



AUDITED CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Year Ended October 31, 2009

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 P. WHEELER
CHIEF EXECUTIVE OFFICER



ERIC EVANS
CHIEF FINANCIAL OFFICER

Toronto, Canada
December 18, 2009


AUDITORS' REPORT

To the Shareholders of Patheon Inc.

We have audited the consolidated balance sheets of Patheon Inc. as of October 31, 2009 and 2008 and the consolidated statements of loss, changes in shareholders' equity, comprehensive income (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, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

The image shows a handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, flowing style.

Ernst & Young LLP
Certified Public Accountants

Raleigh, North Carolina,
December 17, 2009

Patheon Inc.
CONSOLIDATED BALANCE SHEETS

As of October 31, As of October 31,
2009 2008

<i>(in millions of U.S. dollars)</i>	\$	\$
Assets		
Current		
Cash and cash equivalents (Note 14)	22.3	20.2
Accounts receivable (Note 14)	151.5	141.6
Inventories (Note 5)	78.3	67.0
Income taxes receivable (Note 16)	2.6	2.4
Prepaid expenses and other	11.8	7.9
Future tax assets - short term (Note 16)	10.5	10.2
Total current assets	277.0	249.3
Capital assets (Note 6)	490.8	428.5
Intangible assets (Note 7)	3.2	4.9
Future tax assets (Note 16)	11.8	12.7
Goodwill	3.2	2.9
Investments	4.1	1.7
Long-term assets held for sale (Note 4)	0.7	1.9
Total assets	790.8	701.9
Liabilities and shareholders' equity		
Current		
Short term borrowings (Note 8)	14.0	9.0
Accounts payable and accrued liabilities	170.8	174.9
Income taxes payable (Note 16)	1.8	5.0
Deferred revenues - short term	4.6	-
Future tax liability - short term (Note 16)	1.7	-
Current portion of long-term debt (Note 9)	15.4	10.2
Total current liabilities	208.3	199.1
Long-term debt (Note 9)	221.1	200.5
Deferred revenues	37.1	22.5
Future tax liabilities (Note 16)	31.5	26.2
Other long-term liabilities (Note 10)	21.5	16.4
Total liabilities	519.5	464.7
Shareholders' equity		
Convertible preferred shares (Note 12)	-	149.2
Restricted voting shares (Note 12)	553.8	393.5
Contributed surplus	7.7	6.7
Deficit	(325.7)	(309.3)
Accumulated other comprehensive income (loss)	35.5	(2.9)
Total shareholders' equity	271.3	237.2
Total liabilities and shareholders' equity	790.8	701.9

see accompanying notes

On behalf of the Board:



RAMSEY A. FRANK
DIRECTOR



WESLEY P. WHEELER
CHIEF EXECUTIVE OFFICER

Patheon Inc.**CONSOLIDATED STATEMENTS OF LOSS**

	Year ended October 31,	
	2009	2008
<i>(in millions of U.S. dollars, except loss per share)</i>	\$	\$
Revenues	655.1	717.3
Cost of goods sold	511.2	560.2
Gross profit	143.9	157.1
Selling, general and administrative expenses	105.5	121.3
Repositioning expenses (Note 19)	2.1	19.9
Operating income	36.3	15.9
Interest expense, net	15.8	30.8
Impairment charge	-	0.4
Foreign exchange loss (gain) (Note 13)	7.0	(1.5)
Gain on extinguishment of debt (Note 12)	-	(34.9)
Gain on sale of fixed assets	-	(0.7)
Income from continuing operations before income taxes	13.5	21.8
Current	7.7	13.9
Future	4.8	(12.4)
Provision for income taxes	12.5	1.5
Income before discontinued operations	1.0	20.3
Loss from discontinued operations (Note 4)	(7.8)	(19.5)
Net (loss) income for the period	(6.8)	0.8
Dividends on convertible preferred shares	11.1	1.5
Net loss attributable to restricted voting shareholders	(17.9)	(0.7)
Basic and diluted (loss) income per share		
From continuing operations	(\$0.100)	\$0.207
From discontinued operations	(\$0.077)	(\$0.215)
	(\$0.177)	(\$0.008)
Average number of shares		
outstanding during period - basic and diluted (in thousands)	100,964	90,737

