



ANNUAL INFORMATION FORM
for the Fiscal Year Ended October 31, 2008

December 12, 2008

PRESENTATION OF INFORMATION

As used in this Annual Information Form, the term "Patheon" or "Company" means Patheon Inc. and its subsidiaries as of the most recent financial year ended on October 31, 2008 on a consolidated basis, unless the context otherwise requires, and "Patheon Inc." refers to Patheon Inc. on an unconsolidated basis.

Unless otherwise stated, all information is as of October 31, 2008 and all currency references are in U.S. dollars.

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FORWARD-LOOKING STATEMENTS

This Annual Information Form contains forward-looking statements which reflect management's expectations regarding Patheon's future growth, results of operations, performance (both operational and financial) and business prospects and opportunities. Where possible words such as "plans," "expects" or "does not expect," "budget," "forecasts," "anticipates" or "does not anticipate," "believes," "intends" and similar expressions or statements that certain actions, events or results "may," "could," "would," "might" or "will" be taken, occur or be achieved, have been used to identify these forward-looking statements. Although the forward-looking statements contained in this Annual Information Form reflect management's current assumptions based upon information currently available to management and based upon that which management believes to be reasonable assumptions, Patheon cannot be certain that actual results will be consistent with these forward-looking statements. Current material assumptions relate to foreign exchange rates, customer volumes and regulatory compliance. A number of factors could cause actual results, performance, or achievements to differ materially from the results expressed or implied in the forward-looking statements, including those listed in the "*Description of the Business – Risk Factors*" section of this Annual Information Form. These factors should be considered carefully and readers should not place undue reliance on the forward-looking statements. Forward-looking statements necessarily involve significant known and unknown risks, assumptions and uncertainties that may cause Patheon's actual results, performance, prospects and opportunities in future periods to differ materially from those expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things: international operations and foreign currency fluctuation; customer demand for Patheon's services; regulatory matters affecting manufacturing and pharmaceutical development services; exposure to complex production issues; substantial financial leverage; interest rate risks; potential environmental, health and safety liabilities; credit and customer concentration; competition; rapid technological change; product liability claims; intellectual property; significant shareholder; supply arrangements; pension plans; derivative financial instruments; international operations; and dependence upon key management personnel and executives. (See "*Description of the Business – Risk Factors*".) Although Patheon has attempted to identify important risks and factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors and risks that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, as noted above, readers should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date of this Annual Information Form and, except as required by law, Patheon assumes no obligation to update or revise them to reflect new events or circumstances.

CORPORATE STRUCTURE

NAME, ADDRESS AND INCORPORATION

Patheon Inc. is a corporation existing under the *Canada Business Corporations Act*. The registered office of Patheon Inc. is located at 2100 Syntex Court, Mississauga, Ontario, Canada, L5N 7K9.

INTER-CORPORATE RELATIONSHIPS

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

Name of Corporation	Jurisdiction
Patheon Inc.	Canada
Patheon International Inc.	Ontario, Canada
Patheon Pharmaceuticals Inc.	Delaware, U.S.A.
Patheon Pharmaceuticals Services Inc.	Delaware, U.S.A.
Patheon Italia S.p.A.	Italy
Patheon U.K. Limited	England
Patheon France S.A.S.	France
Patheon K.K.	Japan
Patheon Puerto Rico, Inc.	Puerto Rico, U.S.A.
(formerly, MOVA Pharmaceutical Corporation)	Puerto Rico, U.S.A.
Patheon International AG	Switzerland

GENERAL DEVELOPMENT OF THE BUSINESS

Patheon's goal is to be the best provider of commercial manufacturing services and pharmaceutical development services to the global pharmaceutical industry. Patheon's strategy is focused on providing "best-in-class" manufacturing and development services, effectively balancing high product quality and reliability of supply with cost.

The three fiscal years ended October 31, 2008 included a period of transition with respect to the December 2004 acquisition of Patheon Puerto Rico, Inc. (formerly, MOVA Pharmaceutical Corporation) ("Patheon PR"), the largest acquisition in Patheon's history. The Company took several steps during fiscal 2007 and 2008 to improve the operating structure of the Puerto Rican operations. The most significant corporate development of the 2007 fiscal year was the completion of the strategic and financial alternatives review process commenced in September 2006. This resulted in a \$150 million investment in the Company by JLL Partners and a refinancing of the Company's remaining indebtedness under its North American credit facilities, which provided Patheon with a stable long-term capital structure. The Company and JLL Patheon Holdings LLC ("JLL Holdings"), an affiliate of JLL Partners, entered into a redemption waiver agreement (the "Redemption Waiver Agreement") on September 4, 2008 pursuant to which JLL Holdings waived the requirement that the Company redeem for cash all of the convertible preferred shares on April 27, 2017 in exchange for both the issuance of additional restricted voting shares and the ability for JLL Holdings to acquire, through the facilities of the Toronto Stock Exchange, over a one-year period, up to approximately 1.26 million restricted voting shares. See "*Material Contracts – Redemption Waiver Agreement*".

Significant management changes took place during fiscal 2006 and fiscal 2007, and continued through the 2008 fiscal year. Notably, effective December 3, 2007, Wesley P. Wheeler was appointed as the Chief Executive Officer of the Company. See "*General Development of the Business – Management Changes*".

PATHEON PR ACQUISITION

Patheon acquired its Puerto Rican operations, Patheon PR, on December 23, 2004 for cash and shares. Patheon PR is a prescription pharmaceutical contract manufacturer with three facilities in Puerto Rico that are approved by the U.S. Food and Drug Administration ("FDA"). As at July 31, 2006, Patheon

determined that the carrying value of certain assets, principally goodwill, depreciable intangible assets and tangible capital assets related to Patheon PR, were impaired, and the Company recognized a \$253.9 million non-cash asset impairment charge in respect of these assets. In the fiscal 2007 third quarter ended July 31, 2007, Patheon recognized a \$48.6 million non-cash asset impairment charge in respect of depreciable intangible assets and tangible capital assets related to its operations in Carolina, Puerto Rico. In the third quarter of 2008, the Company recorded a further impairment charge of \$7.7 million to write down the Carolina assets to their fair market value less estimated depreciation costs. Subsequent to the end of fiscal 2008, the Company decided to shut down its Carolina, Puerto Rico facility if a timely sale could not be completed. (See "*General Development of the Business – Regional Developments – North American Network - Puerto Rico*".)

INVESTMENT BY JLL PARTNERS

On March 1, 2007, the Company entered into a definitive agreement with JLL Partners, under which its affiliate, JLL Holdings purchased convertible preferred shares and special voting preferred shares of Patheon through a private placement with aggregate gross proceeds of \$150 million. The private placement was approved by the shareholders of Patheon on April 19, 2007 and was completed on April 27, 2007.

Founded in 1988, JLL Partners is a New York-based private equity investment firm. Since inception, JLL Partners has managed a series of funds aggregating approximately \$4 billion in committed capital. JLL Partners has invested across a variety of industries, including healthcare, financial services and building products, among others. JLL Partners' investments in the healthcare industry include AdvancePCS, IASIS Healthcare Corp., Medical Card System, Inc., Kendall International, Inc. and OrNda HealthCorp.

Patheon believes that this private placement together with the 2007 credit facilities provided it with critical financial certainty and stability going forward. In addition, the Company and JLL Holdings entered into the Redemption Waiver Agreement on September 4, 2008 pursuant to which JLL Holdings waived the requirement that the Company redeem for cash all of the convertible preferred shares on April 27, 2017 in exchange for both the issuance of additional restricted voting shares and the ability for JLL Holdings to acquire, through the facilities of the Toronto Stock Exchange, over a one-year period, up to 1.26 million restricted voting shares. See "*Material Contracts – Redemption Waiver Agreement*".

As at October 31, 2008, the convertible preferred shares were convertible into approximately 35.7 million restricted voting shares of the Company, which, together with the 1.7 million restricted voting shares held by JLL Holdings as at the same date, would represent approximately 29% of the restricted voting shares outstanding as at the same date, after giving effect to such conversion. JLL Partners also acquired a number of rights in connection with the private placement, including the right of JLL Holdings to elect up to three directors to the Board of Directors pursuant to the provisions of the special voting preferred shares.

On December 8, 2008 JLL Holdings announced in a press release its intention to make an unsolicited offer to acquire any or all the outstanding restricted voting shares of Patheon that it does not already own at a price of \$2.00 per share in cash which is equivalent to CDN\$2.54 per share based on the exchange rate on December 5, 2008.

Patheon's Board of Directors has appointed a special committee of independent directors, none of whom is associated with JLL Holdings or with anyone supporting JLL Holdings to review and evaluate the unsolicited bid from JLL Holdings, and make recommendations to the Board of Directors and shareholders. Patheon's Board of Directors will advise shareholders of its recommendation with respect to this bid in due course and until such time shareholders have been advised to take no action with respect to the bid.

2007 CREDIT FACILITIES

The JLL Partners investment in fiscal 2007 was conditional on Patheon concurrently refinancing the indebtedness outstanding under its North American credit facilities. The Company entered into an agreement as of March 28, 2007 with J.P. Morgan Securities Inc. and GE Commercial Finance for this refinancing, and entered into the new credit arrangements contemporaneously with the completion of the JLL Partners investment on April 27, 2007.

The 2007 credit facilities are in the aggregate amount of \$225 million, consisting of a seven-year \$150 million senior secured term loan facility and a five-year \$75 million asset-based senior secured revolving loan facility. See *"Material Contracts – 2007 Credit Facilities"*.

MANAGEMENT CHANGES

Patheon underwent substantial management changes during the three fiscal years ended October 31, 2008. At the beginning of fiscal 2008, effective December 3, 2007, Wesley P. Wheeler was appointed Chief Executive Officer of the Company. Mr. Wheeler joined Patheon from Valeant Pharmaceuticals International, a California-based global specialty pharmaceutical company, where he served most recently as President, North America, R&D and Global Manufacturing. Prior to joining Valeant in 2003, Mr. Wheeler served as President and Chief Executive Officer of DSM Pharmaceuticals Inc. ("DSM"), a contract pharmaceutical manufacturer. Prior to DSM, Mr. Wheeler was Senior Vice-President of Logistics and Strategy for GlaxoSmithKline plc. Previous to his manufacturing role, Mr. Wheeler was Vice President of Marketing for Glaxo Wellcome. Mr. Wheeler joined Glaxo Wellcome in 1989 after a 12-year career at Exxon Research & Engineering Co.

Additional significant management changes at the Company during the 2008 fiscal year were as follows:

- Nick A. DiPietro ceased to act as President and Chief Operating Officer, and was appointed Executive Vice-President, Corporate Development, effective February 18, 2008;
- Terence S. Novak was appointed President, North American Operations and Chief Marketing Officer, effective February 18, 2008;
- Mr. Eric Evans was appointed Chief Financial Officer on May 14, 2008;
- Shabbir T. Anik resigned as President, Global PDS & Chief Scientific Officer, effective September 29, 2008;
- Dr. Colin M. Minchom was appointed Vice-President, PDS North America, effective October 23, 2008; and
- Mr. Norman Barras was appointed Vice-President, PDS Europe and Asia, effective October 23, 2008.

PERFORMANCE ENHANCEMENT

During the third quarter of fiscal 2006, the Company implemented certain operational improvements identified in consultation with external specialists consisting principally of:

- a global procurement program;
- an operational efficiency review process; and
- a workforce reduction program.

The objective of the global procurement program was to leverage the Company's global purchasing power to reduce costs. The Company sought to achieve this objective by negotiating with its vendors to permit Patheon to reduce its investment in working capital through better payment terms and vendor-managed inventory in connection with a reduction of the number of vendors. The Company successfully negotiated a number of corporate agreements with key vendors in fiscal 2006 (16), fiscal 2007 (14), and fiscal 2008 (19) resulting in cost savings to the Company. These savings were derived from lower pricing and volume rebates on inventory items, such as excipients and packaging components, as well as non-inventory consumables and services, including site facilities management, information technology hardware, laboratory supplies and waste management services.

