AUDITED CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Year Ended October 31, 2008

REPORT OF MANAGEMENT'S ACCOUNTABILITY

The accompanying consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

Management is responsible for ensuring that these statements, which include amounts based upon estimates and judgment, reflect the Company's business transactions and financial position.

The integrity and reliability of Patheon's reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees, and appropriate delegation of authority and division of responsibilities. Patheon's Code of Business Conduct requires employees to maintain high standards in their conduct of the Company's affairs.

Our shareholders' independent auditors, Ernst & Young LLP, whose report on their examination follows, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards.

The Board of Directors annually appoints an Audit Committee comprised of directors who are not employees of the Company. This Committee meets regularly with management and the shareholders' auditors to review significant accounting, reporting and internal control matters. The shareholders' auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings. Following its review of the consolidated financial statements and the report of the shareholders' auditors, the Audit Committee submits its report to the Board of Directors for formal approval of the consolidated financial statements.

WESLEY WHEELER
CHIEF EXECUTIVE OFFICER

ERIC EVANS
CHIEF FINANCIAL OFFICER

Toronto, Canada
December 10, 2008

AUDITORS' REPORT

To the Shareholders of Patheon Inc.

We have audited the consolidated balance sheets of Patheon Inc. as of October 31, 2008 and 2007 and the consolidated statements of loss, changes in shareholders' equity, comprehensive loss and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as of October 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Ernst & Young LLP
CHARTERED ACCOUNTANTS
Licensed Public Accountants

Toronto, Canada,
December 10, 2008

Patheon Inc.

CONSOLIDATED BALANCE SHEETS

(in thousands of U.S. dollars)
As of October 31

	2008	2007
	$	$
ASSETS		
Current		
Cash and cash equivalents (note 14)	**20,248**	30,557
Accounts receivable (note 14)	**141,224**	127,691
Inventories (note 4)	**66,385**	85,991
Prepaid expenses and other	**7,462**	11,887
Assets held for sale (note 3)	**1,292**	16,151
Total current assets	**236,611**	272,277
Capital assets (note 5)	**428,495**	479,682
Intangible assets (note 6)	**4,886**	6,770
Deferred costs	**5,325**	8,878
Future tax assets (note 16)	**34,719**	31,039
Goodwill	**2,869**	3,658
Investments	**1,748**	946
Assets held for sale (note 3)	**1,930**	26,367
Total assets	**716,583**	829,617
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness (note 7)	**8,963**	8,224
Accounts payable and accrued liabilities	**174,931**	159,335
Income taxes payable	**2,615**	4,684
Current portion of long-term debt (note 8)	**10,220**	11,719
Liabilities related to assets held for sale (note 3)	**17**	7,743
Total current liabilities	**196,746**	191,705
Long-term debt (note 8)	**200,460**	203,615
Deferred revenues	**22,496**	25,994
Future tax liabilities (note 16)	**39,121**	47,397
Convertible preferred shares - debt component (note 9)	—	139,916
Other long-term liabilities (note 10)	**16,371**	22,069
Liabilities related to assets held for sale (note 3)	**14**	1,736
Total liabilities	**475,208**	632,432
Shareholders' equity		
Convertible preferred shares - equity component (note 12)	**149,168**	15,925
Restricted voting shares (note 12)	**393,523**	391,967
Contributed surplus	**6,663**	4,049
Deficit	**(304,065)**	(286,250)
Accumulated other comprehensive income (loss)	**(3,914)**	71,494
Total shareholders' equity	**241,375**	197,185
Total liabilities and shareholders' equity	**716,583**	829,617

See accompanying notes.

On behalf of the Board:

PETER A. W. GREEN
DIRECTOR

WESLEY P. WHEELER
CHIEF EXECUTIVE OFFICER

Patheon Inc.

CONSOLIDATED STATEMENTS OF LOSS

(in thousands of U.S. dollars, except income (loss) per share)
Year ended October 31

		2008		2007
		$		$
Revenues (note 17)		**717,251**		634,146
Cost of goods sold		**562,370**		502,738
Gross profit		**154,881**		131,408
Selling, general and administrative expenses		**121,277**		97,525
Repositioning expenses (note 19)		**19,899**		14,467
Operating income		**13,705**		19,416
Interest expense, net		**30,789**		29,119
Foreign exchange gain (note 13)		**(1,448)**		(8,921)
Refinancing expenses (note 20)		**-**		13,471
Foreign exchange loss on foreign operations (note 13)		**-**		858
Gain on sale of fixed assets		**(282)**		**-**
Gain on extinguishment of debt (note 12)		**(34,934)**		-
Income (loss) from continuing operations before income taxes		**19,580**		(15,111)
Provision for (recovery of) income taxes (note 16)				
Current		**13,939**		15,085
Future		**(12,461)**		4,572
		1,478		19,657
Net income (loss) from continuing operations		**18,102**		(34,768)
Loss from discontinued operations (note 3)		**(19,543)**		(59,833)
Net loss for the year		**(1,441)**		(94,601)
Dividends on convertible preferred shares (note 12)		**1,463**		-
Net loss attributable to resticted voting shareholders		**(2,904)**		(94,601)
Basic and diluted income (loss) per share				
From continuing operations	**$**	**0.18**	$	(0.37)
From discontinued operations	**$**	**(0.21)**	$	(0.65)
	$	**(0.03)**	$	(1.02)
Average number of shares outstanding during period - basic and diluted (in thousands)		**90,737**		92,834

see accompanying notes

Patheon Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of U.S. dollars)

Year ended October 31	**2008** **$**	2007 $
Convertible preferred shares - equity component (note 12)		
Balance at beginning of period	**15,925**	-
Reclassification from debt component	**131,780**	-
Paid in-kind dividend	**1,463**	-
Shares issued during the period, net of issue costs	-	15,925
Balance at end of year	**149,168**	15,925
Restricted voting shares (note 12)		
Balance at beginning of year	**391,967**	400,721
Issued during the year, net of issue costs	**1,556**	24
Repurchased during the year, net of transaction costs	-	(8,778)
Balance at end of year	**393,523**	391,967
Contributed surplus		
Balance at beginning of year	**4,049**	3,829
Stock options (note 19)	**2,614**	220
Balance at end of year	**6,663**	4,049
Retained deficit		
Balance at beginning of year	**(286,250)**	(189,900)
Charge on deemed redemption of equity component of preferred shares (note 12)	**(14,911)**	-
Adjustment related to change in accounting policy (note 2)	-	(1,749)
Net loss attributable to restricted voting shareholders	**(2,904)**	(94,601)
Balance at end of year	**(304,065)**	(286,250)
Accumulated other comprehensive income (loss)		
Balance at beginning of year	**71,494**	36,081
Transition adjustment (note 2)	-	(762)
Other comprehensive income (loss) for the year	**(75,408)**	36,175
Balance at end of year	**(3,914)**	71,494
Total shareholders' equity	**241,375**	197,185

See accompanying notes.

Patheon Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands of U.S. dollars)

Years ended October 31

	2008	2007
	$	$
Net loss attributable to restricted voting shareholders	**(2,904)**	(94,601)
Other comprehensive income (loss), net of income taxes		
Foreign currency gains (losses) on investments in subsidiaries, net of hedging activities[1]	**(58,770)**	30,787
Foreign currency losses on investments in subsidiaries, net of hedging activities reclassified to consolidated statement of loss[2]	**-**	2,793
Change in value of derivatives designated as foreign currency and interest rate cash flow hedges[3]	**(11,562)**	3,723
Gains on foreign currency and interest rate cash flow hedges reclassified to consolidated statement of loss[4]	**(5,076)**	(1,128)
Other comprehensive income (loss)	**(75,408)**	36,175
Comprehensive loss attributable to restricted voting shareholders	**(78,312)**	(58,426)

See accompanying notes.