see accompanying notes

Patheon Inc.
CONSOLIDATED STATEMENTS OF CHANGES IN
SHAREHOLDERS' EQUITY

	Year ended October 31,	
	2009	2008
<i>(in millions of U.S. dollars)</i>	\$	\$
Convertible preferred shares - equity component		
Balance at beginning of period	149.2	15.9
Reclassification from debt component (Note 12)	-	131.8
Paid in-kind dividend on shares (Note 12)	11.1	1.5
Conversion of convertible preferred shares (Note 12)	(160.3)	-
Balance at end of period	-	149.2
Restricted voting shares		
Balance at beginning of period	393.5	392.0
Shares issued during the period, net of issue costs	-	1.5
Conversion of convertible preferred shares (Note 12)	160.3	-
Balance at end of period	553.8	393.5
Contributed surplus		
Balance at beginning of period	6.7	4.1
Stock-based compensation (Note 12)	1.0	2.6
Balance at end of period	7.7	6.7
Retained deficit		
Balance at beginning of period	(309.3)	(293.7)
Change on deemed redemption of equity component of preferred shares (Note 12)	-	(14.9)
Adjustment related to change in accounting policy (Note 2)	1.6	-
Net loss attributable to restricted voting shareholders	(17.9)	(0.7)
Balance at end of period	(325.7)	(309.3)
Accumulated other comprehensive income (loss)		
Balance at beginning of period	(2.9)	71.5
Other comprehensive income (loss) for the period	38.4	(74.4)
Balance at end of period	35.5	(2.9)
Total shareholders' equity at end of period	271.3	237.2

see accompanying notes

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

	Year ended October 31,	
	2009	2008
<i>(in millions of U.S. dollars)</i>	\$	\$
Net loss attributable to restricted voting shareholders	(17.9)	(0.7)
Other comprehensive income (loss), net of income taxes		
Change in foreign currency gains (losses) on investments in subsidiaries, net of hedging activities ¹	25.5	(57.8)
Change in value of derivatives designated as foreign currency and interest rate cash flow hedges ²	8.0	(11.5)
Gains (losses) on foreign currency and interest rate cash flow hedges reclassified to consolidated statement of loss ³	4.9	(5.1)
Other comprehensive income (loss) for the period	38.4	(74.4)
Comprehensive income (loss) attributable to restricted voting shareholders	20.5	(75.1)

see accompanying notes

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

¹Net of an income tax expense of nil (2008 nil)

²Net of an income tax expense of \$1.1 million and a recovery of \$0.2 million for the years ended October 31, 2009 and 2008, respectively.

³Net of an income tax recovery of \$0.9 million and \$0.3 million for the years ended October 31, 2009 and 2008, respectively.

Patheon Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended October 31,

	2009	2008
<i>(in millions of U.S. dollars)</i>	\$	\$
Operating activities		
Net income from continuing operations	1.0	20.3
Add (deduct) charges to operations not requiring a current cash payment		
Depreciation and amortization	42.6	45.3
Foreign exchange loss on debt	-	7.0
Accreted interest on convertible preferred shares	-	13.5
Gain on extinguishment of debt	-	(34.9)
Other non-cash interest	0.6	0.6
Change in other long-term liabilities	(1.2)	(3.2)
Future income taxes	4.8	(12.4)
Amortization of deferred revenues	(1.0)	(1.9)
Gain on sale of fixed assets	-	(0.7)
Impairment charge	-	0.4
Stock-based compensation expense	1.0	2.6
Other	0.5	(0.1)
	48.3	36.5
Net change in non-cash working capital balances related to continuing operations	(10.8)	(3.6)
Increase in deferred revenues	10.5	2.6
Cash provided by operating activities of continuing operations	48.0	35.5
Cash used in operating activities of discontinued operations	(8.9)	(9.1)
Cash provided by operating activities	39.1	26.4
Investing activities		
Additions to capital assets	(49.1)	(55.8)
Proceeds on sale of capital assets	0.1	12.2
Net increase in investments	(0.3)	(1.3)
Investment in intangibles	(0.2)	-
Cash used in investing activities of continuing operations	(49.5)	(44.9)
Cash provided by investing activities of discontinued operations	0.2	10.4
Cash used in investing activities	(49.3)	(34.5)
Financing activities		
Increase in short-term borrowings	3.0	3.2
Increase in long-term debt	50.5	40.3
Repayment of long-term debt	(39.9)	(38.9)
Convertible preferred share issue cost - equity component	-	(0.2)
Issue of restricted voting shares	-	0.4
Cash provided by financing activities of continuing operations	13.6	4.8
Cash used in financing activities of discontinued operations	-	(0.2)
Cash provided by financing activities	13.6	4.6
Effect of exchange rate changes on cash and cash equivalents	(1.3)	(6.8)
Net increase (decrease) in cash and cash equivalents during the period	2.1	(10.3)
Cash and cash equivalents, beginning of period	20.2	30.5
Cash and cash equivalents, end of period	22.3	20.2
Supplemental cash flow information		
Interest paid	15.1	16.6
Income taxes paid	10.2	13.0
<i>see accompanying notes</i>		

Patheon Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2009 and 2008
(Dollar information in tabular form is expressed in millions 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 demonstrate 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 ("GAAP"). 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 wholly-owned 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 GAAP requires management to make estimates and assumptions that affect: the reported amounts of assets and liabilities; the disclosure of contingent assets and liabilities at the date of the consolidated financial statements; and the reported amounts of revenue and expenses in the reporting period. Management believes that the estimates and assumptions used in preparing its consolidated financial statements are reasonable and prudent; however, actual results could differ from those estimates.