During 2006, Patheon undertook a review of its Whitby manufacturing operations and implemented a number of operational improvements that led to significant gains in production throughput and labour efficiency. Subsequently, this manufacturing efficiency review process was expanded to other sites in the Company's network, including the Mississauga, Cincinnati and Swindon sites.

In 2007, follow-up audits were conducted in Whitby, Mississauga, and Cincinnati which verified that the improvements in production throughput and labour efficiency gained in 2006 were maintained in 2007.

In 2008, the pharmaceutical development services business unit engaged the services of an external reviewer to benchmark its project management methodology. Improvement initiatives commenced through the initiation of a global Enterprise Project Management (EPM) software tool for engineering and information technology projects. Patheon hosted multiple customer, regulatory and corporate audits of its pharmaceutical development services in 2008. In all cases, Patheon's responses to any auditor observations were accepted.

With new leadership in 2008, the Company focussed on operational excellence and a number of new key initiatives were introduced.

- Patheon Advantage™, is a companywide program that distinguishes Patheon from its competitors, based on the *Lean6Sigma* manufacturing process. *Lean6Sigma* combines "lean" manufacturing practices with "six sigma" manufacturing. The Company has 43 active projects in its Patheon Advantage™ program. All sites have completed their leansixsigma leadership training and have completed at least one round of base-line activities. The Patheon Advantage™ program is now providing Patheon with tools to streamline operations, open needed capacity and improve performance all throughout the network.
- One Patheon is the Company's global initiative to create one consistent customer experience by operating as one unified company, with one way of doing business. The goal of One Patheon is to provide customers with consistent quotes and proposals, technical documents, invoicing procedures, workflow management, ongoing performance communication, project execution and a consistent management team.
- Quick to Clinic™, is a program designed to accelerate drug development timelines for customers by providing rapid distribution of clinical trial materials for First Time in Human (Phase 1) studies. Utilizing Patheon's Milton Park (UK) and Whitby (Canada) facilities, the Quick to Clinic™ program assures delivery of finished drug product within four months from receipt of active pharmaceutical ingredients ("API"). These designated delivery centers provide responsive and flexible service to Patheon's customers who are under pressure to screen product ideas and make proof of concept decisions quickly.

- Quick to Market™ is a unique Patheon program which offers accelerated transfer of commercially available products from an existing manufacturing plant to a plant within Patheon's network. The program was formally established as a service within Patheon after excellent results and significant client satisfaction with recent rapid product transfers; and
- An information technology master plan has been developed which sets the overall direction for systems and services to the business for the next five years. It centres on the development of strategic information technology assets that will drive competitive advantages for Patheon's business. The plan includes both the addition of new information technology assets and the enhancement of its existing information technology assets.

Since the third quarter of fiscal 2006, Patheon has been working to reduce the size of its workforce, through retirements, attrition and terminations in order to implement a lower cost structure and adjust for changing business volumes at some sites. The Company's full-time equivalent employee headcount has been reduced from approximately 6,100 at April 30, 2006 to approximately 4,500 as at October 31, 2008.

REGIONAL DEVELOPMENTS

North American Network

Canada

In April 2007, Patheon announced that, as part of its strategy to focus on developing and manufacturing prescription, rather than over-the-counter, products and to improve the Company's profitability, it planned to restructure its Canadian network of six pharmaceutical manufacturing facilities. The planned restructuring included the sale of the Company's Niagara-Burlington operations and the eventual closure of the Company's York Mills operations.

The Company entered into an agreement on December 5, 2007 for the sale of the Niagara-Burlington operations to Pharmetics Inc. for a purchase price of Cdn. \$5.75 million plus working capital, subject to closing adjustments. The sale closed on January 31, 2008. Proceeds from the divestiture received on closing, net of transaction costs, were US \$10.5 million. Pharmetics acquired the assets, including equipment, facilities and land, at Patheon's facility in Fort Erie and at one of the Company's two facilities in Burlington (namely, Gateway Drive). Pharmetics provided employment to the entire active workforce of about 270 at these facilities and continued to manufacture and supply all of the products previously manufactured by Patheon at these sites. The Company retained its leased facility in Burlington (namely, Burlington Century) where its central quality-control laboratory is based.

To improve capacity utilization and profitability of the Whitby facility, Patheon is in the process of transferring all commercial production and development services currently undertaken at its York Mills facility in Toronto to, primarily, the Whitby facility. A smaller portion of the York Mills operations will be transferred to the Mississauga and Cincinnati facilities. Based on current internal projections, this decommissioning of the York Mills facility is expected to be completed by the end of the first half of fiscal 2009. On December 31, 2007, the Company entered into a binding agreement of purchase and sale for the sale of the York Mills property for a purchase price of Cdn. \$12.5 million. The sale closed on April 15, 2008 for net proceeds of US \$11.9 million, with Patheon leasing back the facility for up to two years in order to facilitate the decommissioning process.

In October 2008, the Company opened a new suite at the Whitby facility, thus expanding the Company's pharmaceutical development services capacity in Canada. The 2500 square foot suite includes a designated area for the small-scale development and manufacturing of solid dosage forms for early clinical study needs, enhancing the Company's ability to provide rapid early phase development to its North American customers.

Puerto Rico

On December 14, 2007, the Company announced that, as a result of its comprehensive review of the Puerto Rican operations, with a focus on eliminating operating losses and developing a long-term plan for the business, it had decided to retain and continue to streamline its facilities in Caguas and Manatí and divest its facility in Carolina, Puerto Rico that specializes in the manufacture of cephalosporin solid oral dosage forms.

Subsequent to the end of fiscal 2008, the Company decided to shut down its Carolina, Puerto Rico facility if a timely sale could not be completed. The Carolina facility was classified as a discontinued operation during early 2008, with related assets and liabilities being classified as held for sale. Serious interest was shown by strategic buyers and negotiations occurred with multiple parties. However, the Company determined that eliminating the cash drain of Carolina through an immediate shutdown outweighed the risk of the sale process taking an extended period of time to complete and/or ultimately being unsuccessful. Assuming that a timely sale cannot be completed, the Company expects to close the facility by the end of the first quarter of 2009. Based on assessment and planning to date, the Company estimates that severance and other closure costs will be approximately \$3 million.

During fiscal 2007 and fiscal 2008, local Puerto Rican operating and executive management as well as technical support were significantly upgraded at the Caguas and Manatí sites with a view to re-focusing efforts to sell capacity. The Company has implemented an extensive program designed to optimize the manufacturing and business operations through improving operating performance, improving quality and training systems, reducing overhead costs, streamlining common services and pursuing new business opportunities for the Caguas and Manatí sites. Since the beginning of the third quarter of fiscal 2006, the aggregate full-time equivalent employee headcount at the Caguas and Manatí facilities has been reduced from approximately 1,050 employees to approximately 590 as at October 31, 2008.

On June 11, 2008, the Company announced that it would expand the Manatí facility to add a dedicated high potency and controlled substance manufacturing area. Patheon invested a total of \$3.1 million in this new 3,386 square foot area that includes three manufacturing suites, air lock containment areas, and humidity controlled air systems. The construction project was completed in September 2008. Patheon has been contracted by one customer to utilize the suites, and the expansion will also provide substantial capacity to serve additional high-potency projects.

United States

In November 2008, the Company opened its US headquarters in Research Triangle Park ("RTP"), North Carolina. In July 2008, the Company opened its new analytical development laboratory facilities in nearby Morrisville, North Carolina (also in RTP). These locations are considered to be rapidly growing centers for pharmaceutical manufacturing and service providers, offering a high availability of pharmaceutical scientists and access to customers. The new analytical development laboratory facilities support the Company's US-based pharmaceutical development operations in Cincinnati, initially providing stability studies, validation testing and analytical chemistry services.

On October 9, 2008, Patheon announced the completion of a new Intermediate Scale Processing Suite ("ISPS") at the Cincinnati facility. The ISPS provides increased manufacturing capacity that will bridge the gap between Patheon's development and commercial scale facilities. The ISPS allows the Company to better meet the development, clinical, registration, scale-up, validation and commercial requirements of its customers. The expansion of services will underpin robust processes as projects move from development to commercial manufacturing phases using statistical design of experiments, to support an initiative of the FDA known as "Quality by Design". In addition, the ISPS provides greater flexibility in scheduling experiments on a larger scale and uses less API compared to commercial scale. Based on its design and function, the Company expects that this equipment will help it to reduce time and resources needed to move a new product through development.

European Network

United Kingdom

In April, 2008, the Company opened a new early phase development facility in Milton Park, in Oxfordshire, UK. The 13,500 square foot leased development facility contains newly constructed formulation laboratories and a fully-equipped analytical laboratory. Patheon's Quick to Clinic™ programs, which accelerate molecules to clinical trials while minimizing API requirements, will be supported at the facility. The Milton Park site is working on a number of development projects, aiming to meet customer demand for rapid early phase development capacity in the region.

Switzerland

In November 2008, the Company opened a new European headquarters in Zug, Switzerland, near Zurich. The new European headquarters will manage the Company's commercial and pharmaceutical development services sales, marketing and customer support activities in Europe. Certain support functions will also be managed in Zug, such as procurement and supply chain management. By moving key European managers to a regional headquarters and centralizing the key business functions across all European sites in one distinct location, the Company aims to better serve its customers.

BUSINESS DEVELOPMENT

The Company has been focused on growing its business organically through expanding the level of business of existing customers, attracting new customers, entering into commercial manufacturing agreements for newly approved products for which the Company has provided development services and broadening the Company's service offering to include differentiated and specialized technologies and capabilities (e.g. high potency and lyophilisation).

There has been a trend on the part of global pharmaceutical companies to restructure, and on the part of specialty pharmaceutical companies and virtual pharmaceutical companies to limit internal manufacturing capacity. For example, in recent years, several global pharmaceutical companies have publicly announced intentions to restructure their site networks to increase operating efficiencies and to outsource more of their production. As this trend could lead to increased demand for Patheon's services, it is expected to be favourable for the Company, but the extent of any positive effect may be tempered due to competition from low-cost jurisdictions in Asia, such as India (see "*Description of the Business — Risk Factors — Competition*").

Another trend has been the establishment of long-term strategic relationships by multi-national pharmaceutical companies with high quality external service providers, including Patheon. For example, the Company has entered into numerous master service agreements with customers. These agreements contemplate long-term multi-product and multi-site commercial manufacturing and/or pharmaceutical development services. Overall, Patheon believes, based on its internal analysis and experience, that as the pharmaceutical outsourcing industry matures, the Company's relationships with customers will continue to become broader and longer term. Three examples of this trend are discussed below.

During fiscal 2007, the Company entered into a seven-year manufacturing agreement with Cilag, a subsidiary of Johnson & Johnson, under which Patheon has built a new manufacturing facility for the manufacture of lyophilized cephalosporins at the Company's Swindon operations site, with significant financing from the customer.

A second example is Patheon's implementation of "carve-out" arrangements at its facilities in France and Italy which were completed in 2006. These are arrangements where sizeable parts of current production have been transferred to the Company from facilities owned by two customers which are slated for closure or downsizing.

Thirdly, during fiscal 2006, Patheon entered into a five-year master supply agreement with Merck & Co., Inc. ("Merck") to provide commercial manufacturing and pharmaceutical development services. Merck selected Patheon as one of its strategic partners for commercial manufacturing and pharmaceutical development services. The new master supply agreement is designed to facilitate the inclusion of additional products and projects as Merck implements a new strategic plan, which includes leveraging external capabilities and capacity. As a strategic partner for Merck, Patheon will be provided the opportunity to participate in future commercial manufacturing and appropriate product development projects.

Merck awarded Patheon three new projects as the first step in this new relationship. One project was a late-stage development product for Patheon's Caguas, Puerto Rico, facility which has received FDA approval in the US and EMEA approval in Europe. A second project involves activity at Patheon's Cincinnati facility in respect of a product which has been approved by the EMEA in Europe. A third project involves activity at Patheon's Toronto operations where the product has received approval from the EMEA in Europe.

