PATHEON™

NOTICE OF MEETING
AND MANAGEMENT PROXY CIRCULAR

PATHEON INC.
ANNUAL AND SPECIAL MEETING
OF SHAREHOLDERS
APRIL 19, 2007

PATHEON™

March 26, 2007

Dear Shareholder:

You are invited to attend our Annual Meeting of Shareholders to be held at the Park Hyatt Toronto, Queen's Park Ballroom, 4 Avenue Road, Toronto, Canada on Thursday, April 19, 2007 at 10:30 a.m. (EDT). Management will be making a presentation at the meeting regarding our fiscal 2006 results and our strategy moving forward.

At the meeting, shareholders will be asked to approve matters relating to a US$150 million convertible preferred share investment in Patheon by a fund managed by JLL Partners, Inc., a leading U.S. private equity investment firm. This investment is critically important to the future of Patheon and represents the culmination of an extensive strategic and financial alternatives review process undertaken over the past six months. We believe the transaction will provide us with critical financial certainty and stability going forward. Moreover, the transaction is necessary to avoid a default under our credit facilities as at April 30, 2007. If such a default were to occur, it could have serious adverse consequences for Patheon.

Our board of directors has unanimously approved the transaction and strongly recommends that you vote to approve the JLL Partners investment. To complete the investment, shareholders are also being asked to approve (i) a waiver of the shareholder rights plan, (ii) amendments to Patheon's by-laws and (iii) a reclassification of the common shares as restricted shares to reflect the fact that JLL Partners will be entitled to elect 3 out of 9 directors. All of these matters are described in more detail in the Notice of Meeting and Management Proxy Circular following this letter.

In addition, the consolidated annual financial statements will be reviewed and shareholders will be asked to vote on the election of the directors and the appointment of the auditor.

We look forward to your attendance at the meeting. If you cannot attend the meeting, please complete, sign, date and return your proxy as soon as possible using anyone of the methods available. Your vote is important to us.

For those of you unable to attend the meeting, we invite you to listen to the simultaneous webcast of the meeting that will be available on our website at www.patheon.com. A recorded webcast of the meeting will also be available on our website following the meeting.

Riccardo C. Trecroce
Chief Executive Officer

Peter A.W. Green
Chair of the Board

Table of Contents

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NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

The Annual and Special Meeting of Shareholders of Patheon Inc. (“Patheon”) will be held at the Park Hyatt Toronto, Queen’s Park Ballroom, 4 Avenue Road, Toronto, Canada at 10:30 a.m. (EDT) on Thursday, April 19, 2007 to:

(a) receive and consider Patheon’s consolidated financial statements for the fiscal year ended October 31, 2006, together with the report of the auditors thereon;

(b) elect directors;

(c) appoint an auditor and authorize the directors to fix its remuneration;

(d) to consider and, if thought advisable, approve the investment in Patheon of US$150 million by JLL Partners Fund V, L.P. (“JLL Partners”) by way of convertible preferred shares;

(e) conditional on the approval of item (d), to consider and, if thought advisable, approve, by way of special resolution, the making of amendments to Patheon’s articles in order to redesignate Patheon’s common shares as restricted voting shares;

(f) conditional on the approval of item (d), to consider and, if thought advisable, approve a waiver by the Board of Directors of the provisions of Patheon’s shareholder rights plan necessary to effect the JLL Partners’ investment;

(g) conditional on the approval of items (d), (e) and (f), to consider and, if thought advisable, confirm amendments to Patheon’s By-law No. 1(2002) to reflect JLL Partners’ right to elect up to three directors; and

(h) transact such other business as may properly come before the meeting.

If you are unable to attend the meeting, please complete, sign, date and return the enclosed form of proxy in the postage prepaid envelope provided for your convenience. For your vote by proxy to be recorded, it must be received by Computershare Investor Services Inc., at 100 University Avenue, 9th Floor, Toronto, Ontario, Canada, M5J 2Y1, no later than 10:30 a.m. (EDT) on Tuesday, April 17, 2007, or, if the meeting is adjourned, at least 48 hours (excluding Saturdays, Sundays and holidays) before any adjourned meeting is reconvened.

Shareholders as at the close of business on March 20, 2007 will be entitled to vote at the meeting.

BY ORDER OF THE BOARD

Gregory B. Shepherd
Vice-President, Associate General Counsel and Secretary

Toronto, Ontario, Canada
March 26, 2007

PATHEON™

MANAGEMENT PROXY CIRCULAR

This Management Proxy Circular is provided in connection with the solicitation by the management of Patheon Inc. ("Patheon") of proxies to be used at the annual and special meeting (the "meeting") of shareholders of Patheon, to be held at 10:30 a.m. (EDT) on Thursday, April 19, 2007 at the Park Hyatt Toronto, Queen's Park Ballroom, 4 Avenue Road, Toronto, Canada and at any adjournment thereof, to transact the business set out in the accompanying Notice of Meeting.

All information is as of March 26, 2007, unless otherwise indicated. All currency references are in Canadian dollars, unless otherwise indicated.

VOTING AND PROXIES

A brief summary of the voting process is set out below to address the following questions:

- Who can vote?
- How to vote?

Different rules apply to registered shareholders and non-registered shareholders. You are a non-registered shareholder if your shares are registered in the name of an intermediary (such as a broker, securities dealer, trust company, or a bank).

Who Can Vote?

Registered Shareholders

Registered holders of Patheon's common shares as at the close of business on March 20, 2007 will be entitled to vote at the meeting.

As at March 20, 2007, there were 92,958,688 common shares issued and outstanding. Each common share carries one vote.

To the knowledge of the directors and officers of Patheon, the only persons who beneficially own, directly or indirectly, or exercise control or direction over more than 10% of the common shares are Mr. Joaquín B. Viso and his spouse Ms. Olga Lizardi who, as of March 20, 2007, jointly held 10,824,053 common shares representing approximately 11.6% of the outstanding common shares.

Non-Registered Shareholders

If you are a non-registered shareholder, you should receive a package from your intermediary containing either: (i) a voting instruction form that must be completed and signed by the non-registered holder in accordance with the directions on the voting instruction form; or (ii) a form of proxy which may be signed by the intermediary and specifies the number of common shares beneficially owned by you, but is otherwise uncompleted.

If you are a non-registered shareholder and have not received such a package, please contact your intermediary.

How to Vote?

Registered Shareholders

Voting in Person

If you are a registered shareholder you have the right to attend and vote in person at the meeting. Please register your attendance with the scrutineer, Computershare Investor Services Inc., upon arrival at the meeting.

Voting by Proxy

If you are a registered shareholder and are unable to be present at the meeting in person, you can vote by using the form of proxy to appoint someone else to vote for you as your proxyholder. **You can choose anyone you want to be your proxyholder, including someone who is not a shareholder, by inserting that person's name in the blank space provided in the enclosed form of proxy or by completing another form of proxy.** If you leave the space in your enclosed form of proxy blank, the persons designated in the form, who are directors of Patheon, are appointed to act as your proxyholder.

If you specify on the enclosed form of proxy how you want your shares to be voted on a particular matter, then your proxyholder must vote your shares accordingly.

If you have not specified how to vote on a particular matter and you have appointed the persons designated in the enclosed form of proxy as your proxyholders, then your shares will be voted at the meeting as follows:

- FOR the election as directors of the nominees whose names are set out in this Management Proxy Circular;
- FOR the appointment of Ernst & Young LLP as auditors of Patheon and to authorize the directors to fix their remuneration;
- FOR the approval of the investment in Patheon of US$150 million by JLL Partners Fund V, L.P. ("JLL Partners") by way of convertible preferred shares;
- Conditional on the approval of the JLL Partners' investment, FOR the approval, by way of special resolution, of the making of amendments to Patheon's articles to redesignate the common share as restricted voting shares;
- Conditional on the approval of the JLL Partners' investment, FOR the approval of the waiver by the Board of Directors of the provisions of Patheon's shareholder rights plan necessary to effect the JLL Partners' investment; and
- Conditional on the approval of the three preceding items, FOR the amendments to Patheon's By-law No. 1 (2002) to reflect JLL Partners' right to elect up to three directors.

If amendments are proposed to these matters, or if any other matters are properly brought before the meeting, your proxyholder will vote them in accordance with his or her judgement, pursuant to the discretionary authority conferred by the form of proxy with respect to such matters. As of the date of this Management Proxy Circular, Patheon's management is not aware of any such amendments or other matters to come before the meeting.

For your vote by proxy to be recorded, please complete, sign, date and return the completed form of proxy using one of the methods available or for your convenience in the postage prepaid envelope provided to Computershare Investor Services Inc., Patheon's registrar and transfer agent, at 100 University Avenue, 9th Floor, Toronto, Ontario, Canada, M5J 2Y1, no later than 10:30 a.m. (EDT) on Tuesday, April 17, 2007, or, if the meeting is adjourned, at least 48 hours (excluding Saturdays, Sundays and holidays) before any adjourned meeting is reconvened, or with the Chair of the meeting on the day of the meeting or any adjournment of the meeting.

Revocation

You may revoke your proxy at any time prior to its use. You or your authorized attorney (or, if the shareholder is a corporation, the authorized officers) must state clearly, in writing, that the proxy is revoked and deposit this document:

- at Patheon's head office, located at 7070 Mississauga Road, Suite 350 Mississauga, Ontario L5N 7J8, at any time up to and including the last business day preceding the day of the meeting or any adjournment of the meeting; or
- with the Chair of the meeting on the day of the meeting or any adjournment of the meeting.

You may also revoke your proxy by completing a proxy bearing a later date and returning it as specified above.

If you are a registered shareholder and you revoke your proxy and do not replace it with another that is deposited with Computershare Investor Services Inc., as specified above, you can still vote your shares, but must do so in person at the meeting or any adjournment of the meeting.

Non-Registered Shareholders

Voting in Person

Only registered shareholders or their duly appointed proxyholders are entitled to vote at the meeting. If you are a non-registered shareholder and you wish to attend and vote in person at the meeting, you must insert your own name in the space provided for the appointment of a proxyholder on the voting instruction form or proxy form provided by the intermediary and carefully follow the instructions provided by your intermediary for return of the executed form.

Voting by Proxy

If you are a non-registered shareholder you can vote by completing and signing the voting instruction form, following the directions provided on the voting instruction form (which may in some cases, permit the completion of the voting instruction form by fax, internet or telephone voting) or form of proxy enclosed in the package which you should have received from your intermediary.

Votes Required For Approval

A majority of the votes cast at the meeting, by proxy or in person, is required for the approval of each of the matters being voted on at the meeting, except for the special resolution to approve making amendments to Patheon's articles to redesignate the common shares as restricted voting shares, the approval of which requires a two-thirds majority of the votes cast at the meeting, by proxy or in person.

Solicitation of Proxies

This solicitation is made by the management of Patheon. It is expected that the solicitation will be primarily by mail but proxies may also be solicited personally or by telephone by Patheon's officers and directors (who will not receive additional remuneration for this service). Patheon will also hire the services of third parties to solicit proxies, notably Georgeson Shareholder Communications Canada Inc. who may be contacted toll free within North America at 1-866-656-3731. The costs of solicitation will be borne by Patheon, which are estimated at about $35,000.

BUSINESS OF THE MEETING

The business to be conducted at the meeting is described in detail below. The matters to be considered are as follows:

- 2006 consolidated financial statements;
- Election of directors;
- Appointment of auditors and authorization to fix their remuneration;
- Approval of the investment in Patheon of US$150 million by JLL Partners by way of convertible preferred shares;
- Conditional on the approval of the JLL Partners' investment, approval, by way of special resolution, of the making of amendments to Patheon's articles to redesignate the common shares as restricted voting shares;
- Conditional on the approval of the JLL Partners' investment, approval of the waiver by the Board of Directors of the provisions of Patheon's shareholder rights plan necessary to effect the JLL Partners' investment; and
- Conditional on the approval of preceding three items, confirmation of amendments to Patheon's By-law No. 1(2002) to reflect JLL Partners' right to elect up to three directors.

Financial Statements

Patheon's audited consolidated financial statements for the fiscal year ended October 31, 2006, ("Fiscal 2006") together with the notes thereto and the report of the auditors thereon, were filed on SEDAR (www.sedar.com) on January 29th, 2007 and will be presented to the shareholders at the meeting. These consolidated financial statements form part of the Patheon 2006 Annual Report, copies of which may be downloaded in portable document format (PDF) from Patheon's corporate website at www.patheon.com or from the SEDAR website. Printed copies will be available at the meeting. To request a printed copy please contact Patheon's transfer agent, Computershare Investor Services Inc., at 1-888-564-6253 or via email at service@computereshare.com, or Patheon at patheon@patheon.com.

Election of Directors

Patheon's articles of amalgamation provide for the Board to consist of a minimum of three and a maximum of 12 directors.

The Board has determined that the number of directors to be elected at the meeting is six and approved the following nominees for election as directors of Patheon:

Peter A.W. Green	Joaquín B. Viso
George L. Ploder	Derek J. Watchorn
Riccardo C. Trecroce	Gregory C. Wilkins

Other than Mr. Trecroce, all of the above persons are currently members of Patheon's Board of Directors whose term of office expires immediately prior to the election of directors at the meeting.

The persons proposed for nomination are, in the opinion of the Board, well qualified to act as directors for the ensuing year. If elected, each of the above nominees will serve as directors of Patheon until the next annual meeting of shareholders or until his successor is elected or appointed.

It is not contemplated that any of the nominees will be unable or will become unwilling, for any reason, to serve as a director but, if that should occur for any reason prior to their election, the persons named in the enclosed form of proxy may, in their discretion, vote for the election of any other person(s) as director(s).

In addition to the six directors elected at the meeting, if the proposed investment by JLL Partners is completed, JLL Partners will be entitled to appoint an additional three directors. See "Approval of Investment by JLL Partners — Details of Investment by JLL Partners — Board Representation Rights".

Nominee for Election as Director	Common Shares Owned, Controlled or Directed as at March 26th 2007	2006	Outstanding Options as at March 26th 2007	2006	Public Board Membership During Last Five Years	
Peter A. W. Green(1) *Campbellville, Ontario, Canada* Director since: 1996 Independent	58,000	28,000	60,000	90,000	Superior Plus Inc.	1996-present

Attendance:		
	Board	12/12
	Audit Committee	5/5
	Corporate Governance Committee	3/3
	Compensation and Human Resources Committee	3/3
	Special Committee	2/2

Mr. Green is Chairman of the Board of Patheon Inc. and has held that position since 1996. He is also Lead Director of Superior Plus Inc. and a Director of Gore Mutual Insurance Company. He is a Chartered Accountant.

Nominee for Election as Director	Common Shares Owned, Controlled or Directed as at March 26th 2007	2006	Outstanding Options as at March 26th 2007	2006	Public Board Membership During Last Five Years
George L. Ploder(2) *Mississauga, Ontario, Canada* Director since: 1992 Independent	8,194	8,194	30,000	30,000	Bennett Environmental Inc. 2002-present Vital Retirement Living Inc. 1999-present

Attendance:	Board	11/12
	Audit Committee	5/5
	Corporate Governance Committee	3/3
	Special Committee	2/2

Mr. Ploder is a Director of Bennett Environmental Inc. and Vital Retirement Living Inc. He served as Chief Executive Officer and President of Bracknell Corporation from 1989 to 1999. Mr. Ploder is a Chartered Accountant.

Nominee for Election as Director	Common Shares 2007	2006	Options 2007	2006	Public Board Membership
Riccardo C. Trecroce(3) *Oakville, Ontario* Director Since: New Not Independent	9,519	11,575	115,000	115,000	

Attendance:	Board	N/A

Mr. Trecroce is Patheon's Chief Executive Officer. He joined Patheon in 2000 as General Counsel, Secretary and Senior Vice-President, Corporate Administration. He was promoted to General Counsel, Secretary and Executive Vice-President, Administration on June 26, 2006. Mr. Trecroce was appointed Chief Executive Officer on September 10, 2006 for an interim period and on March 19, 2007, this was changed to an indefinite period. Prior to joining Patheon, Mr. Trecroce was a partner for 12 years in the Toronto office of the law firm of Fraser Milner Casgrain LLP. Mr. Trecroce holds a Bachelor of Arts degree in International Relations from Concordia University and Bachelor of Laws and Bachelor of Civil Law degrees from McGill University. He was called to the Bar in Alberta, Canada in 1982 and in Ontario, Canada in 1985.