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

[1] *Net of an income tax expense of nil (2007 – nill).*
[2] *(2007 – recovery of $1,935,000).*
[3] *Net of an income tax recovery of $189,000 (2007 – recovery of $373,000).*
[4] *Net of an income tax recovery of $318,000 (2007 – recovery of $343,000).*

Patheon Inc.
Consolidated Statements of Cash Flows

(in thousands of U.S. dollars)

Year ended October 31

	2008	2007
	$	$
Operating activities		
Net income (loss) from continuing operations	**18,102**	(34,768)
Add (deduct) charges to operations not requiring a current cash payment		
Depreciation and amortization	**47,594**	41,343
Foreign exchange loss (gain) on debt	**7,015**	(12,331)
Foreign exchange loss on foreign operations	**-**	858
Accreted interest on convertible preferred shares	**13,453**	7,054
Gain on extinguishment of debt	**(34,934)**	-
Other non-cash interest	**567**	1,657
Employee future benefits, net of contributions	**(3,165)**	(4,846)
Future income taxes	**(12,461)**	4,572
Amortization of deferred revenues	**(1,893)**	(2,021)
Stock-based compensation expense	**2,614**	220
Other	**(414)**	1,867
	36,478	3,605
Net change in non-cash working capital balances related to continuing operations (note 13)	**(3,644)**	(8,903)
Increase in deferred revenues	**2,683**	2,065
Cash provided by (used in) operating activities of continuing operations	**35,517**	(3,233)
Cash provided by (used in) operating activities of discontinued operations	**(9,075)**	14,824
Cash provided by operating activities	**26,442**	11,591
Investing activities		
Additions to capital assets	**(55,802)**	(35,148)
Proceeds on sale of capital assets	**12,176**	-
Net increase in investments	**(1,315)**	(202)
Increase in deferred pre-operating costs	**-**	(3,659)
Cash used in investing activities of continuing operations	**(44,941)**	(39,009)
Cash provided by (used in) investing activities of discontinued operations	**10,431**	(929)
Cash used in investing activities	**(34,510)**	(39,938)
Financing activities		
Increase in bank indebtedness	**3,196**	3,532
Increase in long-term debt	**40,326**	198,108
Repayment of long-term debt	**(38,902)**	(336,883)
Issue of convertible preferred shares	**-**	150,000
Convertible preferred share issue cost - equity component	**(269)**	(1,213)
Issue of restricted voting shares	**431**	24
Repurchase of restricted voting shares	**-**	(8,778)
Cash provided by financing activities of continuing operations	**4,782**	4,790
Cash used in financing activities of discontinued operations	**(180)**	(569)
Cash provided by financing activities	**4,602**	4,221
Effect of exchange rate changes on cash and cash equivalents	**(6,843)**	3,960
Net decrease in cash and cash equivalents during the year	**(10,309)**	(20,166)
Cash and cash equivalents, beginning of year	**30,557**	50,723
Cash and cash equivalents, end of year	**20,248**	30,557
Supplemental cash flow information		
Interest paid	**16,644**	22,135
Income taxes paid	**13,039**	9,600

see accompanying notes

Patheon Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2008 and 2007
(Dollar information in tabular form is expressed in thousands of U.S. dollars)

1. NATURE OF BUSINESS

Patheon Inc. ("Patheon" or the "Company") is a Canadian public company, which trades under the symbol PTI on The Toronto Stock Exchange ("TSX"). The Company is an independent provider of drug development and manufacturing services to global pharmaceutical, biotechnology and specialty pharmaceutical companies.

Patheon's commercial manufacturing activities relate primarily to products in solid, semi-solid, liquid and sterile dosage forms. The Company manufactures to client specifications a wide variety of products in many packaging formats. The Company can be responsible for each aspect of the manufacturing and packaging process, from sourcing raw materials and packaging components to delivering the finished product in consumer-ready form to the client's distribution facilities.

Patheon's pharmaceutical development services include dosage form development, analytical methods development, pilot batch manufacture of new products for the regulatory drug approval process and the provision of scale-up services designed to show that a drug can be manufactured in commercial volumes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies followed by the Company are summarized as follows:

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions have been eliminated.

Use of estimates in the preparation of the consolidated financial statements

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles 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.

Changes in accounting policy

Effective November 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") accounting standards Section 3862 "Financial Instruments – Disclosure", Section 3863 "Financial Instruments – Presentation", Section 1535 "Capital Disclosures" and Section 1506 "Accounting Changes". The adoption of the new standards resulted in additional disclosures with regard to financial instruments and the Company's objectives, policies and process for managing capital. Please refer to notes 14 and 15. The new standards have no impact on the classification and valuation of the Company's consolidated financial instruments.

In fiscal year 2007, upon adoption of CICA Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation; Section 3865, hedges; and Section 1530, Comprehensive income, deferred after tax gains from interest rate swaps of $656,000 and after tax losses on the fair value of cash flow hedges of $1,418,000 were recorded in accumulated other comprehensive income. Accumulated other comprehensive income also includes gains on net investments in self sustaining foreign operations, net of hedging activities of $36,081,000 previously recorded in the cumulative translation adjustment account. In addition,the change in policy relating to the costs of obtaining bank and other debt refinancing had the effect of increasing the retained deficit at November 1, 2006 by $1,749,000.

Foreign exchange translation

The assets and liabilities of the Company's operations, having a functional currency other than the U.S. dollar, are translated into the Company's U.S. dollar reporting currency using the exchange rate in effect at the year end and revenues and expenses are translated at the average rate during each month. 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. Foreign exchange gains and losses on transactions occurring in a currency different than an operation's functional currency are reflected in earnings.

Revenue recognition

The Company recognizes revenue for its commercial manufacturing and pharmaceutical development services when services are completed in accordance with specific agreements with its clients and when all costs connected with providing these services have been incurred, the price is fixed or determinable and collectability is reasonably assured. Client deposits on pharmaceutical development services in progress are included in accounts payable and accrued liabilities.

The Company does not receive any fees on signing of contracts. In the case of pharmaceutical development services, revenue is recognized on the achievement of specific milestones in accordance with the respective development service contracts. In the case of commercial manufacturing services, revenue is recognized when services are complete and the product has met rigorous quality assurance testing.

Deferred revenues

The costs of certain capital assets are reimbursed to the Company by the pharmaceutical companies that are to benefit from the improvements in connection with the manufacturing and packaging agreements in force. These reimbursements are recorded as deferred revenues and are recognized as income over the remaining minimum term of the agreements.

Financial assets and liabilities

The Company's 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. All financial instruments, including derivatives, are included in the consolidated balance sheet and are measured at fair value except for held to maturity investments, loans and receivables and other financial liabilities, which are measured at amortized cost. Held-for-trading financial instruments are recorded at cost as they are initiated and are subsequently measured at fair value and all revaluation gains and losses are included in net income (loss) in the period in which they arise. Available-for-sale financial instruments are also recorded at cost and are subsequently measured at fair value with all revaluation gains and losses included in other comprehensive income. All financial instrument transactions are recorded at settlement date. Please refer to note 14 – Financial Instruments and Risk Management

The Company expenses as incurred all transaction costs, including fees paid to advisors and other related costs. Financing costs, including underwriting and arrangement fees paid to lenders are deferred and netted against the carrying value of the related debt and amortized into interest expense using the effective interest rate method.

Derivatives and hedge accounting

The Company enters into foreign currency forward contracts to reduce its exposure to foreign currency denominated cash flows and the change in the fair value of foreign denominated assets and liabilities (see note 15). The Company also enters into interest rate swap contracts to reduce its exposure to variable interest rates.

All derivative instruments are recorded on the consolidated balance sheet at fair value unless exempted from derivative treatment as a normal purchase and sale. All changes in their fair value are recorded in income (loss) unless cash flow hedge accounting is used, in which case the changes in the fair value associated with the effective portions of the hedge are recorded in other comprehensive income.