DESCRIPTION OF THE BUSINESS

GENERAL

Patheon is a leading provider of commercial manufacturing and pharmaceutical development services to the international pharmaceutical industry, employing more than 4,500 people as at October 31, 2008. Its business is organized into two operating segments: commercial manufacturing and pharmaceutical development services.

For purposes of commercial manufacturing, Patheon owns and operates a total of ten manufacturing and packaging facilities globally: (i) six facilities in North America: three facilities in the United States, consisting of two in Puerto Rico, and one in Cincinnati, Ohio, and three facilities in Ontario, Canada consisting of Whitby, Toronto and Burlington, and (ii) four facilities in Europe: Monza (near Milan) and Ferentino (near Rome), Italy; Swindon (near London), U.K.; and Bourgoin-Jallieu (near Lyon), France, which together comprise approximately 3,000,000 square feet of commercial space. Patheon is in the process of shifting production from the York Mills facility in Canada to other facilities in anticipation of its closure. Patheon has also announced its intention to shut down its Carolina facility in Puerto Rico if a timely sale cannot be completed. (See "*General Development of the Business – Regional Developments – North American Network – Canada and – Puerto Rico.*")

For purposes of pharmaceutical development services, Patheon owns and operates seven development centres globally (i) four development centres in North America: two centres in the US, consisting of one in Cincinnati, Ohio and one in Research Triangle Park, North Carolina and two centres in Ontario, Canada, consisting of Whitby and Toronto; and (ii) three development centres in Europe, consisting of Swindon (near London) and Milton Park, UK, and Ferentino, Italy (near Rome), with a total development capacity of 250,000 square feet. Some of these development centres are housed within the manufacturing facilities.

COMMERCIAL MANUFACTURING

Patheon is a leading global provider of contract manufacturing services to the global pharmaceutical industry. The Company delivers products to over 120 countries and offers a full array of services, including manufacturing, logistics and packaging of conventional dosage forms, sterile dosage forms and specialized products.

Patheon's commercial manufacturing activities relate primarily to prescription products in solid, semi-solid, and liquid dosage forms as well as various sterile dosage forms. Conventional dosage forms include both coated and uncoated compressed tablets, hard shell gelatin capsules, powders, ointments, creams, gels, syrups, suspensions, solutions and suppositories. Conventional sterile dosage forms include aseptically

(sterile) filled and terminally sterilized liquids and powders in ampoules, vials, bottles or pre-filled syringes. Sterile lyophilized (freeze-dried) products are also manufactured in both vials and ampoules.

Patheon also operates a segregated sterile (injectable) cephalosporin powder filling and lyophilisation facility at its Swindon site in the United Kingdom. The combination of the existing sterile cephalosporin capabilities at Swindon and the new 65,000 sq. ft. lyophilisation plant dedicated to lyophilized cephalosporin products that Patheon constructed in Swindon in fiscal 2006 will allow it to provide a full range of dosage forms for this important category of antibiotics. The new facility in Swindon represented an investment of \$29 million during fiscal 2006, which was shared with a Patheon customer.

In fiscal 2008, Patheon's facilities and development centres were audited by 211 separate customer audit teams, representing both prospective and existing customers. Audits are an important means by which prospective and existing customers gain confidence that Patheon's operations are conducted in accordance with applicable regulatory requirements. These audits contribute to Patheon's ongoing improvement of manufacturing and development practices. In addition to customer audits, Patheon, like all commercial drug manufacturers, is subject to audits by various regulatory authorities. In fiscal 2008, 18 such audits by regulatory authorities were conducted at Patheon's sites in North America and Europe involving multiple products. Responses to audit observations were accepted and product approval was granted with one exception. In this one exception, discussions are on-going with the regulator as additional information was provided for further review.

PHARMACEUTICAL DEVELOPMENT

Patheon is a leading global provider of contract development services offering over 40 dosage forms and a broad range of services. Background information on the new drug development process is described in Appendix A. The Company's pharmaceutical development services include: (i) pre-formulation, formulation and development of dosage forms, ; (ii) development of analytical methods; (iii) manufacture to customer specifications of proposed new drug products during the regulatory drug approval process, including the manufacture of pilot (experimental) batches; (iv) clinical packaging and (v) scale-up and technology transfer services designed to validate commercial-scale drug manufacturing processes. Since the beginning of fiscal 2001, 19 new pharmaceutical products developed on behalf of customers by Patheon's pharmaceutical development services unit have been approved by regulators and launched through Patheon's commercial manufacturing facilities..

In addition to possessing pharmaceutical development capabilities for a broad range of dosage forms, each of Patheon's development centres provides a different specialized pharmaceutical development capability (high-potency, sterile, lyophilisation and controlled-release). As at October 31, 2008, Patheon was working on a total of 379 projects for its customers, including twelve drug candidates at the New Drug Application ("NDA") stage. The growing pharmaceutical development services team included, at the end of fiscal 2008, more than 500 scientists and technical staff, with approximately 100 holding doctoral degrees. Patheon's development scientists have extensive development experience with a wide variety of pharmaceutical dosage forms. Patheon's pharmaceutical development services also serve as a pipeline or incubator for future commercial manufacturing opportunities.

CUSTOMERS

Customer Mix

Patheon serves a customer base of over 300 pharmaceutical and biotechnology companies, including all of the world's 20 largest pharmaceutical companies (such as sanofi-aventis, Novartis AG and Roche Holdings AG); 10 of the 20 largest biotechnology companies (such as Genentech Inc., Amgen Inc. and Gilead Sciences, Inc.); and nine of the 20 largest specialty pharmaceutical companies (such as Watson Pharmaceuticals, Inc. and Sepracor, Inc.).

During the fiscal years ended October 31, 2007 and 2008, no single customer accounted for more than 15% of Patheon's total revenues in its pharmaceutical development services business segment or in its commercial manufacturing manufacturing business segment. .

Customer Purchase-Commitment Process

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

Patheon has commercial manufacturing services contracts, typically with multi-year terms, with its customers. These contracts formalize the standard business arrangements outlined above, including production based on the delivery of firm purchase orders. In addition, the contracts generally provide for six to 18 months' advance notice for the transfer or discontinuance of any product. The customer assumes liability for all material commitments made in accordance with purchase orders. Patheon maintains the right to negotiate increases in prices based on extraordinary market changes in material costs. The actual revenues to be generated by Patheon's major customer agreements are based on volumes which are subject to the customer's market demands from time to time.

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

COMPETITION

If a company is considering outsourcing commercial manufacturing services, several factors go into choosing the preferred service provider. These factors include security of supply (quality record, regulatory compliance record and financial stability of the service provider), service (on-time delivery record and flexibility in manufacturing) and cost-effective manufacturing (prices and a commitment to continuous improvement).

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

Commercial Manufacturing Competitors

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

Pharmaceutical Development Competitors

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

Patheon Competitive Position

Patheon is a leading provider of contract manufacturing and development services to the global pharmaceutical industry. While the Company faces intense competition, management believes that it is well placed to win a greater market share in both of its business segments and generate future growth for the following reasons:

- The Company's geographic reach, breadth of services and depth of expertise enable it to offer a full suite of commercial manufacturing and pharmaceutical development solutions to its customers;
- In 2008, as a result of new leadership, the Company has increased its focus on all aspects of operating excellence and customer key performance indicators. (See also "*General Development of the Business – Performance Enhancement*".)
- The Company has in place a stable, long maturity capital structure, which ensures a solid liquidity position.

SUPPLY ARRANGEMENTS

Patheon's customers specify the components, raw materials and packaging materials required for products and, in some cases, specify the suppliers from which Patheon must purchase these inputs. Materials for the Cincinnati operations originate primarily in the United States. For production at the Canadian sites, Patheon obtains packaging components from Canadian suppliers, but, due to limited availability in Canada, most raw materials originate from U.S. sources. Components and packaging materials for production at the Monza and Ferentino (Rome) operations are sourced primarily in Italy but also from other European sources. Materials for the Swindon, Milton Park and Bourgoin-Jallieu operations are primarily sourced in the United Kingdom and France, respectively, along with other European markets. Materials for the Puerto Rican sites are sourced primarily from Puerto Rico and mainland United States. Most of the materials required by Patheon for its commercial manufacturing business are readily available. In most cases, the customers supply the active pharmaceutical ingredient to Patheon at no cost to Patheon. Any failure by a customer to supply an active pharmaceutical ingredient to Patheon on a timely basis may have a negative impact on Patheon's ability to produce the product or services that requires such active pharmaceutical ingredient as an input.

ENVIRONMENTAL AND HEALTH & SAFETY MATTERS

Patheon is subject to environmental legislation and health and safety legislation in the jurisdictions in which it operates. These environmental laws regulate, among other things, air emissions, water discharges and the storage, handling and disposal of hazardous substances and wastes, and soil/groundwater contamination. These health and safety laws regulate, among other things, working conditions, safety procedures, training, exposure to hazardous materials, first aid requirements and injury reporting. Patheon is in material compliance with all environmental, health and safety legislation in the various jurisdictions that Patheon operates. Patheon's business requirements periodically change and as a result required environmental licences, permits, certificates of approval and other authorizations are periodically updated to reflect these changes. As a result of this process, a few applications are in the

process of being reviewed by regulatory agencies; however, based on feedback to date, no issues are anticipated and updated permits/licences are expected to be issued in due course.

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

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

INTELLECTUAL PROPERTY

Many of the formulations used by Patheon in manufacturing products to customer specifications are subject to patents or other protections owned or licensed by the relevant customer. Patheon typically enters into mutual confidentiality agreements with customers that own or are registered users of patented formulations.

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

To the extent that the Company determines that certain aspects of its packaging services, formulations and manufacturing services are innovative and patentable, Patheon has and will file patent applications to protect such inventions and will pursue such applications, as appropriate.

SEASONAL VARIABILITY OF RESULTS

Revenues from some of Patheon's commercial manufacturing services and its pharmaceutical development services have been traditionally lower in Patheon's first fiscal quarter, being the three months ending January 31. Patheon attributes this to several factors, including: (i) many customers reassess their need for additional product in the last quarter of the calendar year in order to use existing inventories of products; (ii) the lower production of seasonal cough and cold remedies; (iii) many small pharmaceutical and small biotechnology customers involved in PDS projects limit their project activity toward the end of the calendar year in order to reassess progress on their projects and manage cash resources; and (iv) the Patheon-wide plant shutdown during a portion of the traditional holiday period in December and January. Revenues in Patheon's fourth fiscal quarter, being the three months ended October 31, are also typically impacted by shutdowns during August in the European operations.

SOCIAL POLICIES

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

In 2005, Patheon engaged EthicsPoint, Inc. to act as Patheon's external service provider with respect to a confidential whistleblower program, and the program was rolled out to employees during fiscal 2006. The program is both telephone- and web-based. Employees may use this service to report any activities they suspect may be in violation of Patheon's Code of Business Conduct, including matters relating to accounting, internal accounting controls and auditing. The EthicsPoint reporting system is available to Patheon employees in all jurisdictions except Italy and France, where certain laws preclude Patheon from offering an anonymous reporting service to its employees, and where, instead, employees may report violations to management only on a non-anonymous basis.

RISK FACTORS

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

International Operations and Foreign Currency Fluctuations

Patheon's operations are subject to the risks of doing business in several countries in North America and Europe, including, but not limited to, foreign currency fluctuation, varying economic and political conditions, cultures and business practices, tax rates, and costs of compliance with laws of a variety of countries. There can be no assurance that these factors will not have an adverse effect on business, financial conditions and results of operations of Patheon. For example, the strengthening of the U.S. dollar vis-a-vis the Euro could have a negative impact on the Company's consolidated financial results.

Customer Demand for Patheon's Services

The amount of customer spending on pharmaceutical development and production has a large impact on the Company's sales and profitability, particularly the amount its customers choose to spend on outsourcing. Consolidation in the industries in which its customers operate may have an impact on such spending as customers integrate acquired operations, including research and development departments and manufacturing. Many of its customers finance their research and development spending from private and public sources. A reduction in spending by its customers on outsourcing of services offered by Patheon could have a material adverse effect on Patheon's business, financial condition and results of operations.