Changes in accounting policy

Effective November 1, 2008 the Company adopted Canadian Institute of Chartered Accountants ("CICA") Section 3031 "Inventories," which requires inventory to be measured at the lower of cost and net realizable value. The standard also provides guidance on the types of costs that can be capitalized and requires reversal of previous inventory write-downs if economic circumstances have changed to support the higher inventory values. Upon the adoption of this standard on November 1, 2008, the Company adjusted opening inventory for the period and adjusted opening retained earnings by the difference in the measurement of opening inventory which resulted in a decrease to the deficit account of \$1.6 million and a corresponding increase to inventory. The increase was due to additional overhead and depreciation costs, 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 first quarter 2009. In addition, the Company has modified its presentation of the consolidated statements of loss to separately present cost of goods sold and selling, general and administrative expenses to

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conform with the disclosure requirements of this policy. This resulted in the inclusion of depreciation within cost 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. The adoption of this standard also eliminated related depreciation expense, which would have been \$2.1 million for the year ended October 31, 2009, and was reduced by \$2.1 million for the year ended October 31, 2008.

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

Effective 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 CICA 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 adoption of this guidance had no material impact on the Company’s consolidated financial statements.

In June 2009, the Canadian Accounting Standards Board issued an amendment to CICA Section 3862, “Financial Instruments – Disclosures” in an effort to make Section 3862 consistent with International Financial Reporting Standards Section 7 – Disclosures (“IFRS 7”). The purpose was to establish a framework for measuring fair value in GAAP and expand disclosures about fair value measurements. To make the disclosures an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). These standards apply to interim and annual consolidated financial statements relating to fiscal years ending after September 30, 2009. The adoption of the new standard resulted in additional disclosures in the notes to the consolidated financial statements.

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 income (loss).

Patheon Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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. Please refer to Note 14 – Financial Instruments and Risk Management. 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 sheets 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 (loss).

Patheon Inc.
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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 (loss). The foreign exchange translation impact of foreign denominated debt that is not considered to be an effective hedge is recorded in income (loss) from operations.

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
Building equipment	15 years
Machinery and equipment	5 - 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 and certain royalty agreements entered into with clients. 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.

Patheon Inc.
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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, 2009 is 18 years (2008 - 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.

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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 sheets and no further accretive interest expense is recorded in the consolidated statements of loss. Paid-in-kind dividend equivalents on the convertible preferred shares are reported below net loss to arrive at a loss attributable to the restricted voting shareholders.

On July 29, 2009, JLL converted their 150,000 Series C convertible preferred shares of Patheon into a total of 38,018,538 restricted voting shares of Patheon, in accordance with the convertible preferred share terms. As a result of the JLL conversion, the Company no longer pays dividends on the Series C convertible preferred shares.

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 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.

(Loss) income per share

The calculation of (loss) income per share - from continuing and discontinued operations is based on the reported net (loss) income 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;

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- 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, 2009 and 2008, 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

Business combinations

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

Consolidations

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

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board announced the adoption of IFRS for publicly accountable enterprises. Patheon will be required to adopt IFRS no later than November 1, 2011. The Company is currently in the process of assessing of the impact of the adoption of IFRS. Changes in accounting policies upon adoption of IFRS are likely and may materially impact the Company's consolidated financial statements.

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3. GOING CONCERN

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

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

4. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

The Company closed its Carolina facility in Puerto Rico effective January 31, 2009. The Company is currently marketing the remaining assets. Certain transitional activities continue at the facility to ensure proper and compliant closure. The Company recorded a \$3.4 million accrual for the year ended October 31, 2009 for the severance and closure costs.

In connection with the planned restructuring of its network of pharmaceutical manufacturing facilities within Canada, the Company closed its York Mills facility and transferred all commercial production and development services undertaken at its York Mills facility to its site in Whitby. The Company exited this facility in the third quarter of 2009. During year ended October 31, 2009, the Company incurred \$1.2 million in additional repositioning expenses due to validation and closing costs associated with the consolidation of the York Mills and Whitby facilities. 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 had entered into a lease for up to two years in order to facilitate the decommissioning process, which is substantially complete.

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

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

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

The results of discontinued operations for Carolina and Niagara-Burlington for the years ended October 31, 2009 and 2008 are as follows:

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	Year ended October 31,	
	2009	2008
	\$	\$
Revenues	2.6	17.9
Cost of goods sold	3.5	25.5
Gross loss	(0.9)	(7.6)
Selling, general and administrative expenses	2.8	2.8
Repositioning expenses (Note 19)	3.4	0.7
Operating loss	(7.1)	(11.1)
Asset impairment charge	0.7	7.7
Loss on disposal of discontinued operations	-	0.6
Loss before income taxes	(7.8)	(19.4)
Provision for income taxes	-	0.1
Net loss for the period	(7.8)	(19.5)

For the years ended October 31, 2009 and 2008, the Company recorded an impairment charge of \$0.7 million and \$7.7 million 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.