The Company also holds foreign currency denominated debt as a hedge against the carrying value of its equity investment in certain foreign currency denominated operations. The foreign exchange translation impact of foreign denominated debt that is designated as an effective hedge of the net investments in foreign operations is recognized in other comprehensive income. The foreign exchange translation impact of foreign denominated debt that is not considered to be an effective hedge is recorded in income (loss).

Cash and cash equivalents

Cash and cash equivalents include cash in interest-bearing accounts and term deposits with remaining maturities of less than three months at the date the term deposit was acquired.

Inventories

Inventories consisting of raw materials, packaging components, spare parts and work-in-process are valued at the lower of weighted average cost and net realizable value.

Capital assets

Capital assets are carried at cost less accumulated depreciation. The cost of assets disposed of and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in earnings.

Depreciation is provided on the straight-line basis based on estimated useful lives as follows:

Buildings	30 - 50 years
Machinery and equipment	12 - 15 years
Office equipment	3 - 10 years
Computer Software	2 - 10 years
Furniture and fixtures	7 - 10 years

Repairs and maintenance costs are charged to operations as incurred.

Intangible assets

Intangible assets represent the values assigned to acquired client contracts and relationships. They are amortized on a straight-line basis over their estimated economic lives.

Impairment of long-lived depreciable assets

The Company reviews whether there are any indicators of impairment of its capital assets and identifiable intangible assets ("long-lived depreciable assets"). If such indicators are present, the Company assesses the recoverability of the assets or group of assets by determining whether the carrying value of such assets can be recovered through undiscounted future cash flows. If the sum of undiscounted future cash flows is less than the carrying amount, the excess of the carrying amount over the estimated fair value, based on discounted future cash flows, is recorded as a charge to earnings.

Deferred costs

Deferred costs include deferred pre-operating costs. During the development and pre-operating phases of new businesses or facilities, incremental costs are deferred. Once commercial operations have commenced, the costs are amortized on a straight-line basis over five years. Grants under available government assistance programs, relating to these costs, are reflected as a reduction of amounts deferred.

Goodwill

Goodwill represents the excess of the purchase price of the Company's interest in subsidiary companies over the fair value of the underlying net identifiable assets arising on acquisitions. Goodwill is not subject to amortization but is subject to an annual review for impairment, or more frequently if events or changes in circumstances indicate that goodwill is impaired. Goodwill impairment is assessed based on a comparison of the fair value of an individual reporting unit to the underlying carrying value of the reporting unit's net assets including goodwill. When the carrying amount of the reporting unit exceeds its fair value, the fair value of the reporting unit's goodwill, determined in the same manner as in a business combination, is compared with its carrying amount to measure the amount of the impairment loss, if any.

Employee benefit plans

The Company provides a number of benefit plans to its employees including:

(a) defined benefit pension plans; (b) post-employment benefit plans; (c) defined contribution pension plans; and (d) unfunded termination indemnities.

The cost of defined benefit pension plans and other post-employment benefits, which include health care and dental benefits, related to employees' current service is charged to earnings annually. The cost is computed on an actuarial basis using the projected benefit method pro-rated on service and management's best estimates of various actuarial factors, including salary escalation, other cost escalation and retirement ages of employees.

The valuation of defined benefit pension plan assets is at current market value, based on an actuarial valuation, for purposes of calculating the expected return on plan assets. Past service costs resulting from plan amendments are deferred and amortized on a straight-line basis over the remaining service life of employees active at the time of amendment.

Actuarial gains and losses arise from the difference between the actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period, or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain or loss over 10% of the greater of the benefit obligations and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plans and the other retirement benefit plans at the measurement date of October 31, 2008 is 19 years (2007 - 19 years). When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

The cost of defined contribution pension plans is charged to earnings as funds are contributed by the Company.

Unfunded termination indemnities for the employees of the Company’s subsidiary in Italy are accrued based on Italian severance pay statutes. The liability recorded on the consolidated balance sheets is the amount to which the employees would be entitled if the employees’ employment with the Company ceased.

Income taxes

The Company follows the liability method of income tax allocation. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

The Company evaluates, on a quarterly basis, the ability to realize its future tax assets. The factors used to assess the likelihood of realization are the Company’s forecast of future taxable income and available tax planning strategies that could be implemented to realize the future tax assets.

Convertible preferred shares

On September 19, 2008 the Company entered into an agreement (the "JLL Agreement") with JLL Patheon Holdings, LLC, ("JLL") under which JLL agreed to waive the requirement, under the terms of the convertible preferred shares held by JLL, that the Company would redeem for cash all of these shares on April 27, 2017, if not previously converted. Please refer to Note 12 – Shareholders' Equity.

The JLL Agreement resulted in a change in accounting treatment for the convertible preferred shares. Previously, the convertible preferred shares were treated as a compound financial instrument that contained both debt and equity components, with the related non-cash accretive interest expense. Completion of the JLL Agreement resulted in the full carrying value of the convertible preferred shares being classified within shareholders' equity on the Company's balance sheet and no further accretive interest expense is recorded in the consolidated statement of loss. Paid-in-kind dividend equivalents (or cash dividends, if the Company so elects after October 27, 2009) on the convertible preferred shares are reported below net loss to arrive at a loss attributable to the restricted voting shareholders.

Stock options

The fair value of stock options granted, modified or settled on or after November 1, 2003 is recognized on a straight-line basis over the applicable stock option vesting period as stock-based compensation expense in the consolidated statements of income (loss) and contributed surplus in the consolidated balance sheets. On the exercise of stock options, consideration received and the accumulated contributed surplus amount is credited to share capital.

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. This model requires the input of a number of assumptions including dividend yields, expected stock price volatility, expected time until exercise and risk-free interest rates. Although the assumptions used reflect management's best estimates, they involve assumptions based on market conditions generally outside of the control of the Company.

Income (loss) per share

The calculation of income (loss) per share - from continuing and discontinued operations is based on the reported net income (loss) attributable to restricted voting shareholders - from continuing and discontinued operations divided by the weighted average number of restricted voting shares outstanding during the year. Diluted income per share reflect the assumed conversion of all dilutive securities using the treasury stock method.

Under the treasury stock method:

- the exercise of options is assumed to be at the beginning of the period (or at the time of issuance, if later);
- options for which the closing fair market value exceeds the option price are the only ones that are assumed to be dilutive;

- the proceeds from the exercise of options, plus future period compensation expense on options granted on or after November 1, 2003, are assumed to be used to purchase restricted voting shares at the average price during the period; and
- the number of restricted voting shares assumed to be dilutive, plus the weighted average number of restricted voting shares outstanding during the year, is used in the denominator of the diluted earnings per share computation.
- the convertible preferred shares are assumed to have been converted at the beginning of the year (or at time of issuance, if later), and the resulting restricted voting shares are included in the denominator.

Since the Company was in a loss position for the years ended October 31, 2008 and 2007, there is no dilutive effect.

Government financing

The Company makes periodic applications for financial assistance under available government assistance programs in the various jurisdictions in which the Company operates. Grants relating to capital expenditures are reflected as a reduction of the cost of the related assets. Grants and tax credits relating to current operating expenditures are generally recorded as a reduction of expenses at the time the eligible expenses are incurred. In the case of certain foreign subsidiaries, the Company receives investment incentive allowances, which are accounted for as a reduction of income tax expense.

Recently issued accounting pronouncements

Inventories
The CICA issued a new accounting standard, Section 3031 “Inventories”, which requires inventory to be measured at the lower of cost and net realizable value. The standard 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. The Company will adopt this standard beginning November 1, 2008 and the expected impact on the company’s financial statements will be an increase to inventory of approximately $2,900,000, with a cooresponding decrease to the deficit account. In addition, in advance of adoption of the new standard, the Company has modified the fiscal 2008 consolidated statement of loss to separately present cost of goods sold and selling, general and administrative expenses. This resulted in the inclusion of depreciation within cost of goods sold and selling, general and administrative expenses for fiscal years 2008 and 2007.