Patheon is dependent on demand for the products it manufactures on behalf of its customers and on the ability of its customers to obtain regulatory approval and successfully market and obtain third party coverage and reimbursement for their products. Demand for customers' products can be adversely affected by, among other things, delays in health regulatory approval, the loss of patent protection, the emergence of competing products, the degree to which private and government drug plans subsidize payment for a particular product and changes in the marketing strategies for such products. Competing generic products often emerge as a product approaches the end of its patent-protection period. Patheon's revenues for fiscal 2006, 2007, and 2008 were negatively impacted by the loss of patent protection for Zocor[®] and the emergence of generic competition for Omnicef[®] in May 2007.

Patheon may be materially adversely affected by any reduction in market demand for any significant products that Patheon manufactures for its customers. There can be no assurance that production volumes of key products and related revenues will be maintained or that changes in product mix will not materially adversely affect profitability.

Regulatory Matters Affecting Manufacturing and Pharmaceutical Development Services

Patheon is required to comply with the regulatory requirements of the national and international regulatory bodies having jurisdiction in the countries where the Company manufactures products or where its customers' products are distributed. In particular, Patheon is subject to laws and regulations concerning

good manufacturing practices and drug safety. As a result, most of Patheon's facilities are subject to regulation by the FDA of the United States, and certain of Patheon's facilities are subject to regulation by the Health Products and Food Branch ("HPFB") of Health Canada in Canada, the Medicines and Healthcare Products Regulatory Agency ("MHRA") of the United Kingdom, the European Medicines Evaluation Agency ("EMA") of the European Union, and other regulatory bodies. These regulatory requirements impact many aspects of Patheon's operations, including manufacturing, labelling, packaging, storage and record keeping related to customers' products.

In addition, if new legislation or regulations are enacted or existing legislation or regulations are amended or are interpreted or enforced differently, Patheon may be required to obtain additional approvals or operate according to different manufacturing standards. This may require Patheon to change its manufacturing techniques or make capital improvements to its facilities. There can be no assurance that Patheon will be able to meet all of the applicable regulatory requirements in the future. If Patheon fails to comply with applicable regulatory requirements, it may be subject to warning letters, fines, suspension or withdrawal of regulatory approvals, product recalls, seizure of products, debarment, exclusion, disgorgement of profits, operating restrictions and criminal prosecution, as well as the loss of contracts and resulting revenue losses. In addition, such failure to comply could expose Patheon to contractual and product liability claims, including claims by customers for reimbursement for lost or damaged active pharmaceutical ingredients, the cost of which could be significant.

Patheon's pharmaceutical development and manufacturing projects often involve products that must undergo safety and clinical evaluations before they are approved as commercial therapeutic products. The regulatory authorities having jurisdiction in the countries in which the Company's customers intend to market their products may delay approval of a product or determine that the product is not approvable. There can be no assurance that the pharmaceutical development projects and their related revenues for Patheon will be maintained. For example, on November 26, 2008, Johnson & Johnson Pharmaceutical Research & Development, L.L.C. ("J&JPRD") announced that it received a Complete Response letter from the FDA regarding its New Drug Application ("NDA") for ceftobiprole for the treatment of complicated skin and skin structure infections, including diabetic foot infections. The FDA indicated that they could not approve the NDA for ceftobiprole at that time. They asked J&JPRD to conduct additional audit work of clinical investigator sites and to address specific questions related to site monitoring. Ceftobiprole has been approved in Canada and in Switzerland and the Committee for Medicinal Products for Human Use of the EMA has recommended approval of ceftobiprole in the European Union for the treatment of complicated skin and soft tissue infections. These developments may affect volumes of ceftobiprole to be manufactured by Patheon at its Swindon facility.

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

Although Patheon believes that it is in compliance, in all material respects, with applicable laws and regulations, there can be no assurance that a regulatory agency or tribunal would not reach a different conclusion concerning the compliance of Patheon's operations with applicable laws and regulations. In addition, there can be no assurance that Patheon will be able to maintain or renew existing permits, licences or other approvals or obtain, without significant delay, future permits, licences or other approvals needed for the operation of its businesses. Any noncompliance by Patheon with applicable laws and regulations, or the failure to maintain, renew or obtain necessary permits and licences, could have an adverse effect on its results of operations and financial condition.

Exposure to Complex Production Issues

The services Patheon offers are highly exacting and complex, due in part to strict regulatory requirements. From time to time, problems may arise in connection with facility operations or during preparation or provision of products, in both cases for a variety of reasons including equipment malfunction, failure to follow specific protocols and procedures, problems with raw materials and environmental factors. Such problems could affect production of a particular batch or series of batches, requiring the destruction of product, or could halt facility production altogether. This could, among other things, lead to increased costs, lost revenue, damage to customer relations, reimbursement to customers for lost active pharmaceutical ingredients, time and expense spent investigating the cause and, depending on the cause, similar losses with respect to other batches or products. If problems are not discovered before the product is released to the market, recall and product liability costs may also be incurred.

Substantial Financial Leverage

Patheon's total interest-bearing debt as at October 31, 2008 was \$219.6 million, and its consolidated financial leverage ratio (the ratio of total interest-bearing debt to equity) was 0.91:1.0.

While the Company believes that its 2007 credit facility together with the investment by JLL Partners have provided it with critical financial certainty and stability going forward, the Company's substantial financial leverage poses risks to it. Debt service requirements in future periods may be higher than in prior years as a result of a number of factors, including increased borrowing and increases in floating interest rates (see "*Description of the Business — Risk Factors — Interest Rate Risks*" and "*Material Contracts — 2007 Credit Facilities*"). In addition, the Company may incur substantial fees from time to time in connection with debt amendments or refinancing. If Patheon's cash flow is not sufficient to service its debt and adequately fund its business, it may be required to seek further additional financing or refinancing, or to dispose of assets. There is no assurance that any of these alternatives could be effected on satisfactory terms, or at all. In addition, Patheon's financial leverage could adversely affect its ability to raise additional capital to fund its operations and could impair its ability to respond to operational challenges, changing business and economic conditions and new business opportunities, and may make it vulnerable in the event of a downturn in its business.

Interest Rate Risks

The Company has exposure to movements in interest rates. The Company has entered into interest rate swaps to convert the interest expense on the \$150 million senior secured term loan from a floating interest rate to a fixed interest rate until June 2010. Taking this interest rate swap into account, as at October 31, 2008, 30% of the Company's total debt portfolio was subject to movements in floating interest rates. Assuming no change to the structure of the debt portfolio, the sensitivity to interest rate changes is as follows:

	<u>Approximate Impact on Annual Pre-Tax Earnings</u>
Change of 1% in floating interest rates	\$0.7 million

Potential Environmental, Health and Safety Liabilities

Patheon's operations are subject to a variety of environmental, health and safety laws and regulations in each of the jurisdictions in which it operates. These laws and regulations govern, among other things, air emissions, wastewater discharges, the handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety. Any failure by Patheon to comply with environmental, health and safety requirements could result in the limitation or suspension of production or subject the Company to monetary fines or civil or criminal sanctions, or other future liabilities.

The facilities in Puerto Rico have been utilized over a period of years as manufacturing facilities and have certain known or potential conditions that may require remediation in the future. There can be no assurance that remediation costs will not be material or that these costs will be covered by contractual indemnity or that Patheon will be able to successfully enforce any such indemnity in the future. In the event of the discovery of new or previously unknown contamination at one of its facilities, the Company may be required to take additional, unplanned remedial measures for which no accounting reserves have been recorded.

Credit and Customer Concentration

During the fiscal years ended October 31, 2007 and 2008, no single customer accounted for more than 15% of Patheon's total revenues in its pharmaceutical development services business segment or in its commercial manufacturing business segment. Notwithstanding this, in the fiscal year ended October 31, 2008, Patheon's top twenty customers accounted for approximately 70% of the Company's commercial manufacturing revenue. This customer concentration increases credit risk and other risks associated with particular customers and particular products, including risks related to market demand for customer products, regulatory and other operating risks. The Company's earnings were significantly adversely affected commencing in fiscal 2007 as a result of the significant loss of revenues from products manufactured at the Caguas and Carolina facilities in Puerto Rico, including a product that lost significant market share as a result of stability-related issues and another product that lost significant market share as a result of the emergence of generic competition. Disruptions in the production of major products could materially adversely impact Patheon's results of operations in the future.

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

- (a) the negotiation of long-term manufacturing agreements with these customers;
- (b) the diversity of products and projects undertaken by Patheon: as of December 2008, Patheon manufactured approximately 695 products in connection with more than 2,219 stock keeping units across a wide range of therapeutic categories and dosage forms; and
- (c) the expansion of PDS units in both Europe and North America: by increasing the variety of service activities, Patheon is increasing its customer base, thereby lowering the risk of depending on a small number of customers for a significant portion of its revenues.

Competition

Some of Patheon's competitors may have substantially greater financial, marketing, technical or other resources than Patheon. Additional competition may emerge and may, among other things, result in a decrease in the fees paid for services, which would affect the profitability of Patheon.

One of the many factors affecting competition is the current excess of capacity, within the pharmaceutical industry generally, of facilities capable of manufacturing drugs in solid and semi-solid dosage forms. Thus, customers currently have a wide range of supply alternatives for these dosage forms. Another factor is a relatively recent development, where an increasing number of companies in Asia, particularly

India, have been entering the pharmaceutical contract manufacturing and pharmaceutical development service sectors over the last few years and have been proceeding with obtaining FDA approval for some of their plants as well as acquiring additional plants in Europe and North America. One or more of these companies may become a significant competitor to Patheon. Patheon may also compete with the internal operations of pharmaceutical and biotechnology companies that choose to source manufacturing services internally.

Competition is driven by know-how, consistency of operational performance, quality, price, value and speed. For this reason, Patheon has introduced a number of performance enhancement programs including "Patheon Advantage™", "One Patheon", and its "Quick to Clinic™" and "Quick to Market™" programs. See "*General Development of Business – Performance Enhancement*".

Rapid Technological Change

The healthcare industry is characterized by rapid technological change. Demand for the Company's services may change in ways it may not anticipate because of evolving industry standards or as a result of evolving customer needs that are increasingly sophisticated and varied, or because of the introduction by competitors of new services and technologies. Innovations aimed at offering enhanced or new services generally may require a substantial investment before the Company can determine their commercial viability, and Patheon may not have the financial resources to fund such initiatives. Even if Patheon were to succeed in creating new services or technologies, they may not produce revenues in excess of the costs of development and they may be quickly rendered obsolete by changing customer preferences or by technologies or features offered by its competitors.

Product Liability Claims

Patheon may be named as a defendant in product liability lawsuits, which may allege that products or services it has provided have resulted or could result in an unsafe condition or injury to consumers. Such lawsuits could be costly to defend and could result in reduced sales, significant liabilities and diversion of management's time, attention and resources. Even claims without merit could subject Patheon to adverse publicity and require it to incur significant legal fees.

Historically, Patheon has sought to manage this risk through the combination of product liability insurance and contractual indemnities and liability limitations in its agreements with customers and vendors. In the past, Patheon has been able to obtain liability insurance for the operation of its businesses. However, there can be no assurance that existing liability insurance will be adequate or that it will be able to be maintained or that all possible claims that may be asserted against Patheon will be covered by insurance. A partially or completely uninsured claim, if successful and of sufficient magnitude, could have a material adverse effect on Patheon's financial condition and its results of operations.

Intellectual Property

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

Significant Shareholder

An affiliate of JLL Partners, namely, JLL Holdings, owns convertible preferred shares of the Company with voting rights in respect of matters to be voted on by Patheon shareholders other than the election of directors. As at October 31, 2008, these convertible preferred shares were convertible into approximately 35.7 million restricted voting shares of the Company, which, together with the 1.7 million restricted voting shares held by JLL Holdings as at the same date, would represent approximately 29% of the restricted voting shares outstanding as at the same date, after giving effect to such conversion. JLL Holdings also owns special voting preferred shares that currently entitle it to elect three members of Patheon's Board of Directors.

