 2005			
	Canada	USA	Europe	Total
	\$	\$	\$	\$
Revenues:				
Canada	32,066	1,294	1,611	34,971
USA	161,645	253,996	9,765	425,406
Europe	39,883	715	190,980	231,578
Other geographic areas	3,548	387	2,428	6,363
Total revenues	237,142	256,392	204,784	698,318

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.

Notes to Unaudited Consolidated Financial Statements for the Year Ended October 31, 2006

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

Revenue information by service activity is as follows:

	Three months ended Oct 31,			
	2006		2005	
	\$		\$	
Commercial manufacturing - prescription	126,117	72%	127,696	70%
Commercial manufacturing - over-the-counter	20,211	12%	27,675	15%
Development services	28,787	16%	26,522	15%
	175,115	100%	181,893	100%

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

7. 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 common shares of the Company at any point in time. As of October 31, 2006, the total number of common shares listed and reserved at the TSX for issuance under the plan was 6,858,427, of which there are stock options outstanding to purchase 3,949,815 shares under the plan. The exercise price of common shares subject to an option is determined at the time of grant and the price cannot be less than the weighted average market price of the common shares of 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 generally vest over three years, one-third on each of the first, second and third anniversary of the grant date.

The fair value of stock options is estimated at the date of the grant. There were no options granted for the three months ended October 31, 2006. (The weighted average fair value for the stock options granted for the three months ended October 31, 2005 was \$3.04). The weighted average fair value of stock options granted for the twelve months ended October 31, 2006 was \$1.73 (2005-\$3.01). The fair value of stock options is estimated at the date of grant using the Black-Scholes option pricing model. The following assumptions were used in arriving at the fair value of options issued during the twelve months ended October 31, 2006:

Risk free interest rate	4.2%
Expected volatility	42%
Expected weighted average life of options	4 years
Expected dividend yield	0%

Stock-based compensation expense recorded in the three months ended October 31, 2006 was \$3,000 (2005 - \$319,000) for options granted on or after November 1, 2003. Stock based compensation expense recorded for the twelve months ended October 31, 2006 was \$928,000 (2005-\$1,528,000) for options granted on or after November 1, 2003.

Notes to Unaudited Consolidated Financial Statements for the Year Ended October 31, 2006

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

Stock options granted prior to November 1, 2003 are accounted for using the intrinsic value method, which does not give rise to compensation expense. Had these stock options been accounted for at fair value, the pro-forma net earnings (loss) and earnings (loss) per share would have been:

<i>(in thousands of U.S. dollars)</i>	Three months ended October 31,		Twelve months ended October 31,	
	2006	2005	2006	2005
	\$	\$	\$	\$
Net earnings (loss) as reported	(22,416)	8,379	(288,150)	21,621
Pro-forma adjustments for the fair value of stock options granted prior to November 1, 2003	-	27	(28)	(98)
Pro-forma net earnings (loss)	(22,416)	8,406	(288,178)	21,523
Pro-forma earnings (loss) per share:				
Basic	(24.1¢)	9.3¢	(\$3.10)	24.8¢
Diluted	(24.1¢)	9.3¢	(\$3.10)	24.7¢

8. Repositioning expenses

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

During the fourth quarter of 2006 the Company also incurred professional fees, in connection with the amendment to its North American Loan Facilities (see note 12) and its review of strategic and financial alternatives (see note 15).

The following is a summary of expenses associated with these initiatives (collectively “Repositioning Expenses”):

	Three months and Twelve months ended October 31, 2006
	\$
Performance enhancement program:	
- Employee-related expenses	9,610
- Consulting and professional fees	1,193
Loan amendments and strategic alternatives review	2,984
	13,787

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

9. Gain on sale of land

During the fourth quarter 2005, the Company disposed of a parcel of land at its Bourgoin-Jallieu site in France. The sale closed October 17, 2005. The proceeds received on the sale were \$4,748,000 and the gain attributed on the sale was \$4,587,000.

Notes to Unaudited Consolidated Financial Statements for the Year Ended October 31, 2006

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

10. Other information

Foreign exchange

During the three months ended October 31, 2006, the foreign exchange gain was \$987,000 (2005 loss - \$141,000). For the twelve months ended October 31, 2006, the foreign exchange gain was \$1,065,000 (2005 gain - \$2,603,000).

Employee future benefits

The employee future benefit expense in connection with defined benefit pension plans and other post retirement benefit plans for the three months ended October 31, 2006 was \$1,671,000 (2005 - \$1,366,000). For the twelve months ended October 31, 2006, the employee future benefit expense was \$5,416,000 (2005 - \$5,463,000).

11. Financial instruments

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

The Company has entered into foreign exchange forward contracts with an aggregate amount of US\$60,000,000 as at October 31, 2006. These contracts mature at the latest on October 29, 2007 at exchange rates varying between \$1.0856 and \$1.096 Canadian. The mark-to-market value on these financial instruments as at October 31, 2006 was an unrealized loss of US\$1,418,000.

In the second quarter of 2006, the Company unwound its interest rate swap contracts that exchanged a notional amount of US\$107,500,000 of debt from floating to fixed interest rates. The gain of \$1,097,000 that was realized on the unwinding of the swaps is being amortized to interest expense over approximately six years, reflecting the maturity dates of the original contracts.

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

12. Long-term debt

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

Notes to Unaudited Consolidated Financial Statements for the Year Ended October 31, 2006

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

During the third quarter of 2006, certain of the financial covenant tests included in the North American Loan Facilities were amended to ensure that the Company remained in compliance as at July 31, 2006. During the fourth quarter of 2006, the Company entered into a further agreement with its lenders to amend the North American Loan Facilities. The agreement reduced the amount of the revolving credit facilities from \$75,000,000 to \$60,000,000 and established amended financial covenants, including trailing 12-month debt-to-EBITDA covenants. The amended covenants cover a six-month period ending on March 31, 2007.

If the Company is not able to implement a long term improvement in its capital structure as a result of its review of strategic and financial alternatives (see note 15), it anticipates that it will be in default of the covenants under the North American Loan Facilities as at April 30, 2007 and the lenders could demand repayment of all amounts outstanding under these credit facilities. Accordingly, in accordance with Emerging Issues Committee Abstract 59, the Company has re-classified \$239,952,000 of debt from long-term to short-term, representing the long-term portion of debt outstanding under the North American Loan Facilities. Any future default under the Company's North American Loan Facilities would cause a cross default under a lending facility in its UK subsidiary. Accordingly, the Company has also reclassified \$23,890,000 of related debt from long-term to short-term.

