



ANNUAL INFORMATION FORM
for the Year Ended October 31, 2005

January 27, 2006

PRESENTATION OF INFORMATION

As used in this Annual Information Form, the term "Patheon" means Patheon Inc. and its subsidiaries as of the most recent financial year ending on October 31, 2005 on a consolidated basis, unless the context otherwise requires, and "Patheon Inc." refers to Patheon Inc. on an unconsolidated basis.

Unless otherwise stated, all information is as of October 31, 2005 and all currency references are in U.S. dollars.

TABLE OF CONTENTS AND INFORMATION INCORPORATED BY REFERENCE

Certain pages (see "Page Reference" below) of Patheon's 2005 Annual Report to Shareholders (the "Annual Report") filed with the various securities commissions or similar authorities in the provinces and territories of Canada and available on SEDAR at www.sedar.com, are incorporated by reference into this Annual Information Form.

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FORWARD-LOOKING STATEMENTS

This Annual Information Form, and the documents incorporated herein by reference, contains forward-looking statements which reflect management's expectations regarding Patheon's future growth, results of operations, performance (both operational and financial) and business prospects and opportunities. Where possible words such as "plans," "expects" or "does not expect," "budget," "forecasts," "anticipate" or "does not anticipate," "believe," "intend" 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 Annual Information Form reflect management's current assumptions based upon information currently available to management and based upon what management believes to be reasonable assumptions, Patheon cannot be certain that actual results will be consistent with these forward-looking statements. A number of factors could cause actual results, performance, or achievements to differ materially from the results expressed or implied in the forward-looking statements, including those listed in the "Risk Factors" section of this Annual Information Form. These factors should be considered carefully and readers should not place undue reliance on the forward-looking statements. Forward-looking statements necessarily involve significant known and unknown risks, assumptions and uncertainties that may cause Patheon'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: risks related to the market demand for client products; dependence on key clients; the ability to identify and secure new contracts; regulatory matters; management of expanded operations; acquisition of manufacturing assets, international operations risks; currency risks; competition; product liability claims; financing risks and interest rate risks. See "Risk Factors," Although Patheon 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 Annual Information Form and, except as required by law, Patheon assumes no obligation to update or revise them to reflect new events or circumstances.

CORPORATE STRUCTURE

NAME, ADDRESS AND INCORPORATION

Patheon Inc. is a corporation existing under the *Canada Business Corporations Act*. The registered office of Patheon Inc. is located at 7070 Mississauga Road, Suite 350, Mississauga, Ontario, Canada, L5N 7J8.

INTERCORPORATE RELATIONSHIPS

Set out below is a list of the principal subsidiaries of Patheon Inc. and their respective jurisdictions of incorporation. All subsidiaries referred to in the list below are wholly owned subsidiaries of Patheon Inc.

Name of Corporation	Jurisdiction
Patheon Inc.	Canada
Patheon International Inc.	Ontario, Canada
Patheon Pharmaceuticals Inc.	Delaware, U.S.A.
Patheon Pharmaceuticals Services Inc.	Delaware, U.S.A.
Patheon Italia S.p.A.	Italy
Patheon UK Limited	England
Patheon France S.A.S.	France
Patheon Europe Zrt.	Hungary
MOVA Pharmaceutical Corporation	Puerto Rico, U.S.A.
CEPH International Corporation	Puerto Rico, U.S.A.
MOVA Real Estate Corporation	Puerto Rico, U.S.A.

GENERAL DEVELOPMENT OF THE BUSINESS

THREE YEAR HISTORY

Over the last three years, Patheon has continued to build on its vision 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.

The development of Patheon's business in recent years has been guided by a plan to expand capacity, expertise, and capabilities. The culmination of this strategy was the acquisition of MOVA Pharmaceutical Corporation and certain affiliates in December 2004, Patheon's largest acquisition to date.

The implementation of Patheon's strategy over the last three years is further described below:

Date	Events
December 23, 2004	<ul style="list-style-type: none"> • <i>Puerto Rico Operations.</i> As part of the acquisition of MOVA Pharmaceutical Corporation and certain affiliates (collectively, "MOVA"), Patheon acquired three manufacturing facilities in Puerto Rico, U.S.A. • Prior to the acquisition, MOVA was a private company controlled by Mr. Joaquín B. Viso and his spouse Ms. Olga Lizardi • MOVA operates as a wholly owned indirect subsidiary of Patheon Inc.
December 31, 2002	<ul style="list-style-type: none"> • <i>Cincinnati Operations.</i> Acquired the facility in Cincinnati, Ohio, U.S.A. ("Cincinnati Operations") from Aventis Pharmaceuticals Inc. • Entered into long-term manufacturing services agreements with Aventis for all of the Aventis products being produced at this facility prior to the acquisition and took over Aventis' responsibilities under certain existing service contracts with third-party pharmaceutical companies

Date	Events
February 13, 2002	<ul style="list-style-type: none"> • Ferentino (Rome) Operations. Acquired a sterile manufacturing facility in Ferentino (near Rome), Italy from a privately owned Italian pharmaceutical company ("Ferentino (Rome) Operations"); at the time of acquisition, a manufacturing relationship with the vendor was not in effect • Patheon has since expanded and upgraded the lyophilization capabilities at the site, and has added a PDS unit and a new sterile area for large-volume parenterals to the site • This acquisition complemented Patheon's lyophilization capacity at its facility in Monza (near Milan), Italy ("Monza Operations")

SIGNIFICANT ACQUISITIONS

MOVA ACQUISITION

Patheon Inc. entered into an agreement dated November 22, 2004 to acquire all of the issued and outstanding common shares of MOVA Pharmaceutical Corporation ("MOVA Pharmaceutical") and MOVA Investments, Inc. (together with MOVA Pharmaceutical, "MOVA"), a leading U.S. prescription pharmaceutical contract manufacturer located in Puerto Rico, U.S.A. On December 23, 2004, Patheon completed the acquisition of MOVA (the "Acquisition").

The purchase price for the shares of MOVA was based on an enterprise value for MOVA at closing of \$350.0 million. The Company issued 12,684,866 common shares to the shareholders of MOVA in satisfaction of \$81.5 million of the purchase price. Patheon assumed approximately \$133.3 million in debt and paid \$135.2 million in cash at closing.

The agreement also provided for two earn-out arrangements relating to MOVA's operating results for two specific periods. The maximum amounts for the first and second earn-outs were \$65.0 million and \$26.0 million, respectively. An agreement was reached with the former MOVA shareholders to pay the full amount of the first earn-out arrangement and \$65.0 million was paid on June 23, 2005. An additional \$8.3 million was paid as a result of other post-closing adjustments relating to working capital and assumed debt. It was determined that no amount was payable under the second earn-out.

The Acquisition enhances Patheon's positioning as a leader in the provision of integrated drug development and manufacturing services to the global pharmaceutical industry. The combination broadens Patheon's process capabilities and capacity, with a global network of 14 manufacturing facilities located in the world's largest pharmaceutical sales regions — North America and Europe. With 10 facilities approved by the FDA to manufacture products for the U.S. (U.S.) market, more than 5,900 highly skilled employees and approximately 3.2 million square feet of manufacturing capacity, the combined business is well positioned to provide clients with high-quality manufacturing and pharmaceutical development services across a wide range of drug dosage forms.

MOVA's three FDA-approved manufacturing facilities significantly expand the ability of Patheon to serve the large and growing demand for pharmaceutical products in the U.S.. Most of the products manufactured by MOVA are delivered to the U.S..

Patheon expects to benefit from the well established and favourable tax incentives for pharmaceutical manufacturers in Puerto Rico, through the continuation of existing long-term agreements between MOVA and the Puerto Rican government. These agreements provide effective income tax rates of between 2% and 7%, as well as significant reductions in property and excise taxes. Based on its existing agreements, MOVA's income is currently subject to an effective income tax rate of

approximately 3%. In addition, it should generally be possible to repatriate earnings from Puerto Rico operations to Patheon on a tax efficient basis.

The combined business significantly advances Patheon's strategy of expanding its capacity to manufacture and package more profitable R_x products, as a result of MOVA's focus on prescription pharmaceutical manufacturing.

The Acquisition expands Patheon's client base and will provide opportunities to enhance relationships with leading global pharmaceutical companies. MOVA currently serves 18 clients and manufactures 66 products, focusing principally on manufacturing large-scale prescription products for U.S. consumption.

The Acquisition provides Patheon's clients with access to MOVA's available FDA-approved R_x manufacturing capabilities and expertise, which Patheon expects to leverage through additional revenues generated by its experienced North American and European business development, marketing and account management teams, and its existing client relationships. MOVA's available pharmaceutical manufacturing capabilities give Patheon the ability to grow volumes with limited additional capital expenditures. Although the Caguas facility is operating near full capacity for solid dosage products, there is available capacity in the parenteral (sterile) area of the Caguas facility. There is substantial available capacity at the more recently established Manatí facility and some available capacity for oral cephalosporins at the Carolina facility.

On January 26, 2006 Patheon also announced that it has entered into a five-year master supply agreement with Merck & Co., Inc. (NYSE: MRK) to provide commercial manufacturing and pharmaceutical development services to Merck, and that Merck has selected Patheon as one of Merck's strategic partners for commercial manufacturing and pharmaceutical development services.

The new master supply agreement is designed to facilitate the inclusion of additional products and projects as Merck implements a new strategic plan, which includes leveraging external capabilities and capacity. As a strategic partner for Merck, Patheon will be provided the opportunity to participate in future commercial manufacturing and appropriate product development projects.

Merck has awarded Patheon three new projects as the first step in this new relationship. One project is a late-stage development product for Patheon's Caguas, Puerto Rico, facility. A second project involves activity at Patheon's Cincinnati facility and a third project involves activity at Patheon's Toronto Regional Operations in Mississauga, Canada. These projects are expected to generate commercial revenues for Patheon in fiscal year 2007, if regulatory approvals for these products are obtained within the planned timelines. Patheon is currently providing development services in connection with these projects.