In connection with the investment by JLL Partners in Patheon shares on April 27, 2007, the Company entered into an investor agreement with JLL Holdings. See "*Material Contracts – Investor Agreement*". Under the investor agreement, the Company currently requires the approval of JLL Holdings before the Company undertakes certain actions, including share issuances, the payment of dividends, share repurchases, any merger, consolidation or sale of all or substantially all of the Company's assets or a similar business combination transaction, and the incurrence of certain indebtedness in excess of \$20 million.

The Company and JLL Holdings entered into the Redemption Waiver Agreement pursuant to which JLL Holdings waived the requirement that the Company redeem for cash all of the convertible preferred shares on April 27, 2017 in exchange for both the issuance of additional restricted voting shares and the ability for JLL Holdings to also acquire, through the facilities of the Toronto Stock Exchange, over a one-year period, up to 1.26 million restricted voting shares. See "*Material Contracts – Redemption Waiver Agreement*".

On December 8, 2008 JLL Holdings announced in a press release its intention to make an unsolicited offer to acquire any or all the outstanding restricted voting shares of Patheon that it does not already own at a price of \$2.00 per share in cash which is equivalent to CDN\$2.54 per share based on the exchange rate on December 5, 2008.

Patheon's Board of Directors has appointed a special committee of independent directors, none of whom is associated with JLL Holdings or with anyone supporting JLL Holdings to review and evaluate the unsolicited bid from JLL Holdings, and make recommendations to the Board of Directors and shareholders. Patheon's Board of Directors will advise shareholders of its recommendation with respect to this bid in due course and until such time shareholders have been advised to take no action with respect to the bid.

JLL Partners (through JLL Holdings) exercises significant influence over Patheon as a result of its voting rights and its rights under the afore-mentioned investor-related agreements, and, as a result, JLL Partners may have the ability to influence strategic decisions of Patheon. As a significant shareholder of Patheon, JLL Partners is focussed on the enhancement of shareholder value generally. However, the interests of JLL Partners could conflict with the interests of other shareholders. This concentration of ownership and JLL Partners' rights may prevent a change of control of the Company that might be considered to be in the interests of shareholders. In addition, if Patheon is unable to obtain requisite approvals from JLL Partners, the Company may be prevented from executing critical elements of its business strategy.

Supply Arrangements

In many instances, Patheon relies on its customers to supply the active pharmaceutical ingredients necessary to manufacture pharmaceutical products. Any failure by a customer to supply an active pharmaceutical ingredient for a pharmaceutical product on a timely basis may negatively impact Patheon's ability to produce such product and may negatively impact the revenues that Patheon generates from such product.

Patheon depends on various active pharmaceutical ingredients, components, compounds, raw materials, and energy supplied primarily by third parties. It is possible that any of its supplier relationships could be interrupted due to natural disasters, international supply disruptions caused by geopolitical issues or other events or could be terminated in the future. Any sustained interruption in the Company's receipt of adequate supplies could have an adverse effect on its financial results. In addition, while the Company has processes intended to reduce volatility in component and material pricing, it may not be able to successfully manage price fluctuations. Price fluctuation or shortages may have an adverse effect on the results of operations. For example, in 2008, a significant increase in the price of energy adversely impacted the results of operations.

Pension Plans

Certain of Patheon's employees in Canada, France and the United Kingdom are participants in defined benefit pension plans which it sponsors. As of October 31, 2008, the unfunded pension liability on its pension plans was approximately \$13 million. The amount of future contributions to its defined benefit plans will depend upon asset returns and a number of other factors and, as a result, the amount the Company will be required to contribute to such plans in the future may vary. Such cash contributions to the plans will reduce the cash available for the Company's business.

Derivative Financial Instruments

Patheon enters into interest rate swaps and foreign exchange forward contracts to limit its exposure to changes in variable interest rates and in foreign exchange rates. The Company is exposed to credit-related losses which could impact the results of operations in the event of non-performance by the counterparties to such instruments.

Exposure to Foreign Currency Risk

The activities of Patheon are conducted in several currencies — Canadian dollars and U.S. dollars for the Canadian operations, U.S. dollars for the U.S. operations and Euros and British sterling for the European countries.

Since the European and U.S. operations conduct business principally in their respective local currencies, the exposure to foreign currency gains and losses is not significant. However, revenues and operating expenses of the Canadian operations are transacted in Canadian and U.S. dollars. As a result, significant long-term strengthening of the Canadian dollar against the U.S. dollar could adversely affect the profitability of the Canadian operations of Patheon and its consolidated financial results, subject to the ability to increase prices for services or to reduce costs. Based on the Company's current U.S. denominated net inflows in Canada, as at October 31, 2008, fluctuations of +/- 5% in exchange rates, would, all else being equal, have an effect on EBITDA from continuing operations of approximately \$5.3 million, prior to hedging activities.

The Canadian operations carry a significant amount of U.S. dollar denominated debt, all of which has been designated as a hedge against the Company's investments in subsidiaries in the United States and Puerto Rico.

There can be no assurances that it will be possible for the Company to engage in hedging transactions in the future or that current or future hedging transactions, if entered into, will eliminate foreign currency risk.

Risks Associated with Information Systems

Patheon relies on information systems in its business to obtain, rapidly process, analyze and manage data to:

- facilitate the manufacture and distribution of thousands of inventory items to and from its facilities;
- receive, process and ship orders on a timely basis;
- manage the accurate billing of and collections from customers;
- manage the accurate accounting for and payment to vendors; and
- schedule and operate its global network of manufacturing and development facilities.

Its results of operations could be adversely affected if these systems are interrupted, damaged by unforeseen events or fail for any extended period of time, including due to the actions of third parties.

Dependence Upon Key Management Personnel and Executives

Patheon is dependent upon the continued support and involvement of a number of key management personnel. The loss of the services of one or more of such personnel could have a material adverse effect on the business. Patheon's ability to manage its business activities and, hence, its success, will depend in large part on the efforts of these individuals. There can be no assurance that Patheon will be able to continue to attract and retain such personnel.

DIVIDEND POLICY

Patheon Inc. has not paid dividends on its restricted voting shares during the three fiscal years ended October 31, 2008, October 31, 2007 and October 31, 2006. Patheon Inc.'s current policy is to not pay dividends on its restricted voting shares, preferring to reinvest its cash to enhance its growth.

Patheon's credit facilities include covenants that limit the ability to pay dividends. The Investor Agreement entered into between Patheon Inc. and JLL Patheon Holdings, LLC ("JLL Holdings") dated April 27, 2007 (the "Investor Agreement") also prevents Patheon Inc. from declaring or paying any dividends without the approval of JLL Holdings for so long as JLL Holdings holds 52,500 Class I Preferred Shares, Series C or the corresponding number of restricted voting shares. (See "*Material Contracts – The Investor Agreement*".) In addition, the terms governing Patheon Inc.'s Class I Preferred Shares, Series C prevent the payment of dividends on the restricted voting shares after October 31, 2010 until dividends on such shares have been declared and paid.

Dividends are payable to holders of Class I Preferred Shares, Series C. Patheon Inc. has not paid any cash dividends on such shares since their issuance in April 2007. However, the conversion rate of the Class I Preferred Shares, Series C has been adjusted in lieu of any cash payment. (See "*Description of Capital Structure – Preferred Shares – Preferred Shares, Series C*".)

DESCRIPTION OF CAPITAL STRUCTURE

Patheon Inc.'s authorized share capital consists of an unlimited number of restricted voting shares and an unlimited number of class I preferred shares, issuable in series, of which, as at October 31, 2008, 91,149,388 restricted voting shares, 150,000 Class I Preferred Shares, Series C and 150,000 Class I Preferred Shares, Series D were issued and outstanding. As at October 31, 2008, Patheon Inc. had 5,987,965 stock options outstanding, of which 2,947,093 were exercisable.

RESTRICTED VOTING SHARES

Holders of restricted voting shares are entitled to dividends on a *pro rata* basis if, as and when declared by Patheon Inc.'s Board of Directors. Subject to the rights of the holders of any other class of Patheon Inc.'s shares entitled to receive dividends in priority to or rateably with the holders of restricted voting shares, Patheon Inc.'s Board of Directors may declare dividends on the restricted voting shares to the exclusion of any other class of Patheon Inc.'s shares. On the liquidation, dissolution or winding-up of Patheon Inc., holders of restricted voting shares are entitled to participate rateably in any distribution of Patheon Inc.'s assets, subject to the rights of holders of any other class of Patheon Inc.'s shares entitled to receive Patheon Inc.'s assets on such a distribution in priority to or rateably with the holders of restricted voting shares. Holders of restricted voting shares are entitled to receive notice of and attend all annual and special meetings of shareholders of Patheon Inc., other than separate meetings of holders of any other class or series of shares, and to one vote at shareholders' meetings in respect of each restricted voting share. Holders of restricted voting shares are not entitled to vote in respect of the election of some of the directors of Patheon Inc. The holders of the Class I Preferred Shares, Series D are entitled to elect up to three directors of Patheon Inc. (See "*Description of Capital Structure – Preferred Shares – Preferred Shares, Series D*".)

PREFERRED SHARES

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

Preferred Shares, Series C

Holders of Preferred Shares, Series C ("Convertible Preferred Shares"), in addition to the rights attaching to Preferred Shares generally, are entitled to receive notice of and attend all annual and special meetings of the shareholders of Patheon Inc. which the holders of restricted voting shares are entitled to attend, and to one vote at all such meetings in respect of all matters to be voted on by the holders of restricted voting shares, except for the election of directors, for each restricted voting share into which a Convertible Preferred Share held is then convertible. Convertible Preferred Shares are convertible into restricted voting shares at a designated conversion rate (the "Conversion Rate") (237.9072 per \$1,000 principal amount as at October 31, 2008). On the liquidation, dissolution or winding-up of Patheon Inc., holders of Convertible Preferred Shares are entitled to, in priority to any payment to be made to shareholders of Patheon Inc., an amount equal to the issue price of the Convertible Preferred Shares adjusted for dividends payable on such shares (as described below) or the amount that each restricted voting shareholder is entitled to receive multiplied by the Conversion Rate. Patheon Inc. is entitled to require holders of Convertible Preferred Shares to convert their shares into restricted voting shares if, at any time after October 27, 2009, the market price of the restricted voting shares on the Toronto Stock Exchange exceeds a price equivalent to US\$7.87 for a period of at least 60 days. This price is to be adjusted if the number of outstanding restricted voting shares is subdivided, re-divided, reduced, combined or consolidated, or if restricted voting shares or securities convertible into restricted voting shares are issued to the holders of all or substantially all of the then outstanding restricted voting shares. Patheon Inc. is required to redeem the Convertible Preferred Shares on a change of control of Patheon Inc.

The Convertible Preferred Shares are entitled to receive a dividend of 8.5%. During the first 30 months after issuance of the Convertible Preferred Shares, in lieu of a cash payment, the Conversion Rate of the shares or the amount that will be paid on their liquidation will be adjusted. Thereafter, Patheon Inc. may elect to pay a cash dividend or continue to adjust the Conversion Rate and liquidation rate of the Convertible Preferred Shares.

All of the issued and outstanding Convertible Preferred Shares are held by JLL Patheon Holdings and are not transferable except (i) to an affiliate of JLL Partners Fund V, L.P. (being an affiliate of JLL Holdings and 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 shareholders.

Preferred Shares, Series D

Holders of Preferred Shares, Series D (the "Special Voting Preferred Shares"), in addition to the rights attaching to Preferred Shares generally, are entitled to receive notice of and attend all annual and special meetings of the shareholders of Patheon Inc. which the holders of restricted voting shares and Convertible Preferred Shares are entitled to attend. The holders of the Special Voting Preferred Shares are entitled to elect up to three directors of Patheon Inc. based on the number of Convertible Preferred Shares held by JLL Holdings.

Holders of Special Voting Preferred Shares are not entitled to receive any dividends. On the liquidation, dissolution or winding-up of Patheon Inc., holders of each Special Voting Preferred Share will receive Cdn. \$0.0001 and, thereafter, shall not be entitled to participate in any further distribution of the property or assets of Patheon Inc.

JLL Holdings is the sole holder of all of the issued and outstanding Special Voting Preferred Shares.

