



**INTERIM UNAUDITED CONSOLIDATED FINANCIAL
STATEMENTS AND NOTES**

For the First Quarter Ended January 31, 2009

Patheon Inc.
CONSOLIDATED BALANCE SHEETS
(unaudited)

	As of January 31,	As of October 31,
	2009	2008
<i>(in millions of U.S. dollars)</i>	\$	\$
Assets		
Current		
Cash and cash equivalents	24.0	20.2
Accounts receivable	128.0	141.6
Inventories	73.3	67.0
Prepaid expenses and other	9.4	7.8
Total current assets	234.7	236.6
Capital assets	419.8	428.5
Intangible assets	4.4	4.9
Future tax assets	38.6	35.9
Goodwill	2.8	2.9
Investments	1.5	1.7
Long-term assets held for sale (Note 3)	1.9	1.9
Total assets	703.7	712.4
Liabilities and Shareholders' equity		
Current		
Bank indebtedness	9.5	9.0
Accounts payable and accrued liabilities	166.9	174.9
Income taxes payable	8.0	2.6
Current portion of long-term debt	10.0	10.2
Total current liabilities	194.4	196.7
Long-term debt	210.2	200.5
Deferred revenues	21.4	22.5
Future tax liabilities	38.4	39.1
Other long-term liabilities	16.1	16.4
Total liabilities	480.5	475.2
Shareholders' equity		
Convertible preferred shares	152.8	149.2
Restricted voting shares	393.5	393.5
Contributed surplus	7.2	6.7
Deficit	(317.4)	(309.3)
Accumulated other comprehensive loss	(12.9)	(2.9)
Total shareholders' equity	223.2	237.2
Total liabilities and shareholders' equity	703.7	712.4

see accompanying notes

Patheon Inc.
CONSOLIDATED STATEMENTS OF LOSS

(unaudited)

	Three months ended January 31,	
	2009	2008
<i>(in millions of U.S. dollars, except loss per share)</i>	\$	\$
Revenues	147.2	164.2
Cost of goods sold	116.5	138.3
Gross profit	30.7	25.9
Selling, general and administrative expenses	26.3	27.5
Repositioning expenses (Note 7)	0.5	2.4
Operating income (loss)	3.9	(4.0)
Interest expense, net	4.5	8.0
Foreign exchange loss (gain) (Note 8)	1.5	(0.6)
Loss from continuing operations before income taxes	(2.1)	(11.4)
(Recovery of) provision for income taxes	(0.6)	0.3
Net loss from continuing operations	(1.5)	(11.7)
Loss from discontinued operations (Note 3)	(4.5)	(3.0)
Loss for the period	(6.0)	(14.7)
Dividends on convertible preferred shares	3.6	-
Loss attributable to restricted voting shareholders	(9.6)	(14.7)
Basic and diluted loss per share		
From continuing operations	(\$0.056)	(\$0.129)
From discontinued operations	(\$0.050)	(\$0.033)
	(\$0.106)	(\$0.162)
Average number of shares		
outstanding during period - basic and diluted (in thousands)	91,149	90,624

see accompanying notes

Patheon Inc.
CONSOLIDATED STATEMENTS OF CHANGES IN
SHAREHOLDERS' EQUITY

(unaudited)

	Three months ended January 31,	
	2009	2008
<i>(in millions of U.S. dollars)</i>	\$	\$
Convertible preferred shares - equity component		
Balance at beginning of period	149.2	15.9
Paid in-kind dividend on shares	3.6	-
Balance at end of period	<u>152.8</u>	<u>15.9</u>
Restricted voting shares		
Balance at beginning of period	393.5	392.0
Balance at end of period	<u>393.5</u>	<u>392.0</u>
Contributed surplus		
Balance at beginning of period	6.7	4.0
Stock options	0.5	0.9
Balance at end of period	<u>7.2</u>	<u>4.9</u>
Retained deficit		
Balance at beginning of period	(309.4)	(293.3)
Adjustment related to change in accounting policy (Note 1)	1.6	-
Net loss attributable to restricted voting shareholders	(9.6)	(14.7)
Balance at end of period	<u>(317.4)</u>	<u>(308.0)</u>
Accumulated other comprehensive (loss) income		
Balance at beginning of period	(2.9)	71.5
Other comprehensive loss for the period	(10.0)	(14.3)
Balance at end of period	<u>(12.9)</u>	<u>57.2</u>
Total shareholders' equity at end of period	<u>223.2</u>	<u>162.0</u>

see accompanying notes

Patheon Inc.**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS***(unaudited)*