DESCRIPTION OF THE BUSINESS

GENERAL

Patheon Inc. ("Patheon" or the "Company") is a leading provider of commercial manufacturing and pharmaceutical development services ("PDS") to the international pharmaceutical industry. Patheon produces both prescription ("R_x") and over-the-counter ("OTC") drugs for its clients. Patheon owns or leases and operates: (i) 10 manufacturing facilities in North America: four facilities in the U.S., comprising three in Puerto Rico and one in Cincinnati, Ohio, and six facilities in and around Toronto, Ontario, Canada, together comprising approximately 2,208,000 square feet of capacity; and (ii) four manufacturing facilities in Europe: Monza (near Milan) and Ferentino (near Rome), Italy; Swindon

(near London), U.K.; and Bourgoin-Jallieu (near Lyon), France, which together comprises approximately 1,053,000 square feet of capacity.

PHARMACEUTICAL DEVELOPMENT

The pharmaceutical development services provided by Patheon include most of the dosage form development services typically required by companies conducting clinical trials and preparing for full-scale commercial production of a new drug. Background information on the new drug development process is described in Appendix A. In providing its pharmaceutical development services, Patheon is able to: (i) develop an appropriate dosage form; (ii) develop analytical methods; (iii) manufacture to client specifications the proposed new drug product during the regulatory drug approval process; (iv) manufacture pilot batches of proposed new drug products for the regulatory drug approval process; and (v) provide scale-up and technology transfer services designed to validate that a drug can be manufactured commercially. Since the beginning of fiscal 2001, 15 new pharmaceutical products developed by Patheon's PDS unit have progressed to commercial manufacturing, including one which was launched subsequent to year end 2005. Four products were launched in fiscal 2005, all of which have contributed to Patheon's commercial manufacturing revenues. Three of these 15 are among the world's top 200 selling R_x drugs, currently defined as drugs with total global retail sales of approximately \$396 million or more.

Patheon offers pharmaceutical development services at five facilities in North America and Europe. In addition to possessing pharmaceutical development capabilities for a broad range of dosage forms, each of Patheon's PDS units provides a different specialized pharmaceutical development capability (high-potency, sterile, lyophilization and controlled-release). At October 31, 2005, Patheon was working on a total of 147 projects for its clients, including six drug candidates at the NDA stage. The growing PDS team included, at the end of fiscal 2005, more than 500 scientists and technical staff, with 69 holding doctoral degrees. Patheon's development scientists have extensive development experience with a wide variety of pharmaceutical dosage forms.

COMMERCIAL MANUFACTURING

Patheon provides manufacturing services for a broad range of products in several 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 raw materials and packaging components to delivering the finished product in consumer-ready form to the client.

Patheon's commercial manufacturing activities relate primarily to R_x and OTC products in solid, semi-solid and liquid dosage forms and the manufacture of R_x products in various sterile dosage forms. Conventional dosage forms include both coated and uncoated compressed tablets, hard shell gelatin capsules, powders, ointments, creams, gels, syrups, suspensions, solutions and suppositories. Conventional sterile dosage forms include aseptically filled liquids or terminally sterilized liquids and powders filled in ampoules, vials, bottles or pre-filled syringes. Sterile lyophilized products are also manufactured in both vials and ampoules. Patheon's manufacturing operations personnel are experienced in working on a wide variety of dosage forms. Patheon also operates a segregated sterile (injectable) cephalosporin powder filling facility at its Swindon Operations site in the United Kingdom. The combination of oral cephalosporin capabilities at our Carolina facility, the existing sterile cephalosporin capabilities at Swindon and the new lyophilization plant dedicated to cephalosporin products that Patheon is constructing in Swindon will allow it to provide a full range of dosage forms for this important category of antibiotics. The new facility in Swindon, scheduled for completion by the end of fiscal 2006, represents an investment of €22 million, which is being shared with our client.

In fiscal 2005, Patheon's facilities were audited by 186 separate client audit teams, representing both prospective and existing clients. Audits by prospective clients permit these prospective clients to gain confidence that Patheon's operations are conducted in accordance with applicable regulatory requirements. Audits by existing clients permit these clients to reaffirm that Patheon's operations, as they relate to their products, are conducted in accordance with these requirements. These audits contribute to Patheon's ongoing improvement of manufacturing and development practices. In addition, 19 regulatory audits were conducted at the Patheon's sites in North America and Europe during fiscal 2005.

The Swindon site achieved positive EBITDA in fiscal 2005 after successfully completing a repositioning plan in 2004. Prospects for the Swindon site have been enhanced by the commencement of construction of a new, state-of-the-art lyophilized cephalosporins production facility. Building work commenced in August 2005 and the new facility is expected to be validated and operational in Q4 2006. It represents a unique production capability that will substantially increase new business opportunities for the Swindon site. In addition, commercial supply agreements with new clients have been successfully agreed to in fiscal 2005, and revenue generation from these has, in some cases, already started or is due to commence in fiscal 2006. There are also further commercial manufacturing opportunities that are at an advanced stage of negotiation with other new clients, and the related technical transfer work will have a positive impact on the profitability of the Swindon site in fiscal 2006. The site remains, as of the date hereof, on target for a return to profitability in fiscal 2006.

CLIENTS

Client Mix

Patheon serves a client base of over 200 pharmaceutical and biotechnology companies, including all of the world's 20 largest pharmaceutical companies (such as sanofi-aventis, Novartis AG and Roche Holdings AG); eight of the 20 largest biotechnology companies (such as Amgen Inc. and Gilead Sciences, Inc.); and nine of the 20 largest specialty pharmaceutical companies (such as Watson Pharmaceuticals, Inc. and Sepracor, Inc.).

During the fiscal years ended October 31, 2005 and 2004 only one client accounted for more than 15% of Patheon's total revenues. As a percentage of Patheon's total revenues, this client accounted for 16% in 2005 and 20% in 2004.

Patheon believes that the risks related to its reliance on its major clients are reduced by a number of factors, including:

- (a) the negotiation of long-term manufacturing agreements with these clients;
- (b) the fact that manufacturing services for these clients are not concentrated at a single facility or on a single product;
- (c) the diversity of products and projects undertaken by Patheon: in fiscal 2005, Patheon manufactured more than 750 products (more than 750 in 2004) in connection with more than 1800 (1,700 in 2004) stock keeping units across a wide range of therapeutic categories and dosage forms; and
- (d) the expansion of PDS units in both Europe and North America: by increasing the variety of service activities, Patheon is increasing its client base, thereby lowering the risk of depending on a small number of clients for a significant portion of its revenues.

Client Purchase Commitment Process

Patheon's commercial manufacturing clients generally provide a yearly forecast of anticipated product demand. Clients also deliver firm purchase orders, typically three months prior to scheduled production, after which time clients may adjust contract quantities or delivery dates within certain limits, provided that Patheon is reimbursed for any expenses incurred in connection with the adjustment. Upon delivery to Patheon of a client purchase order confirming the quantity and delivery date, the order is scheduled for production.

Patheon has commercial manufacturing services contracts, typically with multi-year terms, with its clients. These contracts formalize the standard business arrangements outlined above, including production based on the delivery of firm purchase orders. In addition, the contracts generally provide for six to 18 months' advance notice for the transfer or discontinuance of any product. The client assumes liability for all material commitments made in accordance with purchase orders. Patheon maintains the right to negotiate increases in prices based on extraordinary market changes in material costs. The anticipated revenues to be generated by Patheon's major client agreements are not determinable with any precision as volumes are based on the client's market demands from time to time.

Patheon's pharmaceutical development services are provided on a fee-for-service basis. Patheon typically responds to a request for proposals and, if the proposal is accepted, it normally forms the basis of the contract with the client. Frequently, the scope of work in the initial contract changes over the life of the project in response to research results and client needs.

COMPETITION

Pharmaceutical and biotechnology companies looking to outsource commercial manufacturing services evaluate several factors in determining whether to outsource, including whether there is adequate in-house capacity or capability and the comparative costs between manufacturing internally or outsourcing. Some specialty pharmaceutical companies make a strategic decision not to develop in-house manufacturing capabilities, preferring to focus their capital and human resources on research and development of potential new products and sales and marketing of existing products.

If a company is considering outsourcing commercial manufacturing services, several factors go into choosing the preferred service provider. These factors include security of supply (quality record, regulatory compliance record and financial stability of the service provider), service (on-time delivery record and flexibility in manufacturing) and cost-effective manufacturing (prices and a commitment to continuous improvement). Competition in the OTC commercial manufacturing and packaging market has a greater emphasis on price and service than other factors. Competition in the Rx manufacturing market tends to have a greater emphasis on security of supply and service factors.

Pharmaceutical and biotechnology companies looking to outsource product development services evaluate several factors in selecting a service provider. These factors include scientific personnel, knowledge and experience of the organization in dosage form development, availability of a broad range of equipment from small to large scale, timely delivery of clinical materials, compliance with cGMP, regulatory compliance record, cost effective services and financial stability of the service provider.

Commercial Manufacturing

In North America and Europe, Patheon's competition includes: (i) companies, both public and private, that are not focused on contract manufacturing, but provide this service as part of a range of services to the pharmaceutical industry; (ii) companies that focus on contract manufacturing, but offer services in a limited number of dosage forms; and (iii) large pharmaceutical companies that offer third-party manufacturing services to fill excess capacity. In addition, in Europe there are a large number of small, privately owned, dedicated outsourcing companies that serve only their local or national markets.

Pharmaceutical Development

The pharmaceutical development services market is composed of a range of participants: (i) small laboratories, which offer only a small number of development services generally at a small scale; (ii) providers focused on specific technologies and/or dosage forms; and (iii) a few fully integrated companies that can provide the full complement of services necessary to develop, scale-up and manufacture a wide range of dosage forms.

SUPPLY ARRANGEMENTS

Patheon's clients specify the components, raw materials and packaging materials required for products and, in some cases, specify the suppliers from which Patheon must purchase these inputs. Materials for the Cincinnati Operations originate primarily in the U.S.. For production at the Canadian sites, Patheon obtains packaging components from Canadian suppliers, but due to limited availability in Canada, most raw materials originate from U.S. sources. Components and packaging materials for production at the Monza and Ferentino (Rome) Operations are sourced primarily in Italy but also from other European sources. Materials for the Swindon and Bourgoin-Jallieu Operations are primarily sourced in the U.K. and France, respectively, along with other European markets. Materials for the Puerto Rico-based sites are sourced primarily from Puerto Rico and mainland U.S.A.. Most of the materials required by Patheon for its commercial manufacturing business are readily available. In most cases, the clients supply the active pharmaceutical ingredient to Patheon at no cost to Patheon.