MARKET FOR SECURITIES

TRADING PRICE AND VOLUME

Restricted voting shares of Patheon Inc. are traded on the Toronto Stock Exchange ("TSX") under the trading symbol "PTI". The following table sets forth the reported high and low trading prices (in Canadian dollars) and trading volumes of the restricted voting shares of Patheon Inc. on the TSX for each month of the fiscal year ending October 31, 2008.

Patheon Inc. Restricted Voting Shares

Month	High (\$)	Low (\$)	Volume Traded
November, 2007	3.50	2.85	6,296,921
December, 2007	3.55	2.98	8,916,956
January, 2008	3.44	3.02	23,218,291
February, 2008	3.45	3.05	4,872,809
March, 2008	3.41	2.72	9,189,540
April, 2008	3.84	2.99	6,260,756
May, 2008	4.44	3.60	9,825,756
June, 2008	4.46	3.85	28,159,191
July, 2008	4.33	3.59	15,395,876
August, 2008	4.27	3.22	5,943,701
September, 2008	3.57	2.58	6,439,174
October, 2008	3.72	1.50	7,789,589

DIRECTORS AND OFFICERS

EXECUTIVE OFFICERS

The names and municipalities of residence of Patheon Inc.'s executive officers and the offices held by them in Patheon Inc. as at December 12, 2008 are set out below together with their principal occupations during the past five years.

Name & Municipality of Residence	Office
WESLEY P. WHEELER ⁽¹⁾ Corona del Mar, California, U.S.A.	President and Chief Executive Officer
NORMAN BARRAS ⁽²⁾ Chilton, Oxfordshire, U.K.	Vice-President, PDS Europe and Asia
ALDO BRACA ⁽³⁾ Latina, Italy	President, Patheon Europe
NICK A. DIPIETRO ⁽⁴⁾ St. Catharines, Ontario, Canada	Executive Vice-President, Corporate Development
ERIC W. EVANS ⁽⁵⁾ Raleigh, North Carolina, U.S.A.	Chief Financial Officer
DOAA A. FATHALLAH ⁽⁶⁾ Zug, Switzerland	Senior Vice-President, General Counsel Europe and Global Pharmaceutical Development Services
PAUL M. GAROFOLO ⁽⁷⁾ Cary, North Carolina, U.S.A.	Senior Vice-President and Chief Information Officer

Name & Municipality of Residence	Office
JACQUELINE LE SAUX ⁽⁸⁾ Toronto, Ontario, Canada	General Counsel, North America & Corporate Secretary
STEVEN LIBERTY ⁽⁹⁾ Oakville, Ontario, Canada	Senior Vice-President, Operations, Canada and U.S.A.
COLIN M. MINCHOM, PH.D. ⁽¹⁰⁾ Mississauga, Ontario, Canada	Vice-President, PDS North America
TERRENCE S. NOVAK ⁽¹¹⁾ Sparta, New Jersey, U.S.A.	President, North American Operations and Chief Marketing Officer
ROY WIESCHKOWSKI ⁽¹²⁾ Kleinburg, Ontario, Canada	Senior Vice-President, Corporate Human Resources

Notes:

1. Mr. Wheeler was appointed President on March 27, 2008 after joining Patheon as Chief Executive Officer on December 3, 2007. Prior to that, Mr. Wheeler was President, North America, R&D and Engineering of Valeant Pharmaceuticals International from March to December 2007, President, North America and Research and Development of Valeant from April 2006 to March 2007 and President, North America and Global Commercial Development of Valeant from February 2003 to April 2006. Prior to that, Mr. Wheeler was President and Chief Executive Officer of DSM Pharmaceuticals Inc. from January 2002 to February 2003.
2. Mr. Barras was appointed Vice-President, PDS Europe and Asia, effective October 23, 2008. Prior to that, he served as Vice-President, Pharmaceutical Development Services, Europe, since April 2006, after joining Patheon in 2005 as Group Director, PDS Swindon. Prior to that, Mr. Barras held a number of senior roles at Norgine International Ltd., including Medical Director, Scientific Director, and Vice-President of R&D.
3. Mr. Braca was appointed President, Patheon Europe effective January 6, 2004. Prior to that, Mr. Braca was Executive Vice-President, European Business Development and President, Patheon Italia S.p.A.
4. Mr. DiPietro was appointed Executive Vice-President, Corporate Development, effective February 18, 2008. Prior to that he was President and Chief Operating Officer of the Company, which position he held since 1996.
5. Mr. Evans joined Patheon as Chief Financial Officer on May 14, 2008. Prior to that, Mr. Evans was Vice President, Financial Services of Novartis Pharmaceuticals Corporation from 2007 to May 2008, Vice President & Controller of Novartis Pharmaceuticals Corporation from 2005 to 2007, and Vice President & Chief Financial Officer of Sandoz Inc. from 2001 to 2005.
6. Ms. Fathallah was appointed Senior Vice-President, General Counsel Europe and Global Pharmaceutical Development Services, effective May 6, 2008. Prior to that, she was Vice President and General Counsel Europe, Middle East & Africa (EMEA) of Valeant Pharmaceuticals International from 2007 to May 2008, Vice President, Assistant General Counsel of Valeant Pharmaceuticals International from 2004 to 2006, and Associate Attorney, Corporate Department, Corporate Finance Practice Group of Paul, Hastings, Janofsky & Walker LLP from 2000 to 2004.

7. Mr. Garofolo was appointed Senior Vice-President and Chief Information Officer, effective May 14, 2008. Prior to that, he was Chief Information Officer of Valeant Pharmaceuticals International from August 2007 to May 2008, Vice President of Global Technology of Valeant Pharmaceuticals International from 2004 to 2007, and Senior Vice President of Technology Services for Broadlane, Inc. from 2000 to 2004.
8. Ms. Le Saux joined Patheon as General Counsel, North America on January 2, 2008 and was appointed Corporate Secretary effective the same date. Prior to that, Ms. Le Saux was Vice-President, Corporate & Legal Affairs of Vasogen Inc. Prior to 2005, she was a contract executive for sanofi-aventis Canada responsible for legal affairs and business development. Prior to 2004, Ms. Le Saux was a contract executive for Zinc Therapeutics, where she was responsible for legal affairs and business development.
9. Mr. Liberty was promoted to Senior Vice-President, Operations, Canada and U.S.A., effective February 19, 2008. He joined Patheon as Senior Vice-President, Operations, Canada on November 1, 2005. Prior to that, Mr. Liberty was Executive Director & General Manager of AstraZeneca Pharmaceuticals' Westborough Supply Site in Massachusetts, U.S.A.
10. Dr. Minchom was appointed Vice-President, PDS North America, effective October 23, 2008. Prior to that, he served as Vice-President, PDS, Canada, from June 2, 2004. He was Group Director, PDS Operations from 2001 for the Toronto Facility after joining as Director of Formulation at the same facility in 2000. Dr. Minchom joined Patheon from Cerebrus Ltd. a small discovery pharma company having spent almost 10 years in various positions of increasing responsibility within Eli Lilly UK.
11. Mr. Novak was appointed President, North American Operations and Chief Marketing Officer, effective February 18, 2008. Prior to that, Mr. Novak was President, Business Unit Director of DSM Pharmaceuticals Inc. from October 2007 to February 2008, Executive Vice President and Chief Marketing Officer of DSM Pharmaceuticals Inc. from June 2005 to October 2007, and Senior Vice President Commercial Operations of DSM Pharmaceuticals Inc. from January 2002 to June 2005.
12. Mr. Wieschkowski was appointed Senior Vice-President, Corporate Human Resources on October 23, 2008. He acted as Senior Vice-President, Corporate Human Resources and Environment, Health & Safety since September 26, 2006. Mr. Wieschkowski joined Patheon as Director, Corporate Human Resources in 1999. He was appointed Senior Director, Corporate Human Resources in 2004 and Vice-President, Corporate Human Resources in 2005.

DIRECTORS

The names and municipalities of residence of the directors of Patheon Inc., including their terms of office and committee memberships as at December 12, 2008, are set out below together with their principal occupations during the past five years. The term of office of each director shall expire immediately prior to the election of directors at the Annual Meeting of Shareholders to be held on March 5, 2009.

Name & Municipality of Residence	Director Since	Committee Membership	Principal Occupation During Past Five Years
PETER A.W. GREEN Campbellville, Ontario, Canada	1996	None	Corporate Director
CLAUDIO F. BUSSANDRI Westmount, Quebec Canada	2008	Corporate Governance	From 1995 to 2007: President and Chief Executive Officer of McKesson Canada (healthcare services company).
PAUL W. CURRIE Toronto, Ontario, Canada	2008	Audit Compensation and Human Resources	From February 2003 to March 2006 and from October 2007 to present: Managing Partner of Currie & Co. (provider of strategic, corporate development, financial, and operational advice and related services to directors and officers of private and public companies), which he founded in 1999; from April 2006 to September 2007: Executive Vice-President, Corporate Development and Strategy of Electronic Data Systems (“EDS”) (information technology and business process outsourcing services company); from 2004 to April 2006: advisor to EDS; from 2000 to 2003: Chief Executive Officer of Symcor Inc. (provider of business process outsourcing services for the financial services industry).
RAMSEY A. FRANK Greenwich, Connecticut, U.S.A.	2007	Corporate Governance	Managing Director, JLL Partners, Inc. (private equity investment firm).
PAUL S. LEVY Scarsdale, New York, U.S.A.	2007	None	Managing Director, JLL Partners, Inc. (private equity investment firm).

Name & Municipality of Residence	Director Since	Committee Membership	Principal Occupation During Past Five Years
THOMAS S. TAYLOR New York, New York, U.S.A.	2007	Audit Compensation and Human Resources	From May 2005 to present: Senior Principal, JLL Partners, Inc. (private equity investment firm); from July 2004 to May 2005: Business Strategy Consultant at The Hartford Financial Services Group, Inc. (insurance and financial service provider); prior to July 2004: President and Chief Executive Officer of EPIX Holdings Corporation (human resource outsourcer).
JOAQUÍN B. VISO San Juan, Puerto Rico, U.S.A.	2004	Audit	From August 2005 to December 2006: Chairman, MOVA Pharmaceutical Corporation (pharmaceutical company) (now called "Patheon Puerto Rico, Inc."); prior to August 2005: President and Chief Executive Officer, MOVA Pharmaceutical Corporation
DEREK J. WATCHORN Schomberg, Ontario, Canada	1998	Corporate Governance Compensation and Human Resources	From January 2007 to present: President, Chief Executive Officer and a director of Revera Inc. ("Revera") (provider of accommodation and care for seniors); from October 2004 to January 2007: President, Chief Executive Officer and a trustee of Retirement Residences Real Estate Investment Trust (provider of accommodation and care for seniors) (acquired by Revera in January 2007); from October 2004 to December 2007: a trustee of IPC US Real Estate Investment Trust (asset and property management); from January 2003 to June 2004: Executive Vice-President, Strategic Initiatives, Canary Wharf Group plc (commercial property company).

Name & Municipality of Residence	Director Since	Committee Membership	Principal Occupation During Past Five Years
WESLEY P. WHEELER Corona del Mar, California, U.S.A.	2007	Not Applicable ⁽¹⁾	From December 3, 2007 to present: Chief Executive Officer of Patheon (and President from March 27, 2008 onwards); from March to December 2007: President, North America, R&D and Global Manufacturing, Valeant Pharmaceuticals International (pharmaceutical company); from April 2006 to March 2007: President, North America and Research and Development, Valeant Pharmaceuticals International; from February 2003 to April 2006: President, North America and Global Commercial Development, Valeant Pharmaceuticals International.

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

SHAREHOLDINGS OF DIRECTORS AND EXECUTIVE OFFICERS

As at October 31, 2008, Patheon's directors and executive officers as a group beneficially owned, directly or indirectly, 11,247,577 restricted voting shares of Patheon Inc., representing 12.3% of the outstanding restricted voting shares.

CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS

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

Mr. Levy previously served as a director of Hayes Lemmerz International, Inc., which made a proposal under chapter 11 of the U.S. Bankruptcy Code in 2001, and as a director of New World Pasta Company and Motor Coach Industries, Inc., which made proposals under chapter 11 of the U.S. Bankruptcy Code in 2004 and 2008 respectively.