On December 22, 2005, the Company's Italian subsidiary entered into a new long-term debt facility. The new loan replaced four separate term loans it had with an Italian bank. The new loan in the amount of €28,500,000 (\$33,856,000), bearing interest at floating rates based on 3-month Euribor maturing in 2014, has equal semi-annual principal payments over the term of the nine year loan, and is collateralized by a mortgage over land and buildings.

13. Debt prepayment charges and write-off of deferred financing costs

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 in the first quarter of 2006.

During the first quarter of 2005, the Company wrote off deferred financing costs of \$2.0 million associated with commitment fees paid for financing that was not required in connection with the MOVA acquisition.

14. Related Party Transactions

Revenues and recharges for cost recoveries from companies controlled by a director and significant shareholder of the Company were in the amount of \$260,000 and \$3,145,000 for the three and twelve months ended October 31, 2006 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 receivables at October 31, 2006 include a balance of \$446,000 resulting from these transactions.

At October 31, 2006 the Company has an investment of \$173,000, 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.

15. Review of Strategic and Financial Alternatives

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

Notes to Unaudited Consolidated Financial Statements for the Year Ended October 31, 2006

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

16. Comparative amounts

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

Patheon Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following management discussion and analysis of financial condition and results of operations ("MD&A") of Patheon Inc. ("Patheon" or "the Company") for the three-month and twelve-month periods ended October 31, 2006 and 2005 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 December 13, 2006.

The purpose of this 2006 fourth quarter report is to provide an update to the information contained in the Management's Discussion and Analysis section of the Company's 2005 Annual Report, which contains a more comprehensive discussion of 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 2005 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 Trust Company of Canada, 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 before repositioning expenses, asset impairment charges, depreciation and amortization, gain on sale of land, interest, debt prepayment charges, 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 financial performance.

Overview of Patheon

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

Patheon commercially manufactures prescription ("R_x") and over-the-counter ("OTC") products in solid, semi-solid and liquid dosage forms and manufactures R_x products in various sterile 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 filled in ampoules, vials, bottles or pre-filled syringes. Sterile lyophilized products are also manufactured in both vials and ampoules.

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

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

At October 31, 2006, there were a total of 171 client products in the Patheon's pharmaceutical development services ("PDS") pipeline, including five drug candidates at the New Drug Application ("NDA") stage. This compares with a total of 147 client products a year ago. During the fourth quarter, two products being developed on behalf of clients received regulatory approval and were launched from the Company's facilities.

Vision and Strategy

Patheon's vision is to be the leader in pharmaceutical manufacturing. Patheon strives to be the preferred manufacturing and pharmaceutical development services partner to the global pharmaceutical industry. Patheon's strategy is to offer strategic benefits to its clients by providing comprehensive, high-quality and integrated manufacturing services throughout the product lifecycle.

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 services to establish and maintain long-term and strategic relationships with clients on a global basis.

The development of Patheon's business in recent years has been guided by a plan to expand capacity, expertise and capabilities, positioning the Company to be the preferred manufacturing services partner to the pharmaceutical industry. This has led to the acquisition of several pharmaceutical manufacturing facilities and the entry into long-term manufacturing relationships in conjunction with certain of these acquisitions. In addition to this strategic growth, Patheon is 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 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 2005 Annual Report, several key performance drivers were identified for the Company: (i) increasing the percentage of more profitable Rx products at its facilities; (ii) expanding its PDS capabilities in North America and Europe; (iii) improving capacity utilization at the Company's sites, which have a largely fixed-cost base in the short term; 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 six Canadian sites are primarily denominated in Canadian dollars. At the end of the second quarter of 2006 the Company also initiated a performance enhancement program aimed at improving the productivity and cost effectiveness of its operations. An update on our interim performance relating to these key measures is provided in the section below entitled "Results of Operations."

Recent Developments

Financing Arrangements and Strategic Alternatives

In anticipation of lower-than-expected earnings and EBITDA for the third quarter ended July 31, 2006, in July 2006 the Company commenced negotiations with its lenders in respect of amendments to certain financial covenants under its North American loan facilities because of concern that, based on its latest internal forecast at that time, the Company would not be in compliance with its debt-to-EBITDA ratio and fixed charge coverage financial covenants as at July 31, 2006. As a result of the amendments, the Company was in compliance with the terms and conditions of its North American loan facilities as at July 31, 2006. During the fourth quarter of 2006, the Company entered into a further agreement with its lenders to amend the North American loan facilities. The agreement reduced the amount of the revolving credit facilities from \$75,000,000 to \$60,000,000 and established amended financial covenants, including trailing 12-month debt-to-EBITDA covenants. The amended covenants cover a six-month period ending on March 31, 2007.

On September 11, 2006, the Company announced that its Board of Directors had formed a special committee to evaluate a range of strategic and financial alternatives for the company. Greenhill & Co. and RBC Capital Markets have been retained as financial advisors to assist the Company and the special committee.

If the review of strategic and financial alternatives does not result in an improvement in the Company's capital structure, the Company anticipates that it will be in default under its North American loan facilities as at April 30, 2007 and the lenders could demand repayment of all amounts outstanding under these credit facilities. As at November 30, 2006, \$237.9 million was outstanding under these facilities (\$246.0 million as at October 31, 2006). In addition, any such default would constitute a default under a lending facility of the company's U.K. subsidiary, allowing the lender under this facility to immediately demand repayment of all amounts outstanding under that facility. As at November 30, 2006, \$24.6 million was outstanding under that facility (\$23.9 million as at October 31, 2006).

The Company is able to borrow under its amended \$60 million North American revolving loan facility. As at November 30, 2006, \$35.3 million was borrowed under this facility (\$36.9 million as at October 31, 2006). The maximum amount that may be borrowed under this facility from time-to-time is a function of borrowing base calculations prescribed in the credit agreement, and is typically less than \$60 million. The Company estimates that, based on these borrowing base calculations, as at November 30, 2006, an additional \$17.9 million was available to be drawn under this facility. In addition the Company has cash reserves on hand of approximately \$45.1 million at November 30, 2006 (\$50.7 million as at October 31, 2006). The Company is satisfied that it has sufficient liquidity to carry on its business in the ordinary course for the period covered by the amendment to the North American loan facilities.