ENVIRONMENTAL AND HEALTH & SAFETY MATTERS

Patheon is subject to environmental legislation in the jurisdictions in which it operates. These laws regulate air emissions, water discharges and the storage, handling and disposal of solid and hazardous wastes. Patheon has the necessary environmental licences, permits, certificates of approval and other authorizations, except for certain licenses that need to be issued in light of changes in operations at certain facilities. Patheon has applied for these licenses and anticipates that they will be issued in due course. Patheon is in compliance, in all material respects, with applicable environmental laws and regulations.

Patheon is subject to health and safety legislation in the jurisdictions in which it operates. These laws regulate working conditions, safety procedures, training, exposure to hazardous materials, first aid requirements and injury reporting. Patheon is in compliance, in all material respects, with applicable environmental laws and regulations.

Patheon has an environmental, health and safety management system consisting of comprehensive programs and procedures, which ensure that Patheon's environmental, health and safety policies are fully implemented in accordance with applicable legislative requirements. Patheon has dedicated the required resources to implement and monitor the environmental, health and safety management system to ensure compliance.

Patheon has incurred and will continue to incur costs relating to compliance with applicable environmental and health and safety laws and regulations. Although compliance with these laws and regulations has not had a material adverse effect on Patheon's operations or financial condition, there can be no assurance that such compliance in the future will not have such an effect.

INTELLECTUAL PROPERTY

Patheon does not normally obtain or own patents or trademarks with respect to its manufacturing processes, other than standard protections with respect to trade names and Patheon logos. Many of the formulations used by Patheon in manufacturing products to client specifications are subject to patents or other protections owned or licensed by the relevant client. Patheon typically enters into mutual confidentiality agreements with clients that own or are registered users of patented formulations.

Patheon has developed and continues to develop knowledge and expertise in the provision of pharmaceutical development and commercial manufacturing services ("know-how"). This know-how is normally not patentable, but it is valuable in that it enhances Patheon's ability to provide high-quality services to its clients.

SEASONAL VARIABILITY OF RESULTS

Revenues from some of Patheon's OTC and R_x commercial manufacturing services and its pharmaceutical development services have been traditionally lower in Patheon's first fiscal quarter, being the three months ending January 31. Patheon attributes this to several factors, including: (i) many clients reassess their need for additional product in the last quarter of the calendar year in order to use existing inventories of products; (ii) the lower production of seasonal cough and cold remedies; (iii) many small pharmaceutical and small biotechnology clients involved in PDS projects limit their project activity toward the end of the calendar year in order to reassess progress on their projects and manage cash resources; and (iv) the Patheon-wide plant shut-down during a portion of the traditional holiday period in December and January. In addition, the introduction and marketing of new client products traditionally occurs during Patheon's second fiscal quarter.

SOCIAL POLICIES

Integrity, respect and excellence are the core principles that govern the way Patheon operates its business. These principles are documented in a Code of Business Conduct developed to communicate Patheon's values and to provide guidelines for addressing issues and questions related to Patheon's business practices. The Code of Business Conduct was adopted by the Board of Directors of Patheon Inc. to serve as a guide to Patheon personnel worldwide, including employees, consultants, board members and agents. Patheon continues to communicate the Code of Business Conduct to employees at each of its facilities by distributing copies of the text, complemented by presentations to reinforce the principles of the Code of Business Conduct and their application.

In July 2005, Patheon engaged EthicsPoint, Inc. to act as Patheon's external service provide with respect to a confidential whistleblower program. The program is expected to be both telephone and web based. Employees may use this service to report any activities they suspect may be in violation of the Patheon Code of Conduct, including matters relating to accounting, internal accounting controls and auditing. As part of the implementation process for this service it became apparent that privacy laws in France and Italy will not allow Patheon to offer this service to employees of Patheon France S.A.S. and Patheon Italia S.p.A. Employees in those countries will be instructed to continue to report

any activities they suspect may be in violation of the Code of Business Conduct to their human resources supervisor. Patheon anticipates that this whistleblower program will be rolled out throughout the Patheon organization, save and except for Italy and France, by the end of the 2006 calendar year.

RISK FACTORS

Certain risk factors that may affect Patheon are described below. These risks and uncertainties are not the only ones facing Patheon. Additional risks and uncertainties not currently known to Patheon or that Patheon currently considers immaterial may also impair the operations of Patheon.

Market Demand for Clients' Products

Patheon is dependent on demand for the products it manufactures on behalf of its clients and on the ability of its clients to successfully market and obtain coverage and reimbursement for their products. Demand for clients' products can be adversely affected by, among other things, the emergence of competing products, the degree to which health authorities subsidize payment for a particular product and changes in the marketing strategies for such products. Patheon may be materially adversely affected by changes in the demand for clients' products manufactured by Patheon. As such, there can be no assurance that production volumes of key products and related revenues will be maintained.

Credit and Client Concentration

The Company, in the normal course of business, monitors the financial condition of its clients and reviews the credit history of each new client. The company establishes an allowance for doubtful accounts that corresponds to the specific credit risks of its clients, historical trends and economic circumstances. During the year ended October 31, 2005, two (2004 – two) clients accounted for more than 10% of the Company's total revenues. As a percentage of total revenues, revenues from these clients amounted to 16% and 12%, respectively, (2004 – 20% and 13%).

The Company believes that the risks related to its reliance on its major clients are reduced by a number of factors, including:

- (a) the negotiation of long-term manufacturing agreements with these clients;
- (b) manufacturing services for these clients are not concentrated at a single facility or on a single product;
- (c) the diversity of products and projects undertaken by Patheon; and
- (d) the expansion of PDS units in both Europe and North America; by increasing the variety of service activities offered to its clients, the Company is also lowering the risk of depending on a small number of clients for a significant portion of its revenues.

Potential New Manufacturing Services/Development Agreements

There can be no assurance that Patheon will be able to continue to identify and secure new opportunities to enter into acceptable long-term manufacturing services agreements or that it will be able to fund any required capital expenditures related to such opportunities. Additionally, Patheon's pharmaceutical development services projects are primarily short-term projects of one to two years, and there can be no assurance that Patheon will be able to continue to identify and secure new projects.

Regulatory Matters Affecting Manufacturing and Pharmaceutical Development Services

Patheon is required to comply with the regulatory requirements of the national and international regulatory bodies having jurisdiction in the countries where they manufacture products or where their clients' products are distributed. As a result, most of Patheon's facilities are subject to regulation by the FDA, and certain of Patheon's facilities are subject to regulation by the HPFB, the MHRA, the EMEA and other regulatory bodies. These regulatory requirements impact many aspects of Patheon's operations, including manufacturing, labeling, packaging, adverse event reporting, storage and record keeping related to clients' products. In addition, if new legislation or regulations are enacted or existing legislation or regulations are amended or are interpreted or enforced differently, Patheon may be required to obtain additional approvals or operate according to different manufacturing standards. This may require Patheon to change its manufacturing techniques or make capital improvements to its facilities. There can be no assurance that Patheon will be able to meet all of the applicable regulatory requirements in the future. If Patheon fails to comply with applicable regulatory requirements, it may be subject to fines, suspension or withdrawal of regulatory approvals, product recalls, seizure of products, debarment, exclusion, disgorgement of profits, operating restrictions and criminal prosecution, as well as the loss of contracts and resulting revenue losses.

Patheon's pharmaceutical development projects often involve products that must undergo safety and clinical evaluations before they are approved as commercial therapeutic products. The regulatory authorities having jurisdiction in the countries in which its clients intend to market their products may delay approval of a product or determine that the product is not approvable. There can be no assurance that the pharmaceutical development projects and their related revenues for Patheon will be maintained.

Pharmaceutical products commercially manufactured by Patheon are subject to ongoing regulatory review following the receipt of marketing authorization. The regulatory authorities having jurisdiction in the country in which the product is marketed may withdraw the marketing authorization, either temporarily or permanently, for health or safety concerns related to the use of the product. The subsequent discovery of previously unknown problems with any of Patheon's clients' products may result in restrictions on the product, including withdrawal of the product from sale. There can be no assurance that production volumes of key products and related revenues for Patheon will be maintained.

FDA Warning Letter

On September 16, 2005 CEPH International Corporation ("CEPH"), one of Patheon's Puerto Rican subsidiaries, received a Warning Letter from the FDA. The Warning Letter claimed that variations in assay, fill-weight, content uniformity and related issues for a suspension product manufactured by CEPH indicate a failure by CEPH to comply with current Good Manufacturing Practices (cGMP's) of the U.S. Federal Food, Drug and Cosmetic Act. The affected product is powder for oral suspension, Omnicef OP 250mg/5mL and 125mg/5mL. The capsule product was not affected. After receipt of the Warning Letter, CEPH voluntarily suspended production of the Omnicef powder for oral suspension product while it resolved the matter.

After filing a response letter to the FDA on October 6, 2005 the FDA responded to CEPH on October 11, 2005 (received by CEPH on October 18, 2005) stating that it had found that the commitments to the corrective actions outlined in CEPH's response letter will address the FDA's concerns raised in the Warning Letter.

On December 12, 2005 Patheon confirmed that CEPH had resumed normal production and shipments to its client of Omnicel[®] oral powder for suspension at its facility in Carolina, Puerto Rico. This followed qualification of new equipment and validation of processes for manufacturing of the product in accordance with the plan proposed by CEPH in its response of October 6, 2005. Patheon expects the FDA to conduct a re-inspection of the Carolina facility in connection with CEPH's plan.