Nominee for Election as Director	Common Shares Owned, Controlled or Directed as at March 26th 2007	2006	Outstanding Options as at March 26th 2007	2006	Public Board Membership During Last Five Years	
Joaquín B. Viso(3) *San Juan, Puerto Rico* Director since: 2004 Not Independent	10,824,053	10,824,053	—	—		
Derek J. Watchorn *Schomberg, Ontario, Canada* Director since: 1998 Independent	18,325	18,325	40,000	40,000	Retirement Residences Real Estate Investment Trust	2001-present
					IPC US Real Estate Investment Trust	2003-present

Joaquín B. Viso — Attendance:

Attendance:	
Board	12/12

Mr. Viso joined the Board of Patheon on December 23, 2004. Mr. Viso founded MOVA Pharmaceutical Corporation in 1986 served as its President and Chief Executive Officer until August 1, 2005 and as its Chairman until December 31, 2006. MOVA Pharmaceutical Corporation became a wholly owned subsidiary of Patheon Inc. on December 23, 2004. Prior to founding MOVA, he was with SmithKline (now GlaxoSmithKline) for 16 years, where he held various senior management positions, including President and General Manager of SmithKline's operations in Puerto Rico from 1978 to 1986. Mr. Viso holds a Bachelor of Science in Mechanical Engineering from the University of Puerto Rico and a Master of Science in Engineering from the University of Michigan. He is also Chairman of Orbix Healthcare Corporation, and a Director of Universidad Central del Caribe, a privately funded medical school in Puerto Rico, and of Scotiabank of Puerto Rico. Mr. Viso is also a controlling shareholder of Alara Pharmaceutical Corporation which has two contractual commercial relationships with MOVA Pharmaceutical Corporation.

Derek J. Watchorn — Attendance:

Attendance:	
Board	11/12
Corporate Governance Committee	3/3
Compensation and Human Resources Committee	3/3
Special Committee	2/2

Mr. Watchorn is President and Chief Executive Officer of Retirement Residences Real Estate Investment Trust and a trustee of IPC US Real Estate Investment Trust in Toronto, Canada. He served in London, England as Executive Vice-President, Strategic Initiatives, of Canary Wharf Group plc from January 2003 until June 2004 and as Executive Director of TrizecHahn Europe from 1999 until 2001. Before and after his senior management roles in Europe, Mr. Watchorn was a senior partner of the law firm Davies Ward Phillips & Vineberg LLP, which he joined in 1968. Mr. Watchorn holds an LL.B. from the University of Toronto.

Nominee for Election as Director	Common Shares Owned, Controlled or Directed as at March 26th 2007	2006	Outstanding Options as at March 26th 2007	2006	Public Board Membership During Last Five Years	
Gregory C. Wilkins *Toronto, Ontario, Canada* Director since: 2003 Independent	12,000	12,000	20,000	20,000	Barrick Gold Corporation	1991-present

Attendance:		
	Board	10/12
	Audit Committee	3/5
	Corporate Governance Committee	3/3
	Compensation and Human Resources Committee	1/3
	Special Committee	2/2

Mr. Wilkins is Chief Executive Officer and President of Barrick Gold Corporation. Mr. Wilkins was a financial consultant from June 2001 until February 2003. He served as President and Chief Operating Officer of TrizecHahn Corporation Ltd. between 1996 and June 2001. Mr. Wilkins holds a B.Com. from Concordia University and is a Chartered Accountant.

(1) 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.

(2) 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. This cease trade order remains in effect.

(3) Members of management or former members of management are not members of any Committees of the Board.

Appointment of Auditors

On the recommendation of the Audit Committee, the Board of Directors proposes that Ernst & Young LLP, Chartered Accountants, be re-appointed as Patheon's auditors to hold office until the next annual meeting of shareholders. Ernst & Young LLP have been auditors to Patheon and its predecessor corporation since May 23, 1984.

For Fiscal 2006, Ernst & Young LLP and its affiliates were paid approximately $1,294,000 as detailed below:

Ernst & Young LLP	Fiscal 2006	Fiscal 2005
Audit Fees	$1,074,000	$1,051,000
Non-Audit Services Fees	$ 183,000	$ 417,000
Other Accounting Services Fees	$ 37,000	$ 81,000

The non-audit services fees were related primarily to reviews of the tax compliance and quarterly filings. Other accounting services fees were related primarily to employee benefit plan audits. Ernst & Young LLP was not retained to provide corporate tax planning services during Fiscal 2006.

The Audit Committee periodically reviews the provision of services other than audit services by Ernst & Young LLP and considers whether the provision of these services is compatible with maintaining the auditors' independence. In addition, the Audit Committee annually reviews with Ernst & Young LLP their qualifications and independence.

Approval of Investment by JLL Partners

Overview

On March 1, 2007, Patheon entered into a definitive agreement with JLL Partners, under which it will purchase convertible preferred shares of Patheon through a private placement with aggregate gross proceeds of US$150 million (the "Transaction"). The Transaction is subject to shareholder approval, satisfactory refinancing or restructuring of the remaining portion of Patheon's North American debt following the investment, and customary closing conditions.

JLL Partners Inc. is a private equity investment firm, founded in 1988 and based in New York, that currently manages, through various funds, approximately US$3.2 billion in committed capital. JLL Partners Inc. has made investments across a variety of industries including healthcare, financial services and building products and services. In particular, JLL Partners Inc. has made several successful investments in healthcare including AdvancePCS, Iasis Healthcare, Medical Card System, Kendall International and OrNda Healthcare.

Patheon intends to use the net proceeds of the offering, expected to be approximately US$138 million, to pay down a portion of its outstanding debt of approximately US$238 million under its existing North American credit facilities. JLL Partners' investment is conditional on Patheon concurrently refinancing the remaining portion of its long-term debt under its North American loan agreement, or entering into an amendment to the existing credit agreement with its North American lenders which will modify Patheon's covenants in light of the reduced level of debt, or pursuant to which the lenders will agree to forebear from accelerating the indebtedness under the facility for at least 12 months after the closing of the Transaction. In addition, the Transaction is subject to other customary closing conditions, including accuracy of each party's representations and warranties, the absence of any injunction or other legal impediment to the Transaction, the absence of any material adverse effect on Patheon since October 31, 2006, shareholder approval, waiver of the applicability of the rights plan and approval thereof by stockholders, execution of the related Investor Agreement, certain amendments to the employment agreements of Patheon's most senior executives, TSX approval, Patheon and JLL having each obtained all required regulatory consents and Patheon having obtained certain required material contractual consents.

Background

The Transaction is the result of an extensive strategic and financial alternatives review process, commenced in September 2006. This process was conducted under the supervision of a special committee composed of the independent directors of Patheon: Peter A.W. Green (Chair), George L. Ploder, Derek J. Watchorn and Gregory C. Wilkins (the "Special Committee"). RBC Capital Markets and Greenhill & Co. were engaged as financial advisors to Patheon and the Special Committee, respectively, in connection with this review.

In late September 2006, the Committee conducted a review of various potential financial and strategic alternatives for Patheon, including a potential sale of Patheon, a sale of equity or equity-related securities and asset sales, and determined that Patheon should explore a potential sale of Patheon as the preferred alternative. In accordance with the instructions of the Special Committee, management and the financial advisors commenced a broad auction process in October 2006 and contacted over 40 potential bidders.

In November 2006, Patheon received several non-binding written expressions of interest in respect of a potential sale of Patheon, as well as informal expressions of interest in respect of a potential equity or equity-related investment or a potential sale of particular assets of Patheon. Several of the parties that submitted formal expressions of interest were invited to participate in a second phase of the potential sale process involving extensive due diligence during November and December 2006 but each did not submit a binding proposal for the acquisition of Patheon. Certain of these parties did, however, express an interest at that time in making an equity-related investment in Patheon.

In January 2007, Patheon solicited detailed proposals in respect of an equity or equity-related investment from several parties who had expressed an interest in such a transaction, including JLL Partners. After receiving proposals in late January, Patheon entered into negotiations with JLL Partners and others and, in mid-February 2007, entered into a period of exclusive negotiations with JLL Partners with a view to signing definitive agreements for the investment. The agreements with JLL Partners were entered into on March 1, 2007.

Reasons for the Transaction

Patheon expects that the Transaction will provide Patheon with critical financial certainty and stability going forward. Moreover, it will allow the company to avoid a default under its credit facilities as at April 30, 2007. If the Transaction is not completed, Patheon anticipates that it will not be in compliance with the original financial covenants under the North American credit agreement and this would trigger a default under its North American credit facilities as at April 30, 2007 and, because of a cross-default provision, a default under its U.K. subsidiary's credit facility. If such a default were to occur, our lenders could declare the full principal amount of outstanding indebtedness under our senior credit facilities, plus accrued and unpaid interest thereon, to be immediately due and payable. Accordingly, failure to approve the Transaction could have serious adverse consequences for Patheon.

The Special Committee, after an extensive strategic and financial alternative review process, determined that the proposed Transaction was the best available alternative for Patheon's shareholders that would address this critical issue. Patheon believes that it will benefit from working with JLL Partners, an experienced, successful long-term investor that will be actively involved at the Board of Directors level.

Accordingly, the Board of Directors is unanimously recommending that shareholders vote to approve the transaction and related matters, and each member of the Board of Directors has agreed to vote his shares in favour of the approval.

Patheon acquired its Puerto Rico operations, MOVA Pharmaceutical Corporation and certain affiliates ("MOVA"), on December 23, 2004 for cash and shares. In connection with the acquisition, Patheon assumed MOVA's existing indebtedness and assumed additional liabilities to fund part of the cash portion of the purchase price. This assumed and additional indebtedness, together with indebtedness of Patheon's U.S. subsidiaries, was refinanced under new North American credit facilities in the aggregate amount of $290 million in December 2005.

Overall, MOVA's operating results since it was acquired by Patheon have been materially worse than what Patheon expected when it made the acquisition as a result of a series of issues affecting high-volume products manufactured by MOVA. In anticipation of lower-than-expected earnings and EBITDA for the third quarter of fiscal 2006, principally as a result of these issues, in July 2006 Patheon commenced negotiations with its lenders in respect of amendments to certain financial covenants under its North American credit facilities because of concern that, based on its latest internal forecast at that time, Patheon would not be in compliance with its financial covenants as at July 31, 2006. During the fourth quarter of fiscal 2006, Patheon entered into a further agreement with its lenders to amend these credit facilities, establishing amended financial covenants, to be satisfied monthly over a six-month period ending on March 31, 2007. The original financial ratio covenants will apply as at April 30, 2007.

As of the date of this Management Proxy Circular, Patheon is engaged in discussions with lenders regarding the refinancing or restructuring of its remaining North American indebtedness concurrently with the completion of the Transaction. This refinancing or restructuring is a condition to the completion of the Transaction (see "Approval of Investment by JLL Partners"). Based on discussions to date, and in light of the significantly reduced level of indebtedness that Patheon will have upon the completion of the Transaction, Patheon expects that it will be able to enter into an agreement in respect of this refinancing or restructuring before the meeting. Patheon will issue a news release when it enters into such an agreement.

Details of the Investment by JLL Partners

The terms and conditions on which JLL Partners has agreed to invest in Patheon are set out in the purchase agreement dated March 1, 2007 between Patheon and JLL Partners, including the ancillary documents contained in the schedules to the agreement, a copy of which has been filed with Canadian securities regulators and is available at www.sedar.com. The following is a brief summary of the terms and conditions set out in the purchase agreement. This summary is not complete and is subject to and is qualified in its entirety by reference to the purchase agreement.

Type of Investment: 150,000 units, each consisting of one Class I Preferred Share, Series C (a "Convertible Preferred Share") and one Class I Preferred Share, Series D (a "Special Voting Preferred Share"), at a purchase price of US$1,000 per unit.

Amount: US$150,000,000

Accretion to Liquidation Preference and Conversion Price; Dividends: During the first 30 months after issuance of the Convertible Preferred Shares, no cash dividends will be paid, but the liquidation preference and conversion rate of the Convertible Preferred Shares will increase on a quarterly basis that equates to an increase of 8.5% annually. After 30 months, these increases in the liquidation preference and conversion rate will continue until the maturity or prior conversion of the Convertible Preferred Shares, unless Patheon elects to pay a cash dividend for any applicable quarter, in which case Patheon will pay a cash dividend for such quarter based on an annual dividend rate of 8.5%.

Conversion: The Convertible Preferred Shares will be convertible into Patheon restricted voting shares ("Restricted Voting Shares"), as Patheon's common shares will be redesignated, at any time at the holder's option at a price equivalent to C$5.55 per Restricted Voting Share (based on the exchange rate as of March 1, 2007). Patheon will be entitled to require the holder to convert into Restricted Voting Shares if, at any time after 30 months from the date of issuance, the market price of the Restricted Voting Shares on the TSX exceeds a price equivalent to C$9.16 (based on the exchange rate as of March 1, 2007) for a period of at least 60 days.

Maturity/Redemption on Change of Control: Patheon will be required to redeem the Convertible Preferred Shares for cash on the 10th anniversary of the date of issuance at a price equal to the aggregate liquidation preference of the Convertible Preferred Shares, plus accrued and unpaid dividends thereon. Patheon will also be required to redeem the Convertible Preferred Shares upon the occurrence of a change of control of Patheon at a price equal to the greater of the aggregate liquidation preference of the Convertible Preferred Shares, plus accrued and unpaid dividends thereon, or the price per share paid to holders of Restricted Voting Shares in the change of control transaction, multiplied by the number of Restricted Voting Shares into which the Convertible Preferred Shares are then convertible.

Voting Rights: The Convertible Preferred Shares will have the right to vote, together with the holders of the Restricted Voting Shares, on an as-if converted basis, in respect of all matters other than the election of directors. Immediately following the completion of JLL Partners' investment (but before any adjustments in lieu of dividends), these voting rights will represent approximately 25% of the voting rights of Patheon. The Special Voting Preferred Shares will have the right to elect up to three directors.

Board Representation Rights: JLL Partners will be entitled to designate up to three nominees for election or appointment to Patheon's nine-member Board of Directors (the "JLL Partners Representatives") as follows:

(a) so long as JLL Partners holds at least 90,000 Convertible Preferred Shares (or the corresponding number of the Restricted Voting Shares issued upon conversion of the Convertible Preferred Shares), it shall be entitled to designate three JLL Partners Representatives;

(b) so long as JLL Partners holds at least 45,000 Convertible Preferred Shares (or the corresponding number of the Restricted Voting Shares issued upon conversion of the Convertible Preferred Shares), it shall be entitled to designate two JLL Partners Representatives; and

(c) so long as JLL Partners holds at least 22,500 Convertible Preferred Shares (or the corresponding number of the Restricted Voting Shares issued upon conversion of the Convertible Preferred Shares), it shall be entitled to designate one JLL Partners Representative.

The Special Voting Preferred Shares will be automatically cancelled if JLL Partners ceases to hold at least 22,500 Convertible Preferred Shares (or the corresponding number of Restricted Voting Shares issued on conversion of the Convertible Preferred Shares).