	Three months ended January 31,	
	2009	2008
<i>(in millions of U.S. dollars)</i>	\$	\$
Net loss attributable to restricted voting shareholders	(9.6)	(14.7)
Other comprehensive loss, net of income taxes		
Change in foreign currency losses on investments in subsidiaries, net of hedging activities ¹	(10.0)	(7.2)
Change in value of derivatives designated as foreign currency and interest rate cash flow hedges ²	(2.3)	(5.1)
Losses (gains) on foreign currency and interest rate cash flow hedges reclassified to consolidated statement of loss ³	2.3	(2.0)
Other comprehensive loss for the period	(10.0)	(14.3)
Comprehensive loss attributable to restricted voting shareholders	(19.6)	(29.0)

see accompanying notes

The amounts disclosed in other comprehensive income have been recorded net of income taxes as follows:

¹Net of an income tax expense of nil²Net of an income tax recovery of \$0.2 million (2008 - recovery of \$0.8 million)³Net of an income tax recovery of \$0.1 million (2008 - expense of nil)

Patheon Inc.

Consolidated Statements of Cash Flows

(unaudited)

	Three months ended January 31,	
	2009	2008
<i>(in millions of U.S. dollars)</i>	\$	\$
Operating activities		
Loss from continuing operations	(1.5)	(11.7)
Add (deduct) charges to operations not requiring a current cash payment		
Depreciation and amortization	9.9	11.0
Foreign exchange loss on debt	-	2.0
Accreted interest on convertible preferred shares	-	3.7
Other non-cash interest	0.1	0.1
Employee future benefits, net of contributions	(0.9)	(0.6)
Future income taxes	(3.4)	(3.5)
Amortization of deferred revenues	(0.1)	(0.5)
Stock-based compensation expense	0.5	0.9
Other	-	(0.1)
	<u>4.6</u>	<u>1.3</u>
Net change in non-cash working capital balances related to continuing operations	3.0	(0.2)
Decrease in deferred revenues	(0.6)	-
Cash provided by operating activities of continuing operations	<u>7.0</u>	<u>1.1</u>
Cash used in operating activities of discontinued operations	(3.3)	(4.5)
Cash provided by (used in) operating activities	<u>3.7</u>	<u>(3.4)</u>
Investing activities		
Additions to capital assets	(8.5)	(8.2)
Net decrease (increase) in investments	0.3	(0.4)
Cash used in investing activities of continuing operations	(8.2)	(8.6)
Cash provided by investing activities of discontinued operations	-	8.2
Cash used in investing activities	<u>(8.2)</u>	<u>(0.4)</u>
Financing activities		
Increase in bank indebtedness	0.5	1.3
Increase in long-term debt	19.8	11.8
Repayment of long-term debt	(9.1)	(7.0)
Cash provided by financing activities of continuing operations	<u>11.2</u>	<u>6.1</u>
Cash used in financing activities of discontinued operations	-	(0.1)
Cash provided by financing activities	<u>11.2</u>	<u>6.0</u>
Effect of exchange rate changes on cash and cash equivalents	(2.9)	(0.6)
Net increase in cash and cash equivalents during the period	<u>3.8</u>	<u>1.6</u>
Cash and cash equivalents, beginning of period	<u>20.2</u>	<u>30.6</u>
Cash and cash equivalents, end of period	<u>24.0</u>	<u>32.2</u>

see accompanying notes

Notes to Unaudited Consolidated Financial Statements for the Three Months Ended January 31, 2009
(Dollar information in tabular form is expressed in millions of U.S. dollars)

1. Accounting policies

Basis of presentation

The accompanying unaudited consolidated financial statements have been prepared by Patheon, Inc. (the “Company” or “Patheon”) in accordance with Canadian generally accepted accounting principles (“GAAP”) on a basis consistent with those followed in the most recent audited consolidated financial statements except as noted below. These consolidated financial statements do not include all the information and footnotes required by GAAP for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and notes for the year ended October 31, 2008.

The preparation of the consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect: the reported amounts of assets and liabilities; the disclosure of contingent assets and liabilities at the date of the consolidated financial statements; and the reported amounts of revenue and expenses in the reporting period. Management believes that the estimates and assumptions used in preparing its consolidated financial statements are reasonable and prudent, however, actual results could differ from those estimates.

Historically, the Company’s manufacturing and PDS revenues are lower in the first and fourth fiscal quarters. The Company attributes this to several factors, including: (i) many clients reassess their need for additional product in the last quarter of the calendar year in order to use existing inventories of products; (ii) the lower production of seasonal cough and cold remedies in the first quarter; (iii) many small pharmaceutical and small biotechnology clients involved in PDS projects limit their project activity toward the end of the calendar year in order to reassess progress on their projects and manage cash resources; and (iv) the Patheon-wide plant shut-down during a portion of the traditional holiday period in December and January. Due to these and other factors, operating results for an interim period are not necessarily indicative of operating results for an entire year, and operating results for a historical period are not necessarily indicative of operating results for a future period.