General Standards of Financial Statement Presentation
The CICA amended 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 Company will adopt the amendments to this standard beginning November 1, 2009 and does not expect any material impact to the Company’s financial statements as it is a disclosure enhancement.

Goodwill, Intangible Assets and Financial Statement Concepts
The CICA has issued a new accounting standard, 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. The new and amended standards are effective for the Company

beginning November 1, 2009. The Company has deferred costs of $5,325,000 which will be written off to the deficit account in the beginning of fiscal year 2009. No additional costs were capitalized during fiscal year 2008 and the company incurred $2,129,000 in amortization charges during the year.

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.

3. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

On April 17, 2007 the Company announced that as part of its strategy to focus on developing and manufacturing prescription pharmaceutical products and to improve the Company's profitability, it planned to restructure its network of pharmaceutical manufacturing facilities in Canada.

In connection with this initiative, on January 31, 2008, the Company completed the sale of its Niagara-Burlington commercial manufacturing business to Pharmetics Inc. 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 $10,492,000. The Company recorded a loss of $601,000 on the disposal.

The Company also 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 $11,864,000 and has entered into a lease for up to two years in order to facilitate the decommissioning process.

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 has decided to retain and continue to streamline its facilities in Caguas and Manati and divest its facility in Carolina. The decision follows the generic replacement of Omnicef® in May 2007 and the resulting significant drop in revenue at the facility. Please refer to Note 21- Subsequent Event.

The results of the Niagara-Burlington and Carolina operations have been reported as discontinued operations. 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. All prior period amounts have been reclassified to conform to the current period presentation.

The results of discontinued operations for the year ended October 31, 2008 and 2007 are as follows:

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

	2008	2007
	$	$
Revenues	**17,894**	78,172
Cost of goods sold	**25,439**	66,376
Gross profit (loss)	**(7,545)**	11,796
Selling, general and administrative expenses	**2,844**	10,023
Repositioning expenses	**677**	936
Operating income (loss)	**(11,066)**	837
Interest expense, net	**41**	48
Asset impairment charge	**7,700**	61,045
Loss on disposal of discontinued operations	**601**	-
Loss before income taxes	**(19,408)**	(60,256)
Provision for (recovery of) income taxes	**135**	(423)
Net loss for the year	**(19,543)**	(59,833)

In the third quarter of 2008, the Company recorded an impairment charge of $7,700,000 to write down the carrying value of the Carolina operations long-lived assets to their fair value less estimated disposition costs, based on discussions with third parties interested in purchasing the facility. In the third quarter of 2007, the Company recorded an impairment charge of $61,609,000. This included a charge of $48,580,000 to write down the carrying value of the Carolina long-lived depreciable assets to their estimated fair value and a charge of $13,029,000 to write down the carrying value of the Niagara-Burlington operations' long-lived assets to their fair value less estimated disposition costs.

As of October 31, 2008, the assets and liabilities held for sale relate to the Carolina operations. As of October 31, 2007, the assets held for sale and the related liabilities included the Niagara-Burlington and Carolina operations and the land and buildings at York Mills. 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.

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

Assets held for sale and the related liabilities are as follows:

	2008 $	2007 $
Current assets		
Accounts receivable	**357**	7,486
Inventories	**574**	8,045
Prepaid expenses and other	**361**	620
Total current assets	**1,292**	16,151
Long-term assets		
Capital assets	**1,930**	24,403
Intangible assets	—	1,948
Future tax assets	—	16
Total long-term assets	**1,930**	26,367
Current liabilities		
Accounts payable and accrued liabilities	—	7,743
Current portion of long-term debt	**17**	—
Total current liabilities	**17**	7,743
Long-term liabilities		
Long-term debt	**14**	215
Other long-term liabilities	—	1,521
Total long-term liabilites	**14**	1,736

4. INVENTORIES

	2008 $	2007 $
Raw materials and packaging components	**43,967**	60,416
Work-in-process	**22,418**	25,575
Balance, end of the year	**66,385**	85,991

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

5. CAPITAL ASSETS

	2008			2007		
	Cost	**Accumulated Depreciation**	**Net Book Value**	Cost	Accumulated Depreciation	Net Book Value
	$	**$**	**$**	$	$	$
Land	**31,848**	—	**31,848**	36,378	—	36,378
Buildings	**216,232**	**42,927**	**173,305**	228,300	44,273	184,027
Machinery and equipment	**348,146**	**178,663**	**169,483**	393,251	167,475	225,776
Office equipment (including software)	**32,839**	**25,273**	**7,566**	43,086	40,842	2,244
Furniture and fixtures	**13,690**	**7,635**	**6,055**	14,230	7,131	7,099
Construction in progress	**40,238**	—	**40,238**	24,158	—	24,158
Balance, end of the year	**682,993**	**254,498**	**428,495**	739,403	259,721	479,682

The amount of open purchase commitments related to authorized capital projects at October 31, 2008 is approximately $12,532,000 (2007 - $15,804,000). The expenditures are expected to be incurred during the year ending October 31, 2009.

Included in capital assets are assets under capital leases with a cost of $14,009,000 at October 31, 2008 (2007 - $16,642,000). The amount of accumulated depreciation for assets under capital leases is $5,509,000 at October 31, 2008 (2007 - $5,411,000).

6. INTANGIBLE ASSETS

	2008	2007
	$	$
Balance, beginning of the year	**6,770**	8,656
Amortization	**(1,884)**	(1,886)
Balance, end of the year	**4,886**	6,770

7. BANK INDEBTEDNESS

	2008	2007
	$	$
Italian short-term operating credit facilities totaling €19,200,000 (2007 - €19,200,000), bearing interest at 3-month Euribor plus spreads between 0.8% and 1.35%. Certain of the short-term credit facilities are collateralized by accounts receivable. Amounts utilized at October 31, 2008 were €5,500,000; (2007 – €4,000,000).	**7,008**	5,794
Short-term insurance premium financing	**1,955**	2,430
Balance, end of the year	**8,963**	8,224

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

8. Long-Term Debt

	2008	2007
	$	$
Senior secured term loan maturing April 26, 2014, bearing interest at 6.3% based upon floating LIBOR, US or CAD prime, or federal funds effective rates, plus applicable margins.	**147,750**	149,250
$75 million senior secured revolving loan facility maturing April 26, 2012, bearing interest at 5.9% based upon floating LIBOR, US, or CAD prime, or federal funds effective rates, plus applicable margins.	**14,464**	2,500
U.S. obligations under capital leases bearing interest at fixed rates between 3.7% and 7.8%, maturing over various dates from 2009 to 2012.	**1,709**	2,313
Italian mortgage (2008 - €15,529,000; 2007 - €18,244,638), bearing interest at 6.3% based upon floating 3-month Euribor, maturing in 2014.	**19,789**	26,244
Italian mortgage (2008 - €20,583,000; 2007 - €23,872,001), bearing interest at 6.5% based upon floating 3-month Euribor, maturing in 2014.	**26,229**	34,402
Italian unsecured government loan (2008 - €2,766,000; 2007 - €3,098,000), bearing interest at 0.9% per annum, maturing in 2012.	**3,526**	4,487
Total long-term debt outstanding	**213,467**	219,196
Less unamortized transaction costs	**2,787**	3,862
Less current portion	**10,220**	11,719
Balance, end of the year	**200,460**	203,615

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

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

Estimated minimum annual repayments of long-term debt based on current exchange rates for the next five years are:

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

	$
2009	10,230
2010	10,265
2011	10,297
2012	21,826
2013	11,248
Thereafter	149,601
Total payments	213,467

Included within the above future repayments of long-term debt are obligations under capital leases. Future minimum capital lease payments under capital leases in effect at October 31, 2008 are as follows:

	$
2009	711
2010	662
2011	654
2012	55
Total payments	2,082
Less capital lease minimum payments representing interest	373
	1,709

Interest on long-term debt (exclusive of the accretive interest on the preferred shares) amounted to $18,069,000 (2007 - $22,559,000).