Mr. Frank previously served as a director of New World Pasta Company and Motor Coach Industries, Inc., which made proposals under chapter 11 of the U.S. Bankruptcy Code in 2004 and 2008 respectively.

Mr. Evans previously served as Vice-President and Controller of LTV Corporation, which made a proposal under chapter 11 of the U.S. Bankruptcy Code in 2000.

AUDIT COMMITTEE INFORMATION

COMPOSITION OF THE AUDIT COMMITTEE

The Audit Committee is comprised of the following three members: Paul W. Currie (Chairman), Joaquin Viso and Thomas S. Taylor. The Board of Directors has determined that each of Messrs. Currie and Viso is independent of management and free from any interest and any business or other relationship that could, or could reasonably be perceived to, reasonably interfere with the director's ability to exercise his independent judgment and act in the best interests of Patheon. As regards Mr. Taylor, he is considered not to be independent because of his position with JLL Partners, Inc. and the degree of control that JLL Partners, Inc. exercises over Patheon; however, the Board has determined that Mr. Taylor is able, notwithstanding his affiliation to JLL Partners, Inc., to exercise the impartial judgement necessary to fulfill his responsibilities as a member of the Audit Committee and act in the best interests of Patheon.

RELEVANT EDUCATION AND EXPERIENCE

Mr. Currie is a chartered accountant and, for over the last approximately ten years, has acted as a financial advisor or held executive corporate positions. Mr. Viso has held executive positions in the contract pharmaceutical industry and prior to August 2005 was the President and Chief Executive Officer of MOVA Pharmaceutical Corporation, which was acquired by the Company in 2004. Mr. Taylor is an investment banker and former Chief Financial Officer of several corporations. As such, all of the members of the Audit Committee are financially literate. Each of the Audit Committee members: (i) is fully cognizant of the accounting principles used by Patheon to prepare its financial statements; (ii) has the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves; (iii) has practical experience preparing, auditing, analyzing or evaluating financial statements; and (iv) has an understanding of internal controls and procedures for financial reporting.

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

PRE-APPROVAL POLICIES AND PROCEDURES

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

EXTERNAL AUDITOR SERVICE FEES

All amounts indicated in the table immediately below are in Canadian dollars.

FISCAL YEAR	AUDIT FEES	AUDIT-RELATED FEES	TAX FEES	ALL OTHER FEES
2008	\$1,083,000	\$276,000	\$58,000	\$91,000
2007	\$ 957,000	\$228,000	\$19,000	\$35,000

AUDIT COMMITTEE CHARTER

Patheon Inc.'s Audit Committee Charter was most recently ratified on December 11, 2008. A copy is provided in Appendix C to this Annual Information Form.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Mr. Joaquín B. Viso, who, as at October 31, 2008, together with his wife, jointly owns approximately 12% of the issued and outstanding restricted voting shares of Patheon Inc. and is a director of Patheon Inc., is a controlling shareholder of Alara Pharmaceutical Corporation ("Alara") which has two contractual commercial relationships with Patheon PR Corporation. One of these agreements involves a significant product for Patheon PR. According to the terms of the commercial manufacturing agreement, the right to place orders for such product has been assigned to a third party who purchases this product directly from Patheon PR; however, the NDA for such product remains the property of Alara. This commercial manufacturing agreement has a 17-year term, expiring in 2019, and grants Patheon PR the right to manufacture 85% of the worldwide requirements for such product for the term of the agreement.

The Company indirectly holds, through Patheon Italia S.p.A. and Patheon B.V. (of the Netherlands), an equity interest of 18% in BSP Pharmaceuticals S.r.l. ("BSP"), a privately-held Italian company. BSP operates an oncology production facility in Latina, Italy that specializes in the provision of third-party development and manufacturing of cytotoxic pharmaceutical products. On July 2, 2008, the Company announced that it had completed a shareholders' agreement in respect of BSP as well as a sales and marketing agreement with BSP. Under the terms of the latter agreement, Patheon is promoting BSP's manufacturing capacity and development services. Mr. Aldo Braca, President, Patheon Europe, and/or his immediate family members, either directly or indirectly through entities controlled by Mr. Braca and/or his immediate family members, hold(s) an aggregate equity interest of 47% in BSP. Mr. Braca has been appointed President and Chief Executive Officer of BSP. For a transitional period, Mr. Braca is filling this role as well as the role of President, Patheon Europe.

On December 8, 2008 JLL Holdings announced in a press release its intention to make an unsolicited offer to acquire any or all the outstanding restricted voting shares of Patheon that it does not already own at a price of \$2.00 per share in cash which is equivalent to CDN\$2.54 per share based on the exchange rate on December 5, 2008.

Patheon's Board of Directors has appointed a special committee of independent directors, none of whom is associated with JLL Holdings or with anyone supporting JLL Holdings to review and evaluate the unsolicited bid from JLL Holdings, and make recommendations to the Board of Directors and shareholders. Patheon's Board of Directors will advise shareholders of its recommendation with respect to this bid in due course and until such time shareholders have been advised to take no action with respect to the bid. The Company remains very confident in its business plan and continues to run its business as usual.

Each of Messrs. Paul Levy and Ramsey Frank are Managing Directors of JLL Partners, Inc and Mr. Thomas Taylor is Senior Principal of JLL Partners, Inc. Each of them is a director of Patheon. See also "*Material Contracts.*"

TRANSFER AGENT AND REGISTRAR

The registrar and transfer agent for Patheon Inc.'s restricted voting shares is Computershare Investor Services Inc., with transfer facilities in the cities of Halifax, Montreal, Toronto, Winnipeg, Calgary and Vancouver.

MATERIAL CONTRACTS

Other than the agreements described below, copies of which have been filed on SEDAR (www.sedar.com), Patheon did not enter into any material contracts during fiscal 2008, nor did Patheon enter into any material contracts prior to fiscal 2008 that remain in effect. See also "*Description of Capital Structure – Restricted Voting Shares.*"

INVESTOR AGREEMENT

JLL Patheon Holdings, LLC (being an affiliate of JLL Partners; both entities hereafter collectively referred to as "JLL Partners") and Patheon entered into the Investor Agreement, dated April 27, 2007, in connection with the purchase by JLL Partners of the Convertible Preferred Shares and Special Voting Preferred Shares for gross proceeds of \$150 million. The following is a summary of the key terms of the Investor Agreement and is not complete.

The key terms of the Investor Agreement relate to:

- special approval rights of JLL Partners;
- standstill provisions;
- coat-tail protection;
- restrictions on transfer of the Special Voting Preferred Shares; and
- registration rights.

Special Approval Rights: The approval of JLL Partners is required before Patheon may do any of the following (provided that JLL Partners holds at least 52,500 Convertible Preferred Shares or the corresponding number of restricted voting shares issued upon conversion of the Convertible Preferred Shares):

- (a) create or issue any shares of capital stock ranking *pari passu* with or senior to the Convertible Preferred Shares, or issue any 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 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 \$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 a 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: (i) a stock dividend or recapitalization of Patheon, (ii) any dividend reinvestment plan, (iii) a rights offering to all holders of restricted voting shares, (iv) Patheon's shareholders rights plan or (v) 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 the structure of the Board of Directors as it existed on April 27, 2007. The standstill provisions will expire on the earliest of (i) April 27, 2012, (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 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, (B) a consolidation, merger, arrangement or amalgamation (statutory or otherwise) of Patheon with any such third party, or (C) the acquisition by any such third party or group of such third parties of restricted voting shares or Convertible Preferred Shares representing more than 35% of the fully-diluted shares held by JLL Partners. (Note that, subsequent to the Investor Agreement, Patheon agreed to provide a limited waiver of these standstill provisions. See "*Material Contracts – Redemption Waiver Agreement*" for information concerning this limited waiver.)

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 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 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 own 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 own Convertible Preferred Shares (or restricted voting shares received on conversion) representing at least 6,250,000 fully-diluted restricted voting shares.

REDEMPTION WAIVER AGREEMENT

The Company and JLL Holdings entered into an agreement on September 4, 2008 pursuant to which JLL Holdings waived certain rights in exchange for the issuance of additional restricted voting shares and the ability for JLL Holdings to also acquire, through the facilities of the Toronto Stock Exchange, over a one-year period, up to 1.26 million restricted voting shares. The following is a summary of the key terms of the Redemption Waiver Agreement.

Under the Redemption Waiver Agreement, JLL Holdings agreed to waive the requirement, under the terms of the convertible preferred shares held by JLL Holdings, that the Company redeem for cash all of these shares on April 27, 2017, if not previously converted, for a redemption price expected to be at least US\$185 million (the "Mandatory Redemption Provision"). In consideration of this waiver, the Company agreed to issue to JLL Holdings 400,000 restricted voting shares, representing approximately 0.4% of the restricted voting shares outstanding at that time. The Company also agreed to provide a limited waiver of the standstill provisions of the Investor Agreement (see "*Material Contracts – Investor Agreement*") to permit JLL Holdings to acquire, through the facilities of the Toronto Stock Exchange, over a one-year period, up to 1% of the outstanding restricted voting shares (determined on a partially diluted basis, taking into account the restricted voting shares issuable on conversion of the convertible preferred shares).

2007 CREDIT FACILITIES

The JLL Partners investment in fiscal 2007 was conditional on Patheon concurrently refinancing the remaining indebtedness outstanding under its North American credit facilities. The Company entered into an agreement as of March 28, 2007 with J.P. Morgan Securities Inc. and GE Commercial Finance for this refinancing, and entered into the new credit arrangements contemporaneously with the completion of the JLL Partners investment on April 27, 2007.

The 2007 credit facilities are in the aggregate amount of \$225 million, consisting of a seven-year \$150 million senior secured term loan facility and a five-year \$75 million asset-based senior secured revolving loan facility.

The senior secured term loan matures April 26, 2014 and bears interest at 6.3% based upon floating LIBOR, US or CAD prime, or federal funds effective rates, plus applicable margins. The \$75 million senior secured revolving loan facility matures April 26, 2012 and bears interest at 5.9% based upon floating LIBOR, US or CAD prime, or federal funds effective rates, plus applicable margins.

The Company is required to make quarterly instalment payments of \$375,000 on the senior secured term loan facility, along with additional mandatory repayments based on certain excess cash flow measures. The Company's ability to draw on the senior secured revolving loan facility is dependent upon the Company's inventory and trade accounts receivable levels. The senior secured term loan and the senior secured revolving loan facility contain restrictive covenants typical to such debt agreements, including restrictions on capital expenditures, all of which were met as of October 31, 2008. The senior secured term loan and the senior secured revolving facility are collateralized by substantially all of the assets of the Company's operations in Canada, United States, Puerto Rico and the United Kingdom and the Company's investments in the shares of all other operating subsidiaries.

The senior secured term loan and the senior secured revolving loan each contain a definition of "Change in Control" which includes the acquisition of ownership, directly or indirectly, beneficially or of record, by any person or group (within the meaning of the US Securities Exchange Act of 1934 and the rules of the US Securities and Exchange Commission) other than Permitted Holders (as defined in the agreements), of equity interests representing more than 40% of the aggregate ordinary voting power represented by the issued and outstanding equity interests of the Company. JLL Holdings is a Permitted Holder. A Change in Control would not be triggered by the acquisition by JLL Holdings of restricted voting shares under its

proposed offer announced December 8, 2008 for any and all outstanding restricted voting shares of the Company. If a Change in Control were triggered, it would constitute an "Event of Default" which would entitle the lenders, by notice to the Company, to terminate the commitments and declare the loans to be due and payable.

The Company has entered into interest rate swap contracts to convert interest on the senior secured term loan from a floating rate to a fixed rate of 7.7% until June 2010.

INTERESTS OF EXPERTS

NAMES OF EXPERTS

The auditors of Patheon are Ernst & Young LLP, Chartered Accountants. Patheon's consolidated financial statements as at October 31, 2008 and for the year then ended have been filed under National Instrument 51-102 in reliance on the report of Ernst & Young LLP, Chartered Accountants, given on their authority as experts in auditing and accounting.