Going Concern Uncertainty Note

As at October 31, 2006, the Company has reclassified the long-term debt outstanding under its North American loan facilities (\$240.0 million) and its U.K. subsidiary's loan facility (\$23.9 million) as current indebtedness, in accordance with Emerging Issues Committee Abstract 59, which requires such reclassification unless a violation of the covenants under these credit facilities at a future compliance date within one year of the balance sheet date is not likely. See "Liquidity and Capital Resources – Adequacy of Financial Resources" and "Critical Accounting Policies and Estimates – Going Concern Uncertainty", below. As a result of this reclassification, the Company had a working capital deficiency as at October 31, 2006 of \$175.8 million. Consequently, the Company's consolidated financial statements for the fourth quarter include a going concern uncertainty note, stating that the Company's ability to continue as a going concern is uncertain and is dependent upon the successful outcome of the review of strategic and financial alternatives announced September 11, 2006. The Company's consolidated financial statements

as at and for the fourth quarter ended October 31, 2006 do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern.

Developments relating to MOVA

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

The acquisition was accounted for using the purchase method and the accompanying consolidated financial statements include the results of operations from the date of purchase.

During the second quarter of 2006, MOVA received a notice from the Puerto Rico Industrial Development Company ("PRIDCO") requesting the accelerated repayment of a grant that MOVA received in 1996. In accordance with the terms of the original agreement with PRIDCO, MOVA had been repaying the grant in the form of royalty payments that are tied to revenues generated from certain products that MOVA manufactures for its clients. At the time of the acquisition, escrow funds were set aside as a protection against PRIDCO exercising a right to an accelerated repayment of the grant, but these funds were released to the former owners of MOVA at the end of the escrow period in circumstances where, in retrospect, the Company did not have a full understanding of PRIDCO's position on whether it would exercise its right to accelerate repayment of the grant. The potential repayment obligation was noted as a contingent liability in the Company's second quarter financial statements pending investigation of whether the accelerated repayment of the grant was the responsibility of the former owners of MOVA. During the third quarter of 2006 the Company reached a settlement with the former owners, who have agreed to reimburse MOVA 50% of the amounts owing to PRIDCO. MOVA's remaining liability is \$2.4 million. The Company would have reflected this liability in the purchase price allocation had it been aware of it at the time it was finalized, accordingly an adjustment has been made to goodwill, accounts payable and future tax liabilities. The adjustment to goodwill had the effect of increasing the goodwill impairment charge.

During the third quarter of 2006, the Company determined that the carrying value of MOVA's intangible assets, tangible capital assets and goodwill were impaired. Accordingly, the Company recognized an aggregate asset impairment charge of \$253.9 million in respect of these assets for the quarter (\$51.9 million in respect of intangible assets; \$29.5 million in respect of tangible capital assets; and \$172.5 million in respect of goodwill). See "Results of Operations – Asset Impairment Charge", below.

Results of Operations

Three Months Ended October 31, 2006 Compared with Three Months Ended October 31, 2005

Revenues by Geographic Region and Service Activity

	Three months ended Oct 31,			Twelve months ended Oct 31,		
	2006	2005	% Change	2006	2005	% Change
North America						
Commercial Manufacturing						
Prescription	78,909	78,885	0%	310,880	313,078	-1%
Over-the-counter	19,041	27,420	-31%	101,262	107,337	-6%
	97,950	106,305	-8%	412,142	420,415	-2%
Development Services						
	20,866	21,268	-2%	76,043	73,119	4%
	118,816	127,573	-7%	488,185	493,534	-1%
Europe						
Commercial Manufacturing						
Prescription	47,208	48,811	-3%	197,353	185,035	7%
Over-the-counter	1,170	255	359%	3,646	1,816	101%
	48,378	49,066	-1%	200,999	186,851	8%
Development Services						
	7,921	5,254	51%	22,968	17,933	28%
	56,299	54,320	4%	223,967	204,784	9%
TOTAL						
Commercial Manufacturing						
Prescription	126,117	127,696	-1%	508,233	498,113	2%
Over-the-counter	20,211	27,675	-27%	104,908	109,153	-4%
	146,328	155,371	-6%	613,141	607,266	1%
Development Services						
	28,787	26,522	9%	99,011	91,052	9%
CONSOLIDATED REVENUES	175,115	181,893	-4%	712,152	698,318	2%

Revenues

Consolidated revenues for the three-month period ended October 31, 2006 decreased 4%, or \$6.8 million, to \$175.1 million from \$181.9 million in the same period in 2005. In the fourth quarter, revenue declines in both Rx and OTC manufacturing were offset in part by growth in revenues from PDS. On a consolidated basis, Rx manufacturing revenues declined by 1% and OTC revenues declined by 27% compared with the fourth quarter of 2005. PDS revenues increased 9% over the same period in 2005.

Prescription manufacturing and development services represented 88% of revenues, compared with 85% for the comparable period in 2005.

Geographically, in North America, revenues declined in the fourth quarter by \$8.8 million or 7% over the same period a year ago. Revenues from the Puerto Rico operations were \$33.9 million, down from \$40.9 million, or 17%, in the same period a year ago, but up \$5.9 million relative to the third quarter of 2006. The year-over-year decline was primarily attributable to the loss, earlier this year, of revenues from a generic product where the Company's client lost a major customer and the loss in patent protection of Zocor®. This was offset in part by higher volumes from the Carolina facility, which in 2005 was impacted by a temporary shut down in production in response to an FDA warning letter. The improvement relative to the third quarter of 2006 reflects the resumption of shipping of a high volume product in Caguas that had been affected by stability-related issues during the third quarter, along with higher volumes from the Carolina facility to meet client demands for cephalosporin products for the cough and cold season.

Revenues from the other operations in North America were \$84.9 million, or 2% lower than the same period last year. The net decline reflects a \$6.3 million, or 16%, increase in Rx revenues, offset by a \$8.4 million, or 31%, decline in OTC revenues. Rx revenues were higher in the Canadian operations offset by a small decline in Cincinnati. OTC revenues declined in the Canadian operations and in Cincinnati as the Company continues to be impacted by price competition in the OTC market. Revenues from PDS services increased \$0.3 million or 2% over the same period a year ago, with continuing growth in Cincinnati being offset by declines in late stage project revenues in Canada.