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

Assets held for sale:

	As of October 31,	As at October 31,
	2009	2008
	\$	\$
Long-term assets		
Capital assets	0.7	1.9

5. INVENTORIES

	2009	2008
	\$	\$
Raw materials, packaging components and spare parts	48.7	44.6
Work-in-process	29.6	22.4
Balance, end of the year	78.3	67.0

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6. CAPITAL ASSETS

	2009			2008		
	Accumulated		Net Book	Accumulated		Net Book
	Cost	Depreciation	Value	Cost	Depreciation	Value
	\$	\$	\$	\$	\$	\$
Land	33.0	-	33.0	31.8	-	31.8
Buildings	269.7	52.8	216.9	216.2	42.9	173.3
Machinery and equipment	406.8	217.8	189.0	348.2	178.7	169.5
Office equipment (including software)	34.5	29.5	5.0	32.9	25.3	7.6
Furniture and fixtures	15.8	8.7	7.1	13.7	7.6	6.1
Construction in progress	39.8	-	39.8	40.2	-	40.2
Balance, end of the year	799.6	308.8	490.8	683.0	254.5	428.5

The amount of open purchase commitments related to authorized capital projects at October 31, 2009 and 2008 is approximately \$8.1 million and \$12.5 million, respectively. The expenditures are expected to be incurred during the year ending October 31, 2010.

Included in capital assets are assets under capital leases with a cost of \$22.7 million and \$14.0 million at October 31, 2009 and 2008, respectively. The amount of accumulated depreciation for assets under capital leases is \$6.9 million and \$5.5 million at October 31, 2009 and 2008, respectively.

7. INTANGIBLE ASSETS

	2009	2008
	\$	\$
Balance, beginning of the year	4.9	6.8
Additions	0.2	-
Amortization	(1.9)	(1.9)
Balance, end of the year	3.2	4.9

8. SHORT TERM BORROWINGS

	2009	2008
	\$	\$
Italian short-term operating credit facilities totaling €15.0 million (2008 -€14.2 million), bearing interest at 3-month Euribor plus spreads between 0.8% and 1.35%. Amounts utilized at October 31, 2009 and 2008 were €8.2 million and €5.5 million, respectively.	12.1	7.0
Short-term insurance premium financing	1.9	2.0
Balance, end of the year	14.0	9.0

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9. LONG-TERM DEBT

	2009	2008
	\$	\$
Senior secured term loan maturing April 28, 2014, bearing interest at 2.8% based upon floating LIBOR, US or CAD prime, or federal funds effective rates, plus applicable margins.	146.3	147.8
\$75 million senior secured revolving loan facility maturing April 27, 2012, bearing interest ranging from 2.3% to 4.3% based upon floating LIBOR, US, or CAD prime, or federal funds effective rates, plus applicable margins.	37.7	14.5
U.S. obligations under capital leases bearing interest at fixed rates between 4.4% and 7.8%, maturing over various dates from 2010 to 2011.	1.1	1.7
U.K. obligations under capital lease bearing interest at 6%, maturing in 2012, payable in Euros.	6.3	-
Italian mortgage (2009 - €12.9 million; 2008 - €15.5 million), bearing interest at 6.3% based upon floating 3-month Euribor, maturing in 2014.	18.8	19.8
Italian mortgage (2009 - €7.4 million; 2008 - €0.6 million), bearing interest at 6.5% based upon floating 3-month Euribor, maturing in 2014.	25.6	26.2
Italian unsecured government loan (2009 - €1 million; 2008 - €2.8 million), bearing interest at 0.9% per annum, maturing in 2012.	3.1	3.5
Total long-term debt outstanding	238.9	213.5
Less unamortized transaction costs	2.4	2.8
Less current portion	15.4	10.2
Balance, end of the year	221.1	200.5

The Company is required to make quarterly installment payments of \$0.4 million 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, 2009. 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., 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:

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	\$
2010	15.4
2011	13.7
2012	48.7
2013	10.0
2014	148.7
Thereafter	2.4
Total payments	238.9

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, 2009 are as follows:

	\$
2010	4.9
2011	2.7
2012	-
2013	-
Total payments	7.6
Less capital lease minimum payments representing interest	0.2
Total payments	7.4

10. OTHER LONG-TERM LIABILITIES

	2009	2008
	\$	\$
Unfunded termination indemnities (2009- €5.2 million; 2008 - €5.5 million)	7.6	7.1
Employee future benefits (note 11)	8.3	8.5
Other long-term liabilities	5.6	0.8
	21.5	16.4

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 \$3.0 million in fiscal year 2009 and \$3.8 million in 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 years ended October 31, 2009 and 2008 amounted to \$2.5 million and \$2.8 million, respectively.

Other long-term liabilities at October 31, 2009, include \$1.7 million of customer funded capital liabilities, \$0.8 million of post employment benefits, \$2.2 million for a deferred compensation plan and \$0.9 million of deferred rent liability.