Changes in accounting policy

Effective November 1, 2008 the Company adopted Canadian Institute of Chartered Accountants (“CICA”) Section 3031 “Inventories,” which requires inventory to be measured at the lower of cost and net realizable value. The standard also provides guidance on the types of costs that can be capitalized and requires reversal of previous inventory write-downs if economic circumstances have changed to support the higher inventory values. As of January 31, 2009, the adoption of this standard resulted in an increase to the Company’s inventory of \$1.6 million, with a corresponding decrease in the deficit account. The increase was due to additional overhead and depreciation costs, net of tax, which are now required under the standard to be capitalized into inventory versus expensing as period costs. This increase to the inventory value has been expensed through cost of goods sold during the quarter ended January 31, 2009. In addition, the Company has modified its presentation of the consolidated statement of loss to separately present costs of goods sold and selling, general and administrative expenses to conform with the disclosure requirements of this policy. This resulted in the inclusion of depreciation within costs of goods sold and selling, general and administrative expenses.

Effective November 1, 2008 the Company adopted CICA Section 3064 “Goodwill and Intangible Assets,” which clarifies that costs can be deferred only when they relate to an item that meets the definition of an asset, and as a result, start-up costs must be expensed as incurred. Section 1000 “Financial Statement Concepts,” was also amended to provide consistency with this new standard. As a result of the adoption of this standard, which is applied retrospectively, the Company adjusted all prior periods presented by writing off the deferred start-up costs and the associated deferred tax liability and currency translation adjustment to the deficit account. The net impact was an increase in the deficit account of \$3.1 million at October 31, 2008 and \$7.0 million at October 31, 2007. As well as the elimination of depreciation expense, which would have been \$0.5 million in three months ended January 31, 2009 and was reduced by \$0.5 million for the three months ended January 31, 2008. This resulted in a decrease in the loss per share of half a cent for the three months ended January 31, 2008.

Effective November 1, 2008 the Company adopted CICA Section 1400 “General Standards of Financial Statement Presentation,” to include requirements to assess and disclose an entity’s ability to continue as a going concern. The adoption of the new standard resulted in additional disclosures in the notes to the consolidated financial statements.

Notes to Unaudited Consolidated Financial Statements for the Three Months Ended January 31, 2009
(Dollar information in tabular form is expressed in millions of U.S. dollars)

Effective for the quarter ending January 31, 2009, the Company adopted CICA Emerging Issues Committee (“EIC”) abstract EIC-173, “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. EIC-173 provides further information on the determination of the fair value of financial assets and financial liabilities under Section 3855, “Financial Instruments-Recognition and Measurement.” It states that an entity’s own credit and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC-173 should be applied retrospectively, without restatement of prior periods, to all financial assets and financial liabilities measured at fair value. The application of this guidance had no material impact on the Company’s consolidated financial statements.

Recently issued accounting pronouncements

(a) Business Combinations

CICA Section 1582, “Business Combinations”, replaces Section 1581, “Business Combinations”. Section 1582 improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. This section outlines a variety of changes, including, but not limited to the following: an expanded definition of a business, a requirement to measure all business combinations and non-controlling interests at fair value, and a requirement to recognize future income tax assets and liabilities and acquisition and related costs as expenses of the period. The section applies to annual and interim financial statements for fiscal years beginning on or after January 1, 2011, with early adoption permitted. The Company is currently evaluating the effects of adopting these standards.

(b) Consolidations

In January 2009, the CICA issued Handbook Section 1601, “Consolidations” (“CICA 1601”), and Section 1602, “Non-controlling Interests” (“CICA 1602”). CICA 1601 establishes standards for the preparation of consolidated financial statements. CICA 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is currently evaluating the effects of adopting these standards.

(c) International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board announced the adoption of International Financial Reporting Standards (“IFRS”) for publicly accountable enterprises. Patheon will be required to adopt IFRS no later than November 1, 2011. The Company is currently evaluating the effects of adopting these standards.

2. Going concern

These financial statements have been prepared in accordance with Canadian GAAP using the going-concern assumption, which assumes the Company will be able to realize assets and discharge liabilities in the normal course of operations. These financial statements do not reflect the adjustment that might be necessary to the carrying amount of reported assets, liabilities and revenue and expenses and the balance sheet classification used if the Company were unable to continue operation in accordance with this assumption.

The Company’s ability to continue as a going concern is contingent on its ability to generate sales and earnings, and to obtain financing to meet its cash requirements. The Company believes that funds from operations as well as existing financing will be sufficient to meet the Company’s cash requirements for the coming twelve months.