In Europe, revenues for the fourth quarter of 2006 were \$2.0 million or 4% higher than the same period of 2005. The year-over-year increase in revenues reflects a \$2.7 million, or 51% increase in PDS revenues from the Swindon, U.K. and Ferentino, Italy operations, offset by a \$0.7 million, or 1% reduction in commercial revenues. The change in commercial revenues reflects year-over-year improvements in Swindon, U.K. and Bourgoin Jallieu, France, offset by a decline from the Italian operations. European currencies strengthened against the U.S. dollar in the fourth quarter of fiscal 2006 compared with the prior year. The Euro strengthened approximately 4% and U.K. sterling strengthened approximately 5% against the U.S. dollar, increasing reported revenues by approximately \$2.5 million. Had European currencies remained constant to the rates of the prior year, European revenues would have been 1% lower than the same period in 2005.

Operating Expenses

Operating expenses comprise processing costs (principally materials, employee and other site-related costs), marketing, sales, service, corporate support and administrative expenses. In the fourth quarter of 2006, operating expenses were \$155.6 million, being \$0.1 million lower than the same period a year ago. Operating expenses were impacted by lower volumes, savings from the performance enhancement program, and lower bonus costs, offset by annual payroll-related increases and the impact of the strengthening Canadian dollar and European currencies relative to the U.S. dollar. Operating expenses as a percentage of revenues were 88.8%, compared with 85.6% in the same period a year ago.

Repositioning Expenses

During the fourth quarter of 2006 the Company incurred \$13.8 million of expenses in connection with its performance enhancement program, amendments to its North American bank financing facilities and its review of strategic and financial alternatives. The expenses include costs associated with a reduction in the work force and consulting and professional fees. The Company expects to incur further repositioning expenses in its 2007 fiscal year as it completes the performance enhancement program and review of strategic and financial alternatives.

EBITDA before repositioning expenses and EBITDA margin before repositioning expenses

On a consolidated basis in the fourth quarter of 2006, EBITDA before repositioning expenses, representing earnings before repositioning expenses, asset impairment charges, depreciation and amortization, gain on sale of land, interest, debt prepayment charges, write-off of deferred financing costs, and income taxes was \$19.6 million, compared with \$26.2 million in the same period a year ago. EBITDA margin before repositioning expenses was 11.2% in the three-month period, compared with 14.4% in the same period a year ago.

The profitability of Canadian operations was impacted by the strengthening of the Canadian dollar relative to the U.S. dollar. The Canadian dollar strengthened by approximately 6% relative to the U.S. dollar, compared with the fourth quarter of 2005. The Company estimates that, had exchange rates remained the same as last year, its EBITDA before repositioning expenses, net of hedging activities, would have been approximately \$0.8 million higher than was reported.

EBITDA before repositioning expenses from the Puerto Rico commercial operations was \$0.9 million, being \$2.8 million lower than the same period last year. The decrease reflects significantly lower capacity utilization in the Caguas facility offset in part by higher utilization in the Carolina facility,

which in the prior year was impacted by a temporary shut down in production of a certain product in response to an FDA warning letter last year. The Caguas operations were also impacted by a decision taken during the third quarter to temporarily suspend production and shipment of a major product due to stability concerns. Shipments of this product resumed on September 7, 2006.

In the Cincinnati commercial operations, EBITDA before repositioning expenses was \$4.7 million, being \$1.3 million lower than the same period last year. The decline principally reflects the impact of lower OTC volumes.

In Canada, EBITDA before repositioning expenses from the commercial operations was \$6.0 million, being \$4.8 million higher than the same period last year. The improvement reflects improved profitability from all operations, in particular from Whitby operations, which in fourth quarter of 2005 was impacted by a number of manufacturing inefficiencies that were resolved during the second and third quarters of 2006.

In Europe, EBITDA before repositioning expenses from the commercial manufacturing operations was \$4.2 million, being \$6.2 million lower than same period a year ago. The decline principally reflects lower capacity utilization in the Italian operations, relative to the exceptionally strong fourth quarter in 2005, when the Company benefited from the impact of a new product launch as well as revenues from a new multiple product contract.

EBITDA before repositioning expenses from the global PDS operations was \$6.3 million, being \$1.5 million lower than the same period in 2005. The decline reflects reduced volumes in the Canadian and Puerto Rico operations and lower profitability from the Canadian operations as a result of the strengthening Canadian dollar.

Corporate costs in the fourth quarter of 2006 were \$0.5 million lower than the same period last year.

Depreciation and Amortization Expense

Depreciation and amortization expense was \$9.9 million in the fourth quarter of 2006, compared with \$7.8 million in the fourth quarter of 2005, an increase of \$2.1 million, or 27%. The depreciation and amortization charge in 2005 included a credit adjustment of \$1.4 million in connection with the finalization of the MOVA acquisition opening balance sheet. The remaining increase principally reflects higher charges from the European operations.

Amortization of Intangible Assets

Amortization of intangible assets was \$2.2 million in the fourth quarter of 2006, compared with \$3.4 million for the fourth quarter of 2005. The amortization of intangible assets reflects the amortization of the remaining balance of intangible assets in the Puerto Rico operations.

Interest Expense

Interest expense for the fourth quarter of 2006 was \$6.2 million, up from the \$4.7 million charge in the fourth quarter of 2005. The increase reflects higher debt levels along with increased borrowing costs as a result of the amendments to the Company's North American loan facilities.

Amortization of Deferred Financing Costs

Amortization of deferred financing costs in the fourth quarter of 2006 was \$0.3 million, compared with \$1.3 million in the fourth quarter of 2005. The charges in both years relate principally to the amortization of costs associated with the North American credit facilities. The Company consolidated its North American borrowing requirements in new credit facilities that were completed during the first quarter of 2006. All unamortized costs associated with the old facilities were charged to earnings at the time the new facility was put in place.

Gain on sale of Land

In the fourth quarter of 2005 the Company's French subsidiary recorded a pre-tax gain of \$4.6 million in connection with the sale of a parcel of land adjacent to its principal operations which were not considered to be integral to the long-term operations or expansion plans of the site. No amounts were recorded in the fourth quarter of 2006.

Earnings (Loss) Before Income Taxes

The Company reported a loss before income taxes of \$12.9 million, compared with earnings before income taxes of \$13.6 million in the same period a year ago.

Income Taxes

The Company recorded an income tax charge of \$9.5 million compared with a charge of \$5.2 million in the same period last year. The income tax charge in the fourth quarter of 2006 includes a valuation reserve of \$6.4 million against future tax asset balances in the Canadian operations. In addition, operating losses arising in Canada during the fourth quarter of 2006 were not tax affected. The income tax charge was further impacted by operating losses in the low tax jurisdiction of Puerto Rico and higher tax rates than in the same period last year in Italy.