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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, 2009 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:

	Defined Benefit Pension Plans 2009 \$	Other Benefit Plans 2009 \$	Defined Benefit Pension Plans 2008 \$	Other Benefit Plans 2008 \$
Change in benefit obligation				
Benefit obligation, beginning of the year	62.5	4.1	81.2	6.8
Current service cost	3.0	-	4.5	0.1
Plan amendment	3.2	-	0.4	-
Interest cost	4.1	0.3	4.4	0.3
Member contributions during the year	0.8	-	1.0	-
Benefits paid	(2.5)	(0.2)	(2.9)	(0.2)
Actuarial loss (gain)	2.4	0.5	(8.9)	(0.7)
Curtailment gain	-	-	-	(1.0)
Currency translation	4.2	0.6	(17.2)	(1.2)
Benefit obligation, end of the year	77.7	5.3	62.5	4.1
Change in plan assets				
Market value of plan assets, beginning of year	49.5	-	67.3	-
Actual return on plan assets	-	-	(8.1)	-
Member contributions during the year	2.6	-	1.0	-
Employer contributions	3.3	0.2	6.4	0.2
Benefits paid	(2.5)	(0.2)	(2.7)	(0.2)
Currency translation	2.6	-	(14.4)	-
Market value of plan assets, end of the year	55.5	-	49.5	-
Reconciliation of funded status				
Funded status, deficit	(22.2)	(5.3)	(13.1)	(4.1)
Unamortized net actuarial loss	5.7	-	8.7	-
Unamortized past service costs	13.3	0.2	0.3	(0.3)
Accrued benefit liability	(3.2)	(5.1)	(4.1)	(4.4)

The accrued benefit liability of \$8.3 million (2008 - \$8.5 million) 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, 2009 and 2008. Please refer to Note 10 – Other Long-Term Liabilities.

Defined benefit pension plan assets consist of:

	2009 %	2008 %
Equity securities	78	85
Debt securities	19	10
Other	3	5
Total	100	100

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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, 2009 and 2008):

	Defined Benefit Pension Plans 2009	Other Benefit Plans 2009	Defined Benefit Pension Plans 2008	Other Benefit Plans 2008
	%	%	%	%
Accrued benefit obligation				
Discount rate	5.9	6.0	6.6	7.0
Rate of compensation increase	4.0	-	4.2	-
Benefit costs recognized				
Discount rate	6.0	7.0	6.1	5.8
Expected long-term rate of return on plan assets	7.3	-	7.3	-
Rate of compensation increase	4.2	-	4.1	-

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 2009 and 2008. The rate was assumed to decrease gradually over the next five years to 6% and remain at that level thereafter (2008 - 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	0.7	0.1
1% decrease	(0.6)	(0.0)

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

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	Defined Benefit Pension Plans 2009 \$	Other Benefit Plans 2009 \$	Defined Benefit Pension Plans 2008 \$	Other Benefit Plans 2008 \$
Current service cost	3.0	-	4.5	0.1
Interest cost	4.1	0.3	4.4	0.3
Actual return on plan assets	-	-	8.1	-
Actuarial loss (gain)	2.4	0.5	(8.9)	(0.7)
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefits	9.5	0.8	8.1	(0.3)
Adjustments to recognize the long-term nature of employee future benefit costs:				
Curtailment gains/settlement	-	-	-	(1.2)
Difference between expected return and actual return on plan assets for the year	(4.6)	-	(12.8)	-
Difference between amortization of the net actuarial loss for the year and the actual actuarial loss on accrued benefit obligation for the year	(2.2)	(1.1)	9.2	0.1
Difference between amortization of past service costs for the year and actual plan amendments for the year	0.3	-	(0.2)	-
Net benefit cost recognized	3.0	(0.3)	4.3	(1.4)

The net benefit cost recognized for the year ended October 31, 2008, includes a curtailment gain of \$1.2 million 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 \$6.1 million and \$5.3 million for the years ended October 31, 2009 and 2008, respectively.

Total cash payments for employee future benefits totaled \$5.6 million and \$8.5 million for the years ended October 31, 2009 and 2008, consisting of cash contributed by the Company to its defined benefit pension plans of \$3.3 million and \$6.4 million, cash payments directly to beneficiaries for its other benefit plans of \$0.2 million and \$0.2 million and cash contributed to its defined contribution plans of \$2.1 million and \$1.9 million.

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12. SHAREHOLDERS' EQUITY

Share capital

Share capital consists of the following:

	2009	2008
	\$	\$
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" - converted July 29, 2009) and 150,000 Series D ("special voting preferred shares")	-	149.2
Restricted voting shares of 129,167,926; (2008 – 91,149,388)	553.8	393.5

Convertible preferred shares

On April 27, 2007 JLL purchased 150,000 units of Class I convertible preferred shares of Patheon for \$150.0 million. 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 \$132.9 million. The remainder of the proceeds, attributable to shareholders' equity was \$15.9 million, net of apportioned transaction costs of \$1.1 million.

