



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

For the First Quarter Ended January 31, 2009

Patheon Inc.

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

The following management discussion and analysis of financial condition and results of operations ("MD&A") of Patheon Inc. ("Patheon" or the "Company") for the three-month periods ended January 31, 2009 and 2008 should be read in conjunction with the Company's unaudited interim consolidated financial statements and related notes and the audited consolidated financial statements and MD&A for the year ended October 31, 2008. All amounts are in U.S. dollars unless otherwise indicated. This MD&A is dated as of March 6, 2009.

The purpose of this 2009 first quarter report is to provide an update to the information contained in the Company's Management's Discussion and Analysis section of the Company's 2008 Annual Report, which contains a more comprehensive discussion of the Company's strategy, capabilities to deliver results, risks and key performance indicators. Management assumes that the reader of this document has access to the MD&A section of the Company's 2008 Annual Report. This document and other information can be downloaded in portable document format ("PDF") from the Company's web site at www.patheon.com or from the SEDAR web site for Canadian regulatory filings at www.sedar.com. To request a printed copy, the reader may also contact Patheon's transfer agent, Computershare Investor Services Inc., at 1-800-564-6253 or via email at service@computershare.com, or Patheon at www.patheon.com.

Use of Non-GAAP Financial Measures

References in this MD&A to "Adjusted EBITDA" are to loss from continuing operations before repositioning expenses, interest expense, foreign exchange losses reclassified from other comprehensive income, refinancing expenses, gains and losses on sale of fixed assets, gain on extinguishment of debt, income taxes, asset impairment charge, depreciation and amortization. "Adjusted EBITDA margin" is Adjusted EBITDA as a percentage of revenues.

Since Adjusted EBITDA is a non-GAAP measure that does not have a standardized meaning, it may not be comparable to similar measures presented by other issuers. Readers are cautioned that these non-GAAP measures should not be construed as alternatives to net earnings (loss) determined in accordance with GAAP as indicators of performance. Adjusted EBITDA is used by management as an internal measure of profitability. The Company's major credit facilities also have certain covenant calculations that are based on Adjusted EBITDA. The Company has included these measures because it believes that this information is used by certain investors to assess financial performance of the Company, before non-cash charges and large non-recurring costs. Please see Note 5 of the interim consolidated financial statements for an Adjusted EBITDA bridge.

Overview of Patheon

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

Patheon commercially manufactures prescription and over-the-counter products in solid, semi-solid and liquid dosage forms. Conventional dosage forms include compressed tablets, hard-shell capsules, powders, ointments, creams, gels, syrups, suspensions, solutions and suppositories. Sterile dosage forms include liquids and powders presented in ampoules, vials, bottles or pre-filled syringes. Sterile lyophilized products are also manufactured in both vials and ampoules.

Patheon provides manufacturing services for a broad range of products in many dosage forms and packaging formats in accordance with client specifications. Depending on the particular client, Patheon may be responsible for most or all aspects of the manufacturing and packaging process, from sourcing

excipient raw materials and packaging components to delivering the finished product in consumer-ready form to the client. Typically, Patheon's clients supply the active pharmaceutical ingredients used in the production process.

The pharmaceutical development services provided by Patheon include most of the pharmaceutical development services typically required by companies conducting clinical trials and preparing for full-scale commercial production of a new drug. In providing its pharmaceutical development services, Patheon is able to: (i) develop an appropriate dosage form; (ii) develop analytical methods; (iii) manufacture the proposed new drug product to client specifications during the regulatory drug approval process; (iv) manufacture pilot batches of proposed new drug products for the regulatory drug approval process; and (v) provide scale-up and technology transfer services designed to validate that a drug can be manufactured commercially.

At January 31, 2009, there were a total of 370 ongoing projects being carried out by Patheon's PDS. This total includes stability and process optimization work on some products that have already been launched. The Company is working on twelve new drug candidates at the New Drug Application stage. The Company received three new market approvals for new products developed on behalf of its clients during the first quarter of 2009.

Vision and Strategy

Patheon's vision is to be the best provider of manufacturing and development services to the pharmaceutical industry. In implementing its strategy, the Company will grow with the market, increase its market share and increase efficiency. Growth within the market will be achieved by retaining existing customers with high quality products and service. The Company will also increase market share by diversifying its customer base and by expanding capacity and broadening its capabilities in higher value added service offerings. Efficiency has been and continues to be improved by consolidating existing facilities, cost containment and by implementing a system of continuous improvement with a Lean 6 Sigma program called "Patheon Advantage."