Management of Expanded Operations

Patheon has experienced, and in accordance with its strategy Patheon may continue to experience, significant growth in a relatively short period of time. Managing such growth could place a significant burden on managerial, financial and other resources of Patheon. The ability of Patheon to manage future growth will depend on its ability to attract, train, motivate and manage key employees and to continue to implement and improve operations, financial and management information systems, procedures and controls. In particular, Patheon's success will depend to a significant degree on senior management's contributions and its ability to retain and attract key management and other highly skilled technical personnel. Any failure by Patheon to manage its growth could have a material adverse effect on its business, financial condition and results of operation.

Acquisition of Manufacturing Assets

In accordance with Patheon's strategy, Patheon may continue to enter into long term manufacturing services agreements and may continue to acquire manufacturing facilities in connection therewith. Such acquisitions of manufacturing assets entail numerous risks, including difficulties and expenses incurred in connection with the acquisitions and the subsequent integration and assimilation of the facilities into existing operations. No assurance can be given that Patheon will be able to find facilities that it considers suitable for acquisition or that future acquisitions of manufacturing assets will be successfully integrated into operations, without incurring significant difficulties and expenses.

International Operations

Patheon's operations are subject to the risks of doing business in several countries in North America and Europe including, but not limited to, varying economic and political conditions, cultures and business practices, tax rates, possible restrictions on the transfer of funds, employee turnover, labour unrest, longer payment cycles and the burdens and costs of compliance with a variety of foreign laws. There can be no assurance that these factors will not have an adverse effect on business, financial conditions and results of operations of Patheon.

Exposure to Foreign Currency Risk

The activities of Patheon 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 British sterling for the European countries.

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, revenues and operating expenses of the Canadian operations are transacted in Canadian and U.S. dollars. As a result, significant long-term strengthening of the Canadian dollar against the U.S. dollar could adversely affect the profitability of the Canadian operations of Patheon and its consolidated financial results, subject to the ability to increase prices for services or to reduce costs. The strengthening of the Canadian dollar relative to the U.S. dollar adversely affected Patheon's EBITDA margins in fiscal 2005.

Competition

Some of Patheon's competitors may have substantially greater financial, marketing, technical or other resources than Patheon. Additional competition may emerge and may, among other things, result in a decrease in the fees paid for services, which would affect profitability of Patheon. One of the many factors affecting competition is the current excess of industry capacity available to potential competitors manufacturing drugs in solid and semi-solid dosage forms.

Product Liability Claims

Patheon may be subject to liability claims by those who purchase its services and end consumers of the products it manufactures. Historically, Patheon has been able to obtain liability insurance for the operation of their respective businesses. However, there can be no assurance that existing liability insurance will be adequate or that it will be able to be maintained or that all possible claims that may be asserted against Patheon will be covered by insurance. A partially or completely uninsured claim, if successful and of sufficient magnitude, could have a material adverse effect on Patheon, financial condition and results of operations of Patheon.

Intellectual Property

Patheon relies on unpatented proprietary know-how and continuing technological innovation in providing pharmaceutical development and commercial manufacturing services. Although Patheon requires its employees to enter into confidentiality agreements prohibiting them from disclosing its proprietary information or technology, these agreements may not provide meaningful protection for Patheon's trade secrets and proprietary know-how. Further, people who are not party to confidentiality agreements may obtain access to Patheon's trade secrets or know-how. Others may independently develop similar or equivalent trade secrets or know-how. If Patheon's proprietary information is divulged to third parties, including its competitors, Patheon's competitive position could be harmed.

Integration Risks and Costs

The Acquisition combined the businesses of five previously non-related companies and is the largest transaction that Patheon has undertaken. Integrating businesses can result in unanticipated operational problems, expenses and liabilities. The appointment of Mr. Clive Bennett, formerly President, Patheon North America, to the position of President and Chief Operating Officer of MOVA Pharmaceutical Corporation, effective August 1, 2005, was a critical step in the integration of MOVA. It is expected that the integration program will continue during the 2006 fiscal year. The success of Patheon's integration efforts in connection to the Acquisition will depend, in part, on the retention of certain key management employees of MOVA or their replacement with managers with equivalent experience. There can be no assurance that Patheon will be able to retain these employees, or find appropriate successors.

Potential Undisclosed Liabilities and Capital Expenditures Associated with the Acquisition

MOVA may have current or future liabilities of which Patheon is unaware, including liabilities such as potential product liability claims that Patheon did not identify or was unable to accurately quantify in the course of its due diligence. Patheon may not be indemnified for all liabilities of this nature, and the indemnity obligations of the selling shareholders of the MOVA companies under the Stock Purchase Agreement executed November 22, 2004 between Patheon and the selling shareholders are

unsecured. In addition, there may be required capital expenditures that Patheon did not identify or accurately quantify in the course of its due diligence. Undisclosed liabilities or unexpected required capital expenditures may materially adversely affect Patheon's results of operations and the financial condition of Patheon.

Potential Environmental Liabilities

The facilities in Puerto Rico have been utilized over a period of years as manufacturing facilities and have certain known or potential conditions that may require remediation in the future. Management believes that the potential remediation costs for the Caguas and Carolina facilities in Puerto Rico are not likely to be material. With respect to the Manatí facility, where there may be greater potential for remediation costs to be incurred, management believes these costs are likely to be covered by a contractual indemnity and guarantee for contamination that was granted to MOVA at the time it acquired the site from the prior owner, a global pharmaceutical company. There can be no assurance, however, that remediation costs will not be material or that these costs will be covered by contractual indemnity or that Patheon will be able to successfully enforce this indemnity in the future.

Financial Leverage

If Patheon's cash flow is not sufficient to service its debt and adequately fund its business, it may seek additional financing, dispose of assets or seek to refinance some or all of its debt. There is no assurance that any of these alternatives could be effected on satisfactory terms, or at all. In addition, Patheon's financial leverage could impair its ability to respond to new business opportunities or changing business and economic conditions and may make it vulnerable in the event of a downturn in its business.

Restrictive Covenants

Patheon's credit facilities contain customary financial and operating covenants that limit Patheon management's discretion with respect to certain business matters. These covenants place restrictions on, among other things, Patheon's ability to incur additional indebtedness, to grant liens against its property, to complete mergers, acquisitions and asset sales, to make capital expenditures, to pay dividends or make certain other payments, to transact with its subsidiaries, to change the nature of its business, to amend documents related to other material indebtedness, to create new subsidiaries, to prepay or repurchase subordinated indebtedness, to undertake speculative transactions, to increase operating lease obligations, to change auditors (other than to a nationally recognized accounting firm) and to become the general partner in a partnership. The credit facilities also contain financial covenants requiring the borrower thereunder to satisfy certain financial ratios, including covenants in respect of the debt-to-EBITDA ratio, a consolidated fixed charge coverage ratio and a minimum consolidated tangible net worth.

A breach of any of these covenants, ratios or restrictions could result in an event of default under the credit facilities and any other agreements that include cross-default provisions. Upon the occurrence of an event of default under the credit facilities, the lenders could elect to declare all amounts outstanding under such indebtedness, together with accrued interest, to be immediately due and payable. If the lenders accelerate the payment of that indebtedness, there can be no assurance that the assets of Patheon would be sufficient to repay that indebtedness and any other debt.

Interest Rate Risks

The Company has exposure to movements in interest rates. At October 31, 2005, approximately 83% (2004 – 81%) of the Company's total debt portfolio was subject to movements in floating interest rates. With the new interest rate hedges put in place on December 15, 2005, approximately 60% of the Company's total debt portfolio will be subject to movements in floating interest rates. Assuming no change to the structure of the debt portfolio, the sensitivity to interest rate changes is as follows:

	<u>Approximate Impact on Cash Flow and Net Earnings</u>
Change of 1% in floating interest rates	\$1.2 million (1.3¢ per share)

Conditions of MOVA's Tax Exemptions

MOVA's operations benefit from tax exemptions under the *Puerto Rico Tax Incentives Act of 1998*. The terms of these exemptions include commitments with respect to employment levels at each of MOVA's facilities, and the applicable income tax rates vary depending on these employment levels. Complying with the terms of these exemptions may restrict Patheon's operational flexibility in the future. MOVA's existing tax agreements expire between 2007 and 2017. Patheon has recently submitted applications to have its Puerto Rican tax incentives refreshed as of January 2006. The effect will be to extend the Caguas and Carolina grants for a 10-year period and the Manati grant for a 15-year period. The Company has received a comfort letter from the appropriate government ministries in support of its applications. Although Patheon expects to be able to continue to renew or replace these agreements, there can be no assurance that it will be able to do so, on terms favourable to Patheon, or at all.

DIVIDEND POLICY

Patheon Inc. has not paid dividends on its common shares during the three fiscal years ended October 31, 2005, October 31, 2004 and October 31, 2003. Patheon Inc.'s current policy is to not pay dividends on its common shares, preferring to reinvest its cash to enhance its growth. Patheon's credit facilities include covenants that restrict the ability to pay dividends, and financial covenants that may indirectly restrict the ability to pay dividends.

Patheon Inc. has paid aggregate dividends on its Series A Preferred Shares in the amounts of C\$6,174, C\$14,160 and C\$22,146 (in each case, C\$6 per share) for the years 2005, 2004, and 2003, respectively. All such Series A Preferred Shares have now been fully redeemed.

DESCRIPTION OF CAPITAL STRUCTURE

Patheon's authorized share capital consists of an unlimited number of common shares and an unlimited number of class I preferred shares, issuable in series, of which 92,845,688 common shares were issued and outstanding as at January 27, 2006.

Common Shares

Holders of common shares are entitled to dividends on a *pro rata* basis if, as and when declared by Patheon's Board of Directors. Subject to the rights of the holders of any other class of Patheon's shares entitled to receive dividends in priority to or rateably with the holders of common shares, Patheon's Board of Directors may declare dividends on the common shares to the exclusion of any other class of Patheon's shares. On the liquidation, dissolution or winding-up of Patheon, holders of common shares are entitled to participate rateably in any distribution of Patheon's assets, subject to the rights of holders of any other class of Patheon's shares entitled to receive Patheon's assets on such a distribution in priority to or rateably with the holders of common shares. Holders of common shares are entitled to receive notice of and attend all annual and special meetings of Patheon's shareholders, other than separate meetings of holders of any other class or series of shares, and to one vote at shareholders' meetings in respect of each common share.