On September 19, 2008, the Company entered into 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 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 \$34.9 million on the deemed repayment of the debt component and a non-cash charge to the deficit account of \$14.9 million from the deemed redemption of the equity component. As a result of the transaction, the non-cash accretive interest expense was eliminated and the Company issued paid-in-kind dividends.

On July 29, 2009, JLL converted their 150,000 Series C convertible preferred shares of Patheon into a total of 38,018,538 restricted voting shares of Patheon, in accordance with the convertible preferred share terms. As a result of the JLL conversion, the Company no longer pays dividends on the Series C convertible preferred shares. For the years ended October 31, 2009 and 2008, the Company had recorded dividends totaling \$11.1 million and \$1.5 million.

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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 Series D special voting preferred shares. The holders of the Series D special voting preferred shares have the right to elect 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 TSX, voting equity securities are not to be designated, or called, common shares unless they have a right to vote in all circumstances that is not less, on a per share basis, than the voting rights of each other class of voting securities. Accordingly, 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 Company. The Rights Plan expired at the end of the Annual and Special Meeting of Shareholders held on March 27, 2008.

After considering the relevant factors, including applicable securities regulatory requirements and how they affect the Company 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, 2009 and 2008, the total number of restricted voting shares issuable under the plan was 9,687,594 shares and 9,512,660 shares, of which there are stock options outstanding to purchase 4,699,348 shares and 5,987,965 shares, respectively, 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 TSX during the two trading days immediately preceding the grant date. Options generally expire in no more than 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 2009 and 2008 are as follows:

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	2009		2008	
	<i>Shares</i>	<i>Weighted- Average Exercise Price</i>	<i>Shares</i>	<i>Weighted- Average Exercise Price</i>
<i>(Dollar amounts in Canadian dollars)</i>	<i>Number</i>	<i>\$</i>	<i>Number</i>	<i>\$</i>
Outstanding, beginning of the year	5,987,965	6.22	3,857,916	10.38
Granted	438,571	2.58	3,880,376	3.3
Exercised	-	-	(125,000)	3.45
Forfeited	(1,727,188)	8.32	(1,625,327)	9.32
Outstanding, end of the year	4,699,348	5.12	5,987,965	6.22
Exercisable, end of the year	2,451,187	6.88	2,947,093	9.19

The following table summarizes information about options outstanding at October 31, 2009:

<i>(Dollar Amounts in Canadian dollars)</i>	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price \$	Number Exercisable	Weighted- Average Exercise Price \$
Range of Exercise Prices					
\$2.58 - 3.64	3,358,761	5.4 years	3.13	1,344,824	3.20
\$4.16- 7.00	398,837	5.4 years	4.49	164,613	4.95
\$8.15 – 9.91	137,500	0.5 years	9.06	137,500	9.06
\$11.04– 13.95	522,250	1.7 years	12.08	522,250	12.08
\$14.12 – 15.80	282,000	0.4 years	14.85	282,000	14.85
	4,699,348			2,451,187	6.88

Stock-based compensation

The Company did not issue any restricted voting shares under the stock option plan during the year ended October 31, 2009. During the years ended October 31, 2008, the Company issued 125,000 restricted voting shares under the stock option plan for proceeds of \$0.4 million.

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 years ended October 31, 2009 and 2008 was \$1.40 and \$1.39, respectively. 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:

	2009	2008
Risk free interest rate	2.8%	3.6%
Expected volatility	62%	43%
Expected weighted average life of options	5 years	5 years
Expected dividends yield	0%	0%

The Company recorded stock-based compensation expense in the years ended October 31, 2009 and 2008 of \$1.0 million and \$2.6 million, respectively, for options granted on or after November 1, 2003.

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13. OTHER INFORMATION

Foreign exchange

During the year ended October 31, 2009, the Company recorded a foreign exchange loss on cash flow hedges and transactions related to operating exposures of \$7.0 million compared to a gain of \$7.9 million in the prior year. During the year ended October 31, 2008, the Company recorded a foreign exchange loss on the revaluation of certain U.S. dollar denominated debt of \$6.4 million.

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:

	2009	2008
	\$	\$
Accounts receivable	(0.3)	(32.6)
Inventories	(3.7)	10.4
Income taxes receivable	1.1	0.5
Prepaid expenses and other	(1.9)	(0.1)
Accounts payable and accrued liabilities	(1.3)	19.8
Income taxes payable	(4.7)	(1.6)
	(10.8)	(3.6)

Related party transactions

Revenues from companies controlled by a former director and significant shareholder of the Company were in the amount of \$0.8 million and \$0.3 million for the years ended October 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 October 31, 2009 and 2008 includes a balance of \$0.5 million and \$0.1 million, respectively, resulting from these transactions.

As of October 31, 2009 and 2008, the Company had an investment of \$1.9 million and \$1.7 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 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 years ended October 31, 2009 and 2008, the Company recorded an investment loss of \$0.4 million and \$0.1 million, respectively.