Special Approval Rights: JLL Partner's approval is required if Patheon wants to do any of the following (provided that JLL Partners holds at least 52,500 Convertible Preferred Shares) (or the corresponding number of the Restricted Voting Shares issued upon conversion of the Convertible Preferred Shares):

(a) create or issue of any shares of capital stock ranking *pari passu* with or senior to the Convertible Preferred Shares and any issuance of additional Restricted Voting Shares or other equity securities of Patheon, or securities convertible for or exchangeable into, such securities, other than pursuant to Patheon's incentive stock option plan or any other security-based compensation arrangement consented to by JLL Partners;

(b) declare or pay dividends or other distributions (including capital) on the Restricted Voting Shares or other equity securities;

(c) redeem, repurchase or acquire any Restricted Voting Shares or other equity securities;

(d) change the articles of Patheon;

(e) change the rights of the existing classes of Restricted Voting Shares of Patheon;

(f) merge, consolidate or sell all or substantially all of the assets of Patheon or undertake any similar business combination transaction;

(g) incur any indebtedness for borrowed money in excess of US$20 million, excluding borrowings under Patheon's credit facilities and any indebtedness incurred to fund all or part of the redemption price for all of the Convertible Preferred Shares;

(h) initiate any insolvency, restructuring or reorganization process, voluntary liquidation, dissolution or winding-up of Patheon;

(i) change the Chief Executive Officer of Patheon; or

(j) change the size of the board of directors of Patheon.

Standstill: Unless JLL Partners is making an offer to acquire all of the outstanding Restricted Voting Shares of Patheon by way of take-over bid circular and in compliance with the terms of Patheon's shareholder rights plan (if then in effect), JLL Partners will not acquire or offer to acquire, directly or indirectly, any Restricted Voting Shares or Convertible Preferred Shares or direct or indirect rights or options to acquire any Restricted Voting Shares, other than Restricted Voting Shares received through a stock dividend or recapitalization of Patheon, any dividend reinvestment plan, a rights offering to all holders of Restricted Voting Shares, securities issued under Patheon's Shareholders Rights Plan or Restricted Voting Shares issued upon conversion of the Convertible Preferred Shares. JLL Partners will not act jointly or in concert with any third party to propose or effect any take-over bid, amalgamation, merger, arrangement or other business combination with respect to Patheon or to propose or effect any acquisition or purchase of any of the assets of Patheon. JLL Partners will not solicit votes or proxies to attempt to alter of the structure of the Board of Directors as it exists on the date of closing. The standstill provisions will expire on the earliest of (i) the fifth anniversary of the date of closing, (ii) the date upon which JLL Partners or any of its affiliates (A) ceases to own beneficially, directly or indirectly, Restricted Voting Shares and Convertible Preferred Shares that represent at least 20% of the number of Restricted Voting Shares then issued and outstanding and (B) no longer has the right to nominate a JLL Partners Representative to the Board, and (iii) the date on which the Board approves any of the following actions, or approves the entering into by Patheon of an agreement in respect of any transaction involving, (A) the sale of Restricted Voting Shares or Convertible Preferred Shares representing more than 35% of the fully-diluted shares held by JLL Partners to any third party other than a member of JLL Partners and its affiliates or any person acting jointly or in concert with any member of JLL Partners and its affiliates, (ii) a consolidation, merger, arrangement or amalgamation (statutory or otherwise) of Patheon with any such third party or (iii) the acquisition by any such third party or group of such third parties of Restricted Voting Shares or convertible securities representing more than 35% of the fully-diluted shares held by JLL Partners.

Coat-tail Protection: In addition to any restrictions under applicable law, the Convertible Preferred Shares may only be transferred (i) to an affiliate of JLL Partners, (ii) to a purchaser that has also offered or has made a follow-up offer to purchase all the Restricted Voting Shares on the same terms and on an economically-equivalent basis or (iii) pursuant to a transaction that would, if the Convertible Preferred Shares were Restricted Voting Shares, be an exempt take-over bid or otherwise would not require that an offer or follow-up offer be made to all holders.

Transfer of Special Voting Preferred Shares: The Special Voting Preferred Shares are not transferable, except to an affiliate of JLL Partners.

Registration Rights: JLL Partners may request Patheon to effect a qualification under the Canadian securities laws of the distribution to the public in any or all of the provinces of Canada of all or part of the Convertible Preferred Shares (or Restricted Voting Shares received on conversion) held by JLL Partners (a "Demand Registration"), subject to a maximum of two Demand Registrations. In addition, each time Patheon elects to proceed with the preparation and filing of a prospectus under any Canadian securities laws in connection with a proposed distribution of any of its securities for cash, JLL Partners shall be entitled to request that Patheon cause any or all of the such shares held by JLL Partners to be included in such prospectus (an "Incidental Registration"). All registration expenses (excluding underwriting or placement discounts and commissions) will be borne by Patheon. The Demand Registration rights terminate when JLL Partners and its affiliates no longer beneficially owns Convertible Preferred Shares (or Restricted Voting Shares received on conversion) representing at least 12,500,000 fully diluted Restricted Voting Shares and the Incidental Registration rights terminate when JLL Partners and its affiliates no longer beneficially owns Convertible Preferred Shares (or Restricted Voting Shares received on conversion) representing at least 6,250,000 fully diluted Restricted Voting Shares.

Expense Reimbursement: If the purchase of the Convertible Preferred Shares is completed, Patheon will be obligated to reimburse JLL Partners for all reasonable costs and expenses incurred by it in connection with the Transaction up to a maximum of US$3 million, including all reasonable fees, costs and expenses of its legal, financial, auditing, professional and other advisors and all other reasonable costs and expenses whatsoever or howsoever incurred.

Termination Fees: If shareholder approval is not obtained on or prior to April 30, 2007, Patheon will be obligated to pay JLL Partners a termination fee in the amount of US$2 million. In addition, if the issue, sale and purchase of the Convertible Preferred Shares is not completed and, on or prior to August 31, 2007, Patheon enters into a definitive agreement with respect to an alternative transaction with a third party other than JLL Partners or any person acting jointly or in concert with JLL Partners, then Patheon will be obligated to pay to JLL Partners an additional fee in the amount of US$4 million. An "alternative transaction" for this purpose is a private placement or public offering (other than a rights offering for which no existing shareholder or third party investor, other than JLL Partners or any joint actor, provides a standby commitment) of Convertible Preferred Shares or equity securities of Patheon or other securities convertible into or exchangeable for such equity securities for aggregate proceeds to Patheon in excess of $50 million or any acquisition of, or merger, consolidation, amalgamation or similar business combination involving, Patheon.

Support of Patheon's Directors and Officers

Each of the directors and senior officers of Patheon, including Joaquin Viso, Patheon's largest single shareholder, has entered into a voting agreement with JLL Partners under which they have agreed to vote in favour of the Transaction approval at the meeting.

Recommendation of the Board of Directors

Patheon's Board of Directors recommends that Patheon's shareholders vote in favour of the approval of the investment by JLL Partners.

Redesignation of Common Shares

Patheon's articles currently provide that its authorized capital consists of an unlimited number of common shares and an unlimited number of Class I preferred shares, issuable in series. In accordance with Patheon's articles, the Board of Directors has approved adding the terms of the Convertible Preferred Shares and the Special Voting Shares to the articles prior to the completion of the JLL Partners investment.

If the JLL Partners investment is completed, JLL Partners, as holder of the Special Voting Shares, will have the right to elect up to 3 of 9 members of the Board of Directors and the holders of Convertible Preferred Shares will have the right to vote, on an as-if converted basis, in respect of matters other than the election of directors. See "Approval of Investment by JLL Partners — Details of the Investment by JLL Partners". The holders of Patheon's common shares will have the right to elect the remaining members of the Board of Directors but will not be entitled to vote in respect of the election of JLL Partners' representatives.

Under the rules of the TSX, voting equity securities are not to be designated, or called, common shares unless they have a right to vote in all circumstances that is not less, on a per share basis, than the voting rights of each other class of voting securities. Accordingly, as a condition of its approval of the JLL Investment, the TSX is requiring that Patheon amend its articles to redesignate the common shares as restricted voting shares. This redesignation involves only a change in the name of the securities; the number of shares outstanding and the terms and conditions of the outstanding shares are not affected by the change.

If, with shareholder approval, the common shares are redesignated as restricted voting shares, share certificates representing outstanding common shares will be deemed to represent an equal number of restricted voting shares. These share certificates will be replaced over time by share certificates bearing the designation "restricted voting shares", for example when certificates are presented to Patheon's transfer agent for transfer. The redesignation of the common shares will not affect their listing or trading on the TSX.

Shareholders at the meeting will be asked to consider and, if thought fit, approve a special resolution authorizing the amending of Patheon's articles to effect the redesignation. Approval of this special resolution requires approval by a two-thirds majority of the votes cast at the meeting, by proxy or in person.

If the shareholders do not approve the JLL Partners' investment, the amendment to Patheon's articles to effect the redesignation of the common shares as restricted voting shares will not be required and, in this circumstance, this item will not be considered at the meeting.

Approval of Waiver of Shareholder Rights Plan

Patheon's Shareholder Rights Plan dated as of March 31, 2005 between Patheon and Computershare Trust Company of Canada (the "Shareholder Rights Plan") provides that a person who becomes the beneficial owner (as defined in the Plan) of 20% or more of Patheon's outstanding voting shares is an "acquiring person" for the purpose of the Shareholder Rights Plan which would trigger certain provisions of the Shareholder Rights Plan. Since JLL Partners will hold (if the Transaction is approved by the shareholders) more than 20% of the voting rights of Patheon as described above, Patheon's Board of Directors has approved a waiver of the application of the Shareholder Rights Plan in respect of the investment by JLL Partners. In accordance with the terms of the Shareholder Rights Plan, in order for such waiver to be effective, it must be approved by an affirmative vote of a majority of the votes cast by the independent shareholders (as defined in the Plan) represented in person or by proxy at the meeting. To Patheon's knowledge, all of the shareholders of Patheon are independent shareholders for this purpose.

If the shareholders do not approve the JLL Partners' investment, the waiver of the application of the Shareholders Rights Plan in respect of the investment by JLL Partners will not be required and, in this circumstance, this item will not be considered at the meeting.

Confirmation of Amendment to By-Laws

On March 19, 2007, Patheon's Board of Directors conditionally approved amendments to Patheon's By-law No. 1(2002) to provide for separate classes of shares with power to elect directors. This amendment will be necessary if the Transaction with JLL Partners described above is approved because JLL Partners will have the right to elect up to three directors based on their holding of the Special Voting Preferred Shares. The common shareholders will have the right to elect other directors. The amendment also replaces references in the by-law to "common shares" with "restricted voting shares" to reflect the redesignation of these shares.

A resolution confirming the amendment to By-law No. 1(2002) is attached as Appendix C.

If the shareholders do not approve the JLL Partners investment, the amendment to Patheon's By-law No. 1(2002) will not be required and, in this circumstance, this item will not be considered at the meeting.

If the proposed investment by JLL Partners is completed, JLL Partners will appoint three additional directors following the closing.

EXECUTIVE COMPENSATION AND OTHER INFORMATION

Report on Executive Compensation

The following is the Compensation and Human Resources Committee (the "Committee") report on executive compensation. This report covers all executives whose compensation is reviewed by the Committee, including the executives referred to as the Named Executive Officers in the section entitled *"Executive Compensation"*.

Composition and Mandate of the Committee

Patheon's executive compensation program is administered by the Compensation and Human Resources Committee (the "Committee") in accordance the mandate set out in the Committee's Charter which has been adopted by the Board of Directors. During Fiscal 2006, the Committee was comprised as follows: prior to the 2006 annual meeting of shareholders, Derek Watchorn (Chair), E. James Arnett (resigned January 20, 2006), Peter A.W. Green and the Honourable Roy MacLaren, P.C.; and subsequent to 2006 annual meeting of shareholders, Derek Watchorn (Chair), Peter A.W. Green and Gregory C. Wilkins. None of the members of the Committee were, during Fiscal 2006, or at any time previous, an employee of Patheon or any of its subsidiaries.

Each year, the Committee reviews the compensation levels for the Chief Executive Officer ("CEO"), the President and Chief Operating Officer ("COO"), the other executive officers and certain members of senior management. The Committee also reviews information it receives from Patheon's CEO and COO as well as advice it receives from external compensation consultants. The Committee uses this information and advice to determine and approve any changes to the general compensation levels that it considers appropriate. In addition, the Committee, on the recommendation of the CEO and the COO, approves the discretionary cash bonuses, stock options and restricted share units awarded to executive officers and senior management.

The Committee's responsibilities include:

(a) review of management proposals regarding compensation policies and compensation programs for the members of the Board, the CEO and the COO;

(b) review, at least annually, of the Corporation's executive and management compensation policies and programs to ensure that they are competitive for the purpose of attracting and retaining qualified executives, reasonably related to personal and corporate performance, have the appropriate balance between short-term incentives and long-term incentives and are of general benefit to the Corporation and, where appropriate, recommend to the Board any amendments to existing policies or programs, or the establishment of new policies or programs;

(c) review, periodically, of the fees and other compensation arrangements in place for members of the Board to ensure that they are competitive for the purpose of attracting and retaining the services of experienced and highly qualified independent directors and, where appropriate, recommend to the Board any amendments to such fees and compensation arrangements;

(d) review of, and recommend to the Board, as appropriate, any employment contracts and amendments thereto between the Corporation and the CEO and the COO;

(e) recommend to the Board an appropriate compensation package for the CEO and the COO, based on a review of compensation practices for CEO's and COO's in the same or other appropriate industries, the Corporation's compensation policies and programs, the goals and objectives of the CEO and the COO and their respective performances in respect of these goals and objectives;

(f) review of, and if appropriate, recommend approval to the Board of the CEO's recommendation for the material elements of the compensation programs for all executive officers of the Corporation, including annual incentive payments; and

(g) assure itself that the Corporation's executive and director compensation programs have been administered in accordance with their terms.

Compensation Program

Objectives

The Committee has established four objectives for the compensation program:

(i) The Committee shall monitor, evaluate and, where necessary, make recommendation to the Board for purposes of ensuring that policies and programs in relation to executive and director compensation are: (a) appropriate in light of individual executive responsibility and performance and the achievement of the corporation's objectives; and (b) will permit Patheon to attract and retain the services of experienced and highly qualified executives and members of the Board;

(ii) The Committee shall review and make recommendations to the Board about (a) other specific employment contracts and compensation arrangements with the Corporation's CEO and its COO; and (b) the compensation and incentive programs for the executive officers and senior management of Patheon;

(iii) The Committee shall ensure that there are effective succession plans in place for the CEO, COO and other senior executives; and

(iv) The Committee shall administer Patheon's Incentive Stock Option Plan and Restricted Share Unit Plan and approve the grant of options and units under the respective Plans.

Comparatives

To ensure that the compensation program is competitive, the Committee makes reference to established compensation methodologies for comparisons to Canadian public companies with comparable market capitalization, and industry data banks for both the pharmaceutical industry and general industry sectors in Canada for the Canadian based executives and in the jurisdiction of residence for Patheon's executives resident in countries other than Canada. The Committee has annually engaged Mercer Human Resources Consulting to assist it in its market research regarding appropriate comparative information.

The Committee believes that Patheon's compensation program is consistent with that of other Canadian public companies of similar size and scope.

Compensation Elements

In Fiscal 2006, the Patheon executive compensation program consisted of both fixed and variable elements of compensation including both short-term incentives (annual cash incentive) and long-term incentives (stock options). The following table provides an overview of each element of the Patheon compensation program:

Element	Form	Eligibility	Performance Period	Determination
Base Salary	Cash	All employees	1 Year	• Base salary targets are set at market median and are further adjusted based on individual performance
Short-Term Incentive	Annual Cash Incentive Bonus	All employees	1 Year	• Annual incentives are subject to Patheon's performance against predetermined corporate objectives • Annual incentives are also based on individual achievement of personal performance objectives
Mid-Term Incentive	Restricted Share Units (Cash)	Directors, officers, key employees and consultants	1/3 vest on each of first, second and third anniversaries of the grant	• Initial value of this cash incentive is based on market value of Patheon common shares at time of grant • Final value of cash incentive is based on market value of common shares at time of payout

Element	Form	Eligibility	Performance Period	Determination
Long-Term Incentive	Stock Options	Directors, officers, key employees and consultants	Typically vest over 3 years, 1/3 on each of first, second and third anniversaries of the grant	• Based on share price appreciation up to a 10 year term with vesting typically over initial three years • Initial exercise price is based on market value • Final value is based on market value at time of exercise relative to exercise price at time of grant
Benefits	Health, dental, pension, life insurance and disability programs	All employees	Ongoing	• Based on market median
Employee Share Purchase Savings Plan(1)	Contribution towards purchase of Patheon Inc. common shares	All Patheon Inc., and Patheon Pharmaceuticals Services Inc. employees	Ongoing	• Regular contributions towards the purchase of Patheon common shares • Initial value is 50% of employee's contribution, subject to a maximum employee contribution of 5% of total base salary • Final value is dependent on market value of Patheon common shares at time of sale

(1) The Employee Share Purchase Savings Plan was temporarily suspended effective October 1, 2006 as a cost saving initiative. As of the date hereof, it has not been re-initiated.