Preferred Shares

Class I Preferred Shares ("Preferred Shares") in the capital of Patheon may be issued from time to time in one or more series, each series comprising the number of shares and having the designation, rights, privileges, restrictions and conditions determined by Patheon's board of directors. The Preferred Shares rank prior to the common shares with respect to the payment of dividends and distributions in the event of the liquidation, dissolution or winding-up of Patheon. Except as required by law or as may be allowed in respect of specific series of Preferred Shares when dividends are in arrears, the holders of the Preferred Shares are not entitled to receive notice of, to attend or to vote at any meeting of Patheon's shareholders.

MARKET FOR SECURITIES

TRADING PRICE AND VOLUME

Patheon Inc.'s common shares are traded on the Toronto Stock Exchange ("TSX") under the trading symbol "PTI." The following table sets forth the reported high and low trading prices and trading volumes of the common shares of Patheon on the TSX for each month of the fiscal year ending October 31, 2005.

Patheon Inc Common Shares			
Month	Low (\$)	High (\$)	Volume Traded
November, 2004	7.53	9.15	7,961,111
December, 2004	8.45	9.49	9,228,216
January, 2005	8.30	10.54	10,694,810
February, 2005	10.10	11.27	6,590,025
March, 2005	10.03	12.22	11,852,207
April, 2005	10.00	11.60	3,633,476
May, 2005	10.15	11.15	2,849,544
June, 2005	8.96	11.15	8,545,533
July, 2005	8.70	9.43	4,057,759
August, 2005	7.90	9.88	4,944,016
September, 2005	6.60	8.87	37,197,029
October, 2005	6.76	7.37	5,188,812

DIRECTORS AND OFFICERS

EXECUTIVE OFFICERS

The names and municipalities of residence of Patheon's executive officers and the offices held by them in Patheon Inc. as of January 27, 2006 are set out below.

Name & Municipality of Residence	Office
ROBERT C. TEDFORD ⁽¹⁾ Canmore, Alberta, Canada	Chief Executive Officer & Director
NICK A. DIPETRO ⁽²⁾ St. Catharines, Ontario, Canada	President, Chief Operating Officer & Director
JOAQUÍN B. VISO ⁽³⁾ San Juan, Puerto Rico, USA	Chairman of MOVA Pharmaceutical Corporation & Director
CLIVE V. BENNETT ⁽⁴⁾ Niagara-on-the-Lake, Ontario, Canada	President, Patheon U.S.A. and President and Chief Operating Officer of MOVA Pharmaceutical Corporation
ALDO BRACA ⁽⁵⁾ Latina, Italy	President, Patheon Europe
SHABBIR T. ANIL, PH.D. ⁽⁶⁾ Los Altos, California, USA	President PDS & Chief Scientific Officer
MICHAEL S. HARDING ⁽⁷⁾ St. Catharines, Ontario, Canada	Executive Vice-President, Global Quality Operations
RODGER D. RODEN, C.A. ⁽⁸⁾ Toronto, Ontario, Canada	Chief Financial Officer & Senior Vice-President, Finance
RICCARDO TRECROCE ⁽⁹⁾ Oakville, Ontario, Canada	General Counsel, Secretary & Senior Vice-President, Administration
STEVEN LIBERTY ⁽¹⁰⁾ Oakville, Ontario, Canada	Senior Vice President, Operations Canada
TOM L. FERGUSON ⁽¹¹⁾ Fort Erie, Ontario, Canada	Senior Vice-President, Global Information Technology
NICHOLAS DOWD ⁽¹²⁾ Mississauga, Ontario, Canada	Vice President, and Controller
ROY WIESCHKOWSKI ⁽¹³⁾ Kleinburg, Ontario, Canada	Vice President, Corporate Human Resources
COLIN MINCHOM, PH.D. ⁽¹⁴⁾ Mississauga, Ontario, Canada	Vice-President, PDS Canada
MURRAY SNEDDEN ⁽¹⁵⁾ Aurora, Ontario, Canada	Treasurer

Notes:

⁽¹⁾ Mr. Tedford was appointed Chief Executive Officer in 1996.

⁽²⁾ Mr. DiPietro was appointed President and Chief Operating Officer in 1996.

⁽³⁾ Mr. Viso was appointed as a director of Patheon Inc. on December 23, 2004 in conjunction with the acquisition of MOVA. Mr. Viso stepped down as President and Chief Executive Officer of MOVA Pharmaceutical Corporation on August 1, 2005. Prior to August 2005, Mr. Viso was President and Chief Executive Officer of MOVA Pharmaceutical Corporation

⁽⁴⁾ Effective August 1, 2005 Mr. Bennett was appointed President, Patheon U.S.A. and President and Chief Operating Officer of MOVA Pharmaceutical Corporation; prior to that, he was President, Patheon North America from January 2004 until June 2005; prior to that he was Executive Vice-President, Global Operations from January 2002 until January 2004; prior to that, he was consultant to Patheon's European subsidiaries from July to December 2001. Prior to his employment at Patheon, Mr. Bennett held the following positions, Chief Executive, Pharos Limited (management consulting company); prior to that Chief Executive

- Officer, Evlutec Limited (biotechnology company); prior to that Chief Executive Officer, Liberis (management consulting company).
- (5) Mr. Braca was appointed President, Patheon Europe effective January 6, 2004; prior to that, Mr. Braca was Executive Vice-President, European Business Development and President, Patheon Italia S.p.A. from July 2001 until January, 2004.
- (6) Mr. Anik was appointed as President, PDS & Chief Scientific Officer on April 11, 2005; prior to that, he was Executive Vice-President, PDS & Chief Scientific Officer of Patheon from 2001 to April, 2005.
- (7) Mr. Harding was appointed Executive Vice-President, Global Quality Operations in January 2004; prior to that, Senior Vice-President, Global Quality Operations from 1998 until January 2004.
- (8) Mr. Roden was appointed to Chief Financial Officer & Senior Vice-President, Finance effective October 3, 2005. Prior to that, Mr. Roden was Global Vice-President, Finance of the Enclosure Systems Division of Sanmina-SCI Corporation; prior to that Vice-President, Finance of Devtek Electronic Enclosures Inc.
- (9) Mr. Trecoce was appointed General Counsel, Secretary & Senior Vice President, Administration effective September 14, 2000.
- (10) Mr. Liberty was appointed to Senior Vice President, Operations Canada on December 13, 2005. Prior to that, Mr. Liberty was Executive Director & General Manager of AstraZeneca Pharmaceuticals' Westborough Supply Site in Massachusetts, U.S.A.
- (11) Mr. Ferguson was appointed Senior Vice-President, Global Information Technology effective January 6, 2004.; prior to that, he was Vice-President, Information Technology from 2000 until January 2004.
- (12) Mr. Dowd was appointed to Vice President, and Controller on December 13, 2005, prior to that, he was Director, Corporate Development from July 2001 until December, 2005.
- (13) Mr. Wieschkowski was appointed Vice President, Corporate Human Resources effective February 22, 2005; prior to that, Mr. Wieschkowski was Senior Director, Corporate Human Resources and, prior to that, was Director, Human Resources - North America.
- (14) Dr. Minchom was appointed Vice-President, PDS, Canada effective June 2, 2004; prior to that, he was Group Director, PDS Operations.
- (15) Mr. Snedden was appointed Treasurer effective June 2, 2004; prior to joining Patheon on February 10, 2003, Mr. Snedden was Treasurer of the Oxford Properties Group of Companies.

DIRECTORS

The names and municipalities of residence of the directors of Patheon Inc., including their terms of office and committee memberships as of January 27, 2006 are set out below together with their principal occupations during the past five years. Each of the directors term of office shall expire immediately prior to the election of directors at the Annual General Meeting of Shareholders on March 9, 2006. Effective January 21, 2006 Mr. E. James Arnett, Q.C., resigned from the Board of Directors.

Name & Municipality of residence	Director since	Committee membership	Principal Occupation during past five years
PETER A.W. GREEN Campbellville, Ontario, Canada	1996	<ul style="list-style-type: none"> • Audit • Corporate Governance • Compensation and Human Resources 	Corporate Director
ROBERT C. TEDFORD Canmore, Alberta, Canada	1992	<i>Not Applicable⁽¹⁾</i>	Chief Executive Officer, Patheon
NICK A. DIPIETRO St. Catharines, Ontario, Canada	1993	<i>Not Applicable⁽¹⁾</i>	President and Chief Operating Officer, Patheon
THE HONOURABLE ROY MACLAREN, P.C. Toronto, Ontario, Canada	2001	<ul style="list-style-type: none"> • Corporate Governance • Compensation and Human Resources 	Corporate Director
GEORGE L. PLODER Mississauga, Ontario, Canada	1992	<ul style="list-style-type: none"> • Audit • Corporate Governance 	Corporate Director

Name & Municipality of residence	Director since	Committee membership	Principal Occupation during past five years
JOAQUÍN B. VISO San Juan, Puerto Rico, U.S.A.	2004	<i>Not Applicable</i> ⁽¹⁾	From August 2005 to present: Chairman, MOVA Pharmaceutical Corporation (pharmaceutical company); prior to August 2005, President and Chief Executive Officer, MOVA Pharmaceutical Corporation
DEREK J. WATCHORN Schomberg, Ontario, Canada	1998	<ul style="list-style-type: none"> • Corporate Governance • Compensation and Human Resources 	From October 2004 to present: President & Chief Executive Officer, Retirement Residences Real Estate Investment Trust and Director of IPC US Real Estate Investment Trust (asset and property management); From January 2003 to June 2004: Executive Vice-President, Strategic Initiatives, Canary Wharf Group plc (commercial property company); From January 1999 until 2001: Executive Director of TrizecHahn Europe
GREGORY C. WILKINS Toronto, Ontario, Canada	2003	<ul style="list-style-type: none"> • Audit • Corporate Governance 	From February 2003 to present: Chief Executive Officer & President, Barrick Gold Corporation (international gold mining company); From June 2001 to February 2003: Financial Consultant; prior to June 2001: President & Chief Operating Officer, TrizecHahn Corporation Ltd. (commercial property company).