INTERESTS OF EXPERTS

Patheon's Audit Committee obtained confirmation from Ernst & Young LLP, in writing, that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

ADDITIONAL INFORMATION

Additional information, including information regarding directors' and officers' remuneration and indebtedness, principal holders of Patheon's securities and options to purchase securities, is contained in Patheon's Management Proxy Circular in respect of Patheon's annual meeting held on March 27, 2008, and filed on SEDAR (www.sedar.com) in compliance with securities regulations and prior to such meeting. Additional financial information is provided in the consolidated financial statements and management's discussion and analysis for the fiscal year ended October 31, 2008, filed on SEDAR.

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

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

2. at any other time, one copy of any of the documents referred to in paragraphs (a)(i), (ii) and (iii) above, provided that Patheon may require the payment of a reasonable charge if the request is made by a person or company who is not a securityholder of Patheon.

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

APPENDIX A - BACKGROUND ON THE DRUG DEVELOPMENT PROCESS

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

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

Discovery

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

Synthesis of the NME

In order to be suitable as a new drug candidate, a NME must be able to be synthesized in large enough quantities and at commercially viable costs, to provide sufficient quantities of the API for laboratory and animal studies, and ultimately, Bulk Drug Substance for clinical and commercial production of the new drug product. Depending on the ease and cost of synthesizing the NME, the availability of the API for development and manufacturing activities may be limited.

Pre-Clinical Studies

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

Investigation New Drug Application (IND)

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

Clinical Trials & Pharmaceutical Development

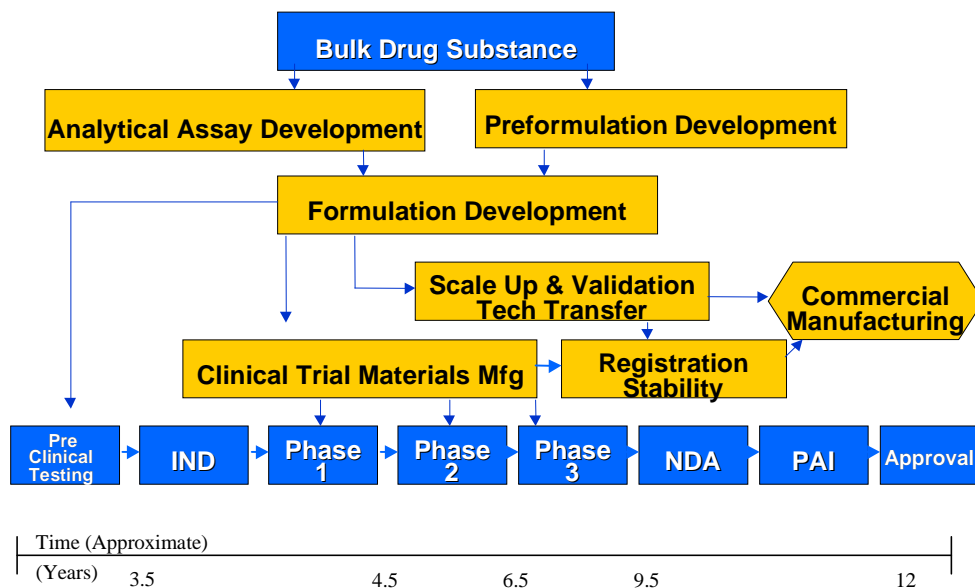
During the drug development process, an NME must undergo safety and clinical evaluation before it is approved as a commercial therapeutic product. The NME must pass through Phase I, Phase II and Phase III clinical trials prior to receiving approval. An essential part of this process is the development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

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

Developing an appropriate dosage form, preparing necessary clinical trial materials and scaling-up the dosage form manufacturing to commercial scale are all part of the development process. Through these activities, it must be demonstrated that the drug can be consistently manufactured at commercial batch

sizes in accordance with applicable regulatory requirements. The data recorded during development activities are included in the Chemistry, Manufacturing and Controls section of the required New Drug Application ("NDA") for the FDA. A drug must meet regulatory requirements at all phases of the clinical trial and drug development processes or it will not be approved for human use.

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



Pre-Approval Inspection ("PAI")

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

Post-Marketing Approval (Phase IV)

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

Commercial Manufacturing

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

APPENDIX B - GLOSSARY OF TECHNICAL TERMS

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

Analytical Assay:	Analytical assay is a laboratory procedure used to measure the amount of a drug substance or other component of interest contained in a drug product or pharmaceutical ingredient.
API:	Active Pharmaceutical Ingredient. This is the active, medicinal or therapeutic ingredient in a pharmaceutical product. This term is sometimes used interchangeably with the term Drug Substance.
Bulk Drug Substance:	This is a bulk form of the API or Drug Substance, suitable for use in commercial manufacturing of the finished dosage form.
cGMP:	Current Good Manufacturing Practices. This is a constantly evolving system of manufacturing practices adopted and implemented by companies in the pharmaceutical industry. These practices, when taken in conjunction with quality control testing, are designed to ensure that each dosage unit of every drug performs as expected when used by a patient. From time to time, standards for good manufacturing practices are promulgated by regulatory agencies such as the FDA, HPFB, MHRA and EMEA.
Clinical Trials:	Studies of a drug product in humans designed to evaluate the safety and efficacy of a new drug in a particular disease condition. Clinical trials are only conducted after extensive pre-clinical studies.
Contract Research Organization (CRO):	An organization that manages clinical studies and related regulatory matters for pharmaceutical companies.
EMEA:	The European Medicines Evaluation Agency is the regulatory agency which controls all aspects of the development, manufacture and commercialization of drug products for the countries of the European Union. Each country of the European Union also has its own national regulatory agency which works within the umbrella of the EMEA.
FDA:	The Food and Drug Administration is the regulatory agency which controls all aspects of the development, manufacture and commercialization of drug products in the United States. New drugs cannot be developed, or marketed for sale in the United States without FDA approval.
Health Products and Food Branch (HPFB):	HPFB is part of Health Canada and is the regulatory body that oversees the drug development process in Canada. New drugs cannot be marketed for sale in Canada without HPFB approval.
IND:	Investigational New Drug application. This application, submitted to the FDA, describes how a drug will be evaluated in human subjects and must be submitted before human clinical trials can be conducted. It also contains the results of pre-clinical studies.
Lean Manufacturing:	Lean manufacturing focuses on waste reduction and operational efficiency in order to achieve improved quality, faster delivery and lower costs.
MHRA:	The Medicines and Healthcare Products Regulatory Agency is the national drug regulatory agency of the United Kingdom

NDA:	New Drug Application. The document submitted to the FDA to approve a drug. The NDA is required to include, among other information, preclinical and clinical data; it includes a Chemistry, Manufacturing and Controls Section which describes the dosage form, the manufacturing process and information relating to the proposed manufacturer and packager of the drug.
NDS:	New Drug Submission. Submitted to the HPFB to approve a drug, an NDS is the Canadian equivalent of an NDA.
PAI:	Pre-Approval Inspection. This is the FDA's inspection of a proposed manufacturer's facilities and control system during that agency's review of an NDA. This inspection is carried out as part of the agency's decision making process as to the marketability of the drug.
Phase I clinical trials:	Studies conducted on a small number of healthy volunteers to determine a drug's safety in a healthy population.
Phase II clinical trials:	Studies carried out on a larger number of patient volunteers to determine a drug's safety, efficacy and dosage range in a patient population which demonstrates a particular disease condition.
Phase III clinical trials:	Studies carried out on a sufficiently large number of patient volunteers to prove statistically that the drug is safe and effective when taken as prescribed for the treatment of a specific disease condition.
Phase IV clinical trials:	Studies carried out post-approval to evaluate the long-term effects of a new drug or its effect in special patient populations.
Pre-clinical studies:	Laboratory evaluations and animal studies used to assess the safety of a new drug prior to evaluation in healthy human volunteers.
Preformulation:	The chemical and physical characterization of the drug substance and the selection of an appropriate dosage form.
Prescription drugs:	Prescription drugs are only available to the general public with a physician's prescription.
Six-Sigma:	Six Sigma is a business philosophy that focuses on eliminating defects through fundamental process knowledge. Six Sigma integrates principles of business, statistics and engineering to achieve process, product and service improvements.
Scale-up and technology transfer:	The transfer of the manufacturing process from the development stage in the laboratory or pilot plant to commercial production.
Stock-keeping unit (SKU):	This refers to the particular package type and size used in the consumer distribution of a particular product.
Validation:	The planned and documented act of demonstrating that the operation of any equipment, use of any material or the implementation of any procedure, process or system will consistently lead to the expected results within pre-established limits.

APPENDIX C - AUDIT COMMITTEE CHARTER

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

1. DEFINITIONS

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

2. AUDIT COMMITTEE RESPONSIBILITIES

2.1 Relationship with External Auditor

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

2.2 Audit Committee Responsibilities

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

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

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

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

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

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

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

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

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

(8) The *audit committee* must monitor the adequacy of the Corporation's internal accounting controls and related management information systems.

2.3 De Minimis Non-Audit Services

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

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

2.4 Delegation of Pre-Approval Function

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

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

2.5 Pre-Approval Policies and Procedures

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

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

3. COMPOSITION OF THE AUDIT COMMITTEE

3.1 Composition

- (1) The *audit committee* must be composed of a minimum of three members.

- (2) Every *audit committee* member must be a director of the Corporation.
- (3) Subject to sections 3.2, 3.3, 3.4 and 3.5, every *audit committee* member must be *independent*.
- (4) Subject to sections 3.4 and 3.7, every *audit committee* member must be *financially literate*.

3.2 Controlled Companies

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

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

- (a) the member would be *independent* of the Corporation but for the relationship described in paragraph 1.4(1)(b) of Schedule A or as a result of subsection 1.3(7) of Schedule A;
- (b) the member is not an *executive officer*, general partner or managing member of a person or company that
 - (i) is an *affiliated entity* of the Corporation, and
 - (ii) has its securities trading on a *marketplace*;
- (c) the member is not an *immediate family member* of an *executive officer*, general partner or managing member referred to in paragraph (b), above;
- (d) the member does not act as the chair of the *audit committee*; and
- (e) the board of directors determines in its reasonable judgement that
 - (i) the member is able to exercise the impartial judgement necessary for the member to fulfill his or her responsibilities as an *audit committee* member, and
 - (ii) the appointment of the member is required by the best interests of the Corporation and its shareholders.

3.3 Events Outside Control of Member

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

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

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

3.4 Death, Disability or Resignation of Member

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

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

3.5 Temporary Exemption for Limited and Exceptional Circumstances

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

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

3.6 Majority Independent

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

3.7 Acquisition of Financial Literacy

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

3.8 Restriction on Use of Certain Exemptions

The exemptions in sections 3.3, 3.4 and 3.7 are not available to a member unless the Corporation's board of directors has determined that the reliance on the exemption will not materially

adversely affect the ability of the *audit committee* to act independently and to satisfy the other requirements of this charter.

4. AUTHORITY OF THE AUDIT COMMITTEE

4.1 Authority

The *audit committee* has the authority

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

5. GENERAL

5.1 Subject to by-laws, etc.

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

5.2 Annual Review of Charter

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

Approved by the Board of Directors
Patheon Inc.
December 11, 2008

SCHEDULE A

DEFINITIONS AND INTERPRETATION

1.1 Definitions

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

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

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

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

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

"marketplace" means

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

- (d) a dealer that executes a trade of an exchange-traded security outside of a marketplace, but does not include an inter-dealer bond broker;

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

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

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

1.2 Meaning of Affiliated Entity, Subsidiary Entity and Control

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

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

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

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

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

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

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

1.3 Meaning of Independence

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

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

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

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

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

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

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

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

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

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

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

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

1.4 Additional Independence Requirements

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

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

is considered to have a material relationship with the Corporation.

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

- (a) an individual's spouse, common-law partner, minor child or stepchild, or a child or stepchild who shares the individual's home; or

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

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

1.5 Meaning of Financial Literacy

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

Approved by the Board of Directors
Patheon Inc.
February 22, 2008