There were no management fees recorded under a management services agreement with BSP Pharmaceuticals for the year ended October 31, 2009. Management services and other fees of \$2.5 million were charged to BSP Pharmaceuticals for the year ended October 31, 2008. Accounts receivable at October 31, 2009 and 2008 include a balance of \$1.5 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.

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

As of October 31,	2009	2008
	\$	\$
Held-for-trading ⁽¹⁾	22.3	20.2
Loans and receivables ⁽²⁾	151.5	141.6
Other financial liabilities ⁽³⁾	429.4	399.6
Derivatives designated as effective hedges ⁽⁴⁾ - loss	(3.2)	(15.7)

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

⁽²⁾ Includes accounts receivable.

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

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

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. The fair values of the Company's financial instruments are not materially different from their carrying value, with the exception of the Company's senior secured term loan of \$146.3 million. Based on current interest rates for debt with similar terms and maturities, the fair market value of the senior secured term loan is estimated to be \$124.3 million.

As of October 31, 2009 and 2008, the carrying amount of the financial assets that the Company has pledged as collateral for its long-term debt facilities was \$80.9 million and \$87.7 million, respectively.

Fair value measurements

In June 2009, the Canadian Accounting Standards Board issued an amendment to CICA Section 3862, "Financial Instruments – Disclosures" in an effort to make Section 3862 consistent with IFRS 7. The purpose was to establish a framework for measuring fair value in GAAP and expand disclosures about fair value measurements. To make the disclosures an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

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The fair value under the amendment to Section 3862 is principally applied to financial assets and liabilities such as derivative instruments consisting of interest rate swaps and foreign exchange forward contracts. The following table provides summary of financial assets and liabilities that are measured at fair value as of October 31, 2009 and 2008:

Assets measured at fair value

	Fair value measurement at October 31, 2009 using:				Fair value measurement at October 31, 2008 using:			
	Level 1	Level 2	level 3	Total	Level 1	Level 2	level 3	Total
Derivatives designated as hedging instruments:								
Interest rate swaps	-	-	-	\$ -	-	-	-	\$ -
Foreign exchange forward contracts	-	2.1	-	\$ 2.1	-	-	-	\$ -
Total assets	\$ -	\$ 2.1	\$ -	\$ 2.1	\$ -	\$ -	\$ -	\$ -

Liabilities measured at fair value
(in millions USD)

	Fair value measurement at October 31, 2009 using:				Fair value measurement at October 31, 2008 using:			
	Level 1	Level 2	level 3	Total	Level 1	Level 2	level 3	Total
Derivatives designated as hedging instruments:								
Interest rate swaps	-	4.7	-	\$ 4.7	-	6.3	-	\$ 6.3
Foreign exchange forward contracts	-	-	-	\$ -	-	9.6	-	\$ 9.6
Total liabilities	\$ -	\$ 4.7	\$ -	\$ 4.7	\$ -	\$ 15.9	\$ -	\$ 15.9

Level 1 - Based on quoted market prices in active markets.

Level 2 - Inputs, other than quoted prices in active markets, that are observable, either directly or indirectly.

Level 3 - Unobservable inputs that are not corroborated by market data.

The following table presents the fair value of the Company's derivative financial instruments as well as their classification on the consolidated balance sheets as of October 31, 2009 and 2008:

Fair values of derivative instruments

	Asset Derivatives as of October 31, 2009		Asset Derivatives as of October 31, 2008	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Interest rate swaps		-		-
Foreign exchange forward contracts	Prepaid expenses	2.1		-
Total designated derivatives		\$ 2.1		\$ -
	Liability Derivatives as of October 31, 2009		Liability Derivatives as of October 31, 2008	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Interest rate swaps	Other accrued liabilities	4.7	Other accrued liabilities	6.3
Foreign exchange forward contracts		-	Other accrued liabilities	9.6
Total designated derivatives		\$ 4.7		\$ 15.9

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.

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As of October 31, 2009, the Company's Canadian operations had entered into foreign exchange forward contracts to sell an aggregate amount of US\$33.9 million. These contracts hedge the Canadian operations' expected exposure to U.S. dollar denominated cash flows and mature at the latest on October 27, 2010, at an average exchange rate of \$1.151 Canadian. The mark-to-market value on these financial instruments as of October 31, 2009 was an unrealized gain of \$2.1 million, with no income tax impact, which has been recorded in accumulated other comprehensive income (loss) in shareholders' equity.

As of October 31, 2009, the Company has designated \$87.8 million of U.S. dollar denominated debt as a hedge against its net investment in its subsidiaries in the U.S. and Puerto Rico. The exchange gains and losses arising from this debt, from the date so designated, are recorded in accumulated other comprehensive income (loss) in shareholders' equity.