9. Convertible Preferred Shares – Debt Component

	2008	2007
	$	$
Balance, beginning of the year	**139,916**	—
Fair value of the debt component of the convertible preferred shares upon issuance	—	132,862
Accreted interest	**13,453**	7,054
Extinguishment of debt component of convertible preferred shares	**(153,369)**	—
Balance, end of the year	—	139,916

On April 27, 2007 JLL purchased 150,000 units of Class I convertible preferred shares of Patheon for $150,000,000. On issuance, the convertible preferred shares were treated as a compound financial instrument with both a debt and equity component. On issuance, the fair value of the debt component of the preferred shares was $132,862,000. The remainder of the proceeds attributable to shareholders' equity was $15,925,000, net of apportioned transaction costs of $1,213,000. Please refer to note 13 – "Shareholders' Equity".

On September 19, 2008 the Company entered into an agreement (the "JLL Agreement") with JLL under which JLL agreed to waive the requirement, under the terms of the convertible preferred shares held by JLL, that the

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

Company would redeem for cash all of these shares on April 27, 2017, if not previously converted. The JLL Agreement resulted in a change in accounting treatment for the convertible preferred shares. Previously, the convertible preferred shares were treated as a compound financial instrument that contained both debt and equity components, with the related non-cash accretive interest expense. Completion of the JLL Agreement resulted in the full carrying value of the convertible preferred shares being classified within shareholders' equity on the Company's balance sheet and no further accretive interest expense is recorded in the consolidated statement of loss. Please refer to note 12 – Shareholders' Equity.

10. OTHER LONG-TERM LIABILITIES

	2008	2007
	$	**$**
Unfunded termination indemnities (2008- €5,541,000; 2007 - €6,210,000)	**7,061**	8,995
Employee future benefits (note 11)	**8,499**	13,074
Other long-term liabilities	**811**	-
	16,371	22,069

The unfunded termination indemnities relate to the employees of the Company's Italian subsidiary. In accordance with Italian severance pay statutes, an employee benefit is accrued for service to date and is payable when the employees' employment with the Company ceases. The termination indemnity liability is calculated in accordance with local civil and labour laws based on each employee's length of service, employment category and remuneration. The termination liability is adjusted annually by a cost-of-living index provided by the Italian Government. There is no vesting period, however the Italian government is establishing private accounts for these benefits and required the company to contribute $3,772,000 in fiscal year 2008 with additional contributions in the future. The liability recorded in the consolidated balance sheets is the amount to which the employees would be entitled if their employment with the Company ceased. The related expense for the year amounted to $2,774,000 (2007 - $2,312,000).

11. EMPLOYEE FUTURE BENEFITS

The Company has a number of defined benefit pension plans. In addition, it has other benefit plans that provide post-retirement healthcare and dental benefits. The Company measured the accrued benefit obligation and the fair value of plan assets for accounting purposes as of October 31, 2008 for the defined benefit pension and other benefit plans.

Information about the Company's defined benefit pension and other benefit plans, in aggregate, is as follows:

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

	Defined Benefit Pension Plans 2008 $	**Other Benefit Plans 2008 $**	Defined Benefit Pension Plans 2007 $	Other Benefit Plans 2007 $
Change in benefit obligation				
Benefit obligation, beginning of the year	**81,241**	**6,809**	65,920	11,196
Current service cost	**4,502**	**113**	4,241	910
Plan amendment	**359**	-	-	-
Interest cost	**4,466**	**342**	3,677	543
Member contributions during the year	**968**	-	991	-
Benefits paid	**(2,873)**	**(177)**	(2,223)	(94)
Actuarial loss	**(8,925)**	**(769)**	203	(1,782)
Curtailment gain	-	**(1,026)**	-	(5,156)
Currency translation	**(17,229)**	**(1,178)**	8,432	1,192
Benefit obligation, end of the year	**62,508**	**4,114**	81,241	6,809
Change in plan assets				
Market value of plan assets, beginning of year	**67,311**	-	50,149	-
Actual return on plan assets	**(8,093)**	-	5,885	-
Member contributions during the year	**968**	-	991	-
Employer contributions	**6,421**	**177**	5,775	94
Benefits paid	**(2,743)**	**(177)**	(2,206)	(94)
Currency translation	**(14,393)**	-	6,717	-
Market value of plan assets, end of the year	**49,471**	-	67,311	-
Reconciliation of funded status				
Funded status, deficit	**(13,037)**	**(4,114)**	(13,930)	(6,809)
Unamortized net actuarial loss	**8,696**	**(325)**	7,206	400
Unamortized past service costs	**281**	-	59	-
Accrued benefit liability	**(4,060)**	**(4,439)**	(6,665)	(6,409)

The accrued benefit liability of $8,499,000 (2007 - $13,074,000) is included in other long-term liabilities. For all of the Company's plans, the accrued benefit obligations are in excess of plan assets as of October 31, 2008 and 2007. Please refer to note 10 – Other Long-Term Liabilities.

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

Defined benefit pension plan assets consist of:

	2008	2007
	%	%
Equity securities	**85**	86
Debt securities	**10**	9
Other	**5**	5
Total	**100**	100

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligation and benefit plan expense in connection with its defined benefit pension and other benefit plans is as follows (weighted average assumptions as of October 31, 2008 and 2007):

	Defined Benefit Pension Plans 2008	**Other Benefit Plans 2008**	Defined Benefit Pension Plans 2007	Other Benefit Plans 2007
	%	**%**	%	%
Accrued benefit obligation				
Discount rate	**6.6**	**7.0**	5.6	5.8
Rate of compensation increase	**4.2**	-	4.1	-
Benefit costs recognized				
Discount rate	**6.1**	**5.8**	5.5	5.5
Expected long-term rate of return on plan assets	**7.3**	-	7.3	-
Rate of compensation increase	**4.1**	-	3.8	-

In connection with the other benefit plans, a 4% to 12% annual rate of increase in the per capita cost of covered health care and dental benefits was assumed for 2008 (2007 - 4% to 12%). The rate was assumed to decrease gradually over the next five years to 6% and remain at that level thereafter (2007 - 6% and thereafter). The following table outlines the effects of a one-percentage-point increase and decrease in the assumed health care and dental benefit trend rates:

	Benefit Obligation	**Benefit Expense**
	$	**$**
Impact of:		
1% increase	555	45
1% decrease	(416)	(49)

The cost components of the Company's defined benefit pension plan and other benefit plans in aggregate are as follows:

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

	Defined Benefit Pension Plans	**Other Benefit Plans**	Defined Benefit Pension Plans	Other Benefit Plans
	2008	**2008**	2007	2007
	$	**$**	$	$
Current service cost	**4,502**	**113**	4,241	910
Interest cost	**4,466**	**342**	3,677	543
Actual return on plan assets	**8,093**	**-**	(5,885)	-
Actuarial (gain) loss	**(8,925)**	**(769)**	203	(1,782)
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefits	**8,136**	**(314)**	2,236	(329)
Adjustments to recognize the long-term nature of employee future benefit costs:				
Curtailment gains/settlement	**-**	**(1,176)**	-	(4,292)
Difference between expected return and actual return on plan assets for the year	**(12,844)**	**-**	1,728	-
Difference between amortization of the net actuarial loss for the year and the actual actuarial loss on accrued benefit obligation for the year	**9,248**	**134**	120	2,498
Difference between amortization of past service costs for the year and actual plan amendments for the year	**(209)**	**-**	(209)	-
Net benefit cost recognized	**4,331**	**(1,356)**	3,875	(2,123)

The net benefit cost recognized for the year ended October 31, 2008, includes a curtailment gain of $1,176,000 (2007 - $4,292,000) arising from a decision to conform certain post-employment benefits in the Company's Canadian operations.