Net Earnings (Loss) and Earnings (Loss) Per Share

The Company recorded a net loss in the fourth quarter of 2006 of \$22.4 million, compared with net earnings of \$8.4 million in the same period last year. The loss per share was 24.1¢, compared with earnings per share of 9.3¢ a year earlier. The net loss in the fourth quarter of 2006 included a charge for repositioning expenses of \$13.8 million which had the impact of reducing net earnings by \$12.2 million, or 13.2¢ per share. Net earnings in the fourth quarter of 2005 included a gain on the sale of land in France of \$4.6 million which had the impact of increasing net earnings by \$3.0 million, or 3.5¢ per share.

The diluted loss per share in the fourth quarter of 2006 was 24.1¢ compared with diluted earnings per share of 9.3¢ in the fourth quarter of 2005. Dilution arises solely from options issued under the Company's stock option plan.

Twelve Months Ended October 31, 2006 Compared with Twelve Months Ended October 31, 2005

The results for the twelve-month period ended October 31, 2006 include the operations of MOVA for a full four quarters, while the results of the comparative period include the operations of MOVA from the date of acquisition on December 23, 2004 until October 31, 2005.

Revenues

Consolidated revenues for the twelve-month period ended October 31, 2006 increased 2% or \$13.8 million to \$712.2 million from \$698.3 million in the same period in 2005. R_x manufacturing and PDS revenues grew by 2% and 9% respectively, while OTC manufacturing revenues declined by 4%.

Revenues from the Puerto Rico operations were \$129.8 million, \$19.4 million lower than 2005. The 2006 results include a full first quarter of operations compared with only five weeks of operations in 2005. The 2006 year-to-date decline in revenues in Puerto Rico principally reflect the loss of revenues from a generic product where the Company's client lost a major customer, other declines in base business volumes in Caguas and Manatí, offset in part by an additional seven weeks of operating activities in 2006.

Excluding the Puerto Rico operations, revenue growth from the Company's other sites was \$33.2 million, or 6%, in the twelve-month period ended October 31, 2006. Of this increase, \$19.2 million was derived from the European operations, principally attributable to R_x manufacturing services, which were up \$12.3 million, or 7%, and PDS revenues, which were up \$5.0 million, or 28%, compared with the same period

a year ago. North American revenues grew \$14.0 million, or 4%, compared with the same period a year ago, principally attributable to an increase in R_x manufacturing revenues of \$19.0 million, or 11%, offset by a reduction in OTC revenues of \$6.1 million, or 6%.

Prescription manufacturing and development services, collectively represented 85% of revenues, being 1% higher than the same period last year.

Geographically, North American revenues were \$5.3 million or 1% lower than the same period in the prior year. The decrease reflects a net decline in revenue from the Puerto Rico operations and OTC business at Niagara/Burlington and Cincinnati, offset in part by significant increases in volumes at Whitby and at the Toronto Region Operations.

In Europe, revenues in 2006 were \$19.2 million, or 9% higher than 2005. The increase principally reflects higher R_x manufacturing and PDS revenues from the Italian and UK operations. European currencies weakened against the U.S. dollar in 2006 compared with the prior year. The Euro weakened approximately 3% and the British pound sterling weakened approximately 2% against the U.S. dollar, reducing reported revenues by approximately \$5.5 million. Had European currencies remained constant to the rates of the prior year, European revenues would have been 12% higher than the same period in 2005.

Operating Expenses

Operating expenses comprise processing costs (principally materials, employee and other site-related costs), marketing, sales, service, corporate support and administrative expenses. In the twelve-month period ended October 31, 2006 operating expenses were \$638.4 million, compared with \$600.4 million in the same period a year ago, an increase of 6%. The increase principally reflects an additional seven weeks of operations in Puerto Rico, the higher revenue base in the other operations, annual payroll-related increases, additional GMP-related costs in the first half of the year in Carolina in connection with the FDA warning letter and the impact of the strengthening Canadian dollar relative to the U.S. dollar. These increases were offset in part by lower bonus costs, savings from performance enhancement plan and from weakening European currencies relative to the U.S. dollar.

Operating expenses as a percentage of revenues were 89.6%, compared with 86.0% in the prior year. Excluding the impact of the Puerto Rico operations, operating expenses as a percentage of revenue were 87.4%, unchanged from the same period a year ago. Operating expenses as a percentage of revenues for the Puerto Rico operations were 98.9% compared with 80.3% in the same period a year ago.

EBITDA before repositioning expenses and EBITDA margin before repositioning expenses

On a consolidated basis for the year ended October 31, 2006, EBITDA before repositioning expenses, representing earnings before repositioning expenses, asset impairment charges, depreciation and amortization, gain on sale of land, interest, debt prepayment charges, write-off of deferred financing costs, and income taxes was \$73.8 million, a decline of \$24.2 million, or 25%, from the comparable period in 2005. EBITDA margin before repositioning expenses was 10.4% in the twelve months ended October 31, 2006, compared with 14.0% in the same period a year ago.

On a year-to-date basis the Canadian dollar has strengthened by approximately 7% relative to the U.S. dollar, compared with the same period last year. The Company estimates that, had the exchange rate remained the same as last year, its EBITDA before repositioning expenses, net of hedging activities, would have been approximately \$5.2 million higher than was reported.

EBITDA before repositioning expenses from the Puerto Rico commercial operations was \$0.7 million, compared with a \$27.4 million in the same period last year. This reflects declines in base business volumes in Caguas and Manatí and the impact in Carolina of the FDA Warning letter during the first half of 2006, which resulted in additional costs and manufacturing inefficiencies.

EBITDA before repositioning expenses from the Cincinnati commercial operations was \$13.3 million, being \$1.9 million lower than the same period last year. The decline principally reflects the impact of lower OTC volumes.

The Canadian commercial operations reported EBITDA before repositioning expenses of \$25.3 million, or \$6.4 million higher than the same period last year as improvements in the Toronto Region and Whitby operations were partially offset by declining profitability in the OTC sites and from the impact of the strengthening Canadian dollar.

In Europe, EBITDA before repositioning expenses from commercial operations was \$26.8 million being \$1.0 million higher than the same period last year. The improvement reflects increased capacity utilization at the Italian and Swindon, U.K. facilities, offset in part by higher costs in Bourgoin-Jallieu, France in connection with the transfer in of new business.