Recent Developments

New Leadership

Under the leadership of Wes Wheeler, who joined Patheon as the Chief Executive Officer in December 2007, the Company has made changes to its executive management team, opened its U.S. headquarters in Research Triangle Park ("RTP"), North Carolina and opened a new European headquarters in Zug, Switzerland. The Company is also undertaking a series of operational initiatives to reduce operating expenses and increase manufacturing efficiency, including launching the Patheon Advantage Lean 6 Sigma program and upgrading the Company's IT infrastructure. The Company has established a number of key performance indicators, including on time delivery, batches right first time and inventory turns to measure the benefits of these initiatives. Combined with re-focused sales efforts, these programs are expected to make the Company more competitive, reduce operating costs and improve long-term profitability.

Canadian Site Network

Previously, the Company announced 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 primarily to its Whitby facility. 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 anticipates that the transfer of production from York Mills will be completed during the third quarter of the 2009 fiscal year.

Puerto Rico Operations

As previously announced, the Company elected to close its Carolina facility in Puerto Rico and as of January 31, 2009, no further products were manufactured, packaged or shipped from the facility. As a result of the closure, \$3.3 million of severance and other closure costs were accrued during the three months ended January 31, 2009.

JLL Offer to Acquire Patheon's Restricted Voting Shares

On December 8, 2008, JLL Patheon Holding, LLC ("JLL") announced in a press release its intention to make an unsolicited offer to acquire any or all of the outstanding restricted voting shares of Patheon that it does not already own at a price of US\$2.00 per share in cash. JLL holds convertible preferred shares of the Company, which when converted and taken together with its holding of restricted voting shares, would represent approximately 30% of the restricted voting shares of the Company.

Patheon's Board of Directors has appointed a Special Committee of independent directors, none of whom is associated with JLL to review and evaluate the proposed unsolicited bid from JLL, and make recommendations to the Board of Directors. The Special Committee has obtained an independent valuation of the Company from BMO Capital Markets, which is required by applicable securities laws because the offer proposed by JLL would be considered an "insider bid".

Based on the independent valuation and the review it has conducted to date with its legal and financial advisors, the Special Committee issued a press release on February 20, 2009 stating that it believes the proposed JLL offer substantially undervalues the Company, its earnings potential and future growth prospects. The Special Committee stated that it believes the JLL proposal would provide far less value to shareholders than could be achieved if Patheon were to continue as an independent company and successfully execute its five-year strategic plan.

The Special Committee has provided the independent valuation to JLL, which is now in a position to withdraw, revise or proceed with its proposal. Should JLL proceed with a formal offer, shareholders will have at least 35 days to consider the offer and the Board of Directors would provide a recommendation to shareholders within 15 days of the mailing of the offer.

Results of Operations

The results of operations of the Carolina and Niagara-Burlington operations have been segregated and presented separately as discontinued operations. The results of Carolina operations have been reported as discontinued operations in 2009 and the Carolina and Niagara-Burlington operations have been reported as discontinued in 2008.

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. This resulted in the inclusion of depreciation within costs of goods sold and selling, general and administrative expenses. In addition, all foreign exchange gains and losses on the statement of loss have been aggregated into one line.

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

Results of Consolidated Operations

	Three months ended January 31,		
	2009	2008	%
<i>(in millions of U.S. dollars, except loss per share)</i>	\$	\$	Change
Revenues	147.2	164.2	-10.4%
Cost of goods sold	116.5	138.3	-15.7%
Gross profit	30.7	25.9	18.6%
Selling, general and administrative expenses	26.3	27.5	-4.4%
Repositioning expenses	0.5	2.4	-79.1%
Operating income (loss)	3.9	(4.0)	197.7%
Interest expense, net	4.5	8.0	-43.0%
Foreign exchange loss (gain)	1.5	(0.6)	356.2%
Loss from continuing operations before income taxes	(2.1)	(11.4)	81.4%
(Recovery of) provision for income taxes	(0.6)	0.3	290.9%
Net loss from continuing operations	(1.5)	(11.7)	87.5%
Loss from discontinued operations	(4.5)	(3.0)	-51.4%
Loss for the period	(6.0)	(14.7)	59.0%
Dividends on convertible preferred shares	3.6	-	
Loss attributable to restricted voting shareholders	(9.6)	(14.7)	34.4%

Three Months Ended January 31, 2009 Compared with Three Months Ended January 31, 2008

Operating Income Summary

Revenue for the period was \$147.2 million, which was down 10.4% from the prior period. Excluding currency fluctuations, current year revenues would have decreased by approximately 2.9%. Revenue from commercial manufacturing decreased 12% to \$117.7 million from \$133.9 million in the prior period. Pharmaceutical Development Services also saw a reduction in revenue of 2% to \$29.5 million from \$30.3 in the prior period.