The Company also provides retirement benefits for the majority of its employees at its Canadian, U.S. and Puerto Rican sites under defined contribution pension plans. The total expense for the plans amounted to $5,277,000 (2007 - $7,147,000).

Total cash payments for employee future benefits for 2008 totaled $11,875,000 (2007 - $13,016,000), consisting of cash contributed by the Company to its defined benefit pension plans of $6,421,000 (2007- $5,775,000), cash payments directly to beneficiaries for its other benefit plans of $177,000 (2007 - $94,000) and cash contributed to its defined contribution pension plans of $5,277,000 (2007 - $7,147,000).

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

12. Shareholders' Equity

Share capital

Share capital consists of the following:

	2008	2007
	$	$
Authorized		
Unlimited Class I preferred shares – Issuable from time to time in one or more series, each series comprising the number of shares and having the designation, rights, privileges, restrictions and conditions determined by the Company's board of directors.		
Unlimited restricted voting shares.		
Issued and outstanding		
150,000 Class I preferred shares consisting of 150,000 Series C ("convertible preferred shares") and 150,000 Series D ("special voting preferred shares")	**149,168**	15,925
Restricted voting shares of 91,149,388; 2007 – 90,624,388	**393,523**	391,967

Convertible Preferred Shares

On April 27, 2007 JLL purchased 150,000 units of Class I convertible preferred shares of Patheon for $150,000,000. Each unit consists of a Class I Series C convertible preferred share and a Series D special voting preferred share. On issuance, the fair value of the debt component of the preferred shares was $132,862,000. The remainder of the proceeds, attributable to shareholders' equity was $15,925,000, net of apportioned transaction costs of $1,213,000.

On September 19, 2008 the Company entered into an agreement (the "JLL Agreement") with JLL under which JLL agreed to waive the requirement, under the terms of the convertible preferred shares held by JLL, that the Company would redeem for cash all of these shares on April 27, 2017, if not previously converted. In consideration of this waiver, the Company agreed to issue to JLL 400,000 restricted voting shares, representing approximately 0.4% of the currently outstanding restricted voting shares. The Company also agreed to provide a limited waiver of the standstill provisions of the investor agreement with JLL to permit JLL to acquire, through the facilities of the Toronto Stock Exchange, over a one-year period, up to 1% of the outstanding restricted voting shares (determined on a partially diluted basis, taking into account the restricted voting shares issuable on conversion of the convertible preferred shares) namely 1,256,929 restricted voting shares.

The Company entered into the JLL Agreement (i) to characterize the convertible preferred shares as equity, following the elimination of such obligation, rather than as both debt and equity, thereby achieving a simpler financial statement presentation that better reflects the financial nature of the convertible preferred shares; (ii) to reduce foreign exchange volatility in the Company's financial reporting; and (iii) to eliminate the obligation to redeem the convertible preferred shares for cash of at least $185,000,000 in April 2017, if they had not been converted into restricted voting shares prior to that date.

The JLL Agreement resulted in a change in accounting treatment for the convertible preferred shares. Previously, the convertible preferred shares were treated as a compound financial instrument that contained both debt and equity components, with the related non-cash accretive interest expense. Completion of the JLL Agreement resulted in the full carrying value of the convertible preferred shares being classified within shareholders' equity on the Company's balance sheet and no further accretive interest expense is recorded in the consolidated statement of loss. Paid-in-kind dividend equivalents (or cash dividends, if the Company so elects after October 27, 2009) on the convertible preferred shares going forward are 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. Paid-in-kind dividends on the convertible preferred shares for the year ended October 31, 2008 were $1,463,000.

The change in terms resulted in a deemed repayment of the debt and equity components of the convertible preferred shares with the deemed consideration being the fair value of the convertible preferred shares without mandatory redemption requirements plus the market value of the 400,000 restricted voting shares, for accounting purposes. The deemed consideration received was allocated to the respective components based on their relative fair values at the date of the transaction. The Company recognized in the fourth quarter of 2008 a non-cash gain of $34,934,000 on the deemed repayment of the debt component and a non-cash charge to the deficit account of $14,911,000 from the deemed redemption of the equity component.

Restricted Voting Shares

The Company's articles were amended on April 26, 2007 to re-designate the common shares as restricted voting shares. This occurred in connection with the issuance of the convertible preferred shares. The holders of the convertible preferred shares have the right to appoint three of nine members of the Board of Directors. The holders of Patheon's restricted voting shares have the right to elect the remaining members of the Board of Directors. Under the rules of the Toronto Stock Exchange, voting equity securities are not to be designated, or called, common shares unless they have a right to vote in all circumstances that is not less, on a per share basis, than the voting rights of each other class of voting securities. Accordingly, the Company amended its articles to re-designate the common shares as restricted voting shares. This re-designation involves only a change in the name of the securities; the number of shares outstanding and the terms and conditions of the outstanding shares are not affected by the change.

Expiry of Shareholder Rights Plan

A Shareholder Rights Plan Agreement (the "Rights Plan") was entered into as of October 28, 1998 and subsequently amended and restated as of March 20, 2002 and March 31, 2005 between Patheon and Computershare Trust Company of Canada, with the approval of the shareholders of the Corporation. The Rights Plan expired at the end of the Annual and Special Meeting of Shareholders held on March 27, 2008.

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

After considering the relevant factors, including applicable securities regulatory requirements and how they affect the Corporation and its shareholders, the Board of Directors determined that the Rights Plan was no longer necessary.

Incentive stock option plan

The Company has an incentive stock option 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. 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 attached to the issued and outstanding Class I Preferred Shares, Series C of the Company. As of October 31, 2008, the total number of restricted voting shares issuable under the plan was 9,512,660 shares (2007 - 6,796,829), of which there are stock options outstanding to purchase 5,987,965 shares (2007 - 3,857,916) under the plan. 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 immediately preceding the grant date. Options generally expire 10 years after the grant date and are also subject to early expiry in the event of death, resignation, dismissal or retirement of an optionee. Options 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.

A summary of the plan and changes during each of 2008 and 2007 are as follows:

(Dollar amounts in Canadian dollars)	***Shares Number***	***2008 Weighted Average Exercise Price $***	*Shares Number*	**2007 Weighted Average Exercise Price $**
Outstanding, beginning of the year	**3,857,916**	**10.38**	3,949,815	10.53
Granted	**3,880,376**	**3.30**	100,000	4.83
Exercised	**(125,000)**	**3.45**	(8,000)	3.53
Forfeited	**(1,625,327)**	**9.32**	(183,899)	10.98
Outstanding, end of the year	**5,987,965**	**6.22**	3,857,916	10.38
Exercisable, end of the year	**2,947,093**	**9.19**	3,706,249	10.57

The following table summarizes information about options outstanding at October 31, 2008:

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

(Dollar Amounts in Canadian dollars)	Options Outstanding			Options Exercisable	
Range of Exercise Prices	**Number Outstanding**	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Price**	**Number Exercisable**	**Weighted Average Exercise Price**
$3.13 - 3.64	**3,397,111**	**5.8 years**	**$3.22**	**726,677**	**$3.22**
$4.16- 7.00	**602,104**	**4.6 years**	**$4.82**	**231,666**	**$5.69**
$8.15 – 9.91	**532,000**	**1.0 years**	**$8.49**	**532,000**	**$8.49**
$10.91– 13.95	**1,034,250**	**2.1 years**	**$12.08**	**1,034,250**	**$12.08**
$14.12 – 15.96	**422,500**	**1.5 years**	**$15.17**	**422,500**	**$15.17**
	5,987,965			**2,947,093**	**$9.19**

Stock based compensation

During the year, the Company issued 125,000 (2007 – 8,000) restricted voting shares under the stock option plan for proceeds of $431,000 (2007 - $24,000).