Fixed Compensation — Base Salary

The only element of compensation that is fixed on an annual basis is base salary. The Committee reviews base salaries for Patheon's executives annually in light of average salaries for similar positions of the comparator group and adjusts base salaries where appropriate based on levels of responsibility and sustained performance.

Variable Compensation

The variable elements of compensation range from short-term incentives (annual cash incentive bonus) to longer-term incentives (stock options). The level of variable compensation offered to executives and other employees is determined, in part, on the Board's overall assessment of Patheon's business performance, including achievement against stated corporate objectives. In years where corporate performance meets or exceeds stated objectives, the foundation for award considerations will generally be above market median incentive levels. The opposite is true if performance does not meet objectives, and awards for short to mid-term incentives are adjusted accordingly.

Short-Term Incentives

Patheon has established a cash incentive program pursuant to which Patheon's personnel may receive cash incentive bonuses and stock options based on certain performance criteria, subject to certain prescribed limits.

All senior executives, other than the COO, are entitled to an annual cash incentive bonus of between 30% and 50% of their annual base salary. The award of this short-term incentive is subject to Patheon achieving certain financial objectives at the EBITDA level established by the Board at the beginning of each fiscal year, the achievement of certain corporate objectives at the operating unit level established by the CEO and COO, and the achievement of certain personal objectives established by the CEO and COO.

The COO is entitled to an annual performance cash incentive as well as an annual discretionary cash incentive. The annual performance cash incentive is equal to an amount not to exceed 50% of his annual base salary and is subject to Patheon's achievement of certain earnings per share ("EPS") targets which are set by the Board at the beginning of each fiscal year. The discretionary cash incentive is equal to an amount not to exceed 50% of his annual base salary subject to Patheon's achievement of certain corporate objectives and the achievement of certain personal objectives, both of which are set by the Board, on recommendation of Committee, at the beginning of each fiscal year.

In addition to the annual performance and discretionary cash incentives described above, the COO is entitled under his employment agreement: (i) to be granted 25,000 performance stock options per year for the term of the agreement that vest immediately on issuance, if the EPS target established by the Board for the year is met, plus an additional 50,000 performance stock options if such target is exceeded by a specified amount; and (ii) to be granted an additional 100,000 stock options per year for the term of the employment agreement, which are exercisable on or after the first anniversary of the grant.

Mid-Term Incentives — Restricted Share Unit Plan

Mid-term incentives are granted through the Restricted Share Unit Plan ("RSU Plan"). The RSU Plan was established by the Board of Directors on February 22, 2005 as an additional mid-term incentive program for executive officers, senior management, key employees and certain consultants (who are not employees). The intent of the RSU Plan was to retain key employees by aligning a considerable portion of their compensation with a three year term incentive program. The Board authorized the Committee to administer the RSU Plan and all costs and expenses of administering it are paid for by Patheon.

Under the terms of the RSU Plan a participant is entitled to a cash payment for each RSU equivalent to the market price of one Patheon common share (the weighted average price at which the shares have traded on the TSX during the two days immediately prior to the vesting of the RSU). RSU's vest and are payable as to one third each on each of the first three anniversaries of the RSU grant date. The Committee may attach conditions including financial performance targets to all or any portion of the RSU award. Vesting may be accelerated if the participant's employment is terminated or upon a change of control of Patheon. RSU awards are granted at the discretion of the Committee as it determines appropriate to provide long term incentive compensation.

Each RSU award is a liability of Patheon and the amount of such liability is measured quarterly with each reporting period. The liability is equal to the number of outstanding RSU's multiplied by Patheon's closing stock price then in effect.

The maximum number of RSU's that may be issued under the RSU Plan is 2,000,000, subject to adjustments due to changes in the number of outstanding shares.

Long-Term Incentives — Incentive Stock Option Plan

Long-term incentives are awarded to executives through Patheon's Incentive Stock Option Plan (the "Stock Option Plan). The Stock Option Plan was established for the benefit of officers, key employees, directors and certain consultants (who are not employees) of Patheon and its subsidiaries. The intent of the Stock Option Plan is to link a significant portion of executive's long-term compensation package to the growth and profitability of Patheon, thereby aligning the interests of executives with shareholders. A summary of the Stock Option Plan is provided below.

The Committee is responsible for determining which eligible persons are granted options and the terms and conditions that will attach to such grants, subject to the terms of the Stock Option Plan. In granting such options, the Committee considers recommendations made from time to time by Patheon's CEO, considers the number and terms of existing options and structures the exercise periods and other terms attaching to new options with the primary goal of aligning option holder and shareholder interests.

Options granted to the CEO and COO are determined by the Committee based on the terms of their respective employment agreements, and consistent with Patheon's compensation policies.

The following is a summary of the Stock Option Plan:

Exercise Price: The exercise price of common shares subject to an option is determined at the time of grant and the price cannot be less than the weighted average market price of the common shares of Patheon on the TSX during the two trading days immediately preceding the grant date.

Expiry of Options: Options generally expire 10 years after the grant date and are also subject to early expiry in the event of death, resignation, dismissal or retirement of an optionee.

Vesting Requirements: Options generally vest over three years, one-third on each of the first, second and third anniversary of the grant date.

Non-assignable: Options are not assignable or transferable except in the event of the optionee's death, whereupon options may be exercised by the appropriate legal representatives in accordance with their terms.

Adjustments: The Stock Option Plan provides for appropriate adjustments to be made to the type, number and/or price of the securities subject to the options in such events as subdivision, consolidation, stock dividend, reclassification or conversion, recapitalization or reorganization.

No Financial Assistance: Patheon provides no financial assistance to the optionees in connection with the exercise of stock options.

Board Approvals: The Committee determines the terms of each option granted, including the number of options granted, the exercise price, the expiry date and the vesting dates. The Board of Directors may at any time suspend or terminate the Stock Option Plan in whole or in part and may amend the Stock Option Plan in such respects as deemed appropriate, subject to applicable regulatory approval. Shareholder approval is required to materially increase the benefits accruing to participants, increase the number of shares issuable under the Stock Option Plan or materially modify the requirements as to eligibility for participation in the Stock Option Plan.

Limitations: The current maximum number of common shares that may be issued under the Stock Option Plan is 7.5% of the issued and outstanding common shares of Patheon at any one time. In addition, at the time of the granting of the options, the aggregate number of common shares reserved for issuance to any one individual may not exceed 5% of Patheon's then issued and outstanding common shares and the aggregate number of common shares reserved for issuance to directors of Patheon who are not employees of Patheon may not exceed 1% of Patheon's then issued and outstanding common shares.

Outstanding Options: The total number of common shares issuable under grants outstanding as of the date hereof is 3,920,349 representing 4.2% of the currently issued and outstanding common shares of Patheon.

Stock Option Plan Information as of October 31, 2006

Plan Category	Number of securities to be issued upon exercise of outstanding options (a)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Stock Option Plan approved by shareholders	3,949,815	$10.53	2,908,612
Equity Compensation Plan not approved by shareholders	—	—	—

Benefits

Patheon maintains or contributes to private and/or government-sponsored pension plans and health and welfare plans in the countries in which it has operations.

See "*Retirement Allowances and Pension Plan Arrangements*" below for details on the pension plans for Mr. Trecroce and Mr. DiPietro.

Employee Share Purchase Savings Plan ("ESPSP")

Patheon also has the ESPSP for the benefit of employees in Canada and certain employees in the United States. Under the ESPSP, eligible employees, including senior management, may contribute up to 5% of their base salary to be used, together with contributions by Patheon equal to 50% of the employee contributions, to purchase common shares of Patheon for the employees on the Toronto Stock Exchange. In order to reduce costs in light of Patheon's performance in Fiscal 2006, Patheon suspended operation of the ESPSP effective October 1, 2006 and, as of the date hereof, it has not been reinitiated.

CEO Compensation for Fiscal 2006

CEO Changes

During Fiscal 2006, Patheon's former CEO, Robert Tedford, retired effective May 5, 2006, approximately 10 months earlier than previously expected. During the subsequent four months and ending on September 10, 2006, the Office of the Chief Executive Officer was constituted by a committee of three individuals: Peter Green (Chairman of the Board of Directors), Nick DiPietro (President and Chief Operating Officer), and Douglas Ludwig (Chief Financial Officer and Executive Vice-President). On September 10, 2006, Riccardo Trecroce, Patheon's General Counsel, Executive Vice-President, Administration and Secretary, was appointed as CEO on an interim basis. On March 19, 2007, the appointment was made for an indefinite period.

General

The compensation package for the CEO includes the same elements of compensation offered to other executive officers of Patheon. The Committee conducts an annual review of the CEO's compensation package and makes recommendations to the Board utilizing the same market-based, performance-related basis as for other executive officers.

Overview of Performance of the CEO

In light of the CEO changes described above and the challenges faced by Patheon during Fiscal 2006, neither Mr. Tedford nor Mr. Trecroce received a cash incentive bonus for Fiscal 2006.

This Report on Executive Compensation was submitted on behalf of the Compensation and Human Resources Committee.

Peter A.W. Green　　Derek J. Watchorn (Chair)　　Gregory C. Wilkins

Executive Compensation

The tables and the related narrative below present information about compensation for Patheon's Chief Executive Officers, Patheon's Chief Financial Officers and the three other most highly compensated executive officers of Patheon (collectively, the "Named Executive Officers") for its three most recently completed financial years. In accordance with securities legislation, the Named Executive Officers were determined on the basis of total cash compensation (salary and bonus) earned in Fiscal 2006.

Table 1 — Summary Compensation Table

		Annual Compensation			Long-Term Compensation		
Name and Principal Position	**Fiscal Year**	**Salary**	**Bonus**	**Other Annual Compensation**(1)	**Securities Under Options Granted (#)**	**Shares or Units Subject to Resale Restrictions**(2)	**All Other Compensation**(3)
Riccardo C. Trecroce	2006	$410,719	—	—	—	$150,447	$ 27,111
Chief Executive Officer	2005	$298,925	$150,000	—	—	$235,754	$ 24,316
(appointed Sept. 10, 2006)	2004	$292,125	$150,000	—	20,000	N/A	$ 22,778
Robert C. Tedford	2006	$650,000(4)	—	—	200,000	—	$440,259
Chief Executive Officer	2005	$650,000	—	—	100,000	N/A	$583,658
(resigned May 5, 2006)	2004	$541,000	—	—	100,000	N/A	$735,872
John H. Bell	2006	$ 31,800(5)	—	—	—	—	—
Chief Financial Officer	2005	N/A	N/A	N/A	N/A	N/A	N/A
(appointed Sept. 25, 2006)	2004	N/A	N/A	N/A	N/A	N/A	N/A
Douglas L. Ludwig	2006	$204,872(6)	—	—	200,000	—	$ 13,573(6)
Chief Financial Officer and	2005	N/A	N/A	N/A	N/A	N/A	N/A
Executive Vice-President	2004	N/A	N/A	N/A	N/A	N/A	N/A
(appointed March 6, 2006 and resigned Sept. 10, 2006)							
Rodger Roden	2006	$ 83,692(7)	—	—	—	$ 81,840	$138,216(7)
Chief Financial Officer and	2005	$ 20,000(8)	—	—	15,000	—	$ 600(8)
Senior Vice-President, Finance	2004	N/A	N/A	N/A	N/A	N/A	N/A
(terminated March 6, 2006)							
Nick A. DiPietro	2006	$550,000	—	—	100,000	—	$ 53,824
President & Chief Operating	2005	$550,000	$121,875	—	100,000	—	$ 49,800
Officer	2004	$490,000	—	—	100,000	N/A	$ 44,456
Aldo Braca	2006	$450,483	—	—	—	$238,920	$163,673
President, Patheon	2005	$525,388	$365,625	—	—	$378,300	$180,514
Europe(9)	2004	$488,465	—	—	75,000	N/A	$181,160
Clive V. Bennett(10)	2006	$499,358(11)	—	—	—	$188,240	$ 8,323
President, Patheon U.S.A.	2005	$410,989(11)	$153,111	—	—	$296,064	$ 22,727
	2004	$355,833	—	—	75,000	N/A	$ 21,036

(1) Perquisites and other personal benefits did not, in the aggregate, exceed the lesser of $50,000 and 10% of the respective total salary and bonus for each of the Named Executive Officers.

(2) The RSU Plan was established in Fiscal 2005, therefore no values appear in prior Fiscal Years. Dollar amounts listed represent the value of the RSU's as of the date of the grants. As of October 31, 2006 there were 430,492 RSU's outstanding which, as of that date, represented an aggregate value of $2,281,608. The RSU's vest and are payable as to one third each on each of the first, second and third anniversaries of the grant date. No dividends or dividend equivalents will be paid on the RSU's.

(3) All other compensation includes the amount of term life insurance premiums paid by Patheon in each fiscal year for the benefit of the Named Executive Officers and the following specific payments:

(i) In the case of Mr. Trecroce, the amount includes Patheon's contributions in each fiscal year to Mr. Trecroce's Registered Retirement Savings Plan (See "*Retirement Allowances and Pension Plan Arrangements*" below) and to the Employee Share Purchase Savings Plan.

(ii) In the case of Mr. Tedford, the amount includes the actuarially determined amount accrued by Patheon in each fiscal year in connection with Mr. Tedford's retirement allowance. Mr. Tedford's employment agreement provided, in lieu of a pension, for payment of a retirement allowance of 2.5 times his annual cash compensation, payable during the 30 months following his retirement. In determining Mr. Tedford's annual cash compensation for the purposes of his retirement allowance it is to be presumed that in each of the last two completed fiscal years of the Corporation immediately preceding the retirement date, that the performance and discretionary bonus amounts awarded to Mr. Tedford in each of those fiscal years were at least 50% of his annual base salary. In addition, the amount includes Patheon's contribution in each fiscal year to Mr. Tedford's Registered Retirement Savings Plan.

(iii) In the case of Mr. Ludwig, the amount includes Patheon's contributions to the Employee Share Purchase Savings Plan and also includes payments in regards to Mr. Ludwig's resignation and accrued vacation pay.

(iv) In the case of Mr. Roden, the amount for each applicable fiscal year includes Patheon's contributions in each fiscal year to the Group Registered Pension Plan and the Employee Share Purchase Savings Plan. For Fiscal 2006 the amount also includes payments in regards to Mr. Roden's termination of employment, accrued vacation pay and amounts in lieu of contributions towards the Group Registered Pension Plan.

(v) In the case of Mr. DiPietro, the amount includes the amount of Patheon's contribution in each fiscal year to a defined benefit pension plan established for Mr. DiPietro. (See "*Retirement Allowances and Pension Plan Arrangements*" below)

(vi) In the case of Mr. Braca, the amount includes Patheon's contribution in each fiscal year to the pension plan administered by the Italian government as required under the Italian National Collective Bargaining Agreement. (See *"Other Individual Pension Plan Arrangements"* below.) In addition, the amount includes an amount accrued by Patheon in each fiscal year in accordance with Italian labour laws for the employee benefit payable to Mr. Braca on separation from employment, which amount is subject to annual adjustments based on indices provided by the Italian government. The amounts included for fiscal 2004 reflect pension contribution amounts paid in respect of bonus payments as well as base salary in accordance with changes in the Italian National Collective Bargaining Agreement.

(vii) In the case of Mr. Bennett, the amount includes Patheon's contributions in each fiscal year to the Group Registered Pension Plan and the Employee Share Purchase Savings Plan. (See "*Other Individual Pension Plan Arrangements*" below.)

(4) Although Mr. Tedford resigned on May 5, 2006, Patheon was obligated to pay his full salary of $650,000 for Fiscal 2006.