Gross profit for the period increased 18.6% to \$30.7 million. The Company's improved cost structure, combined with favorable foreign exchange on operating costs and lower inventory provisions, more than offset the impact of lower revenues. Gross profit margin for the period increased to 20.9% from 15.8%.

Selling, general and administrative costs were \$26.3 million or 4.4% lower than prior year. Favorable foreign exchange rates were partially offset by higher marketing and professional fees as well as internal costs of \$0.5 million associated with the Special Committee that was formed to assess JLL's unsolicited proposed offer to acquire any or all of Patheon's outstanding restricted voting shares that it does not already own. Selling, general and administrative costs were also impacted by \$1.2 million of transitional expenses for the opening of the US headquarters in North Carolina, which included severance and relocation expenses.

Repositioning expenses for the first quarter of 2009 were \$0.5 million in connection with the ongoing shut down and transition of business out of the York Mills facility. During the first quarter of 2008 the Company incurred \$2.4 million of expenses in connection with the Puerto Rico and Canadian manufacturing networks and from changes in executive management.

Operating income for the period increased to \$3.9 million from a loss of \$4.0 million in the same period last year as a result of the issues discussed above.

Interest Expense

Interest expense for the three months ended January 31, 2009 was \$4.5 million, compared with \$8.0 million for the same period of 2008. The decrease in interest expense primarily reflects a \$3.7 million reduction from the impact of the completion of the JLL agreement (see the convertible preferred shares discussion in

the MD&A for the year ended October 31, 2008 for further information) related to convertible preferred shares in the fourth quarter of 2008, which eliminated the non-cash accretive interest charge.

Foreign Exchange losses (gains)

Foreign exchange losses for the three months ended January 31, 2009 were \$1.5 million, compared with a gain of \$0.6 million for the same period of 2008. The increased strength of the U.S. dollar led to \$3.2 million in losses related to cash flow hedges compared to \$0.8 million in gains in cash flow hedges. The prior period also contains \$2.0 million in losses associated with the revaluation of the U.S. dollar denominated debt in Canada. As a result of 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.

Loss Before Income Taxes from Continuing Operations

The Company reported a loss before income taxes from continuing operations of \$2.1 million for the three months ended January 31, 2009, compared with a loss of \$11.4 million for the same period of 2008.

Income Taxes

The income tax recovery for the three months ended January 31, 2009 was \$0.6 million, compared with an expense of \$0.3 million for the same period of 2008. Current year tax recovery is due to a decrease in taxable income in the Company's Cincinnati operations partially offset by increased taxable income in its operations in Italy and France. Prior year expenses are net of a \$2.0 million recovery in future income taxes in Italy arising from a reduction in tax rates that were substantially enacted during the first quarter.

Loss from Continuing Operations and Earnings (Loss) Per Share from Continuing Operations

The Company recorded a loss from continuing operations for the three months ended January 31, 2009 of \$1.5 million, compared with a loss of \$11.7 million in the same period last year. The loss per share for the quarter was 5.6¢ compared with a loss of 12.9¢ a year earlier.

Loss and Loss Per Share from Discontinued Operations

Discontinued operations in the first quarter of 2009 include the results of the Carolina, Puerto Rico operations. The comparable results for 2008 include both the Carolina and Niagara-Burlington operations. Financial details of the operating activities are disclosed in Note 3 in the interim consolidated financial statements. The net loss from discontinued operations for the three months ended January 31, 2009 was \$4.5 million, or 5.0¢ per share compared with a net loss of \$3.0 million or 3.3¢ per share in the same period of 2008. The loss in 2009 reflects \$3.3 million in restructuring costs related to the shutdown of the Carolina facility as well the operating losses of the facility. Prior year costs include \$0.6 million related to the final divestiture of the Niagara-Burlington operations

Net Loss, Loss Attributable to Restricted Voting Shareholders and Loss Per Share

The Company recorded a net loss for the three months ended January 31, 2009 of \$9.6 million, or 10.6¢ compared with a loss of \$14.7 million, or 16.2¢ in the same period of 2008. As a result of the completion of the JLL agreement related to convertible preferred shares in the fourth quarter of 2008, dividends on the convertible preferred shares of \$3.6 million were recorded in the first quarter of 2009 and no dividends were recorded in the first quarter 2008.