3. Discontinued operations and assets held for sale

As previously announced, the Company elected to close its Carolina facility in Puerto Rico effective January 31, 2009. The Company is currently marketing the remaining assets. Certain transitional activities will continue at the facility for a few weeks to ensure proper and compliant closure of the facility. However, as of January 31, 2009, no further products were manufactured, packaged or shipped from the facility. As a result of the closure, severance and other closure costs were \$3.3 million.

Notes to Unaudited Consolidated Financial Statements for the Three Months Ended January 31, 2009
(Dollar information in tabular form is expressed in millions of U.S. dollars)

On December 14, 2007, the Company announced that as a result of its comprehensive review of the Puerto Rico operations, with a focus on restructuring the operations, 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 Manati and divest its facility in Carolina. The decision followed the generic replacement of Omnicef® in May 2007 and the resulting significant drop in revenue at the facility.

In connection with the planned restructuring of its network of pharmaceutical manufacturing facilities within Canada, the Company plans to close its York Mills, Toronto facility and is currently in the process of transferring all commercial production and development services undertaken at its York Mills facility to its site in Whitby. In accordance with this plan, on April 15, 2008 the Company completed the sale of the York Mills property for net proceeds of \$11.9 million and has entered into a lease for up to two years in order to facilitate the decommissioning process. The Company expects to have exited this facility by the end of the third quarter 2009.

The Company also completed the sale of its Niagara-Burlington commercial manufacturing business to Pharmetics Inc. on January 31, 2008. Pharmetics acquired the assets, including equipment, facilities and land, at the Company's facilities in Fort Erie and Burlington (Gateway Drive) in Ontario. Pharmetics offered employment to all of the commercial manufacturing employees at the two sites and continues to manufacture and supply all of the products manufactured at these sites. Proceeds from the divestiture, net of transaction costs and including post closing adjustments, were \$10.5 million. During the three months ended January 31, 2008, the Company recorded a loss of \$0.6 million on the disposal.

The results of the Carolina operations have been reported in discontinued operations in fiscal years 2009 and 2008 while Niagara-Burlington was reported in discontinued operations in 2008 only.

Because the business in the York Mills, Toronto facility is being transferred within the existing site network, its results of operations are included in continuing operations.

The results of discontinued operations for the three months ended January 31, 2009 and 2008 are as follows:

	Three months ended January 31,	
	2009	2008
	\$	\$
	<hr/>	<hr/>
Revenues	3.0	11.4
Cost of goods sold	3.1	12.6
Gross loss	(0.1)	(1.2)
Selling, general and administrative expenses	1.1	1.1
Repositioning expenses	3.3	0.1
Operating loss	(4.5)	(2.4)
Loss on disposal of discontinued operations	-	0.6
Loss before income taxes	(4.5)	(3.0)
Net loss for the period	(4.5)	(3.0)

As of January 31, 2009 and October 31, 2008, the assets held for sale relate to the Carolina operations. In accordance with Section 3475 of the CICA handbook, long-lived assets held for sale are measured at the lower of their carrying amount or fair value less cost to sell. All prior period amounts have been reclassified to conform to the current period presentation.

Notes to Unaudited Consolidated Financial Statements for the Three Months Ended January 31, 2009
(Dollar information in tabular form is expressed in millions of U.S. dollars)

Assets held for sale:

	As of January 31, 2009	As at October 31, 2008
	\$	\$
Long-term assets		
Capital assets	1.9	1.9

4. Convertible preferred shares and restricted voting shares

The following table summarizes information on convertible preferred shares, and restricted voting shares and related matters at January 31, 2009:

	<u>Outstanding</u>	<u>Exercisable</u>
Class I preferred shares series C and D outstanding	150,000	
Restricted voting shares outstanding	91,149,388	
Restricted voting share stock options	5,416,265	3,048,462

The completion of the agreement with JLL Patheon Holdings, LLC (the "JLL agreement") related to convertible preferred shares (see description of the JLL agreement in Note 12 of the October 31, 2008 audited financial statements) in the fourth quarter of 2008 resulted in the full carrying value of the convertible preferred shares being classified within shareholders' equity on the Company's consolidated balance sheet. Paid in-kind dividend equivalents (or cash dividends, if the Company so elects after October 27, 2009) on the convertible preferred shares are now reported below net loss to arrive at a loss attributable to the restricted voting shareholders. Any paid in-kind dividend equivalents have the effect of increasing the carrying value of the convertible preferred shares in shareholders' equity.

5. Segmented information

The Company was organized and managed as a single business segment as a provider of commercial manufacturing and pharmaceutical development services ("PDS"). Due to the continued growth of the PDS operations and a change in the executive management structure, beginning in the fourth quarter of 2008, the business was reorganized into two business segments: commercial manufacturing and PDS. These segments are organized around the service activities provided to the Company's customers.