(5) This amount reflects payments to Whitehall Management Group, a sole proprietorship of Mr. Bell, in respect of Mr. Bell's services to Patheon pursuant to a consulting agreement between Patheon and Whitehall Management Group under which Mr. Bell was appointed as Chief Financial Officer of Patheon on September 25, 2006. This amount includes Goods and Services Tax.

(6) The amounts for Mr. Ludwig reflect total compensation paid to Mr. Ludwig up to the date of his resignation on September 10, 2006. Mr. Ludwig was employed for six months during Fiscal 2006.

(7) The amounts for Mr. Roden reflect total compensation paid to Mr. Roden up to the date of his termination on March 6, 2006. Mr. Roden was employed for four months during Fiscal 2006.

(8) The amounts for Mr. Roden reflect total compensation paid to Mr. Roden from the date of his appointment (October 3, 2005) until the end of the 2005 Fiscal Year (October 31, 2005). Mr. Roden was employed for 1 month during Fiscal 2005.

(9) Amounts represent the Canadian dollar equivalent of payments actually earned or paid to Mr. Braca in Euros. Amounts have been converted using the average of the exchange rates in effect during each fiscal year, as set forth below:

Average Exchange Rates	**2006**	**2005**	**2004**
1 Euro equals Canadian dollars	1.4062	1.5433	1.6139

(10) Mr. Bennett was appointed President, Patheon U.S.A. and President and Chief Operating Officer of MOVA Pharmaceutical Corporation effective July 15, 2005. He ceased to be President and Chief Operating Officer of MOVA Pharmaceutical Corporation on July 31, 2006.

(11) The Salary amount for Mr. Bennett in Fiscal 2005 includes $28,212 and in Fiscal 2006 includes $17,915 in special assignment pay. This amount was paid to Mr. Bennett in regular monthly instalments as part of his assignment to Puerto Rico and appointment as President and Chief Operating Officer of MOVA Pharmaceutical Corporation. During Fiscal 2006, a portion of Mr. Bennett's compensation was paid in US dollars and these amounts have been converted using the average exchange rate in effect during that year which was C$1.1388 / US$1.00.

Option Grants

The following table sets out certain information relating to the options granted to the Named Executive Officers during Fiscal 2006.

Table 2 — Option Grants During Fiscal 2006

Name	Common Shares Under Options Granted	% of Total Options Granted to Employees in Fiscal 2006	Exercise Price ($/Common Share)	Market Value of Common Shares Underlying Options on the Date of Grant ($/Common Share)	Vesting Date	Expiration Date
Riccardo C. Trecroce . . .	—	—	—	—	—	—
Robert C. Tedford	100,000	18.26%	$6.17	$ 617,000	May 5, 2006	May 5, 2008
	100,000	18.26%	$7.57	$ 757,000	May 5, 2006	May 5, 2008
John H. Bell	—	—	—	—	—	—
Douglas L. Ludwig	200,000	36.53%	$6.65	$1,330,000	N/A(1)	N/A
Rodger Roden	—	—	—	—	—	—
Nick A. DiPietro	100,000	18.26%	$6.17	$ 617,000	Jan. 19, 2007	Jan. 18, 2016
Aldo Braca	—	—	—	—	—	—
Clive V. Bennett	—	—	—	—	—	—

(1) At the time of Mr. Ludwig's resignation, none of the options were vested and all were forfeited.

Option Exercises

No options to purchase common shares were exercised by the Named Executive Officers during Fiscal 2006. The following table sets out certain information with respect to common shares under option to the Named Executive Officers as at October 31, 2006.

Table 3 — Aggregate Stock Options Exercised During Fiscal 2006 and value of Options as at October 31, 2006

Name	Common Shares Acquired on Exercise	Aggregate Value Realized	Unexercised Options at October 31, 2006		Value of Unexercised in-the-Money Options at October 31, 2006(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Riccardo C. Trecroce	—	—	108,332	6,668	—	—
Robert C. Tedford	—	—	1,140,000	—	$203,550	—
John H. Bell	—	—	—	—	—	—
Douglas L. Ludwig	—	—	—	—	—	—
Rodger Roden	—	—	—	—	—	—
Nick A. DiPietro	—	—	940,000	100,000	$203,550	—
Aldo Braca	—	—	235,000	25,000	—	—
Clive V. Bennett	—	—	265,000	25,000	—	—

(1) Based on the closing price of the common shares on October 31, 2006 of $5.30.

Restricted Share Unit Grants

The table below shows the number of Restricted Share Units granted during Fiscal 2006 to each of the Named Executive Officers. For details on the RSU Plan please see — "*Report on Executive Compensation — Compensation Elements for Executives — Short-Term Incentives — Restricted Share Unit Plan*".

Table 4 — RSU Grants During Fiscal 2006

Name	RSU's Granted (#)	Per cent of Total RSUs Granted to Employees in Financial Year	Exercise or Base Price ($/Security)	Market Value of Securities Underlying RSU's on the Date of Grant ($/Security)	Expiration Date
Riccardo C. Trecroce	20,780	6.43%	$7.24	$7.24	Feb. 3, 2009
Robert C. Tedford	—	—	—	—	—
John H. Bell	—	—	—	—	—
Douglas L. Ludwig	—	—	—	—	—
Rodger Roden	12,000	3.71%	$6.82	$6.82	N/A(1)
Nick A. DiPietro	—	—	—	—	—
Aldo Braca	33,000	10.21%	$7.24	$7.24	Feb. 3, 2009
Clive V. Bennett	26,000	8.05%	$7.24	$7.24	Feb. 3, 2009

(1) Mr. Roden's employment was terminated on March 6, 2006. Pursuant to the terms of the RSU Plan, none of the RSUs granted to Mr. Roden vested and were therefore terminated and cancelled effective March 6, 2006.

Restricted Share Unit Exercises

The table below shows the number of RSU's exercised during Fiscal 2006 to each of the Named Executive Officers and the number of RSU's granted during Fiscal 2006 to each of the Named Executive Officers and the value of those RSU's as of the date of grant.

Table 5 — RSU Exercises During Fiscal 2006 and RSU values as at October 31, 2006

Name	Securities, Acquired on Exercise	Aggregate Value Realized ($)(1)	Unexercised RSUs at FY-End (#) Exercisable/ Unexercisable		Value of Unexercised in-the-Money RSU's at October 31, 2006(2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Riccardo C. Trecroce	—	$47,866	—	34,616	—	$184,849
Robert C. Tedford	—	—	—	—	—	—
John H. Bell	—	—	—	—	—	—
Douglas L. Ludwig	—	—	—	—	—	—
Rodger Roden	—	—	—	—	—	—
Nick A. DiPietro	—	—	—	—	—	—
Aldo Braca	—	$76,812	—	55,201	—	$294,773
Clive V. Bennett	—	$60,114	—	43,375	—	$231,623

(1) The value was determined by multiplying the number of vested RSUs by the weighted average price at which the common shares of Patheon traded on the TSX during the two days immediately prior to February 22, 2006 ($6.92).

(2) For the purposes of determining a value of the RSU's for this Table 5, the number of outstanding RSU's have been multiplied by the weighted average price at which the common shares of Patheon have traded on the TSX during the two days immediately prior to October 31, 2006 ($5.34). The value of an RSU on the payout or exercise date, being 1/3 of the total number of RSU's on each of the first, second and third anniversaries from the award date, is equal to the weighted average price at which the common shares of Patheon have traded on the TSX during the two days immediately prior to the payment date.

Employment Agreements

CEO and COO Employment Agreements

The employment agreement that was amended and restated on October 13, 2006 for Mr. Trecroce is for an indefinite term. Pursuant to the employment agreement, Mr. Trecroce was employed as Patheon's General Counsel and, effective September 10, 2006, as Chief Executive Officer on an interim basis. Mr. Trecroce's employment contract will be further amended to reflect his appointment as Chief Executive Officer for an indefinite period effective March 19, 2007.

The employment agreement made as of February 3, 2006 for Mr. DiPietro provided for an initial term ending on October 31, 2006 and provides for successive one year terms ending October 31 in each year that are renewed automatically thereafter unless, not less than six months prior to any such yearly anniversary, Patheon notifies Mr. DiPietro of its intention not to further extend the agreement. If Mr. DiPietro's employment is terminated without cause during the term of his agreement, or if Patheon does not renew his agreement at the end of any term, Patheon will pay to him two and a half times his annual cash compensation (comprised of his base salary plus the average bonus received for the preceding two years).

Change of Control Arrangements

The employment agreement with each of Mr. Trecroce and Mr. DiPietro provides rights in the event of a change of control of Patheon. A "change of control" includes an event that results in one person or group owning 30% or more of the voting shares of Patheon (including the entity resulting from a merger) or a change in a majority of the directors to persons who were not nominated by the incumbent board.

In the event of a change of control of Patheon, Patheon will be required to pay Mr. Trecroce two times his annual cash compensation and will continue his benefits for a two year period, in the following circumstances: (i) Mr. Trecroce's employment is terminated by Patheon within two years following a change of control of Patheon for any reason other than cause, disability, retirement or death, (ii) Mr. Trecroce's employment is terminated by him within two years following a change of control of Patheon for good reason or (iii) Mr. Trecroce's employment is terminated by him for any reason within the 60 day period immediately following the period of 180 days following a change of control of Patheon. Mr. Trecroce's annual compensation for this purpose is determined as the sum of (i) his annual base salary at the level paid in respect of Patheon's General Counsel; (ii) the cash value of pension contributions and other benefits; and (iii) an amount equal to the average of the annual bonus amounts that were paid to him in respect of each of the two completed fiscal years of Patheon immediately preceding the date of termination.

In the event of a change of control of Patheon, Patheon will be required to pay, Mr. DiPietro two and a half times his annual cash compensation and will continue his benefits for a two and a half year period, in the following circumstances: (i) Mr. DiPietro's employment is terminated by Patheon within two years following a change of control of Patheon for any reason other than cause, disability, retirement or death, (ii) Mr. DiPietro's employment is terminated by him within two years following a change of control of Patheon for good reason or (iii) Mr. DiPietro's employment is terminated by him for any reason within the 60 day period immediately following the period of 180 days following a change of control of Patheon. In determining Mr. DiPietro's annual cash compensation for this purpose, it is to be presumed that the performance and discretionary bonus amounts awarded to Mr. DiPietro in each of the last two completed fiscal years of the Corporation immediately preceding the termination were at least 50% of his annual base salary.

In addition, upon the occurrence of a change of control event in respect of either executive, all of the executives' stock options will become immediately vested and exercisable and will remain exercisable for a term that is the lesser of the term specified in the Stock Option Plan or the remaining term to expiry for such options.

The agreements define "good reason" to include: (i) the assignment to the executive of any duties inconsistent with the executive's position; (ii) any failure by Patheon to comply with any material terms of the executive's employment; or (iii) Patheon requiring the executive to be based at any office or location other than in the Greater Toronto Area.

Incentives

The employment agreement for each of Mr. Trecroce and Mr. DiPietro also provides for incentive bonus arrangements administered and approved by the Board, on the recommendation of the Compensation and Human Resources Committee of the Board. The incentives for Mr. Trecroce are cash incentives tied to the achievement of annual corporate and personal objectives. The incentives for Mr. DiPietro include cash incentives tied to the achievement of annual corporate and personal objectives and earnings per share targets established by the Board on an annual basis, discretionary cash incentive bonuses, and performance stock options (see "*Report on Executive Compensation — Short-Term Incentives*" above for further details on the determination of such annual incentives).

Pension plans for each of Mr. Trecroce and Mr. DiPietro are described in further detail below under the heading "*Retirement Allowances and Pension Plan Arrangements*".

Other Named Executive Officers

Patheon entered into a consulting services agreement with Whitehall Management Group, a sole proprietorship of Mr. John Bell, on September 25, 2006 that was subsequently amended on December 19, 2006 (the "Consulting Agreement"). Pursuant to the Consulting Agreement, Mr. Bell was appointed as Chief Financial Officer of Patheon. The initial term of the Consulting Agreement ends on October 31, 2007 and, thereafter, it automatically extends for consecutive one month periods unless terminated by either party on 30 days notice. In connection with the services performed by Mr. Bell under the Consulting Agreement, Whitehall Management Group receives a consulting fee from Patheon.

Patheon has entered into employment agreements with each of Mr. Braca and Mr. Bennett. These agreements provide for indefinite terms of employment, subject to termination by Patheon or the executive officer (in the case of Mr. Braca, such termination is subject to the terms of the Italian National Collective Bargaining Agreement currently in force for managers of industrial concerns). These agreements contain non-competition covenants following termination of employment with Patheon with certain specified exceptions. The agreements also contain salary and benefit commitments by Patheon.

Retirement Allowances and Pension Plan Arrangements

The Named Executive Officers participate in the pension plan arrangements described below.

Mr. Trecroce's RRSP Arrangements

Mr. Trecroce's employment agreement provides, in lieu of participation in Patheon's defined contribution pension plan, for payment of an annual contribution to Mr. Trecroce's registered retirement savings plan in the amount of the maximum permitted annual contribution for Mr. Trecroce from time to time.

Defined Benefit Plan for Mr. DiPietro

Mr. DiPietro is the sole eligible member of an individual non-contributory defined benefit pension plan (the "Plan") maintained by Patheon. The effective date of the Plan is January 1, 2002 (the "Effective Date"). The Plan provides 2% of the average of the best three consecutive years of covered compensation multiplied by the years of credited service as a lifetime annuity, with 66⅔% continuation to the surviving spouse, guaranteed five years, indexed after retirement based on the Consumer Price Index less 1% without any offset for Canada Pension Plan or Old Age Security benefits.

The Plan is subject to the limits for registered pension plans imposed by the Canada Revenue Agency. In order to comply with these limits, the Plan covers compensation up to $105,550 per year in respect of service after 1989 and $70,367 per year in respect of service before 1990. The limit for registered pension plans, and the maximum covered compensation, will be indexed after 2006, based on the annual increases in Canadian average wages. Patheon does not maintain a supplemental pension plan for Mr. DiPietro.

Currently, Mr. DiPietro has 23.39 years of eligible service under the Plan as at March 26, 2007: 6.16 years of service before 1990 and 17.23 years of service since 1990.

Under the terms of the Plan, Mr. DiPietro was required to transfer the amount of $155,000 from his registered retirement savings plan into the Plan, in order for the years of service after 1989 to be considered credited service for the purpose of the Plan.

The following table sets out the estimated annual pension benefits payable under the Plan to Mr. DiPietro, based on the following assumptions: (i) retirement at age 65; and (ii) the limit for registered pension plans increases at a rate of 5.5% per annum after 2006:

Salary	**Years of Credited Service**				
$	**20**	**25**	**30**	**35**	**40**
350,000	86,715	105,556	128,889	152,452	176,016
400,000	86,715	105,556	128,889	152,452	176,016
450,000	86,715	105,556	128,889	152,452	176,016
500,000	86,715	105,556	128,889	152,452	176,016
550,000	86,715	105,556	128,889	152,452	176,016
600,000	86,715	105,556	128,889	152,452	176,016
650,000	86,715	105,556	128,889	152,452	176,016
700,000	86,715	105,556	128,889	152,452	176,016
750,000	86,715	105,556	128,889	152,452	176,016

- The plan covers compensation up to $105,550 in respect of service after 1989 and $70,367 in respect of service before 1990 indexed after 2006 in accordance with Canadian average wages.
- The number of years of credited service as at March 26, 2007 is: 23.39 years of which 6.16 is for service before 1990 and 17.23 is for service after 1989.
- The plan provides 2% of final three year average covered compensation times credited service as a lifetime annuity with 66⅔% continuation to the surviving spouse, indexed after retirement at CPI less 1% and no offset for CPP and OAS.
- The pension plan table assumed coverage compensation increases at 5.5% per annum.

Named Executive Officer Pension Plan Arrangements

Mr. Bell does not participate in any Patheon pension plans.