Because the Company reported a loss in the three months ended January 31, 2009 and 2008 there is no impact of dilution.

Revenues and Adjusted EBITDA by Business Segment

The Company was organized and managed as a single business segment as a provider of commercial manufacturing and 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.

<i>(in millions of U.S. Dollars)</i>	Three months ended January 31,		
	2009	2008	%
	\$	\$	Change
Revenues			
Commercial Manufacturing			
North America	55.3	65.5	-16%
Europe	62.4	68.4	-9%
Total Commercial Manufacturing	117.7	133.9	-12%
Pharmaceutical Development Services	29.5	30.3	-2%
Total Revenues	147.2	164.2	-10%
Adjusted EBITDA			
Commercial Manufacturing			
North America	5.2	3.4	53%
Europe	10.0	7.3	37%
Total Commercial Manufacturing	15.2	10.7	42%
Pharmaceutical Development Services	5.8	5.9	-2%
Corporate Costs	(8.2)	(6.6)	24%
Total adjusted EBITDA	12.8	10.0	27%

Commercial Manufacturing

Revenues from commercial manufacturing operations for the three months ended January 31, 2009 decreased by 12%, or \$16.2 million, to \$117.7 million from \$133.9 million in the same period of 2008. Had the local currencies remained constant to the rates of the prior year, commercial manufacturing revenues would have been approximately 4% lower than 2008.

The major driver behind the decrease in revenue came from the North American operations, which reported a \$10.2 million, or 16% decrease in revenues. Had the Canadian dollar remained constant to the rates of the prior year, North American revenues would have been approximately 12% lower than 2008. This reduction was primarily due to a lower customer demand from the Company's Whitby and Cincinnati operations, partially offset by higher revenue in Puerto Rico.

Revenues from the European operations decreased by \$6.0 million or 9%. Had European currencies remained constant to the rates of the prior year, European revenues would have been approximately 3% higher than the same period of 2008. Stronger local currency revenues from Swindon and Bourgoin were the primary drivers for the increase.

Adjusted EBITDA from the commercial manufacturing operations for the three months ended January 31, 2009 increased by 42%, or \$4.5 million to \$15.2 million from \$10.7 million in the same period of 2008. This represents an Adjusted EBITDA margin of 12.9% compared with 8.0% in the same period last year. Had the local currencies remained constant to the rates of the prior year and after eliminating the impact of all foreign exchange gains and losses, commercial manufacturing Adjusted EBITDA would have been approximately \$1.8 million higher than 2008.

North American operations reported an increase of \$1.8 million, or 53% in Adjusted EBITDA. The improvement in Adjusted EBITDA was driven by Puerto Rico, as a result of higher revenue and cost improvements, partially offset by weakness in the Canadian and Cincinnati operations.

European Adjusted EBITDA increased by \$2.7 million, or 37% for the three months ended January 31, 2009. This increase was due to higher Adjusted EBITDA in Swindon as a result as a result of favorable foreign exchange and revenue mix and improved operating performance.

Pharmaceutical Development Services

PDS revenues for the three months ended January 31, 2009 decreased by 2%, or \$0.8 million, to \$29.5 million from \$30.3 million in the same period of 2008. Had the local currencies remained constant to the rates of the prior year, PDS revenues would have been approximately 5% higher than 2008. This increase was primarily due to strength in the North American PDS business.

Adjusted EBITDA from the PDS operations for the three months ended January 31, 2009 decreased by 2%, or \$0.1 million to \$5.8 million from \$5.9 million in the same period of 2008. Had the local currencies remained constant to the rates of the prior year and after eliminating the impact of all foreign exchange gains and losses, PDS Adjusted EBITDA would have been approximately \$0.7 million lower than 2008.