For the purposes of calculating the stock-based compensation expense in connection with the Company's incentive stock option plan, 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 fair value of stock options is estimated at the date of the grant. The weighted average fair value of stock options granted for the year ended October 31, 2008 was $1.39 (2007 - $1.92). The fair value of stock options for purposes of determining stock-based compensation is estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2008	2007
Risk free interest rate	**3.6%**	4.2%
Expected volatility	**43%**	42%
Expected weighted average life of the options	**5 years**	6 years
Expected dividend yield	**0%**	0%

The Company recorded stock-based compensation expense in the year of $2,614,000 (2007 - $220,000) for options granted on or after November 1, 2003.

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

13. OTHER INFORMATION

Foreign exchange

During the year ended October 31, 2008, the Company recorded a foreign exchange gain on cash flow hedges related to operating exposures of $7,851,000 (2007 loss - $3,410,000) and a foreign exchange loss on the revaluation of certain U.S. dollar denominated debt of $6,403,000 (2007 gain - $12,331,000).

In 2007, the Company recorded a loss of $858,000 relating to foreign exchange translation losses previously recorded in accumulated other comprehensive income, arising from a change in the Company's internal capital structure.

Net change in non-cash working capital balances related to continuing operations

The net changes in non-cash working capital balances related to continuing operations are as follows:

	2008	2007
	$	$
Accounts receivable	**(32,596)**	(4,201)
Inventories	**10,396**	(14,975)
Prepaid expenses and other	**(130)**	(1,134)
Accounts payable and accrued liabilities	**19,830**	6,691
Income taxes payable	**(1,144)**	4,716
	(3,644)	(8,903)

Related party transactions

Revenues from companies controlled by a director and significant shareholder of the Company were in the amount of $320,000 and $473,000 for the years ended October 31, 2008 and 2007, respectively. These transactions were conducted in the normal course of business and are recorded at the exchanged amount. Accounts receivable at October 31, 2008 include a balance of $64,000 (2007 - $392,000) resulting from these transactions.

As of October 31, 2008, the Company has an investment of $1,715,000 (2007 - $739,000) 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 which 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 year ended October 31, 2008, the Company has recorded an investment loss of $99,000.

Management services and other fees charged to BSP Pharmaceuticals under a management services agreement were $2,514,000 and $1,593,000 for the years ended October 31, 2008 and 2007, respectively. Accounts receivable at October 31, 2008 include a balance of $162,000 (2007 – $1,593,000) in connection with the management services agreement. These services were conducted in the normal course of business and are recorded at the exchanged amounts.

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

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.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Categories of financial assets and liabilities

Under Canadian generally accepted accounting principles 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 sheet are classified into the following categories:

As of October 31,	**2008**	2007
	$	$
Held for trading (1)	**20,248**	30,557
Loans and receivables (2)	**141,224**	127,691
Loans and receivables - held for sale (2)	**357**	7,486
Other financial liabilities (3)	**397,189**	527,493
Other financial liabilities - held for sale (3)	**31**	9,479
Derivatives designated as effective hedges(4) - gain/(loss)	**(15,686)**	1,459
Derivatives designated as held for trading(5) - loss	**-**	(2,699)

(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.
(5) Includes the Company's foreign exchange forward contracts that are not considered to be an effective hedge for accounting purposes.

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 $147,750,000. 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 $103,466,000.

As of October 31, 2008, the carrying amount of the financial assets that the Company has pledged as collateral for its long-term debt facilities was $87,737,000 (2007 – $103,376,000).

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 October 31, 2008, the Company's Canadian operations had entered into foreign exchange forward contracts to sell an aggregate amount of US$79,456,000. 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 $1.0572 Canadian. The mark-to-market value on these financial instruments as of October 31, 2008 was an unrealized loss of $9,564,000, which has been recorded in accumulated other comprehensive income in shareholders' equity. In the third quarter of 2008, the Company's Canadian operations terminated a foreign exchange contract to purchase US$45,000,000. In 2007 this foreign exchange contract was classified as held for trading and was used by the Canadian operations to hedge a net U.S. dollar balance sheet exposure. This US dollar balance sheet exposure was eliminated when the waiver in the mandatory redemption provisions on the convertible preferred shares was completed.

As of October 31, 2008, the Company's U.K. operations had entered into a foreign exchange forward contract to sell €1,200,000. This contract hedges the Swindon, U.K. operation's expected exposure to euro denominated cash flows and matures on November 10, 2008, at an exchange rate of £0.7875. The mark-to-market value on this financial instrument as of October 31, 2008 was an unrealized gain of $2,000, which has been recorded in accumulated other comprehensive income in shareholders' equity.

As of October 31, 2008, the Company has designated $88.7 million of U.S. dollar denominated debt as a hedge against its net investment in its subsidiaries in the U.S.A. and Puerto Rico. The exchange gains and losses arising from this debt, from the date so designated, are recorded in accumulated other comprehensive income 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 October 31, 2008 was an unrealized loss of $6,124,000 which has been recorded in accumulated other comprehensive income 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.A, 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.A. and Puerto Rico and the related foreign exchange gains and losses are recorded in other comprehensive income. In addition, approximately 75% of revenues of the Canadian operations and approximately 13% 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 October 31, 2008, fluctuations of +/-5% would, everything else being equal, have an effect on loss from continuing operations before taxes of approximately +/- $6,000,000, 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 October 31, 2008, approximately 100% of the U.S. dollar debt exposure is hedged and the Company has entered into forward foreign exchange contracts to cover approximately 70% 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.A. and Puerto Rico noted above, the Company does not currently hedge translation exposures.

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 October 31, 2008, $215,200,000 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 +/-$2,200,000, 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 October 31, 2008, taking the interest rate swap into account, $67,500,000 of the Company's debt portfolio is subject to floating interest rates.

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

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 October 31, 2008 the Company held deposits of $17,292,000 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 income statement 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:

	$
Total accounts receivable	142,247
Less: Allowance for doubtful accounts	(1,023)
Total accounts receivable, net	**141,224**
Of which:	
Not overdue	120,940
Past due for more than one day but for not more than three months	19,164
Past due more for than three months but for not more than six months	1,395
Past due for more than six months but not for more than one year	400
Past due for more than one year	348
Less: Allowance for doubtful accounts	(1,023)
Total accounts receivable, net	**141,224**

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 October 31, 2008 the Company was holding cash and cash equivalents of $20,200,000 and had undrawn lines of credit available to it of $59,200,000.

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

15. MANAGEMENT OF CAPITAL

The Company defines capital that it manages as the aggregate of its shareholders' equity (at October 31, 2008 this includes the convertible preferred shares) 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 Corporation 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 October 31, 2008, total managed capital was $461,018,000 (2007 - $560,659,000), comprised of shareholders' equity of $241,375,000 (2007 - $197,185,000), the debt component of the convertible preferred shares was nil in 2008 (2007 - $139,916,000) and cash interest-bearing debt of $219,643,000 (2007 - $223,558,000). The Company has no obligation to pay cash dividends on the convertible preferred shares until after October 31, 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.