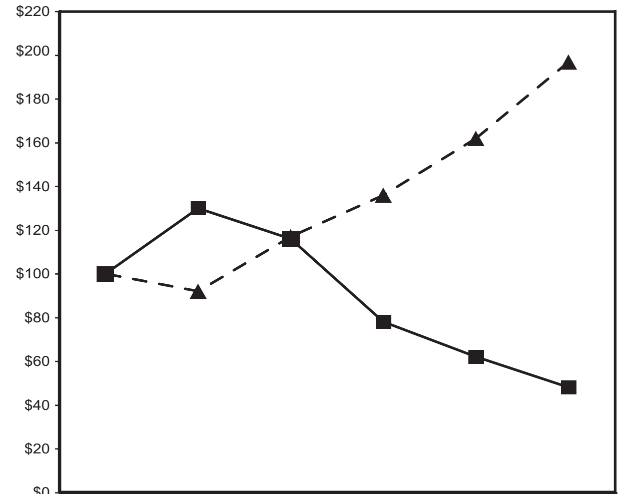
Mr. Braca is a resident of Italy and is eligible to participate in the pension plan administered by the Italian government. In accordance with the Italian National Collective Bargaining Agreement applicable to managers of Patheon Italia S.p.A., including Mr. Braca, Patheon is required to make contributions to this pension plan based on a prescribed percentage of Mr. Braca's salary and bonus (approximately 30% in 2006).

Mr. Bennett participates in Patheon's defined contribution pension plan for non-bargaining unit employees in Canada (the "Group Registered Pension Plan"). Under the Group Registered Pension Plan, Patheon contributes an amount equal to 3% of base salary to an account under the plan, to be used, together with any voluntary contributions made by Mr. Bennett under the plan, to provide retirement incomes for Mr. Bennett.

Performance Graph

The following graph compares the cumulative total shareholder return of Patheon's common shares with the cumulative total return of the S&P/TSX Composite Index for the five-year period ended October 31, 2006, assuming an investment of C$100 and reinvestment of dividends.

Cumulative Total Shareholder Return on C$100 Initial Investment



	2001	2002	2003	2004	2005	2006
Patheon Inc.	$100	$130	$116	$78	$62	$48
S&P/TSX Composite Index	$100	$92	$117	$136	$162	$197

Compensation of Directors

Directors who are also employees of Patheon receive no remuneration as directors. Directors who are not employees of Patheon receive both cash compensation and options, as described below.

Cash Compensation

Annual retainers and attendance fees were paid to the directors (excluding directors who are also employees of Patheon) during the Fiscal 2006 based on the following fees:

(i)	Annual Board Retainer	$30,000
(ii)	Annual Committee Retainer	
	— Audit Committee	$ 6,000
	— Other Committees	$ 4,000
(iii)	Annual Committee Chair Retainer	
	— Audit Committee	$20,000
	— Other Committees	$ 6,000
(iv)	Board and Committee Attendance Fees	$ 1,000

The aggregate cash compensation paid to directors for services as directors and to the non-executive Chair of the Board during Fiscal 2006 was $568,788 of which $288,569 was paid in respect of Board and committee services and Board and Board Committee meeting fees (including travel expenses) and the remaining $280,219 was paid to the Chair of the Board (i) as to $59,398 in respect of his services in such capacity and (ii) as to $220,821 in respect of his services as a member of the Office of the Chief Executive Officer (see "*Compensation of Non-Executive Chair of the Board of Directors*" below).

In addition, directors of Patheon are reimbursed for any out-of-pocket expenses incurred in connection with their activities as directors.

Options

Directors are also eligible to be issued options under the Incentive Stock Option Plan. New directors receive a grant of options to purchase 10,000 common shares under the Incentive Stock Option Plan at the time he or she is elected a director of Patheon, with 50% of these options vesting after the first anniversary of the grant and 50% after the second anniversary of the grant. Each director also receives an annual grant of options to purchase 5,000 common shares and normally these options vest on the first anniversary of the grant.

Compensation of Non-Executive Chair of the Board of Directors

Mr. Green receives an annual fee in his capacity as non-executive Chair of the Board and is paid an annual retainer for each Board Committee on which he serves. He receives no meeting fees in respect of directors' and committee meetings attended by him other than special committee meetings. In Fiscal 2006, Mr. Green also received $220,821 as compensation for his participation as a member of the Office of the Chief Executive Officer following the retirement of Mr Tedford as Chief Executive Officer on May 5, 2006 and prior to the appointment of Mr. Trecroce as Chief Executive Officer on September 10, 2006; during that period, Mr. Green was not paid any other fees in respect of his duties as a director. Accordingly, annual fees were paid to Mr. Green during Fiscal 2006 based on the following fees:

(i)	Annual Fee	$ 59,398
(ii)	Annual Committee Retainer	
	— Audit Committee	$ 3,960
	— Other Committees	$ 36,410
(iii)	Office of the Chief Executive Officer Fee	$220,821
(iv)	Special Committee Attendance Fees	$ 14,000

Summary of Total Director Compensation — Fiscal 2006

Director	Board Retainer	Committee Retainer	Attendance Fees	Member of Office of the CEO	Total Fees	Stock Options
Peter A. W. Green	$59,398	$40,370	$14,000	$220,821	**$334,589**	—
E. James Arnett[(1)]	$ 9,167	$ 5,555	$ 8,500	—	**$ 23,222**	—
Roy MacLaren[(2)]	$13,167	$ 5,510	$11,000	—	**$ 29,677**	—
George L. Ploder	$30,000	$28,800	$28,000	—	**$ 86,800**	—
Joaquín Viso[(3)]	$22,500	—	$ 8,000	—	**$ 30,500**	—
Derek J. Watchorn	$30,000	$13,000	$21,000	—	**$ 64,000**	—
Gregory C. Wilkins	$30,000	$16,555	$20,000	—	**$ 66,555**	—

(1) Resigned on January 20, 2006

(2) Did not stand for re-election at the 2006 annual meeting of shareholders.

(3) Mr. Viso started to receive compensation as a director on January 1, 2006 because he ceased to be an employee of MOVA Pharmaceutical Corporation in 2005.

Indebtedness of Directors and Executive Officers

As at March 26, 2007 and throughout Fiscal 2006, no director or executive officer (or any associate of such individuals) was indebted to Patheon or any of its subsidiaries.

Directors' and Officers' Liability Insurance

Patheon has purchased primary and excess insurance policies for an aggregate amount of US$30 million for the benefit of the directors and officers of Patheon and its subsidiaries against certain potential liability incurred by them in their capacity as directors and officers. The annual premium paid by Patheon for this insurance for Fiscal 2006 was $369,034 for all directors and officers as a group. The policies do not allocate the premium as between the directors as a group and the officers as a group. The aggregate amount of the policies is payable to a maximum of US$30 million on a cumulative basis per annum regardless of the number of directors or officers involved, subject to a deductible amount of US$250,000 for each loss.

CORPORATE GOVERNANCE

The mandate of the Corporate Governance Committee of the Board is, in part, to review, monitor, and enhance Patheon's system of corporate governance.

Details of Patheon's corporate governance policies and practices and the responsibilities of the Board are addressed below.

The information provided in this Management Proxy Circular complies with the disclosure requirements of National Instrument 58-101 and includes an analysis of Patheon's corporate governance practices against the corporate governance guidelines (the "Guidelines") included in National Policy 58-201.

Composition of the Board

Majority of Independent Directors
(Guideline 3.1)

Patheon practices comply.

- In accordance with the Guidelines and the definition of "Independence" included in Multilateral Instrument 52-110, the Board has determined that of the six directors nominated for election at the meeting, four are independent directors because they do not have either a direct or indirect material relationship with the issuer which, in the view of the board, could be reasonably expected to interfere with the exercise of a member's independent judgment.

- If the resolutions proposed in this Management Proxy Circular are passed, then following the meeting the Board will consist of six directors, four of whom will be independent directors.

- The four independent directors are as follows:

  — Peter A. W. Green (Chair of the Board)

  — George L. Ploder

  — Derek J. Watchorn

  — Gregory C. Wilkins

- The two related directors are:

  — Riccardo C. Trecroce — Chief Executive Officer of Patheon

  — Joaquín B. Viso — Former Chairman (until December 31, 2006) and former President and Chief Executive Officer (until August 1, 2005) of MOVA Pharmaceutical Corporation, a wholly owned subsidiary of Patheon Inc.

- If the proposed investment in Patheon by JLL Partners described in this Management Proxy Circular is completed, then, following the appointment of three additional directors by JLL Partners in accordance with the rights they will hold as the holder of the Special Voting Preferred shares, seven of the nine directors will be independent.

Directors who are presently directors of other reporting issuers

- Mr. Green — Superior Plus Inc.

- Mr. Ploder — Bennett Environmental Inc., Vital Retirement Living Inc.

- Mr. Watchorn — Retirement Residences Real Estate Investment Trust, a trustee of IPC US Real Estate Investment Trust

- Mr. Wilkins — Barrick Gold Corporation

Independent Chair
(Guideline 3.2)

Patheon practices comply.

- Since 1996 the office of Chair of the Board has been separate from that of the Chief Executive Officer and is held by an individual who is not a member of management.
- Mr. Peter A. W. Green has held the position of Chairman of the Board of Patheon since 1996.

Meetings of Independent Directors

Regular Meetings
(Guideline 3.3)

Patheon practices comply.

- At the end of each formal meeting of the Board the independent directors meet without management present.
- Attendance at each Board meeting during Fiscal 2006 was as follows:

Board Meetings:	Members:	Attendance
	Mr. Arnett	1 of 12(1)
	Mr. Green (Chair)	12 of 12
	Mr. MacLaren	4 of 12(2)
	Mr. Ploder	11 of 12
	Mr. Watchorn	11 of 12
	Mr. Wilkins	10 of 12
	Mr. Tedford	6 of 12(3)
	Mr. DiPietro	12 of 12
	Mr. Viso	12 of 12

(1) Mr. Arnett resigned on January 20, 2006 but attended 1 of the 2 meetings held prior to that date.

(2) Mr. MacLaren did not stand for re-election on March 9, 2006 but attended 4 of 4 the meetings held prior to that date.

(3) Mr. Tedford resigned on May 5, 2006 but attended 6 of 6 the meetings held prior to that date.

- Patheon has three standing committees comprised entirely of independent directors which meet on a regular basis.
- Attendance at each committee meeting during Fiscal 2006 was as follows:

Audit Committee:	Members:	Attendance
	Mr. Green	5 of 5
	Mr. Ploder (Chair)	5 of 5
	Mr. Wilkins	3 of 5

Corporate Governance Committee:	Members:	Attendance
	Mr. Arnett	1 of 3(1)
	Mr. Green (Chair)	3 of 3
	Mr. MacLaren	2 of 3(2)
	Mr. Ploder	3 of 3
	Mr. Watchorn	3 of 3
	Mr. Wilkins	2 of 3

(1) Mr. Arnett resigned on January 20, 2006 but attended 2 of the 2 meetings held prior to that date.

(2) Mr. MacLaren did not stand for re-election on March 9, 2006 but attended 2 of 3 the meetings held prior to that date.

Compensation and Human Resources Committee:	Members	Attendance
	Mr. Arnett	2 of 3[(1)]
	Mr. Green	3 of 3
	Mr. MacLaren	2 of 3[(2)]
	Mr. Watchorn (Chair)	3 of 3
	Mr. Wilkins	1 of 3[(3)]

(1) Mr. Arnett resigned on January 20, 2006 but attended 2 of the 2 meetings held prior to that date.

(2) Mr. MacLaren did not stand for re-election on March 9, 2006 but attended 2 of 2 the meetings held prior to that date.

(3) Mr. Wilkins joined the Committee on March 9, 2006 and attended all meetings held subsequent to that date.

Special Committee:	Members	Attendance
	Mr. Green	2 of 2
	Mr. Ploder	2 of 2
	Mr. Watchorn	2 of 2
	Mr. Wilkins	2 of 2

Board Mandate

Board Mandate & Stewardship Responsibility
(Guideline 3.4)

Patheon practices comply.

- A Charter of the Board of Directors was approved by the Board on February 22, 2005 and is attached as Appendix A to this Management Proxy Circular.
- In addition to acting in accordance with the Board Charter, the Board also acts in accordance with:
  - — *Canada Business Corporations Act;*
  - — Patheon's articles of incorporation and by-laws;
  - — Patheon's Code of Business Conduct;
  - — Charters of the Board Committees; and
  - — Other applicable laws and Patheon policies.

Stewardship Responsibilities

- The Board has the ultimate responsibility for management of the business and affairs of Patheon. To carry out this responsibility, the Board appoints and supervises the management of Patheon. Management brings to the attention of the Board for discussion and direction all matters which are outside Patheon's day-to-day operations, or which would represent a material deviation from Patheon's Annual Business Plan (which includes the annual financial budget). The Annual Business Plan and budget are approved by the Board. Additionally, the annual objectives of the Chief Executive Officer and the President and Chief Operating Officer are reviewed and approved by the Board. The Board is responsible for: (i) evaluating the performance of the Chief Executive Officer and the President and Chief Operating Officer; (ii) reviewing the strategic planning process and monitoring actual performance against objectives; (iii) ensuring that a senior management succession plan is in place and that the selection process for senior management is adequate; and (iv) ensuring that adequate procedures are in place for communicating with shareholders and for encouraging such communication.
- As set out in the Charter, the Board explicitly acknowledges responsibility for the stewardship of Patheon including, without limitation:
  - satisfying itself as to the integrity of the CEO and other executives and that the CEO and other executives create a culture of integrity throughout the organization;

- developing Patheon's approach to corporate governance, including developing a set of corporate governance principles that are specifically applicable to Patheon; and
- directly or through its committees, is responsible for supervising the management and operation of Patheon's business and affairs relating to Strategic Planning, Risk Management, Communications, and Internal Controls, all of which are summarized in greater detail below.

Strategic Planning

- The Board reviews and approves Patheon's strategic plans and monitors the execution of these plans.
- At least annually, a Board meeting is set aside for strategic planning, including consideration of the Annual Business Plan, financial plan and annual objectives. Following review and discussion of these plans and objectives, the Board adopts those plans and objectives that support Patheon's long-term strategy and take into account the risks and opportunities of the business.
- Additional strategic issues are reviewed from time to time by the Board.
- The Chair of the Board is responsible for ensuring that the Board adopts and follows a process for annual approval of Patheon's strategic plan and Annual Business Plan.

Risk Management

- Senior management identifies and actively addresses the principal risks of Patheon's business on an on-going basis.
- The Board, at its regular meetings, receives and reviews reports from management on its assessment and management of certain critical risks and oversees the implementation by management of appropriate systems to manage these risks.
- The principal risks of Patheon's business are identified in the annual information form filed by Patheon under the heading "Risk Factors".

Succession Planning

- The Compensation and Human Resources Committee and the Chair of the Board are responsible for ensuring that effective succession plans are in place for the Chief Executive Officer and other senior executives of Patheon.
- Succession planning, including appointing, training and monitoring senior management is a continuing responsibility of the Chief Executive Officer and senior management, involving participation by the Board.

Communications Policy

- Patheon's public disclosure is designed such that required, effective and timely communication about its business is made available to shareholders, analysts, members of the public and media.
- The Board has adopted a formal "Corporate Disclosure Policy" addressing its interaction with analysts and the public and containing measures for Patheon to avoid selective disclosure. This policy is reviewed and updated every two years (most recently on December 13, 2005) in order to ensure compliance with the securities legislation and best practices recommended by the Canadian Investor Relations Institute.
- The Board, directly or indirectly through its committees, reviews major communications to shareholders and the investing public and approves the management proxy circular, annual information form and any prospectuses that may be issued by Patheon.
- Patheon communicates with analysts and the public through a number of channels, including quarterly webcast conference calls and the Patheon website.
- Patheon routinely obtains expert external advice to assist in effective and proper disclosure.

Internal Controls

- Senior management is responsible for Patheon's internal controls and management information systems and regularly reports to the Board on the effectiveness of such controls and systems.

- Through the Audit Committee of the Board, which meets with Patheon's external auditors, the Board monitors the adequacy of these controls and systems.