	Three Months Ended January 31, 2009			
	Commercial	PDS	Corporate	Total
	\$	\$	\$	\$
Revenues	117.7	29.5	0.0	147.2
Adjusted EBITDA	15.2	5.8	(8.2)	12.8
Total assets	580.8	53.5	69.4	703.7
Depreciation	8.7	1.2	0.0	9.9
Capital expenditures	6.2	1.0	1.3	8.5

	Three Months Ended January 31, 2008			
	Commercial	PDS	Corporate	Total
	\$	\$	\$	\$
Revenues	133.9	30.3	0.0	164.2
Adjusted EBITDA	10.7	5.8	(6.5)	10.0
Total assets	634.9	58.1	102.9	795.9
Depreciation	9.3	1.3	0.4	11.0
Capital expenditures	6.6	1.4	0.2	8.2

Notes to Unaudited Consolidated Financial Statements for the Three Months Ended January 31, 2009
(Dollar information in tabular form is expressed in millions of U.S. dollars)

The Company evaluates the performance of its segments based on segment Adjusted EBITDA expense which is defined as: loss from continuing operations before repositioning expenses, interest expense, foreign exchange losses reclassified from other comprehensive loss, refinancing expenses, gains and losses on sale of fixed assets, gain on extinguishment of debt, income taxes, asset impairment charges and depreciation and amortization. The Company's presentation of Adjusted EBITDA expense may not be comparable to similarly-titled measures used by other companies.

Cash and cash equivalents as well as deferred tax assets are considered to be part of "Corporate" in the breakout of total assets shown above. Below is a bridge reconciling Adjusted EBITDA to its closest Canadian GAAP measure.

	Three months ended January 31,	
	2009	2008
	\$	\$
Adjusted EBITDA:		
Total Adjusted EBITDA per above	12.8	10.0
Depreciation and amortization	(9.9)	(11.0)
Repositioning expenses	(0.5)	(2.4)
Interest	(4.5)	(8.0)
Income taxes	0.6	(0.3)
Net loss before discontinued operations	(1.5)	(11.7)

The following is a summary of revenue, capital assets and goodwill by geographic region:

	Three months ended January 31, 2009				
	Canada	US*	Europe	Other	Total
	\$	\$	\$	\$	\$
Revenues	3.4	79.1	59.3	5.4	147.2
Capital assets	102.8	121.0	196.0	0.0	419.8
Goodwill	2.8	0.0	0.0	0.0	2.8

* Includes Puerto Rico

	Three months ended January 31, 2008				
	Canada	US*	Europe	Other	Total
	\$	\$	\$	\$	\$
Revenues	4.4	80.4	74.3	5.1	164.2
Capital assets	114.3	110.4	245.6	0.0	470.3
Goodwill	3.4	0.0	0.0	0.0	3.4

* Includes Puerto Rico

Revenues are attributed to countries based on the location of the client's billing address; capital assets are attributed to the country in which they are located; and goodwill is attributed to the country in which the entity to which the goodwill pertains is located.

6. Stock-based compensation

The Company has an incentive stock option plan (the "Plan"). Persons eligible to participate in the Plan are directors, officers, and key employees of the Company and its subsidiaries or any other person engaged to provide ongoing management or consulting services to Patheon and its subsidiaries. The Plan provides that the maximum number of shares that may be issued under the Plan is 7.5% of the sum, at any point in time, of the issued and outstanding restricted voting shares of the Company and the aggregate number of restricted voting shares issuable upon exercise of the conversion rights attaching to the issued and outstanding Class I Preferred Shares, Series C of the Company. As of January 31, 2009, the total number of restricted voting shares issuable under the Plan was 9,569,536 of which there are stock options outstanding to purchase 5,416,265 shares. The exercise price of restricted voting shares subject to an option is determined at the time of grant and the price cannot be less than the weighted average market price of the restricted voting shares of Patheon on the Toronto Stock Exchange during the two trading days

Notes to Unaudited Consolidated Financial Statements for the Three Months Ended January 31, 2009
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immediately preceding the grant date. Options generally expire seven to ten years after the grant date and are also subject to early expiry in the event of death, resignation, dismissal or retirement of an optionee. Options generally vest over one to three years, with one-third vesting on each of the first, second and third anniversaries of the grant date for those vesting over three years.

For the purposes of calculating the stock-based compensation expense, the fair value of stock options is estimated at the date of the grant using the Black-Scholes option pricing model and the cost is amortized over the vesting period. The Company did not grant any options during the three months ended January 31, 2009. During the three months ended January 31, 2008, the Company granted 2,707,736 options. The weighted average fair value of the options granted during the three months ended January 31, 2008 was \$1.29.