Corporate Costs

Corporate costs for three months ended January 31, 2009 were \$8.2 million, compared with \$6.6 million for the same period of 2008. This increase is primarily due to higher marketing and professional fees as well as \$0.5 million associated with the Special Committee that was formed to assess JLL's unsolicited proposed offer to acquire any or all of Patheon's outstanding restricted voting shares that it does not already own. In addition, the Company incurred \$1.2 million of transitional expenses related to the opening of the U.S. headquarters in North Carolina. Had the Canadian dollar remained constant to the rates of the prior year and after eliminating the impact of all foreign exchange gains and losses (Including \$2.0 million in losses associated with the revaluation of the U.S. dollar denominated debt in Canada included in the prior year), corporate expenses would have been approximately \$4.2 million higher than 2008.

Liquidity and Capital Resources

Summary of Cash Flows

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

	Three months ended January 31,	
	2009	2008
(in millions of U.S. dollars)	\$	\$
Loss from continuing operations	(1.5)	(11.7)
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)
Working capital	3.0	(0.2)
Increase in deferred revenues	(0.6)	-
Cash provided by operating activities of continuing operations	7.0	1.1
Cash used in operating activities of discontinued operations	(3.3)	(4.5)
Cash provided by (used in) operating activities	3.7	(3.4)
Cash used in investing activities of continuing operations	(8.2)	(8.6)
Cash provided by investing activities of discontinued operations	-	8.2
Cash provided by financing activities	11.2	6.0
Other	(2.9)	(0.6)
Net increase in cash and cash equivalents during the period	3.8	1.6

Cash Provided by (Used in) Operating Activities

Cash provided by operating activities from continuing operations was \$7.0 million in the first quarter of 2009 compared to \$1.1 million in the comparable period in 2008. The improvement in cash flows reflects a reduction in losses including non-cash charges along with a decrease in investments in working capital.

Cash used in operating activities from discontinued operations was \$3.3 million in the first quarter of 2009, compared to \$4.5 million in the same period of 2008. This improvement reflects favorable working capital changes as a result of the additional repositioning accruals booked in the first quarter of 2009.

Cash Used in Investing Activities

Cash used in investing activities from continuing operations in the first quarter of 2009 was \$8.2 million, compared to \$8.6 million in the same period a year ago.

No cash was provided by investing activities from discontinued operations during the three months ended January 31, 2009, compared to \$8.2 million in the same period last year. The cash inflow in 2008 principally reflects net proceeds after transaction costs from the sale of the Niagara-Burlington operations of \$10.5 million.

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

Cash used in Investing Activities

	Three months ended January 31,	
	2009	2008
(in millions of U.S. dollars)	\$	\$
Total 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	(8.2)	(0.4)

Cash Provided by Financing Activities

Cash provided by financing activities was \$11.2 million for the three months ended January 31, 2009, compared to \$6.0 million for the same period last year. The cash inflows in 2009 reflect drawings and repayments on existing credit facilities.

A summary of cash provided by financing activities is as follows:

Cash Provided by Financing Activities	Three months ended January 31,	
	2009	2008
(in millions of U.S. dollars)	\$	\$
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	11.2	6.1
Cash used in financing activities of discontinued operations	-	(0.1)
Cash provided by financing activities	11.2	6.0

Financing Arrangements and Ratios

There have been no changes to the Company's financing arrangements during the three months ended January 31, 2009.

Total cash interest-bearing debt, at January 31, 2009 was \$229.7 million, being \$10.0 million higher than at October 31, 2008. At January 31, 2009, the Company's consolidated ratio of interest-bearing debt to shareholders' equity was 103%, compared with 93% at October 31, 2008. The increase reflects a combination of increased debt and a decrease in shareholders' equity, arising from the losses and a reduction in accumulated other comprehensive income.

Adequacy of Financial Resources

As of January 31, 2009, the Company had cash balances of \$24.0 million and \$39.8 million in undrawn credit facilities available to it and was in compliance with all covenant requirements under its financing arrangements. The Company believes that, subject to usual business risks, its financial resources are sufficient to fund projected capital expenditures, debt service requirements and employee future benefit obligations in the normal course of business. There have been no material changes to the contractual obligations disclosed in the MD&A section of the Company's 2008 Annual Report that are outside the normal course.

Critical Accounting Policies and Estimates

Accounting policies are consistent with those described in Note 2 of Patheon's 2008 Audited Consolidated Financial Statements, other than for developments set out below.

Changes in and Significant New Accounting Policies

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. The table of quarterly consolidated financial information has been restated to reflect these changes.

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.

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.

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.

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.

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.

Risk Management

The following are updates to certain risks and uncertainties described in the Company’s Management’s Discussion and Analysis for the year ended October 31, 2008, available on SEDAR (www.sedar.com) or on Patheon’s website (www.patheon.com).