EBITDA before repositioning expenses from PDS operations was \$20.2 million, being \$2.6 million lower than 2005. Improvements in profitability in Cincinnati and Europe were offset by lower profitability in the Canadian operations, as a result of lower revenues and from the continuing strength in the Canadian dollar.

Corporate costs for the twelve months ended October 31, 2006 were \$0.4 million higher than the same period last year.

Asset Impairment Charge

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

The Company tested the recoverability of MOVA's long lived depreciable assets and determined that expected future cash flows over the economic life of the principal assets was less than the carrying value of the long-lived depreciable assets. As a result the Company recorded an impairment charge of \$81.4 million. Based on preliminary analysis, the impairment charge as at July 31, 2006 was allocated as to \$66.2 million for intangible assets and \$15.2 million for tangible capital assets. Upon finalization of the analysis the impairment charge for long lived and depreciable assets has been re-allocated as to \$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 MOVA using a discounted cash flow methodology, and recorded an impairment charge of \$172.5 million, representing the full value of the MOVA 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 is 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.

Depreciation and Amortization Expense

Depreciation and amortization expense was \$39.9 million for the twelve months ended October 31, 2006, compared with \$33.4 million in the same period of 2005, an increase of \$6.5 million, or 20%. Of the

increase, \$2.5 million is attributable to additional amounts relating to depreciation of the MOVA assets. The remaining increase is principally attributable to completion of capital programs, in particular at the Italian sites. Depreciation and amortization expense includes the amortization of deferred pre-operating costs.

Amortization of Intangible Assets

The amortization of intangible assets was \$11.9 million in the twelve months ended October 31, 2006, compared with \$11.2 million in the same period of 2005. The amortization of intangible assets relates to the Puerto Rico operations. The increase was due to the inclusion of a full quarter of amortization in the first quarter of 2006, compared with five weeks in the first quarter of 2005, offset by lower amortization charges in the fourth quarter of 2006, as a result of the impairment charge made at the end of the third quarter of 2006.

Interest Expense

Interest expense for the twelve-months ended October 31, 2006 was \$21.3 million, compared with \$16.4 million in the same period a year ago. The increase of \$4.9 million, or 30%, compared with the prior year, reflects higher debt levels and increased borrowing costs in the fourth quarter of 2006 as a result of the amendments to the Company's North American loan facilities and the inclusion of a full quarter of interest expense in the first quarter of 2006 related to the additional debt associated with the MOVA acquisition, compared with five weeks in the first quarter of 2005.

Debt Prepayment Charges and Write-off of Deferred Financing Costs

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.

During the first quarter of 2005, the Company wrote off deferred financing costs of \$2.0 million associated with commitment fees paid for financing that was not required in connection with the MOVA acquisition.

Amortization of Deferred Financing Costs

Amortization of deferred financing costs in the twelve months ended October 31, 2006 was \$0.9 million, compared with \$4.8 million in the same period of 2005. The decrease reflects lower amortization charges associated with the Company's new North American financing facilities that were completed on December 15, 2005.

Earnings (Loss) Before Income Taxes

The Company reported a loss before income taxes of \$276.7 million in the twelve months ended October 31, 2006, compared with earnings before income taxes of \$34.7 million in the same period a year ago.

Income Taxes

The income tax expense for the twelve months ended October 31, 2006 was \$11.5 million. The income tax charge in the twelve months ended October 31, 2006 includes a recovery of \$2.6 million associated with the asset impairment charge and an expense of \$6.4 million in connection with Canadian valuation reserve. Excluding the impact of the asset impairment charge and the valuation reserve, the tax expense was \$3.8 million, despite a loss before taxes of \$21.2 million. This compares with a tax charge of \$13.1 million and an effective tax rate of 37.7% for the same period a year ago. The charge from operations in 2006 includes pre-tax losses from Puerto Rico, where the effective tax rate averaged 1% and losses in Canada in the fourth quarter that were not tax affected. In addition, income tax rates were higher in Italy than the same period last year.

Net Earnings (Loss) and Earnings (Loss) Per Share

The Company recorded a net loss for the twelve months ended October 31, 2006 of \$288.2 million, compared with net earnings of \$21.6 million in the same period a year ago. The loss per share was \$3.10 compared with earnings per share of 24.9¢ a year earlier. The net loss for the twelve months ended October 31, 2006 included after tax repositioning expenses of \$12.2 million or 13.2¢ per share, after tax asset impairment charges of \$252.1 million, or 271.5¢ 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. The net earnings for the twelve months ended October 31, 2005 included an after tax gain on the sale of land in France of \$3.0 million, or 3.5¢ and after tax costs for the write-off of deferred financing costs of \$1.3 million, or 1.9¢ per share.

The diluted loss per share for the twelve months ended October 31, 2006 was \$3.10 compared with diluted earnings per share of 24.8¢ in the same period last year. Dilution arises solely from options issued under the Company's stock option plan.

The average number of shares outstanding during the twelve-month period ended October 31, 2006, determined on basic and diluted bases, was higher by 7.0% and 6.5%, respectively, than for the same period last year. The increase is the result of shares issued in the first quarter of 2005 in connection with the MOVA acquisition.

Seasonal Variability of Results

Typically, the Company's manufacturing and PDS revenues are lower in the first fiscal quarter. While this pattern was observed in 2006, in the first quarter of 2005 the Company experienced relatively high revenues in its North American commercial and PDS operations and in European PDS.

Liquidity and Capital Resources

Summary of Cash Flows

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

	Three months ended October 31, 2006		Twelve months ended October 31, 2005	
	2006	2005	2006	2005
	\$	\$	\$	\$
Net earnings (loss)	(22,416)	8,379	(288,150)	21,621
Asset impairment charge	-	-	254,661	-
Depreciation and amortization	12,472	12,552	52,693	49,363
Write-off of deferred financing costs	-	-	6,332	2,010
Employee future benefits	434	244	1,564	1,639
Future income taxes	(3,514)	1,971	(6,235)	2,642
Gain on sale of land	-	(4,587)	-	(4,587)
Amortization of deferred revenues	(485)	(280)	(1,978)	(898)
Other	154	371	1,587	1,745
Working capital	36,697	5,674	22,142	(4,640)
Increase in deferred revenues	-	-	9,614	8,271
Cash provided by operating activities	23,342	24,324	52,230	77,166
Cash provided by (used in) financing activities	32,566	(8,137)	44,460	211,144
Cash used in investing activities	(26,029)	(10,523)	(69,752)	(266,476)
Other	847	494	1,278	(6,953)
Net increase in cash and cash equivalents	30,726	6,158	28,216	14,881

Cash Provided by Operating Activities

Cash provided by operating activities was \$23.3 million in the fourth quarter of 2006 compared with \$24.3 million for the comparable period in 2005. On a year-to-date basis, cash provided by operating activities was \$52.2 million, compared with \$77.2 million in the same period last year. The year-to-date decrease reflects lower earnings before non-cash charges offset by cash flows arising from a reduction in non-cash working capital. The reduction in non-cash working capital includes \$9.5 million in amounts still to be paid in connection with performance enhancement initiatives included in repositioning expenses.