⁽¹⁾ Members of management are not members of any Committees of the Board

SHAREHOLDINGS OF DIRECTORS AND OFFICERS

As at January 27, 2006, Patheon's directors and executive officers as a group beneficially owned, directly or indirectly, approximately 11,800,000 common shares of Patheon Inc., representing 12.7% of the outstanding common shares.

CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS

Mr. Green has previously been appointed as a director and officer of companies that have financial difficulties to assist such companies with financial restructuring, proposals or compromise arrangements. In this capacity, Mr. Green was appointed a director of Phillip Services Corp., which made a proposal under chapter 11 of the U.S. Bankruptcy Code and the *Companies Creditors' Arrangement Act* (Canada) in 1999 and briefly became the Chairman and Chief Executive Officer of Norigen Inc., which went into receivership in August, 2001.

Mr. Ploder is a director, President and Chief Executive Officer of Vital Retirement Living Inc., a reporting issuer in the provinces of British Columbia, Alberta and Ontario. On June 20, 2003, a cease trade order was issued against Vital for failure to file annual audited financial statements for the fiscal year ended December 31, 2002 and first quarter interim financial statements for the period ended March 31, 2003.

CONFLICTS OF INTEREST

Mr. Joaquín B. Viso is a controlling shareholder of Alara Pharmaceutical Corporation (“Alara”) which has two contractual commercial relationships with MOVA Pharmaceutical Corporation. One of these agreements involves a significant product for MOVA. According to the terms of the commercial manufacturing agreement, the right to place orders for such product has been assigned to a third party who purchases this product directly from MOVA; however, the New Drug Application (NDA) for such product remains the property of Alara. This commercial manufacturing agreement has a seventeen year term, expiring in 2019 and grants MOVA the right to manufacture 85% of the worldwide requirements for such product for the term of the agreement.

AUDIT COMMITTEE INFORMATION

COMPOSITION OF THE AUDIT COMMITTEE

The Audit Committee is comprised of the following three members: George L. Ploder, Peter A.W. Green and Gregory C. Wilkins. The Board of Directors has determined that each member of the Audit Committee is independent of management and free from any interest and any business or other relationship that could, or could reasonably be perceived to, reasonably interfere with the director's ability to exercise his independent judgment and act in the best interests of Patheon.

RELEVANT EDUCATION AND EXPERIENCE

All of the members of the Audit Committee are Chartered Accountants and as such are financially literate. Each of the Audit Committee members: (i) is fully cognizant of the accounting principles used by Patheon to prepare its financial statements; (ii) has the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves; (iii) has practical experience preparing, auditing, analyzing or evaluating financial statements; and (iv) has an understanding of internal controls and procedures for financial reporting.

In determining whether a director: (i) is “financially literate,” the Board of Directors considers whether the director has the ability to read and understand a balance sheet, an income statement, a cash flow statement and the notes attached thereto; and (ii) has “accounting or related financial experience,” the board of directors considers whether the director has the ability to analyze and interpret a full set of financial statements, including the notes attached thereto, in accordance with Canadian generally accepted accounting principles.

PRE-APPROVAL POLICIES AND PROCEDURES

On an annual basis the Audit Committee pre-approves a specified list of non-audit related services that may be performed during a particular fiscal year and establishes maximum fee levels for the various types of services listed. Amounts to be expended above these levels require specific Audit Committee approval.

EXTERNAL AUDITOR SERVICE FEES (all amounts listed below are in Canadian Dollars)

FISCAL YEAR	AUDIT FEES	AUDIT-RELATED FEES	TAX FEES	ALL OTHER FEES
2005	\$1,051,000	\$341,000	\$76,000	\$81,000
2004	\$488,000	\$44,000	\$320,000	\$58,000

AUDIT COMMITTEE CHARTER

Patheon Inc.'s Audit Committee Charter was most recently updated on June 2, 2005 and a copy is provided in Appendix C to this Annual Information Form.

INTEREST OF MANAGEMENT IN MATERIAL TRANSACTIONS

Mr. Viso and Ms. Lizardi jointly own approximately 11.7% of the issued and outstanding shares of Patheon. Accordingly, Mr. Viso, and as a proposed director of Patheon, has a material interest in any agreement relating to Patheon's acquisition of MOVA.

Reference is also made to the information above under the heading "*Directors and Officers – Conflicts of Interest*".

TRANSFER AGENTS AND REGISTRARS

The registrar and transfer agent for Patheon's common shares is Computershare Trust Company of Canada with transfer facilities in the cities of Halifax, Montreal, Toronto, Winnipeg, Calgary and Vancouver.

MATERIAL CONTRACTS

Other than contracts entered into in the ordinary course of business, Patheon has not entered into any material contracts during the fiscal year 2005 or any material contracts entered into prior to the 2005 fiscal year that remain in effect.

INTEREST OF EXPERTS

NAMES OF EXPERTS

The auditors of Patheon are Ernst & Young LLP, Chartered Accountants. Patheon's consolidated financial statements as at October 31, 2005 and for the year then ended have been filed under National Instrument 51-102 in reliance on the report of Ernst & Young LLP, Chartered Accountants, given on their authority as experts in auditing and accounting.

INTERESTS OF EXPERTS

As of December 9, 2005, the partners and employees of Ernst & Young LLP as a group did not beneficially own, directly or indirectly, any of Patheon Inc.'s outstanding securities.

ADDITIONAL INFORMATION

Additional information, including information regarding directors' and officers' remuneration and indebtedness, principal holders of Patheon's securities and options to purchase securities, is contained in Patheon's Management Information Circular in respect of Patheon's annual general meeting scheduled for March 9, 2006, which shall be filed on SEDAR (www.sedar.com) in compliance with securities regulations and prior to such meeting. Additional financial information, including comparative consolidated financial statements and management's discussion and analysis, is provided in the Annual Report.

Patheon will provide to any person, upon request to the Secretary, the following documents:

- (a) when the securities of Patheon are in the course of a distribution under a preliminary short-form prospectus or a short form prospectus:
 - (i) one copy of the latest annual information form, together with one copy of any document, or the pertinent pages of any document, incorporated therein by reference;
 - (ii) one copy of the comparative financial statements of Patheon for its most recently completed financial year for which financial statements have been filed, together with the accompanying report of the auditor, and one copy of the most recent interim financial statements of Patheon that have been filed, if any, for any period after the end of Patheon's most recently completed financial year;
 - (iii) one copy of the information circular of Patheon in respect of its most recent annual meeting of shareholders that involved the election of directors or one copy of any annual filing prepared instead of that information circular, as appropriate; and
 - (iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under paragraphs (i) to (iii) above; or
- (b) at any other time, one copy of any of the documents referred to in paragraphs (a)(i), (ii) and (iii) above, provided that Patheon may require the payment of a reasonable charge if the request is made by a person or company who is not a security holder of Patheon.

Additional information about Patheon may be found on SEDAR at www.sedar.com.

APPENDIX A

BACKGROUND ON THE DRUG DEVELOPMENT PROCESS

In order for a new drug to be sold in any country it must meet the country's regulatory standards, which ensure that the drug product is both safe and effective. In North America and Europe, the regulatory agencies that must approve a new drug's use include the U.S. Food and Drug Administration ("FDA"), the Health Products and Food Branch of Health Canada ("HPFB") and the European Medicines Evaluation Agency ("EMA") representing the European Union and the national regulatory agencies of member states. Both the drug and the processes by which it is developed, tested and manufactured must meet stringent regulatory requirements.

The process for a drug requiring FDA approval is described below, and this process is substantially similar for other regulatory agencies:

Discovery

The first step in the drug development process is the discovery of a new molecular entity ("NME") to treat a targeted disease. The drug discovery process requires a significant amount of time and financial investment.

Pre-Clinical Studies

Prior to evaluation in humans, pre-clinical studies are carried out on the NME. Pre-clinical studies involve laboratory evaluations of the NME characteristics and animal studies to assess the safety of the NME and to demonstrate the effectiveness of the NME against the targeted disease.

Investigation New Drug Application (IND)

This application is submitted to the FDA after completion of pre-clinical studies. The IND contains the results of pre-clinical studies and describes how a drug will be evaluated in human subjects. The IND must be approved before human clinical trials can be conducted.

Clinical Trials & Pharmaceutical Development

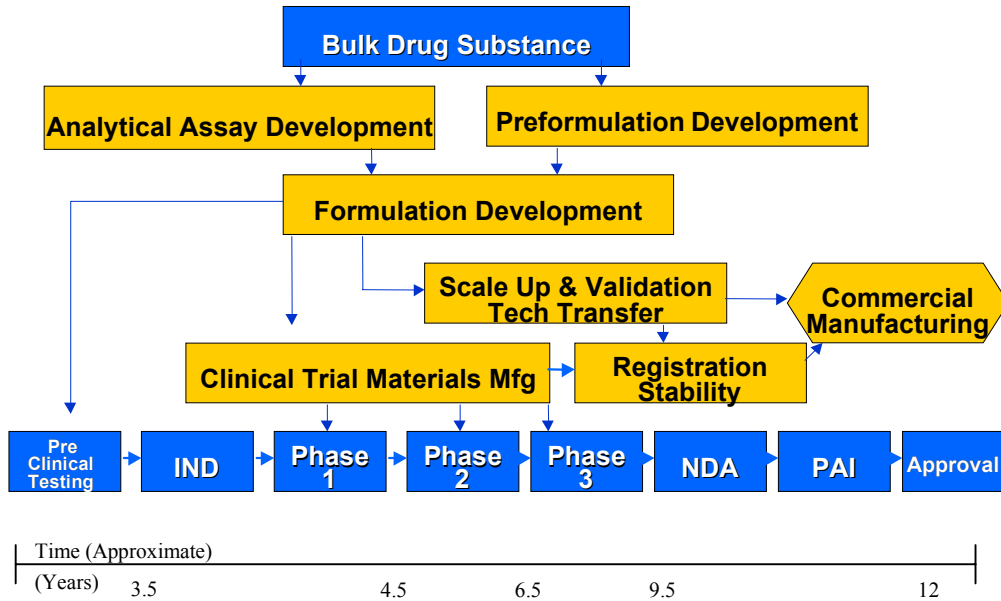
During the drug development process, an NME must undergo safety and clinical evaluation before it is approved as a commercial therapeutic product. The NME must pass through Phase I, Phase II and Phase III clinical trials prior to receiving approval. An essential part of this process is the development of an appropriate dosage form (for example, tablets, capsules or injectables).