Stock-based compensation expense recorded in the three months ended January 31, 2009 and January 31, 2008 was \$0.5 million and \$0.9 million, respectively.

7. Repositioning expenses

The Company has incurred a number of expenses associated with operational improvements, cost reduction initiatives and changes in executive management. During fiscal 2008, the Company also incurred professional fees and other costs in connection with its review of strategic and financial alternatives.

The following is a summary of expenses associated with these initiatives (collectively “repositioning expenses”) for the three months ended January 31, 2009 and 2008:

	Commercial \$	PDS \$	Corporate \$	Total \$
Total repositioning liabilities at October 31, 2007				6.0
Employee-related expenses	0.2	0.0	1.7	1.9
Consulting, professional and project management costs	0.0	-	0.5	0.5
Total expenses	0.2	0.0	2.2	2.4
Repositioning expenses paid				(4.7)
Foreign exchange				0.1
Total repositioning liabilities at January 31, 2008				3.8
	Commercial \$	PDS \$	Corporate \$	Total \$
Total repositioning liabilities at October 31, 2008				8.0
Employee-related expenses	2.4	0.4	0.0	2.8
Consulting, professional and project management costs	0.4	-	-	0.4
Contract termination costs	0.5	-	-	0.5
Total expenses	3.3	0.4	0.0	3.7
Repositioning expenses paid				(2.9)
Foreign exchange				0.3
Total repositioning liabilities at January 31, 2009				9.1

Included in the commercial expenses for the first quarter of 2009 is \$3.3 million of repositioning expenses related to the closure of the Company’s Carolina facility and is presented in discontinued operations.

8. Other information

Foreign exchange

During the three months ended January 31, 2009, the foreign exchange loss on operating exposures (including losses from cash flow hedges and the revaluation of all foreign currency denominated working capital) recorded on consolidated statement of loss was \$1.5 million and a gain of \$0.6 million for the three months ended January 31, 2008. The Company recorded a loss on the revaluation of certain U.S. dollar denominated debt, net of hedging activities, in its Canadian legal entity of \$2.0 million during the three months ended January 31, 2008. As a result of

Notes to Unaudited Consolidated Financial Statements for the Three Months Ended January 31, 2009

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

the completion of the JLL agreement related to convertible preferred shares in the fourth quarter of 2008, the revaluation of the U.S. denominated debt is now reclassified in other comprehensive loss for 2009.

Employee future benefits

The employee future benefit expense in connection with defined benefit pension plans and other post retirement benefit plans for the three months ended January 31, 2009 and January 31, 2008 was \$1.4 million and \$1.5 million, respectively.

9. Financial instruments and risk management

Categories of financial assets and liabilities

Under Canadian GAAP, financial instruments are classified into one of the following five categories: held-for-trading, held to maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities. The Company has also designated certain of its derivatives as effective hedges. The carrying values of the Company's financial instruments, including those held for sale on the consolidated balance sheets are classified into the following categories:

	As of January 31, 2009	As of October 31, 2008
	\$	\$
Held for trading ⁽¹⁾	24.0	20.2
Loans and receivables ⁽²⁾	128.0	141.6
Other financial liabilities ⁽³⁾	404.6	397.2
Derivatives designated as effective hedges ⁽⁴⁾ - loss	(16.0)	(15.7)

(1) Includes cash and cash equivalents in bank accounts bearing interest rates between 1% and 5%.

(2) Includes accounts receivable.

(3) Includes bank indebtedness, accounts payable and accrued liabilities, income taxes payable, long-term debt.

(4) Includes the Company's foreign exchange forward contracts and interest rate swaps, both of which are effective hedges.

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. The fair values of the Company's financial instruments are not materially different from their carrying value, with the exception of the Company's senior secured term loan of \$147.4 million. Based on current interest rates for debt with similar terms and maturities, the fair market value of the senior secured term loan is estimated to be \$84.2 million.

As of January 31, 2009 and October 31, 2008, the carrying amount of the financial assets that the Company has pledged as collateral for its long-term debt facilities was \$79.2 million and \$87.7 million, respectively.

Foreign exchange forward contracts, interest rate swaps and other hedging arrangements

The Company utilizes financial instruments to manage the risk associated with fluctuations in foreign exchange and interest rates. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions.

As of January 31, 2009, the Company's Canadian operations had entered into foreign exchange forward contracts to sell an aggregate amount of US\$56.6 million. These contracts hedge the Canadian operations' expected exposure to U.S. dollar denominated cash flows and mature at the latest on October 28, 2009, at an average exchange rate of \$1.0607 Canadian. The mark-to-market value on these financial instruments as of January 31, 2009 was an unrealized loss of \$7.7 million, which has been recorded in accumulated other comprehensive loss in shareholders' equity. In the third quarter of 2008, the Company's Canadian operations terminated a foreign exchange contract to purchase US\$45.0 million.