Position Descriptions

Descriptions for Chair & CEO, Corporate Objectives for CEO
(Guideline 3.5)

Patheon practices comply.

- *Chief Executive Officer.* The Board has adopted a position description for the Chief Executive Officer which defines the Chief Executive Officer's responsibilities. Among other things, the Chief Executive Officer is required to develop and recommend to the Board the annual objectives that support Patheon's long-term strategy. The Chief Executive Officer is responsible for achieving these objectives as approved annually by the Board.
- *Chair of the Board.* The Board has adopted a position description for the Chair of the Board which defines the Chair's responsibilities. Among other things, the Chair is required to provide leadership to the Board, ensure adequate and timely disclosure of information to the Board, act as liaison between the Board and the Chief Executive Officer and convene meetings of the Board and its committees.
- *Corporate Goals for CEO.* The Board, on recommendation of the Compensation and Human Resources Committee, approves objectives for the CEO.

Orientation and Continuing Education

Comprehensive Education for new directors
(Guideline 3.6)

Patheon practices comply.

- The Corporate Governance Committee is responsible for developing and recommending to the Board an appropriate orientation and education program for new members of the Board.
- In order to orient new directors regarding the role of the board, its committees and directors, including the business and operations of Patheon, all potential new directors are given the opportunity to meet with the Chief Executive Officer, the Chair and other directors to ask questions and become familiar with Patheon prior to being elected as a director.
- New directors are also presented with information packages prepared by management which include incorporation documents, by-laws, the Board and Committee charters, position descriptions for the Chair and CEO, the policies of the corporation and summaries on the existing operations of the company, the industries it is serving and its ongoing strategic initiatives.

Continuing Education
(Guideline 3.7)

Patheon practices comply.

- Management regularly makes presentations on the pharmaceutical industry generally, and provides reports on Patheon's business and affairs specifically.
- Management also keeps the Board apprised of new developments in the pharmaceutical industry.
- Of the five proposed non-management directors, three have been members of the Board for several years. Mr. Wilkins, the most recent independent director to join the board, was elected in March 2003. In addition, Mr. Viso has significant industry experience throughout his career including his leadership of MOVA Pharmaceutical Corporation which he founded in the 1980's and which was sold to Patheon in December 2004.
- Management prepares information summaries and conducts presentations to the Board about legislative changes and requirements pertaining to securities laws and public company obligations.

Code of Business Conduct and Ethics

Adoption of a Code of Business Conduct with applicability to directors, officers and employees
(Guideline 3.8)

Patheon practices comply.

- The Board approved a Code of Business Conduct on December 22, 2002 which is applicable to directors, officers, consultants, employees and agents
- The code is designed to promote integrity and deter wrongdoing and addresses each of the following issues:
  - Conflicts of interest;
  - Protection and proper use of corporate assets and opportunities;
  - Confidentiality of corporate information;
  - Fair dealing with the Patheon's security holders, customers, suppliers, competitors and employees;
  - Compliance with laws, rules and regulations; and
  - Reporting of any illegal or unethical behaviour.
- After its adoption, copies of the Code were distributed to employees and new employees receive copies upon joining Patheon
- A copy of the Code of Business Conduct can be found on Patheon's website at www.patheon.com

Responsibility for monitoring ongoing compliance with the Code
(Guideline 3.9)

Patheon practices comply.

- The Board is responsible for monitoring the ongoing compliance with the Code and has directed the Chief Executive Officer to promptly report to the Board any violations of the Code and, in any event, to report to the Board on an annual basis regarding compliance with the Code by the directors, officers, consultants, employees and agents of Patheon.
- Patheon uses EthicsPoint, Inc. as a service provider with respect to a confidential whistleblower program that employees may use in connection with violations of the Code of Business Conduct including matters related to accounting, internal controls and auditing.

Nomination of Directors

Independent Nominating Committee
(Guideline 3.10)

Patheon practices comply.

- The Corporate Governance Committee acts as the independent nominating committee of the Board
- The Corporate Governance Committee is composed of all independent directors and part of its mandate includes recommending candidates for election to the Board.
- The Corporate Governance Committee's Charter that was re-affirmed by the Board on January 11, 2005 is published on Patheon's website.
- The specific responsibilities of the Corporate Governance Committee include making recommendations to the Board with regard to: (i) methods of assessing the effectiveness of the Board, the committees and the contributions of individual directors; (ii) the size and composition of the Board and eligibility for election or re-election; (iii) communication processes between the Board and management; (iv) mandates, size and composition of Board committees; (v) retirement policy for members of the Board; and (vi) an appropriate orientation and education program for new members.
- The Corporate Governance Committee reviews Patheon's responses to the Guidelines.

Written Charter for Nominating Committee
(Guideline 3.11)

Patheon practices comply.

- The Corporate Governance Committee's Charter, that was re-affirmed by the Board on February 22, 2005, is published on Patheon's website.
- The Committee's Charter establishes its: (i) objectives; (ii) responsibilities; (iii) member qualifications and appointment; (iv) structure and operations; and (v) manner of reporting to the Board.
- Individual directors may engage outside advisors, at Patheon's expense, to assist it and may invite Directors, officers or employees of Patheon or any other person to attend meetings of this Committee to assist in the discussion and examination of the matters under consideration by the Committee.

Nomination Approval Process
(Guideline 3.12)

Patheon practices comply.

- Prior to nominating or appointing individuals as directors, the Board considers the recommendations of the Corporate Governance Committee.
- The Board also considers not only the existing skill set of the Board and its individual directors but what competencies and skills the board, as a whole, should possess.

Responsibility for identifying new directors
(Guideline 3.13)

Patheon practices comply.

- One of the three major objectives of the Corporate Governance Committee is to recommend candidates for election to the Board with a view to assuring that the Corporation has sufficient strength on the Board to provide the corporate governance necessary to assist the Corporation to achieve s its short and long-term goals.

Recommendation considerations
(Guideline 3.14)

Patheon practices comply.

- In making its recommendations, the Corporate Governance Committee considers:
  - the competencies and skills that the Board considers to be necessary for the Board, as a whole, to possess;
  - the competencies and skills that the Board considers each director to possess;
  - the competencies and skills each new nominee will bring to the Board; and
  - whether or not each new nominee can devote sufficient time and resources to his or her duties as a Board member.

Compensation

Entirely Independent Compensation Committee
(Guideline 3.15)

Patheon practices comply.

- The Compensation and Human Resources Committee is composed of entirely independent directors.
- During Fiscal 2006, the Committee was comprised as follows: prior to the 2006 annual meeting of shareholders, Derek Watchorn (Chair), E. James Arnett (resigned January 20, 2006), Peter A.W. Green and the Honourable Roy MacLaren, P.C.; and subsequent to 2006 annual meeting of shareholders, Derek Watchorn (Chair), Peter A.W. Green and Gregory C. Wilkins.

- In the spring of 2003 the Board consulted with Mercer Human Resources Consulting to review the amount and forms of compensation for the directors, the Chairman of the Board, the Chair of the Audit Committee and the Chair of the other standing committees. Based on these consultations the Board approved the compensation levels as set out above under "*Executive Compensation — Compensation of Directors*". The amount and structure of compensation for the Board and its directors will continue to be reviewed on an annual basis.

- Each year, the Committee reviews the compensation levels for the Chief Executive Officer, the President and Chief Operating Officer, the other executive officers and certain members of senior management. The Committee also reviews information it receives from the Chief Executive Officer and President and Chief Operating Officer as well as advice it receives from external compensation consultants. The Committee uses this information and advice to determine and approve any changes to the general compensation levels that it considers appropriate. In addition, the Committee, on the recommendation of the Chief Executive Officer and the President and Chief Operating Officer, approves the discretionary cash bonuses, stock options and restricted share units awarded to executive officers and senior management.

Written Charter for Compensation Committee
(Guideline 3.16)

Patheon practices comply.

- The Compensation and Human Resources Committee's Charter, that was re-affirmed by the Board on February 22, 2005, is published on Patheon's website.

- The Committee's Charter establishes its: (i) objectives; (ii) responsibilities; (iii) member qualifications and appointment; (iv) structure and operations; and (v) manner of reporting to the Board

- Individual directors may engage outside advisors, at Patheon's expense, to assist it and may invite Directors, officers or employees of Patheon or any other person to attend meetings of this Committee to assist in the discussion and examination of the matters under consideration by the Committee.

Responsibilities of Compensation Committee
(Guideline 3.17)

Patheon practices comply.

- As described in the Compensation and Human Resources Committee's Charter, its mandate is to: (i) review and recommend to the Board the compensation programs for the members of the Board, the Chief Executive Officer and the Chief Operating Officer; (ii) review and recommend for approval by the Board the compensation policies and programs of executive officers; (iii) ensure that there are effective succession plans in place for the Chief Executive Officer, Chief Operating Officer and other senior executives of Patheon; and (iv) administer Patheon's Stock Option Plan and Restricted Share Unit Plan.

- Patheon also retains outside advisors from time to time to advise the Compensation and Human Resources Committee on Patheon's compensation policies and programs. Patheon retained Mercer Human Resources Consulting during Fiscal 2006 to provide these services.

- The Committee also reviews all executive compensation disclosure before Patheon publicly discloses this information.

- A report of the Compensation and Human Resources Committee is set out in the *"Report on Executive Compensation"* section of this Management Proxy Circular.

Regular Board Assessments

Regular assessments of the Board, Committees and individual directors
(Guideline 3.18)

Patheon practices comply.

- Patheon's Corporate Governance Committee has formal responsibility for recommending methods to properly assess the effectiveness of the Board, its committees and individual directors, and has determined that the Chair of the Board should make such assessments and report to the Corporate Governance Committee following his review.
- In January of 2005, the Chair of the Board conducted a formal evaluation of the Board and its committees and reported his findings to the Corporate Governance Committee. The Chair concluded that the Board and its committees were operating effectively at that time.
- The overall objective of this assessment is to ensure that directors are well informed, engaged in decision-making and actively participating at the Board and as members of respective committees of the Board. The Board believes that this objective has been realized with the current Board membership.
- The Board had agreed that the next formal assessment of the Board, its Committees and individual directors was to take place during Fiscal 2006. This did not occur during Fiscal 2006 as a result of the significant time commitments given by the members of the Board to the events surrounding the mandate of the Special Committee that led to the proposed investment by JLL Partners described in this Management Proxy Circular.

Other Committees

Special Committee

- On September 11, 2006, the Board of Directors formed a Special Committee of independent directors to evaluate strategic and financial alternatives for Patheon. As a result of that process, Patheon announced on March 2, 2007 that it had entered into a definitive agreement with JLL Partners, under which JLL Partners Fund V, L.P. will purchase US$150 million of convertible preferred shares of Patheon through a private placement. The transaction is subject to shareholder approval as described in this Management Proxy Circular.

SHAREHOLDER PROPOSALS

A shareholder who will be entitled to vote at the 2007 Annual Meeting and who intends to raise a proposal at the 2008 Annual Meeting must deliver the proposal to Patheon's Secretary by no later than December 28, 2007.

AVAILABILITY OF DOCUMENTS

Additional information relating to Patheon is available on SEDAR at www.sedar.com. In addition, Patheon will provide to any person and, in the case of a security holder, without charge, upon request to Patheon's Secretary at 7070 Mississauga Road, Suite 350, Mississauga, Ontario, Canada L5N 7J8, the following documents:

(a) one copy of Patheon's latest annual information form together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the annual information form;

(b) one copy of Patheon's comparative financial statements and MD&A for its most recently completed financial year, together with the accompanying report of the auditor, and one copy of any interim financial statements or MD&A of Patheon that have been filed for any period subsequent to such annual financial statements; and

(c) this Management Proxy Circular.

Financial information is provided in Patheon's comparative financial statements and MD&A for the most recently completed financial year.

CERTIFICATE

The contents and the sending of this Management Proxy Circular have been approved by Patheon's Board of Directors.

Gregory B. Shepherd
Vice-President, Associate General Counsel and Secretary

March 26, 2007

APPENDIX A

PATHEON™

CHARTER OF THE BOARD OF DIRECTORS

GENERAL

ARTICLE 1 *PURPOSE AND RESPONSIBILITY OF THE BOARD*

By approving this Charter, the Board explicitly assumes responsibility for the stewardship of Patheon and its business. This stewardship function includes responsibility for the matters set out in this Charter, which form part of the Board's statutory responsibility to manage or supervise the management of Patheon's business and affairs.

ARTICLE 2 *REVIEW OF CHARTER*

The Board shall review and assess the adequacy of this Charter annually and at such other times as it considers appropriate and shall make such changes as it considers necessary or appropriate.

ARTICLE 3 *DEFINITIONS AND INTERPRETATION*

3.1 *Definitions*

In this Charter:

(a) "Board" means the board of directors of Patheon;

(b) "CEO" means Patheon's chief executive officer;

(c) "Chair" means the chair of the Board;

(d) "Charter" means this charter, as amended from time to time;

(e) "Director" means a member of the Board;

(f) "Patheon" means Patheon Inc.; and

(g) "Stock Exchanges" means, at any time, the Toronto Stock Exchange and any other stock exchange on which any securities of Patheon are listed for trading at the applicable time.

3.2 *Interpretation*

This Charter is subject to and shall be interpreted in a manner consistent with Patheon's articles and by-laws, the *Canada Business Corporations Act* (the "CBCA"), and any other applicable legislation.

CONSTITUTION OF THE BOARD

ARTICLE 4 *ELECTION AND REMOVAL OF DIRECTORS*

4.1 *Number of Directors*

The Board shall consist of such number of Directors as the Board may determine from time to time, within the range set out in Patheon's articles at such time.

4.2 *Election of Directors*

Directors shall be elected by the shareholders annually for a one year term, but if Directors are not elected at a meeting of shareholders, the incumbent directors shall continue in office until their successors are elected.

4.3 ***Vacancies***

The Board may appoint a member to fill a vacancy which occurs in the Board between annual elections of Directors, to the extent permitted by the CBCA.

4.4 ***Ceasing to Be a Director***

A Director will cease to hold office upon:

(a) delivering a resignation in writing to Patheon and such resignation, if not effective upon receipt by Patheon, shall be effective in accordance with its terms;

(b) being removed from office by an ordinary resolution of the shareholders;

(c) his or her death;

(d) becoming bankrupt; or

(e) a court in Canada or elsewhere finding him or her to be of unsound mind.

ARTICLE 5 *CRITERIA FOR DIRECTORS*

5.1 ***Qualifications of Directors***

Every Director shall be an individual who is at least 18 years of age, has not been determined by a court to be of unsound mind and does not have the status of bankrupt.

5.2 ***Residency***

At least 25% of the Directors shall be resident Canadians.

5.3 ***Independence of Directors***

(a) At least two of the Directors shall not be officers or employees of Patheon or any of its affiliates.

(b) At least a majority of the Directors shall be independent for the purposes of all applicable regulatory and stock exchange requirements.

5.4 ***Other Criteria***

The Board may establish other criteria for Directors as contemplated in this Charter.

ARTICLE 6 *BOARD CHAIR*

6.1 ***Board to Appoint Chair***

The Chair shall be an independent Director.

6.2 ***Chair to Be Appointed Annually***

The Board shall appoint the Chair annually at the first meeting of the Board after a meeting of the members at which Directors are elected. If the Board does not so appoint a Chair, the Director who is then serving as Chair shall continue as Chair until his or her successor is appointed.

ARTICLE 7 *REMUNERATION OF DIRECTORS AND RETAINING ADVISORS*

7.1 ***Remuneration***

The remuneration to be paid to the Directors shall be such as the Directors shall from time to time by resolution determine and such remuneration may be in addition to the salary paid to any officer or employee of the Corporation who is also a Director. The Directors may also by resolution award special remuneration to any Director in undertaking any special services on Patheon's behalf other than the normal work ordinarily required of a director of a corporation. The confirmation of any such resolution or resolutions by the shareholders shall not be required. The Directors shall also be entitled to be paid their travelling and other expenses properly incurred by them in connection with the affairs of Patheon.

7.2 *Retaining and Compensating Advisors*

Each Director shall have the authority to retain outside counsel and any other external advisors from time to time as appropriate with the approval of the chair of the Corporate Governance Committee.