The development of a dosage form moves in tandem with the clinical evaluation of the drug. Early formulations are used to establish therapeutic safety and efficacy. Commercial dosage formulations are developed as the NME enters Phase II clinical trials. Scale-up to commercial manufacturing batch sizes culminates in the manufacture of registration and validation batches to support regulatory filings and the launch of the commercial product.

Developing an appropriate dosage form, preparing necessary clinical trial materials and scaling-up the dosage form manufacturing to commercial scale are all part of the development process. Through these activities, it must be demonstrated that the drug can be consistently manufactured at commercial batch sizes in accordance with applicable regulatory requirements. The data recorded during development activities are included in the Chemistry, Manufacturing and Controls section of the required New Drug Application ("NDA") for the FDA. A drug must meet regulatory requirements at

all phases of the clinical trial and drug development processes or it will not be approved for human use.

The following chart shows the phases of pharmaceutical development as they relate to the clinical trial approval process:



Pre-Approval Inspection ("PAI")

Following the completion of the clinical trials, an NDA is submitted to the FDA for marketing approval. During the review process, a PAI may be conducted on the manufacturing facility listed in the NDA for the commercial manufacturing of the new drug. Those portions of the facility involved in the manufacture of the new drug may be inspected for compliance with cGMP and approved before the new drug can be marketed. Upon approval, the new drug is available for physicians to prescribe.

Post-Marketing Approval (Phase IV)

In certain cases, additional post-marketing studies are required to evaluate the long-term effects of the new drug. In all cases, companies must continue to monitor and report any adverse reactions.

Commercial Manufacturing

Commercial manufacturing in the pharmaceutical industry relates to the manufacturing and packaging of finished dosage forms of approved drug products destined for consumer use.

APPENDIX B

GLOSSARY OF TECHNICAL TERMS

The text following the technical terms reproduced in this glossary does not in any way modify the meanings of such terms and is explanatory only.

Analytical Assay	Analytical assay is a laboratory procedure used to measure the amount of a drug substance or other component of interest contained in a drug product or pharmaceutical ingredient.
cGMPs:	Current Good Manufacturing Practices. This is a constantly evolving system of manufacturing practices adopted and implemented by companies in the pharmaceutical industry. These practices, when taken in conjunction with quality control testing, are designed to ensure that each dosage unit of every drug performs as expected when used by a patient. From time to time, standards for good manufacturing practices are promulgated by regulatory agencies such as the FDA, HPFB, MEA and EMEA.
Clinical Trials:	Studies of a drug product in humans designed to evaluate the safety and efficacy of a new drug in a particular disease condition. Clinical trials are only conducted after extensive pre-clinical studies.
Contract Research Organization (CRO):	An organization that manages clinical studies and related regulatory matters for pharmaceutical companies.
EMA:	The European Medicines Evaluation Agency is the regulatory agency which controls all aspects of the development, manufacture and commercialization of drug products for the countries of the European Union. Each country of the European Union also has its own national regulatory agency which works within the umbrella of the EMA.
FDA:	The Food and Drug Administration is the regulatory agency which controls all aspects of the development, manufacture and commercialization of drug products in the U.S.. New drugs cannot be developed, or marketed for sale in the U.S. without FDA approval.
Health Products and Food Branch (HPFB):	HPFB is part of Health Canada and is the regulatory body that oversees the drug development process in Canada. New drugs cannot be marketed for sale in Canada without HPFB approval.
IND:	Investigational New Drug application. This application, submitted to the FDA, describes how a drug will be evaluated in human subjects and must be submitted before human clinical trials can be conducted. It also contains the results of pre-clinical studies.
Lyophilization:	In this process, a drug in solution is frozen and subjected to low pressure within a controlled sterile environment. The water is removed by sublimation and the drug is dried in a very gentle manner which protects sensitive molecules from degradation. Lyophilization is also known as freeze drying.

MHRA:	The Medicines and Healthcare Products Regulatory Agency is the national drug regulatory agency of the U.K.
NDA:	New Drug Application. The document submitted to the FDA to approve a drug. The NDA is required to include, among other information, preclinical and clinical data; it includes a Chemistry, Manufacturing and Controls Section which describes the dosage form, the manufacturing process and information relating to the proposed manufacturer and packager of the drug.
NDS:	New Drug Submission. Submitted to the HPFB to approve a drug, an NDS is the Canadian equivalent of an NDA.
OTC drugs:	Over-the-Counter drugs are available for sale to the general public without a physician's prescription.
PAI:	Pre-Approval Inspection. This is the FDA's inspection of a proposed manufacturer's facilities and control system during that agency's review of an NDA. This inspection is carried out as part of the agency's decision making process as to the marketability of the drug.
Phase I clinical trials:	Studies conducted on a small number of healthy volunteers to determine a drug's safety in a healthy population.
Phase II clinical trials:	Studies carried out on a larger number of patient volunteers to determine a drug's safety, efficacy and dosage range in a patient population which demonstrates a particular disease condition.
Phase III clinical trials:	Studies carried out on a sufficiently large number of patient volunteers to prove statistically that the drug is safe and effective when taken as prescribed for the treatment of a specific disease condition.
Pre-clinical studies:	Laboratory evaluations and animal studies used to assess the safety of a new drug prior to evaluation in healthy human volunteers.
Preformulation:	The chemical and physical characterization of the drug substance and the selection of an appropriate dosage form.
R _x drugs:	Prescription drugs are only available to the general public with a physician's prescription.
Scale-up and technology transfer:	The transfer of the manufacturing process from the development stage in the laboratory or pilot plant to commercial production.
Stock-keeping unit (SKU):	This refers to the particular package type and size used in the consumer distribution of a particular product.
Validation:	The planned and documented act of demonstrating that the operation of any equipment, use of any material or the implementation of any procedure, process or system will consistently lead to the expected results within pre-established limits.

APPENDIX C

AUDIT COMMITTEE CHARTER

This charter governs the operations of the *audit committee* of Patheon Inc. (the “Corporation”).

1. Definitions

1.1 Definitions of certain terms used in this charter are set out in Schedule A. Such terms are indicated in this charter in italics.

2. Audit Committee Responsibilities

2.1 Relationship with External Auditor

The external auditor must report directly to the *audit committee*.

2.2 Audit Committee Responsibilities

(1) The *audit committee* is responsible for recommending to the board of directors:

- (a) the external auditor to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation; and
- (b) the compensation of the external auditor.

(2) The *audit committee* is directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditor regarding financial reporting.

(3) The *audit committee* must pre-approve all *non-audit services* to be provided to the Corporation or its subsidiary entities by the Corporation's external auditor.

(4) The *audit committee* must review the Corporation's financial statements, *MD&A* and annual and interim earnings press releases before the Corporation publicly discloses this information.

(5) The *audit committee* must be satisfied that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, other than the public disclosure referred to in subsection (4), and must periodically assess the adequacy of those procedures.

(6) The *audit committee* must establish procedures for:

- (a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and
- (b) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.

(7) The *audit committee* must review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Corporation.

2.3 De Minimis Non-Audit Services

The *audit committee* may satisfy the pre-approval requirement in subsection 2.2(3) if:

- (a) the aggregate amount of all the *non-audit services* that were not pre-approved is reasonably expected to constitute no more than five per cent of the total amount of fees paid by the Corporation and its subsidiary entities to the Corporation 's external auditor during the fiscal year in which the services are provided;
- (b) the Corporation or the *subsidiary entity* of the Corporation, as the case may be, did not recognize the services as *non-audit services* at the time of the engagement; and
- (c) the services are promptly brought to the attention of the *audit committee* of the Corporation and approved, prior to the completion of the audit, by the *audit committee* or by one or more of its members to whom authority to grant such approvals has been delegated by the *audit committee*.

2.4 Delegation of Pre-Approval Function

(1) The *audit committee* may delegate to one or more independent members the authority to pre-approve *non-audit services* in satisfaction of the requirement in subsection 2.2(3).

(2) The pre-approval of *non-audit services* by any member to whom authority has been delegated pursuant to subsection (1) must be presented to the *audit committee* at its first scheduled meeting following such pre-approval.

2.5 Pre-Approval Policies and Procedures

The *audit committee* may satisfy the pre-approval requirement in subsection 2.2(3) if it adopts specific policies and procedures for the engagement of the *non-audit services*, if:

- (a) the pre-approval policies and procedures are detailed as to the particular service;
- (b) the *audit committee* is informed of each non-audit service; and
- (c) the procedures do not include delegation of the *audit committee's* responsibilities to management.

3. Composition of the Audit Committee

3.1 Composition

- (1) The *audit committee* must be composed of a minimum of three members.
- (2) Every *audit committee* member must be a director of the Corporation.

(3) Subject to sections 3.2, 3.3, 3.4 and 3.5, every *audit committee* member must be *independent*.

(4) Subject to sections 3.4 and 3.7, every *audit committee* member must be *financially literate*.

3.2 Controlled Companies

(1) An *audit committee* member that sits on the board of directors of an *affiliated entity* is exempt from the requirement in subsection 3.1(3) if the member, except for being a director (or member of a board committee) of the Corporation and the *affiliated entity*, is otherwise *independent* of the Corporation and the *affiliated entity*.

(2) Subject to section 3.6, an *audit committee* member is exempt from the requirement in subsection 3.1(3) if:

(a) the member would be *independent* of the Corporation but for the relationship described in paragraph 1.4(1)(b) of Schedule A;

(b) the member is not an *executive officer*, general partner or managing member of a person or company that

(i) is an *affiliated entity* of the Corporation, and

(ii) has its securities trading on a *marketplace*;

(c) the member is not an *immediate family member* of an *executive officer*, general partner or managing member referred to in paragraph (b), above;

(d) the member does not act as the chair of the *audit committee*; and

(e) the board determines in its reasonable judgement that

(i) the member is able to exercise the impartial judgement necessary for the member to fulfill his or her responsibilities as an *audit committee* member, and

(ii) the appointment of the member is required by the best interests of the Corporation and its shareholders.