Foreign Currency

The Company’s business activities are conducted in several currencies – Canadian dollars and U.S. dollars for the Canadian operations, U.S. dollars for the U.S. operations and Euros, U.K. sterling and U.S. dollars for the European operations.

The Company’s Canadian operations negotiate sales contracts for payment in both U.S. and Canadian dollars, and materials and equipment are purchased in both U.S. and Canadian dollars. The majority of its non-material costs (including payroll, facilities’ costs and costs of locally sourced supplies and inventory) are denominated in Canadian dollars. Approximately 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 trading and translation gains or losses because of volatility in the exchange rate between the Canadian dollar and the U.S. dollar. Based on the Company’s current U.S. denominated net inflows, for each one-percent change in the Canadian-U.S. exchange rate, the impact on annual pre-tax earnings, excluding any hedging activities, is approximately \$0.2 million.

In addition certain sales contracts in Swindon, U.K. are denominated in Euros and U.S. dollars. This exposes the UK operations to certain limited trading and translation gains or losses because of volatility in the exchange rate between U.K. sterling, the Euro and the U.S. dollar.

The Company mitigates its foreign exchange risk by engaging in foreign currency hedging activities using derivative financial instruments. The Company does not purchase any derivative instruments for speculative purposes.

At January 31, 2009, the Company’s Canadian operations had outstanding foreign exchange forward contracts to sell US\$56.6 million at an average exchange rate of \$1.0607 Canadian. The contracts mature at the latest on October 28, 2009 and cover approximately 67% of the Company’s expected foreign exchange exposure for fiscal year 2009. The mark-to-market value at January 31, 2009 that is recorded in accumulated other comprehensive income is an unrealized loss of \$7.7 million.

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 income in shareholders’ equity.

Translation gains and losses related to the carrying value of the Company’s foreign operations and certain foreign currency denominated debt held by the Company and designated as a hedge against the carrying value of certain foreign subsidiaries, are included in accumulated other comprehensive income in shareholders’ equity. At January 31, 2009, the Company had designated \$88.4 million of U.S. dollar denominated debt as a hedge against its investment in its U.S. and Puerto Rico subsidiaries.

Interest Rate Exposure

The Company has exposure to movements in interest rates. The Company has entered into interest rate swaps to convert the interest expense on its senior secured term loan from a floating interest rate to a fixed interest rate 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 income in shareholders' equity. Taking this interest rate swap into account, at January 31, 2009, 34% of the Company's total debt portfolio was subject to movements in floating interest rates. Assuming no change to the structure of the debt portfolio, a 1% change in floating interest rates has an impact on annual pre-tax earnings of approximately \$0.8 million.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of January 31, 2009, the Company's management evaluated the effectiveness of the Company's disclosure controls and procedures, as defined under rules adopted by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO").

Disclosure controls and procedures are controls and other procedures designed to provide reasonable assurance that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis and is accumulated and communicated to the Company's management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding required disclosure.

The Company's management, inclusive of the CEO and the CFO, does not expect that the Company's disclosure controls and procedures will prevent or detect all error and all fraud. The inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within the Company have been detected.

Based on this evaluation, the CEO and the CFO have concluded that, subject to the inherent limitations noted above, the Company's disclosure controls and procedures are effective in providing reasonable assurance that material information relating to the Company and its consolidated subsidiaries is made known to the CEO and the CFO by others within those entities on a timely basis.

Internal Control over Financial Reporting

As of January 31, 2009, the Company's management evaluated the effectiveness of the Company's internal control over financial reporting, as defined under rules adopted by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the CEO and the CFO.

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements.

Based on this evaluation, the CEO and the CFO have concluded that, subject to the inherent limitations noted above, the Company's internal control over financial reporting is effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

There was no change in the Company's internal control over financial reporting that occurred during the period beginning on November 1, 2008, and ended on January 31, 2009, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company filed certifications, signed by the President and CEO and the Executive Vice President and CFO, with the Canadian Securities Administrators ("CSA") upon filing of the Corporation's 2009 interim filings. In those filings, the Corporation's CEO and CFO certify, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of the Corporation's disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting.

Seasonal Variability of Results

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. Revenues in the fourth fiscal quarter are also typically impacted by summer shut downs during August in the European operations.