16. INCOME TAXES

The following is a reconciliation of the expected income tax expense (recovery) obtained by applying the combined corporate tax rates to the loss from continuing operations before income taxes:

	2008	2007
	$	$
Expected income tax expense (recovery) using statutory tax rates	**6,484**	5,208
Change in valuation allowance	**(2,964)**	4,797
Permanent differences and other:		
Foreign	**(2,143)**	6,515
Domestic	**(4,514)**	(1,076)
Foreign rate differentials	**4,373**	12,527
Withholding tax on intercompany dividend	**242**	2,102
Provision for income taxes	**1,478**	19,657
Effective tax rate	**7.5%**	(130.1%)

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

Components of future income taxes by jurisdiction are summarized as follows:

	2008 $	2007 $
Canada		
Future income tax assets - long-term		
Share issue costs	**2,798**	1,812
Deferred financing costs	**1,578**	3,188
Accounting provisions not currently deductible for tax purposes	**6,925**	5,924
Net operating loss carryforward	**—**	1,086
Unclaimed R&D expenditures	**2,329**	4,748
Book depreciation in excess of tax depreciation(federal)	**212**	3,518
Investment tax credits	**7,850**	—
Unrealized foreign exchange losses on debt	**3,295**	—
Valuation allowance	**(19,837)**	(16,072)
	5,150	4,204
Foreign		
Future income tax assets - long-term		
Accounting provisions not currently deductible for tax purposes	**7,522**	7,941
Net operating loss carryforward	**22,153**	19,204
Other	**2,808**	1,781
Valuation allowance	**(2,914)**	(2,091)
	29,569	26,835
Future tax assets	**34,719**	31,039
Canada		
Future income tax liabilities - long-term		
Tax depreciation in excess of book depreciation (provincial)	**5,150**	4,146
Investment tax credits	**—**	410
	5,150	4,556
Foreign		
Future income tax liabilities - long-term		
Tax depreciation in excess of book depreciation	**33,766**	41,047
Other	**205**	1,794
	33,971	42,841
Future tax liabilities	**39,121**	47,397

The Company has tax-effected net operating losses carried forward of $22,153,000; $13,407,000 of the losses have an indefinite life and $8,746,000 have expiry dates ranging from October 31, 2009 to October 31, 2026.

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

17. SEGMENTED INFORMATION

Previously, the Company was organized and managed as a single business segment, being the 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, the business has been reorganized into two business segments: Commercial Manufacturing and PDS. These segments are organized around the service activities provided to the company's customers.

	Year ended October 31, 2008			
	Commercial	PDS	Corp. & Other	Total
Revenues	577,735	139,516	—	717,251
EBITDA before repositioning expense	77,496	42,129	(36,979)	82,646
Total assets	608,180	48,236	60,167	716,583
Depreciation	38,434	5,528	1,732	45,694
Capital expenditures	47,191	7,543	1,068	55,802

	Year ended October 31, 2007			
	Commercial	PDS	Corp. & Other	Total
Revenues	518,292	115,854	—	634,146
EBITDA before repositioning expense	53,357	30,391	399	84,147
Total assets	648,493	59,785	121,339	829,617
Depreciation	33,320	5,118	1,019	39,457
Capital expenditures	27,938	6,081	1,129	35,148

The Company evaluates the performance of its segments based on segment EBITDA before repositioning expense which is defined as; income (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 charges and depreciation and amortization. The Company's presentation of EBITDA before repositioning 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 and other in the breakout of total assets above.

Total assets include $3,222,000 in fiscal year 2008 (2007- $42,518,000) relating to the commercial segment that are classified as held for sale.

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

	2008	2007
EBITDA before repositioning expenses bridge:		
Total EBITDA before repositioning expenses per above	**82,646**	84,147
Depreciation and amortization	**(47,594)**	(41,343)
Repositioning expenses	**(19,899)**	(14,467)
Interest	**(30,789)**	(29,119)
Refinancing expenses	**-**	(13,471)
Foreign exchange loss on foreign operations	**-**	(858)
Gain on sale of fixed assets	**282**	-
Gain on extinguishment of debt	**34,934**	-
Income taxes	**(1,478)**	(19,657)
Net income (loss) from continuing operations	**18,102**	(34,768)

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

	Year ended October 31, 2008				
	Canada	USA	Europe	Other	Total
Revenues	21,947	346,120	324,942	24,242	717,251
Capital assets	104,789	118,599	205,107	—	428,495
Goodwill	2,869	—	—	—	2,869

	Year ended October 31, 2007				
	Canada	USA	Europe	Other	Total
Revenues	16,467	310,704	295,113	11,862	634,146
Capital assets	120,808	111,742	247,132	—	479,682
Goodwill	3,658	—	—	—	3,658

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.

During the year ended October 31, 2008, one client (2007 – one client) accounted for more than 10% of the Company's total revenues. As a percentage of total revenues, this client amounted to approximately 10.4% (2007 – 13%).

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

18. COMMITMENTS AND CONTINGENCIES

Long-term operating leases

The Company has entered into long-term rental agreements expiring at various dates until 2014. The future rental payments for the next five years and thereafter are estimated as follows:

	$
2009	3,287
2010	2,592
2011	2,253
2012	1,543
2013	1,069
Thereafter	3,982
Total payments	14,726

Other

In the normal course of operations, the Company is subject to litigation and claims from time to time. The Company may also be subject to lawsuits, investigations and other claims, including environmental, labour, product, customer disputes and other matters. The Company believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to estimate the extent of potential costs, if any, the Company believes that the ultimate resolution of such contingencies will not have a material adverse impact on the results of operations, financial position or liquidity.

The Company's tax filings are subject to audit by taxation authorities. Although the Company believes that it has adequately provided for income taxes based on the information available, the outcome of audits cannot be known with certainty and the potential impact on the financial statements is not determinable.

19. REPOSITIONING EXPENSES

The Company has incurred a number of expenses associated with operational improvements, cost reduction initiatives and in connection with changes in executive management. During fiscal 2007, 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 years ended October 31, 2008 and 2007:

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

	Commercial	PDS	Corporate	Total
Total repositioning liabilities at October 31, 2006				8,668
Employee-related expenses	7,633	139	281	8,053
Consulting, professional and project management costs	2,046	5	1,110	3,161
Strategic alternatives review	1,804	130	1,319	3,253
Total expenses	11,483	274	2,710	14,467
Repositioning expenses paid				(18,998)
Foreign exchange				1,911
Total repositioning liabilities at October 31, 2007				**6,048**
Employee-related expenses	**11,179**	**583**	**4,856**	**16,618**
Consulting, professional and project management costs	**2,861**	**-**	**420**	**3,281**
Strategic alternatives review	**-**	**-**	**-**	**-**
Total expenses	**14,040**	**583**	**5,276**	**19,899**
Repositioning expenses paid				**(17,251)**
Foreign exchange				**(711)**
Total repositioning liabilities at October 31, 2008				**7,985**

20. REFINANCING EXPENSES

During 2007 the Company incurred expenses of $13,471,000 in connection with its refinancing activities. The expenses consist of transaction costs for the new senior secured term loan and senior secured revolving loan facility, costs allocated to the debt portion of the convertible preferred shares and prepayment charges in connection with cancellation of certain of the Company's U.K. debt facilities.

21. SUBSEQUENT EVENT

Subsequent to the end of fiscal 2008, the Company decided to shut down its Carolina, Puerto Rico facility if a timely sale could not be completed. The Carolina facility is classified as a discontinued operation, with related assets and liabilities being classified as held for sale as of October 31, 2008. Serious interest has been shown by strategic buyers and negotiations have occurred with multiple parties. However, the Company has determined that eliminating the cash drain of Carolina through an immediate shutdown outweighs the risk of the sale process taking an extended period of time to complete and/or ultimately being unsuccessful. Assuming that a timely sale cannot be completed, the Company expects to close the facility by the end of the first quarter of 2009 and estimates that severance and other closure costs will be approximately $3,000,000.

22. COMPARATIVE AMOUNTS

Certain of the comparative amounts have been reclassified to conform to the current year presentation. In addition, all 2007 amounts have been restated to exclude the Company's Carolina operations which are now part of discontinued operations.