MEETINGS OF THE BOARD

ARTICLE 8 *MEETINGS OF THE BOARD*

8.1 *Time and Place of Meetings*

Meetings of the Board shall be called and held in the manner and at the location contemplated in Patheon's by-laws.

8.2 *Frequency of Board Meetings*

Subject to Patheon's by-laws, the Board shall meet at least four times per year on a quarterly basis.

8.3 *Quorum*

In order to transact business at a meeting of the Board:

(a) a majority of the number of directors shall be present; and

(b) 25% of the Directors present must be resident Canadians (or, if this is not the case, a resident Canadian Director who is unable to be present and whose presence at the meeting would have resulted in the required number of resident Canadian Directors being present, must approve the business transacted at the meeting, whether in writing or by telephonic, electronic or other communication facility).

8.4 *Secretary of the Meeting*

The Chair shall designate from time to time a person who may, but need not, be a member of the Board, to be Secretary of any meeting of the Board.

8.5 *Right to Vote*

Each member of the Board shall have the right to vote on matters that come before the Board.

8.6 *Invitees*

The Board may invite any of Patheon's officers, employees, advisors or consultants or any other person to attend meetings of the Board to assist in the discussion and examination of the matters under consideration by the Board.

ARTICLE 9 *IN CAMERA SESSIONS*

9.1 *In Camera Sessions of Non-Management Directors*

At the conclusion of each meeting of the Board, the non-management Directors shall meet without any member of management being present (including any Director who is a member of management).

9.2 *In Camera Sessions of Independent Directors*

To the extent that non-management Directors include Directors who are not independent Directors as contemplated in this Charter, the independent Directors shall meet at least once per year with only independent Directors present.

DELEGATION OF DUTIES AND RESPONSIBILITIES OF THE BOARD

ARTICLE 10 *DELEGATION AND RELIANCE*

10.1 ***Delegation to Committees***

The Board may establish and delegate to committees of the Board any duties and responsibilities of the Board which the Board is not prohibited by law from delegating. However, no committee of the Board shall have the authority to make decisions which bind Patheon, except to the extent that such authority has been specifically delegated to such committee by the Board.

10.2 ***Requirement for Certain Committees***

The Board shall establish and maintain the following committees of the Board, each having mandates that incorporate all applicable legal and Stock Exchange listing requirements and with such recommendations of relevant securities regulatory authorities and Stock Exchanges as the Board may consider appropriate:

(a) Audit Committee;

(b) Corporate Governance Committee (including responsibility for nomination matters); and

(c) Compensation and Human Resources Committee.

10.3 ***Composition of Committees***

The Board will appoint and maintain in office members of each of its committees such that the composition of each such committee is in compliance with listing requirements of the Stock Exchanges and with such recommendations of relevant securities regulatory authorities and Stock Exchanges as the Board may consider appropriate and shall require the Corporate Governance Committee to make recommendations to it with respect to such matters.

10.4 ***Review of Charters***

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

10.5 ***Delegation to Management***

(a) Subject to Patheon's articles and by-laws, the Board may designate the offices of Patheon, appoint officers, specify their duties and delegate to them powers to manage the business and affairs of Patheon, except to the extent that the delegation of any powers is prohibited by the CBCA.

(b) Notwithstanding any delegation to management to manage the business and affairs of Patheon, management must seek Board approval in respect of all material transactions, including, (i) those transactions that could reasonably be expected to significantly affect the market price or value of Patheon's securities, (ii) changes in the authorized or issued capital of Patheon, (iii) any action that may lead to or result in a material change in the nature of the business of Patheon, and (iv) the sale, lease, exchange or disposition of the entire undertaking or property or assets of Patheon or any substantial part thereof.

10.6 ***Reliance on Management***

The Board is entitled to rely in good faith on the information and advice provided to it by Patheon's management.

10.7 ***Reliance on Others***

The Board is entitled to rely in good faith on information and advice provided to it by advisors, consultants and such other persons as the Board considers appropriate.

10.8 ***Oversight***

The Board retains responsibility for oversight of any matters delegated to any committee of the Board or to management.

DUTIES AND RESPONSIBILITIES

ARTICLE 11 *RESPONSIBILITY FOR SPECIFIC MATTERS*

11.1 ***Responsibility for Specific Matters***

The Board explicitly assumes responsibility for the matters set out below, recognizing that these matters represent in part responsibilities reflected in requirements and recommendations adopted by applicable securities regulators and the Stock Exchanges and do not limit the Board's overall stewardship responsibility or its responsibility to manage or supervise the management of Patheon's business and affairs.

11.2 ***Delegation to Committees***

Whether or not specific reference is made to committees of the Board in connection with any of the matters referred to in Sections 12, 13 and 14, the Board may direct any committee of the Board to consider such matters and to report and make recommendations to the Board with respect to these matters.

ARTICLE 12 *CORPORATE GOVERNANCE GENERALLY*

12.1 ***Governance Practices and Principles***

The Board shall be responsible for developing Patheon's approach to corporate governance.

12.2 ***Governance Principles***

(a) The Board shall review and approve, if appropriate, a set of governance principles and guidelines appropriate for Patheon (the **"Governance Principles"**).

(b) The Board shall review the Governance Principles at least annually and shall adopt such changes to the Governance Principles as it considers necessary or desirable from time to time.

12.3 ***Governance Disclosure***

(a) The Board shall approve disclosure about Patheon's governance practices in any document before it is delivered to Patheon's shareholders or filed with securities regulators or with the Stock Exchanges.

(b) If Patheon's governance practices differ from those recommended by Canadian securities regulators or the Stock Exchanges, the Board shall consider these differences and why the Board considers them to be appropriate.

12.4 ***Delegation to Corporate Governance Committee***

The Board may direct the Corporate Governance Committee to consider the matters contemplated in this Section 12 and to report and make recommendations to the Board with respect to these matters.

ARTICLE 13 *RESPONSIBILITIES RELATING TO MANAGEMENT*

13.1 ***Integrity of Management***

The Board shall, to the extent feasible, satisfy itself:

(a) as to the integrity of the CEO and other senior officers; and

(b) that the CEO and other senior officers create a culture of integrity throughout the organization.

13.2 ***Succession Planning***

The Board shall be responsible for succession planning, including appointing, training and monitoring senior management.

13.3 ***Executive Compensation Policy***

(a) The Board shall approve the compensation of the CEO and shall consider and, if appropriate, approve the recommendations of the CEO with respect to the compensation of other members of senior management.

(b) The Board may direct the Compensation and Human Resources Committee to consider the matters contemplated in this Section 13 and to report and make recommendations to the Board with respect to these matters.

ARTICLE 14 *OVERSIGHT OF THE OPERATION OF THE BUSINESS*

14.1 ***Risk Management***

Taking into account the reports of management and such other persons as the Board may consider appropriate, the Board shall identify the principal risks of Patheon's business and satisfy itself as to the implementation of appropriate systems to manage these risks.

14.2 ***Strategic Planning Process***

The Board shall adopt a strategic planning process and shall approve, on at least an annual basis, a strategic plan which takes into account, among other things, the opportunities and risks of Patheon's business.

14.3 ***Internal Control and Management Information Systems***

The Board shall review the reports of management and the Audit Committee concerning the integrity of Patheon's internal control and management information systems. Where appropriate, the Board shall require management and the Audit Committee to implement changes to such systems to ensure integrity of such systems.

14.4 ***Corporate Disclosure Policy***

The Board shall review and, if determined appropriate, approve a corporate disclosure policy for Patheon for communicating with shareholders, the investment community, the media, governments and their agencies, employees and the general public. The Board shall consider, among other things, the recommendations of management and the Corporate Governance Committee with respect to this policy.

14.5 ***Financial Statements***

The Board shall review the recommendation of the Audit Committee with respect to the annual financial statements of Patheon to be delivered to shareholders. The Board shall approve such financial statements.

14.6 ***Pension Plan Matters***

The Board shall receive and review reports from management covering administration, investment performance, funding, financial impact, actuarial reports and other pension plan related matters.

14.7 ***Code of Business Conduct***

The Board will review and approve a Code of Business Conduct for Patheon. In adopting the Code of Business Conduct, the Board will consider the recommendations of the Corporate Governance Committee concerning its compliance with applicable legal and Stock Exchange listing requirements and with such recommendations of relevant securities regulatory authorities and Stock Exchanges as the Board may consider appropriate.

14.8 ***Compliance and Disclosure***

The Board will monitor compliance with the Code of Business Conduct and recommend disclosures with respect thereto. The Board will approve, if determined appropriate, the disclosure of the Code of Business Conduct and of any waiver granted to a director or senior officer of Patheon from complying with the Code of Business Conduct.

ARTICLE 15 *NOMINATION OF DIRECTORS*

15.1 *Nomination and Appointment of Directors*

(a) The Board shall nominate individuals for election as directors by the shareholders and shall require the Corporate Governance Committee to make recommendations to it with respect to such nominations.

(b) In selecting candidates for nomination as Directors, the Board shall:

(i) consider what competencies and skills the Board, as a whole, should possess; and

(ii) assess what competencies and skills each existing Director possesses.

(c) The Board shall consider recommendations made to it by the Corporate Governance Committee with respect to the size and composition of the Board.

ARTICLE 16 *BOARD EFFECTIVENESS*

16.1 *Position Descriptions*

The Board shall review and, if determined appropriate, approve formal position descriptions for:

(a) individual Directors and for the Chair of the Board and for each committee of the Board, and

(b) the CEO,

provided that in approving a position description for the CEO, the Board shall consider the input of the CEO and shall develop and approve corporate goals and objectives that the CEO is responsible for meeting (which may include goals and objectives relevant to the CEO's compensation, as recommended by the Compensation and Human Resources Committee).

16.2 *Director Orientation and Continuing Education*

The Board shall review and, if determined appropriate, approve the recommendations of the Corporate Governance Committee concerning:

(a) a comprehensive orientation program for new Directors; and

(b) a continuing education program for all Directors.

16.3 *Board, Committee and Director Assessments*

The Board shall review and, if determined appropriate, adopt a process recommended by the Corporate Governance Committee for assessing the performance and effectiveness of the Board as a whole, the committees of the Board and the contributions of individual Directors on an annual basis.

16.4 *Annual Assessment of the Board*

Each year, the Board shall assess its performance and effectiveness in accordance with the process established by the Corporate Governance Committee.

Approved by the Board of Directors
Patheon Inc.
February 22, 2005

APPENDIX B

SPECIAL RESOLUTION APPROVING THE REDESIGNATION OF THE COMMON SHARES

BE IT RESOLVED AS A SPECIAL RESOLUTION THAT:

1. the certificate and articles of the Corporation, as amended, are hereby amended by redesignating the common shares as "restricted voting shares" and substituting "restricted voting shares" or "restricted voting share" for each reference in the articles to "common shares" or "common share", respectively.

2. any one director or officer of the Corporation is hereby authorized and directed, for and on behalf of the Corporation, to execute and deliver all such documents and do all such acts and things as he or she may determine to be necessary or advisable to implement this resolution, the execution of any such documents or the doing of any such other act or thing being conclusive of such determination.

APPENDIX C

RESOLUTION APPROVING AMENDMENTS TO BY-LAW NO. 1 (2002)

BE IT RESOLVED THAT:

1. the amendment to paragraph 4 of By-law No. 1 (2002) by deleting such paragraph in its entirety and substituting therefor the following is hereby approved and confirmed:

> "Number and powers. The number of directors, or the minimum and maximum number of directors of the Corporation, is set out in the articles of the Corporation. If a minimum and maximum number of directors is set out in the articles of the Corporation, then the number of directors of the Corporation shall be the number of directors within such minimum and maximum number who are elected by the shareholders of the Corporation at the most recent meeting of shareholders which the holders of restricted voting shares of the Corporation are entitled to attend and who are elected from time to time by the holders of Class I Preferred Shares, Series D of the Corporation ("Series D Preferred Shares"). At least twenty-five per cent of the directors (or one director, if the Corporation has less than four directors) shall be resident Canadians. If the Corporation is a distributing corporation and any of its outstanding securities are held by more than one person, it shall have at least three directors, at least two of whom are not officers or employees of the Corporation or its affiliates.
>
> Subject to any unanimous shareholder agreement, the directors shall manage, or supervise the management of, the business and affairs of the Corporation and may exercise all such powers and do all such acts and things as may be exercised or done by the Corporation and are not by the Act, the articles, the by-laws, any special resolution of the Corporation, a unanimous shareholder agreement or by statute expressly directed or required to be done in some other manner."

2. the amendment to paragraph 7 of By-law No. 1 (2002) by deleting such paragraph in its entirety and substituting therefor the following is hereby approved and confirmed:

> "Election of directors. Directors elected at a meeting of shareholders which the holders of restricted voting shares of the Corporation are entitled to attend shall be elected by the shareholders of the Corporation by ordinary resolution. If at any election of directors of the Corporation held at a meeting of shareholders which the holders of restricted voting shares of the Corporation are entitled to attend the number or the minimum number of directors required by the articles is not elected by reason of the lack of consent, disqualification, incapacity or death of any candidates, then the directors elected at that meeting may exercise all the powers of the directors if the number of directors so elected constitutes a quorum, but such quorum of directors may not fill the resulting vacancy or vacancies."

3. the amendment to paragraph 8 of By-law No. 1 (2002) by deleting such paragraph in its entirety and substituting therefor the following is hereby approved and confirmed:

> "Term of office. A director, who is elected by the shareholders of the Corporation at a meeting of shareholders which the holders of restricted voting shares of the Corporation are entitled to attend, shall have a term of office (subject to the Corporation's articles and paragraph 11 below), unless such director was elected for an expressly stated term, from the date of the meeting at which such director is elected or appointed until the close of the annual meeting of shareholders next following such director's election or appointment or until such director's successor is elected or appointed.
>
> A director who is elected by the holders of Series D Preferred Shares of the Corporation shall have a term of office from the date such director is elected by the holders of Series D Preferred Shares until the date that is one year from the date of the election of such director or until such director's successor is elected.
>
> If qualified, a director whose term of office has expired is eligible for re-election as a director."

4. the amendment to paragraph 11 of By-law No. 1 (2002) by deleting such paragraph in its entirety and substituting therefor the following is hereby approved and confirmed:

> "Removal of directors. Subject to subsection 109(2) of the Act and unless the articles of the Corporation provide for cumulative voting, the shareholders of the Corporation may, by ordinary resolution at a special meeting, remove any director who was elected by the shareholders of the Corporation at a meeting of the shareholders of the Corporation which the holders of restricted voting shares of the Corporation were entitled to attend before the expiration of such director's term of office and may, by a majority of the votes cast at the meeting, elect any person in such director's stead for the remainder of such director's term.
>
> If the number of directors that the holders of Series D Preferred Shares are entitled to elect pursuant to the articles is decreased, the holders of Series D Preferred Shares shall be required to remove, by written resolution signed by holders of a majority of the Series D Preferred Shares then outstanding or by resolution passed by a majority of the votes cast at a meeting of the holders of Series D Preferred Shares duly called and held for that purpose, that number of directors such that the number of directors elected by the holders of Series D Preferred Shares is equal to the number permitted by the articles. If the number of directors that the holders of Series D Preferred Shares are entitled to elect pursuant to the articles is decreased to zero, any director appointed by holders of Series D Preferred Shares shall immediately be removed from office as a director and such director shall vacate office forthwith.
>
> If a meeting of shareholders was called for the purpose of removing a director from office as a director, then the director so removed shall vacate office forthwith upon the passing of the resolution for such director's removal.";

5. the amendment of By-Law No. 1 (2002) by substituting "restricted voting shares" or "restricted voting share" for each reference in By-Law No. 1 (2002) to "common shares" or "common share", respectively, is hereby approved and confirmed; and

6. any one director or officer of the Corporation be and is hereby authorized and directed, for and on behalf of the Corporation, to execute and deliver all such documents and do all such acts and things as he or she may determine to be necessary or advisable to implement this resolution, the execution of any such documents or the doing of any such other act or thing being conclusive of such determination.

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