During the first quarter of 2006 and the third quarter of 2005 the Company received \$9.6 million and \$8.3 million, respectively, from a client for the reimbursement of costs the Company is incurring in connection with the sterile cephalosporin lyophilization capacity being installed in Swindon, U.K. This amount is 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

Cash used in investing activities in the fourth quarter of 2006 was \$26.0 million, compared with \$10.5 million in the same period a year ago. The increase is principally attributable to capital expenditures in connection with the construction of a new 65,000 square foot facility in Swindon, U.K. that will be dedicated to the manufacture of a new lyophilized cephalosporin product for an established client.

Cash used in investing activities for the twelve months ended October 31, 2006 was \$69.8 million, compared with \$266.5 million in the same period of 2005. The 2005 amount included cash used in connection with the acquisition of MOVA of \$211.2 million.

On a year-to-date basis, additions to capital assets in 2006 were \$67.5 million, compared with \$56.8 million in 2005. The major capital project in 2006 relates to the Swindon expansion noted above. Total spending on this project in 2006 was \$28.8 million. The project is planned to be completed in 2007.

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

	Three months ended October 31,		Twelve months ended October 31,	
	2006	2005	2006	2005
	\$	\$	\$	\$
Acquisition net of cash acquired	-	3,343	-	(211,178)
Additions to capital assets-sustaining	(7,555)	(6,734)	(17,804)	(16,062)
-project-related	(17,800)	(11,177)	(49,695)	(40,730)
Proceeds on sale of land	-	4,748	-	4,748
Increase in investments	(49)	-	(49)	-
Increase in deferred pre-operating costs	(625)	(703)	(2,204)	(3,254)
Cash used in investing activities	<u>(26,029)</u>	<u>(10,523)</u>	<u>(69,752)</u>	<u>(266,476)</u>

Cash Provided by (Used in) Financing Activities

The principal financing activity for the twelve months ended October 31, 2006 was the completion in the first quarter 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. The Company also incurred costs in connection with the refinancing of \$2.6 million.

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 euros (\$33.9 million) to replace existing loans.

A summary of cash provided by (used in) financing activities is as follows:

	Three months ended October 31, 2006		Twelve months ended October 31, 2005	
	2006	2005	2006	2005
	\$	\$	\$	\$
Decrease in bank indebtedness	3,041	1,536	(11,096)	(6,195)
Increase in long-term debt	42,443	46,355	416,389	341,445
Repayment of long-term debt	(11,790)	(55,667)	(364,800)	(304,838)
Decrease (increase) in restricted cash	-	(364)	7,805	(116)
Decrease (increase) in deferred financing costs	(1,175)	3	(3,965)	(9,446)
Proceeds on issue of common shares before costs	47	-	127	199,241
Share issue costs	-	-	-	(8,947)
Cash provided by (used in) financing activities	<u>32,566</u>	<u>(8,137)</u>	<u>44,460</u>	<u>211,144</u>

Financing Arrangements and Ratios

At October 31, 2006, the Company's consolidated ratio of interest-bearing debt to shareholders' equity was 139.4%, compared with 56.1% at October 31, 2005. The significant increase reflects an increase in interest-bearing debt combined with a \$289.1 million reduction in shareholders' equity, arising principally from the asset impairment charge in the third quarter of 2006.

On December 15, 2005, the Company completed the negotiation 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, including its subsidiaries in Puerto Rico. The new facilities replaced: (i) existing credit facilities that were available to the Company's North American operations, including those that were established at the time of acquisition of MOVA in December 2004; and (ii) debt of MOVA that was assumed at the time of acquisition by the Company. The new credit facilities comprise two term loans in the aggregate amount of \$215.0 million and three-year revolving facilities in the aggregate totaling \$75.0 million. The term loans consist of a five-year term loan of \$50.0 million and six-year term loan of \$165.0 million. The new facilities are secured by the North American assets of Patheon and its subsidiaries, including those in Puerto Rico.

During the third quarter of 2006, certain of the financial covenant tests included in the North American loan facilities were amended to ensure that the Company remained in compliance as at July 31, 2006. During the fourth quarter of 2006, the Company entered into a further agreement with its lenders to amend the North American loan facilities. The agreement reduced the amount of the revolving credit facilities from \$75,000,000 to \$60,000,000 and established amended financial covenants, including trailing 12-month debt-to-EBITDA covenants. The amended covenants cover a six-month period ending on March 31, 2007.

If the Company is not able to implement a long term improvement in its capital structure as a result of its review of strategic and financial alternatives, it anticipates that it will be in default of the covenants under the North American loan facilities as at April 30, 2007 and the lenders could demand repayment of all amounts outstanding under these credit facilities. As at November 30, 2006, \$237.9 million was outstanding under these facilities (\$246.0 million as at October 31, 2006). In addition, any such default would constitute a default under a lending facility of the company's U.K. subsidiary, allowing the lender under this facility to demand repayment of all amounts outstanding under that facility. As at November, 2006, \$24.6 million was outstanding under that facility (\$23.9 million as a October 31, 2006).

In accordance with Emerging Issues Committee Abstract 59, the Company has re-classified \$263.8 million of debt from long-term debt to current indebtedness. This amount represents the long-term portion of the Company's indebtedness under its North American loan facilities (\$239.9 million) and the indebtedness of the Company's U.K. subsidiary under its credit facility (\$23.9 million), which was previously classified as long-term debt. Emerging Issues Committee Abstract-59 requires this reclassification, in light of the North American loan facilities amendments to prevent a default, unless a

violation of the covenants under these credit facilities at a determination date within one year of the balance sheet date is not likely.