Selected Quarterly Financial Information

The following is selected financial information for the eight most recent quarters:

Quarterly Consolidated Financial Information

Quarter ended (in millions of U.S. dollars, except per share amounts)	REVENUES	EBITDA BEFORE REPOSITIONING EXPENSES	NET INCOME (LOSS) FROM CONTINUING OPERATIONS	NET INCOME (LOSS)		
				BASIC AND DILUTED EARNINGS (LOSS) PER SHARE FROM CONTINUING OPERATIONS	ATTRIBUTABLE TO RESTRICTED VOTING SHAREHOLDERS	BASIC AND DILUTED EARNINGS (LOSS) PER SHARE
	\$	\$	\$	\$	\$	\$
2009						
January 31	147.2	12.8	(1.5)	(0.06)	(9.6)	(0.11)
2008						
October 31	172.1	24.8	41.8	0.46	35.9	0.40
July 31	195.0	24.7	(4.0)	(0.05)	(14.2)	(0.16)
April 30	186.0	23.1	(6.0)	(0.07)	(8.0)	(0.09)
January 31	164.2	10.0	(11.7)	(0.13)	(14.7)	(0.16)
2007						
October 31	161.8	23.1	(6.1)	(0.07)	(7.7)	(0.08)
July 31	164.7	19.6	(4.0)	(0.04)	(63.7)	(0.69)
April 30	160.2	20.5	(22.2)	(0.24)	(22.2)	(0.24)

Additional Information

Share Capital

As of January 31, 2009, the Company had outstanding 91,149,388 restricted voting shares and 150,000 Class I preferred shares consisting of 150,000 Class I Series C convertible preferred shares and 150,000 Class I Series D special voting shares. At January 31, 2009, the Company had 5,416,265 stock options outstanding of which 3,048,462 were exercisable.

Related Party Transactions

Revenues from companies controlled by Mr. Joaquin Viso, 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 has 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 under 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.

Public Securities Filings

Other information about the Company, including the annual information form and other disclosure documents, reports, statements or other information that are filed with Canadian securities regulatory authorities can be accessed through SEDAR at www.sedar.com.

Outlook Update

The Company indicated in its MD&A for the year ended October 31, 2008 that it anticipated a slight decline in revenues for the first quarter of 2009 versus the same quarter last year due to the strengthening of the U.S. dollar. Adjusted EBITDA was expected to be comparable with the first quarter of 2008, reflecting the normal seasonality in the business due to the December holiday shutdowns and customer purchasing practices around the calendar yearend. Revenues reported in the first quarter of 2009 were lower than first quarter of 2008 by \$17.0 million, representing a decrease of 10%. Adjusted EBITDA reported in first quarter of 2009 was higher than first quarter of 2008 by \$2.8 million, representing a 28% increase.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements which reflect management's expectations regarding the Company's future growth, results of operations, performance (both operational and financial) and business prospects and opportunities. All statements, other than statements of historical fact, are forward-looking statements. Wherever possible, words such as "plans", "expects" or "does not expect", "forecasts", "anticipates" or "does not anticipate", "believes", "intends" and similar expressions or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved have been used to identify these forward-looking statements. Although the forward-looking statements contained in this MD&A reflect management's current assumptions based upon information currently available to management and based upon what management believes to be reasonable assumptions, the Company cannot be certain that actual results will be consistent with these forward-looking statements. Current material assumptions relate to customer volumes, regulatory compliance and foreign exchange rates. Forward-looking statements necessarily involve significant known and unknown risks, assumptions and uncertainties that may cause the Company's actual results, performance, prospects and opportunities in future periods to differ materially from those expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things: regulatory approval of and market demand for client products; general economic risks; credit and client concentration; the ability to identify and secure new contracts; regulatory matters, including compliance with pharmaceutical regulations; international operations risks; exposure to foreign currency risks; competition; product liability claims; intellectual property; environmental, health and safety risks; substantial financial leverage; interest rates; initiatives to reduce operating expenses; use of non-GAAP financial measures, significant shareholders; ability to redeem Convertible Preferred Shares when due; risks associated with information systems; and supply arrangements. For additional information regarding risks and uncertainties that could affect our business, please see the "Description of the Business – Risk Factors" section in our Annual Information Form, and the "Risk Factors" section in our MD&A for the year ended October 31, 2008, both of which are available on SEDAR at www.sedar.com Although the Company has attempted to identify important risks and factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors and risks that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date of this MD&A and, except as required by law, the Company assumes no obligation to update or revise them to reflect new events or circumstances.