Notes to Unaudited Consolidated Financial Statements for the Three Months Ended January 31, 2009

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

As of January 31, 2009, the Company's U.K operations had entered into foreign exchange forward contracts to sell an aggregate amount of US\$7.8 million and €1.0 million. These contracts hedge the Swindon, U.K operation's expected exposure to U.S. dollar and Euro denominated cash flows and mature at the latest on February 12, 2009, at an average exchange rate of £.7023 and £.8403, respectively. The mark-to-market value on these financial instruments as of January 31, 2009 was an unrealized gain of less than \$0.1 million, which has been recorded in accumulated other comprehensive loss in shareholders' equity.

As of January 31, 2009, the Company has designated \$88.4 million of U.S. dollar denominated debt as a hedge against its net investment in its subsidiaries in the U.S. and Puerto Rico. The exchange gains and losses arising from this debt, from the date so designated, are recorded in accumulated other comprehensive loss in shareholders' equity.

The Company has entered into interest rate swap contracts to convert all of the interest costs on its senior secured term loan from a floating to a fixed rate of interest until June 30, 2010. The mark-to-market value of these financial instruments at January 31, 2009 was an unrealized loss of \$8.3 million which has been recorded in accumulated other comprehensive loss in shareholders' equity.

Risks arising from financial instruments and risk management

The Company's activities expose it to a variety of financial risks; market risk (including foreign exchange and interest rate), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures. The Company does not purchase any derivative financial instruments for speculative purposes.

Risk management is the responsibility of the corporate finance function. The Company's domestic and foreign operations along with the corporate finance function, identify, evaluate and, where appropriate, hedge financial risks. Material risks are monitored and are discussed with the audit committee of the board of directors.

Foreign exchange risk

The Company operates in Canada, U.S., Puerto Rico, Italy, France and the U.K. Foreign exchange risk arises because the amount of the local currency receivable or payable for transactions denominated in foreign currencies may vary due to changes in exchange rates ("transaction exposures") and because the non U.S. dollar denominated financial statements of the Company may vary on consolidation into the reporting currency of U.S. dollars ("translation exposures").

The most significant transaction exposures arise in the Canadian operations. The balance sheet of the Canadian operations includes U.S. dollar denominated debt. The Canadian operations are required to revalue the Canadian dollar equivalent of the U.S. dollar denominated debt at each period end. This debt is designated as an effective hedge against the Company's investments in subsidiaries in the U.S. and Puerto Rico and the related foreign exchange gains and losses are recorded in other comprehensive loss. In addition, approximately 70% of revenues of the Canadian operations and approximately 10% of its operating expenses are transacted in U.S. dollars. As a result, the Company may experience transaction exposures because of volatility in the exchange rate between the Canadian and U.S. dollar. Based on the Company's current U.S. denominated net inflows, as of January 31, 2009, fluctuations of +/-5% would, everything else being equal, have an effect on loss from continuing operations before taxes of approximately +/- \$0.9 million, prior to hedging activities.

The objective of the Company's foreign exchange risk management activities is to minimize transaction exposures and the resulting volatility of the Company's earnings. The Company manages this risk by entering into foreign exchange forward contracts. The U.S. dollar debt exposure is hedged by the Canadian investment in U.S. and Puerto Rico. As of January 31, 2009, approximately 100% of the U.S. dollar debt exposure is hedged and the Company has entered into forward foreign exchange contracts to cover approximately 67% of its Canadian-U.S. dollar cash flow exposures for its 2009 fiscal year. With the exception of the hedges against the Company's investments in the U.S. and Puerto Rico noted above, the Company does not currently hedge translation exposures.

Notes to Unaudited Consolidated Financial Statements for the Three Months Ended January 31, 2009
(Dollar information in tabular form is expressed in millions of U.S. dollars)

Interest rate risk

The Company's interest rate risk primarily arises from its floating rate debt; in particular its senior secured term loan in North America and its Italian mortgages. At January 31, 2009, \$226.9 million of the Company's total debt portfolio is subject to movements in floating interest rates. A +/-100 basis points change in interest rates would, everything else being equal, have an effect on the loss from continuing operations before income taxes of approximately +/- \$2.3 million, prior to hedging activities.

The objective of the Company's interest rate management activities is to minimize the volatility of the Company's earnings. In order to manage this risk, the Company has entered into interest rate swaps to convert the interest expense on its senior secured term loan, until June 2010, from a floating interest rate to a fixed interest rate. As of January 31, 2009, taking the interest rate swap into account, \$79.5 million of the Company's debt portfolio is subject to floating interest rates.