On December 22, 2005, the Company's Italian subsidiary entered into a new long-term debt facility. The new loan replaced four separate term loans it had with an Italian bank. The new loan in the amount of 28.5 million euros (\$33.9 million) is collateralized by a mortgage over land and buildings.

Adequacy of Financial Resources

As at October 31, 2006 the Company has a working capital deficiency of \$175.8 million due to the reclassification of long-term debt to short term debt as noted above. The Company is able to borrow under its \$60 million North American revolving loan facility, and as at October 31, 2006, \$36.9 million was borrowed under this facility (\$35.3 million as at November 30, 2006). In addition, as at October 31, 2006 the Company had consolidated cash reserves of \$50.7 million (approximately \$45.1 million as at November 30, 2006). The Company's ability to fund its normal operating activities and debt service requirements is dependent on it being able to improve its long-term capital structure as a result of its review of strategic and financial alternatives.

Critical Accounting Policies and Estimates

Going Concern Uncertainty

These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future. As at October 31, 2006, the Company had a working capital deficiency of \$175.8 million as a result of the reclassification of \$263.8 million of debt from long term to short term, as discussed under "Liquidity and Capital Resources – Financing Arrangements and Ratios" above. The Company's ability to continue as a going concern is uncertain and is dependent upon the successful outcome of the review, announced on September 11, 2006, of strategic and financial alternatives. If the Company is not able to implement a long term improvement in its capital structure as a result of this review, it anticipates that it will be in default of the covenants under the North American loan facilities as at April 30, 2007.

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

General

Patheon's significant accounting policies are described in Note 1 to the 2005 audited consolidated financial statements. The most critical of these policies are those related to revenue recognition, deferred revenues, intangible assets, goodwill, employee future benefits, and income taxes, (Notes 1, 6, 8, 12 and 16 of the 2005 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 the case of commercial manufacturing services, revenue is recognized when services are complete and the product has met rigorous quality assurance testing.

Deferred Revenues

The costs of certain capital assets are reimbursed to the Company by the pharmaceutical companies that are to benefit from the improvements in connection with the manufacturing and packaging agreements in force. These reimbursements are recorded as deferred revenues and are recognized as income over the remaining minimum term of the agreements. During the fourth quarter of 2006, \$0.5 million was recognized as earnings. During the twelve months ended October 31, 2006, \$2.0 million was recognized as earnings.

Intangible Assets

Intangible assets represent the values assigned to acquired client contracts and relationships. They are amortized on a straight-line basis over their estimated economic life. During the fourth quarter of 2006, \$2.2 million was charged to earnings. During the twelve months ended October 31, 2006, \$11.9 million was charged to earnings.

On an ongoing basis, the Company reviews whether there are any indicators of impairment. If such indicators are present, the Company assesses the recoverability of intangible 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 2006, the Company recorded an impairment charge of \$51.9 million. The Company has re-evaluated the economic life of the intangible assets and is amortizing the remaining balance on a straight line basis over a period of five years.

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 the reporting unit's fair value, any excess represents an impairment loss. In the third quarter of 2006, the Company recorded an impairment charge of \$172.5 million to reduce the carrying value of the MOVA goodwill to zero.

The goodwill shown on the financial statements for the period ended October 31, 2006 was \$3.1 million and relates to the acquisition in 2000 of the remaining shares of Global Pharm Inc., which now operates as Toronto York Mills Operations.

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 \$21.8 million have been recorded at October 31, 2006. 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. and share issue costs in relation to the acquisition of MOVA. 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. In the fourth quarter of 2006 the Company recorded a valuation reserve of \$6.4 million against future tax assets in its Canadian operations, as latest financial forecasts, combined with potential tax planning strategies did not support the likely realization of the related future tax assets.

Future tax liabilities of \$33.1 million have been recorded at October 31, 2006. 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.

Employee Future Benefits

The Company provides to 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 12 to the Company's 2005 audited consolidated financial statements.

Variable Interest Entities

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

Risk Management

The following are updates to certain of the risks and uncertainties described in the Management's Discussion and Analysis section of Patheon's 2005 Annual Report, 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 is approximately \$1.1 million.

The Company mitigates its foreign exchange risk by engaging in foreign currency hedging activities using derivative financial instruments. At October 31, 2006 the Company had outstanding foreign exchange contracts to sell US\$60 million. The contracts mature at the latest on October 29, 2007 and the mark-to-market value at October 31, 2006 was an unrealized loss of \$1.4 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 denominated debt held by the Company designated as a hedge against the carrying value of certain foreign operations, are deferred and included in the cumulative translation account in shareholders' equity. At October 31, 2006, the Company had designated \$200 million US dollar denominated debt as a hedge against its equity investment in the U.S.A and Puerto Rico. The balance in the cumulative translation adjustment account at October 31, 2006 was a \$36.1 million gain compared with a \$38.1 million gain at October 31, 2005.

Interest Rate Exposure

The Company has exposure to movements in interest rates. During the second quarter of 2006, the Company unwound the interest rate swap contracts that were put in place during the first quarter of 2006 to convert \$107.5 million of debt drawn on the Company's new North American term facilities from floating interest rates to fixed interest rates. The Company realized a gain of \$1.1 million on the unwinding of the swap. The gain is being amortized as a credit to the interest expense over six years, reflecting the term of the original swap contracts.

At October 31, 2006, 93% of the Company's total debt portfolio 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 \$3.3 million.

The Company continues to monitor floating and long-term interest rates and may enter into new arrangements in the future that reduce the Company's exposure to changes in floating interest rates.

Additional Information

Share Capital

As of October 31, 2006, the Company had 92,950,688 common shares outstanding.

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

Revenues from the current operations for fiscal 2007 are expected to be comparable to 2006, with decreases in revenues from manufacturing OTC products in Canada offset by increases in revenues from pharmaceutical development services and the manufacture of R_x products in the United States and Europe.

Revenues for the first quarter of 2007 are anticipated to be slightly higher than the same period in fiscal 2006, but less than the fourth quarter of 2006, due in part to seasonal variability of results.

Auditor Review

The accompanying unaudited financial statements of the Company have been prepared by and are the responsibility of management. The Company's independent auditor has not performed a review of the financial statements for the three-month and twelve-month periods ended October 31, 2006, or the three months ended October 31, 2005.

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; dependence on key clients; the ability to identify and secure new contracts; regulatory matters, including compliance with pharmaceutical regulations; management of expanded operations; international operations risks; currency risks; competition; product liability claims; integration of new operations; financing risks and interest rate risks. 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.