3.3 Events Outside Control of Member

Subject to section 3.8, if an *audit committee* member ceases to be *independent* for reasons outside that member's reasonable control, the member is exempt from the requirement in subsection 3.1(3) for a period ending on the later of:

(a) the next annual meeting of the Corporation, and

(b) the date that is six months from the occurrence of the event which caused the member to not be *independent*.

3.4 Death, Disability or Resignation of Member

Subject to section 3.8, if the death, disability or resignation of an *audit committee* member has resulted in a vacancy on the *audit committee* that the board of directors is required to fill, an *audit committee* member appointed to fill such vacancy is exempt from the requirements in subsections 3.1(3) and (4) for a period ending on the later of:

- (a) the next annual meeting of the Corporation, and
- (b) the date that is six months from the day the vacancy was created.

3.5 Temporary Exemption for Limited and Exceptional Circumstances

Subject to section 3.6, an *audit committee* member is exempt from the requirement in subsection 3.1(3) if:

- (a) the member is not an individual described in subsection 1.4(1) of Schedule A;
- (b) the member is not an employee or officer of the Corporation, or an *immediate family member* of an employee or officer of the Corporation;
- (c) the board, under exceptional and limited circumstances, determines in its reasonable judgement that
 - (i) the member is able to exercise the impartial judgement necessary for the member to fulfill his or her responsibilities as an *audit committee* member, and
 - (ii) the appointment of the member is required by the best interests of the Corporation and its shareholders;
- (d) the member does not act as chair of the *audit committee*; and
- (e) the member does not rely upon this exemption for a period of more than two years.

3.6 Majority Independent

The exemptions in subsection 3.2(2) and section 3.5 are not available to a member unless a majority of the *audit committee* members would be *independent*.

3.7 Acquisition of Financial Literacy

Subject to section 3.8, an *audit committee* member who is not *financially literate* may be appointed to the *audit committee* provided that the member becomes *financially literate* within a reasonable period of time following his or her appointment.

3.8 Restriction on Use of Certain Exemptions

The exemptions in sections 3.3, 3.4 and 3.7 are not available to a member unless the Corporation's board of directors has determined that the reliance on the exemption will not materially adversely affect the ability of the *audit committee* to act independently and to satisfy the other requirements of this charter.

4. Authority of the Audit Committee

4.1 Authority

The *audit committee* has the authority

- (a) to engage independent counsel and other advisors as it determines necessary to carry out its duties,
- (b) to set and pay the compensation for any advisors employed by the *audit committee*, and
- (c) to communicate directly with the internal and external auditors.

5. General

5.1 Subject to by-laws, etc.

The provisions of this charter are subject to the provisions of the by-laws of the Corporation and to the applicable provisions of the *Canada Business Corporations Act* and any other applicable legislation.

5.2 Annual Review of Charter

On an annual basis, the Board will review the recommendations of the Corporate Governance Committee with respect to this charter. The Board will approve those changes to this charter that it determines are appropriate.

Approved by the Board of Directors
Patheon Inc.
June 2, 2005

SCHEDULE A

DEFINITIONS AND INTERPRETATION

1.1 Definitions

"audit committee" means the committee established by and among the board of directors of the Corporation for the purpose of overseeing the accounting and financial reporting processes of the Corporation and audits of the financial statements of the Corporation, and, if no such committee exists, the entire board of directors of the Corporation;

"audit services" means the professional services rendered by the Corporation's external auditor for the audit and review of the Corporation's financial statements or services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements;

"executive officer" of an entity means an individual who is:

- (a) a chair of the entity;
- (b) a vice-chair of the entity;
- (c) the president of the entity;
- (d) a vice-president of the entity in charge of a principal business unit, division or function including sales, finance or production;
- (e) an officer of the entity or any of its subsidiary entities who performs a policy-making function in respect of the entity; or
- (f) any other individual who performs a policy-making function in respect of the entity;

"immediate family member" means an individual's spouse, parent, child, sibling, mother or father-in-law, son or daughter-in-law, brother or sister-in-law, and anyone (other than an employee of either the individual or the individual's immediate family member) who shares the individual's home;

"marketplace" means

- (a) an exchange,
- (b) a quotation and trade reporting system,
- (c) a person or company not included in paragraph (a) or (b) that
 - (i) constitutes, maintains or provides a market or facility for bringing together buyers and sellers of securities,
 - (ii) brings together the orders for securities of multiple buyers and sellers, and
 - (iii) uses established, non-discretionary methods under which the orders interact with each other, and the buyers and sellers entering the orders agree to the terms of a trade, or
- (d) a dealer that executes a trade of an exchange-traded security outside of a marketplace, but does not include an inter-dealer bond broker;

"MD&A" has the meaning ascribed to it in National Instrument 51-102;

"National Instrument 51-102" means National Instrument 51-102 *Continuous Disclosure Obligations*; and

"non-audit services" means services other than audit services.

1.2 Meaning of Affiliated Entity, Subsidiary Entity and Control

(1) For the purposes of this charter, a person or company is considered to be an affiliated entity of another person or company if

- (a) one of them controls or is controlled by the other or if both persons or companies are controlled by the same person or company, or
- (b) the person is an individual who is
 - (i) both a director and an employee of an affiliated entity, or
 - (ii) an executive officer, general partner or managing member of an affiliated entity.

(2) For the purposes of this charter, a person or company is considered to be a subsidiary entity of another person or company if

- (a) it is controlled by,
 - (i) that other, or
 - (ii) that other and one or more persons or companies each of which is controlled by that other, or
 - (iii) two or more persons or companies, each of which is controlled by that other; or
- (b) it is a subsidiary entity of a person or company that is the other's subsidiary entity.

(3) For the purpose of this charter, "control" means the direct or indirect power to direct or cause the direction of the management and policies of a person or company, whether through ownership of voting securities or otherwise.

(4) Despite subsection (1), an individual will not be considered to control the Corporation for the purposes of this charter if the individual:

- (a) owns, directly or indirectly, ten per cent or less of any class of voting securities of the Corporation; and
- (b) is not an executive officer of the Corporation.

1.3 Meaning of Independence

(1) An audit committee member is independent if the member has no direct or indirect material relationship with the Corporation.

(2) For the purposes of subsection (1), a “material relationship” is a relationship which could, in the view of the Corporation's board of directors, be reasonably expected to interfere with the exercise of a member's independent judgement.

(3) Despite subsection (2), the following individuals are considered to have a material relationship with the Corporation:

- (a) an individual who is, or has been within the last three years, an employee or executive officer of the Corporation;
- (b) an individual whose immediate family member is, or has been within the last three years, an executive officer of the Corporation;
- (c) an individual who:
 - (i) is a partner of a firm that is the Corporation’s internal or external auditor,
 - (ii) is an employee of that firm, or
 - (iii) was within the last three years a partner or employee of that firm and personally worked on the Corporation's audit within that time;
- (d) an individual whose spouse, minor child or stepchild, or child or stepchild who shares a home with the individual:
 - (i) is a partner of a firm that is the Corporation's internal or external auditor,
 - (ii) is an employee of that firm and participates in its audit, assurance or tax compliance (but not tax planning) practice, or
 - (iii) was within the last three years a partner or employee of that firm and personally worked on the Corporation's audit within that time;
- (e) an individual who, or whose immediate family member, is or has been within the last three years, an executive officer of an entity if any of the Corporation 's current executive officers serves or served at that same time on the entity's compensation committee;
- (f) an individual who received, or whose immediate family member who is employed as an executive officer of the Corporation received, more than \$75,000 in direct compensation from the Corporation during any 12 month period within the last three years.

(4) Despite subsection (3), an individual will not be considered to have a material relationship with the Corporation solely because

- (a) he or she had a relationship identified in subsection (3) if that relationship ended before March 30, 2004; or
- (b) he or she had a relationship identified in subsection (3) by virtue of subsection (8) if that relationship ended before June 30, 2005.

(5) For the purposes of clauses (3)(c) and (3)(d), a partner does not include a fixed income partner whose interest in the firm that is the internal or external auditor is limited to the receipt of fixed amounts of compensation (including deferred compensation) for prior service with that firm if the compensation is not contingent in any way on continued service.

(6) For the purposes of clause (3)(f), direct compensation does not include:

- (a) remuneration for acting as a member of the board of directors or of any board committee of the Corporation, and
- (b) the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Corporation if the compensation is not contingent in any way on continued service.

(7) Despite subsection (3), an individual will not be considered to have a material relationship with the Corporation solely because the individual or his or her immediate family member

- (a) has previously acted as an interim chief executive officer of the Corporation,
or
- (b) acts, or has previously acted, as a chair or vice-chair of the board of directors or of any board committee of the Corporation on a part-time basis.

(8) For the purpose of section 1.3, the word “Corporation” includes a subsidiary entity of the Corporation and a parent of the Corporation.

1.4 Additional Independence Requirements

(1) Despite any determination made under section 1.3, an individual who

- (a) accepts, directly or indirectly, any consulting, advisory or other compensatory fee from the Corporation or any subsidiary entity of the Corporation, other than as remuneration for acting in his or her capacity as a member of the board of directors or any board committee, or as a part-time chair or vice-chair of the board or any board committee; or
- (b) is an affiliated entity of the Corporation or any of its subsidiary entities, is considered to have a material relationship with the Corporation.

(2) For the purposes of subsection (1), the indirect acceptance by an individual of any consulting, advisory or other compensatory fee includes acceptance of a fee by

- (a) an individual's spouse, minor child or stepchild, or a child or stepchild who shares the individual's home; or
- (b) an entity in which such individual is a partner, member, an officer such as a managing director occupying a comparable position or executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the Corporation or any subsidiary entity of the Corporation.

(3) For the purposes of subsection (1), compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Corporation if the compensation is not contingent in any way on continued service.

1.5 Meaning of Financial Literacy

For the purposes of this charter, an individual is financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.