Credit risk

Credit risk arises from cash and cash equivalents held with banks and financial institutions, derivative financial instruments (foreign exchange forward contracts and interest rate swaps with positive fair values), as well as credit exposure to clients, including outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value of the financial assets.

The objective of managing counter party credit risk is to prevent losses in financial assets. The Company assesses the credit quality of the counter parties, taking into account their financial position, past experience and other factors. Management also monitors the utilization of credit limits regularly. In cases where the credit quality of a client does not meet the Company's requirements, a cash deposit is received before any services are provided. As of January 31, 2009, the Company held deposits of \$19.0 million.

The carrying amount of accounts receivable are reduced through the use of an allowance account and the amount of the loss is recognized in the statement of loss within operating expenses. When a receivable balance is considered uncollectible, it is written off against the allowance for accounts receivable. Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

The following table sets forth details of the age of receivables that are not overdue as well as an analysis of overdue amounts and related allowance for the doubtful accounts:

	As January 31,
	2009
	\$
Total accounts receivable	128.7
Less: Allowance for doubtful accounts	(0.7)
Total accounts receivable, net	128.0
Of which:	
Not overdue	108.5
Past due for more than one day but for not more than three months	17.4
Past due more for than three months but for not more than six months	2.5
Past due for more than six months but not for more than one year	0.2
Past due for more than one year	0.1
Less: Allowance for doubtful accounts	(0.7)
Total accounts receivable, net	128.0

Liquidity risk

Liquidity risk arises through excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and cash equivalents and through the availability of funding from credit facilities. As of January 31, 2009, the Company

Notes to Unaudited Consolidated Financial Statements for the Three Months Ended January 31, 2009
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was holding cash and cash equivalents of \$24.0 million and had undrawn lines of credit available to it of \$39.8 million.

The contractual maturities of the Company's financial liabilities were presented in the Company's consolidated financial statements for the year ended October 31, 2008.

10. Management of capital

The Company defines capital that it manages as the aggregate of its shareholders' equity and interest bearing debt. The Company's objectives when managing capital are to ensure that the Company has adequate capital to achieve its business plans, so that it can provide products and services to its customers and returns to its shareholders.

In order to maintain or adjust the capital structure, the Company may adjust the type of capital utilized, including purchase versus lease decisions and issuing debt or equity securities, all subject to market conditions and the terms of the underlying third party agreements.

As of January 31, 2009 and October 31, 2008, total managed capital was \$452.9 million and \$456.9 million, respectively, comprised of: shareholders' equity of \$223.2 million and \$237.2 million, respectively and cash interest-bearing debt of \$229.7 million and \$219.7 million, respectively. The Company has no obligation to pay cash dividends on the convertible preferred shares until after October 27, 2009, at which time the Company can elect to pay a cash dividend or increase the liquidation preference and conversion rate of the convertible preferred shares.

11. Related party transactions

Revenues from companies controlled by a director and significant shareholder of the Company were in the amount of \$0.3 million and less than \$0.1 million for the three months ended January 31, 2009 and 2008, respectively. These transactions were conducted in the normal course of business and are recorded at the exchanged amount. Accounts receivable at January 31, 2008 include a balance of less than \$0.1 million resulting from these transactions.

As of January 31, 2009 and January 31, 2008, the Company had an investment of \$1.5 million and \$1.2 million, respectively, representing an 18% interest in two Italian companies (collectively referred to as "BSP Pharmaceuticals") whose largest investor is an officer of the Company. These companies specialize in the manufacturing of cytotoxic pharmaceutical products. On July 2, 2008 the Company signed a shareholders' agreement with the other investors in BSP Pharmaceuticals. The terms of this agreement provide the Company with significant influence over the strategic operating, investing and financing policies of BSP Pharmaceuticals. As a result, the Company is now accounting for its investment in BSP Pharmaceuticals using the equity method. Accordingly, for the three months ended January 31, 2009, the Company has recorded an investment loss of \$0.2 million.

There were no management services and other fees charged to BSP Pharmaceuticals under a management services agreement for the three months ended January 31, 2009, and \$0.3 million for the three months ended January 31, 2008. Accounts receivable at January 31, 2009 and October 31, 2008 include a balance of \$2.1 million and \$0.2 million, respectively, in connection with the management services agreement. These services were conducted in the normal course of business and are recorded at the exchanged amounts.

In connection with certain of BSP Pharmaceuticals' bank financing, the Company has made commitments that it will not dispose of its interest in BSP Pharmaceuticals prior to January 1, 2011.

12. Comparative amounts

Certain comparative amounts have been re-stated and reclassified to conform with current accounting policies and the current period presentation for discontinued operations.