The Company has entered into interest rate swap contracts to convert all of the interest costs on its senior secured term loan from a floating to a fixed rate of interest until June 30, 2010. The mark-to-market value of these financial instruments at October 31, 2009 was an unrealized loss of \$4.7 million, net of deferred income tax expense of \$0.2 million, which has been recorded in accumulated other comprehensive income (loss) in shareholders' equity.

Risks arising from financial instruments and risk management

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

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

Foreign exchange risk

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

The most significant transaction exposures arise in the Canadian operations. The balance sheet of the Canadian operations includes U.S. dollar denominated debt. The Canadian operations are required to revalue the Canadian dollar equivalent of the U.S. dollar denominated debt at each period end. The senior secured term loan 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 80% of revenues of the Canadian operations and approximately 20% 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, 2009, fluctuations of +/-5% would, everything else being equal, have an effect on loss from continuing operations before taxes of approximately +/- \$5.3 million, prior to hedging activities.

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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. Certain U.S. dollar debt exposure is hedged by the Canadian investment in U.S. and Puerto Rico. As of October 31, 2009, 100% of the U.S. dollar debt exposure is hedged and the Company has entered into forward foreign exchange contracts to cover approximately 33% of its Canadian-U.S. dollar cash flow exposures for its 2010 fiscal year. With the exception of the hedges against the Company's investments in the U.S. and Puerto Rico noted above, the Company does not currently hedge translation exposures.

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, 2009, \$240.7 million of the Company's total debt portfolio is subject to movements in floating interest rates. A +/-100 basis points change in interest rates would, everything else being equal, have an effect on the loss from continuing operations before income taxes of approximately +/- \$2.4 million, prior to hedging activities.

The objective of the Company's interest rate management activities is to minimize the volatility of the Company's earnings. In order to manage this risk, the Company has entered into interest rate swaps to convert the interest expense on its senior secured term loan, until June 2010, from a floating interest rate to a fixed interest rate. As of October 31, 2009, taking the interest rate swap into account, \$94.5 million of the Company's debt portfolio is subject to floating interest rates.

Credit risk

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

The objective of managing counter party credit risk is to prevent losses in financial assets. The Company assesses the credit quality of the counter parties, taking into account their financial position, past experience and other factors. Management also monitors the utilization of credit limits regularly. In cases where the credit quality of a client does not meet the Company's requirements, a cash deposit is received before any services are provided. As of October 31, 2009 and 2008, the Company held deposits of \$15.7 million and \$17.3 million, respectively.

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 consolidated statements of loss within operating expenses. When a receivable balance is considered uncollectible, it is written off against the allowance for accounts receivable. Subsequent recoveries of amounts previously written off are credited against operating expenses in the consolidated statements of loss.

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:

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	As of October 31,
	2009
	\$
Total accounts receivable	153.2
Less: Allowance for doubtful accounts	(1.7)
Total accounts receivable, net	151.5
Of which:	
Not overdue	141.9
Past due for more than one day but for not more than three months	9.5
Past due more for than three months but for not more than six months	1.6
Past due for more than six months but not for more than one year	0.2
Past due for more than one year	-
Less: Allowance for doubtful accounts	(1.7)
Total accounts receivable, net	151.5

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, 2009, the Company was holding cash and cash equivalents of \$22.3 million and had undrawn lines of credit available to it of \$30.7 million.

15. MANAGEMENT OF CAPITAL

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

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

As of October 31, 2009 and 2008, total managed capital was \$521.8 million and \$456.9 million, respectively, comprised of: shareholders' equity of \$271.3 million and \$237.2 million, respectively and cash interest-bearing debt of \$250.5 million and \$219.7 million, respectively.

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:

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	2009	2008
	\$	\$
Expected income tax expense (recovery) using statutory tax rates	4.5	6.5
Change in valuation allowance	(0.2)	(3.0)
Permanent differences and other:		
Foreign	2.5	(2.1)
Domestic	0.4	(4.5)
Foreign rate differentials	5.3	4.4
Withholding tax on intercompany dividend	-	0.2
Provision for income taxes	12.5	1.5
Effective tax rate	87.3%	7.5%

The tax effects of significant items comprising the Company's net future income tax liabilities are as follows:

	2009	2008
	\$	\$
Net operating loss carryforward	30.0	22.2
Accounting provisions not currently deductible for tax purposes	6.8	14.4
Unrealized foreign exchange losses on debt	0.4	3.3
Share issue costs	1.6	2.8
Deferred financing costs	0.5	1.6
Unclaimed R&D expenditures	8.5	2.3
Investment tax credits	11.6	7.8
Other	3.1	2.6
Book depreciation in excess of tax depreciation	(49.0)	(37.6)
Valuation allowance	(22.7)	(22.7)
Ontario Harmonization	(1.7)	-
	(10.9)	(3.3)

The short-term and long-term future income tax assets and liabilities are as follows:

	2009	2008
	\$	\$
Short-term future income tax assets	10.5	10.2
Long-term future income tax assets	11.8	12.7
Short-term future income tax liabilities	(1.7)	-
Long-term future income tax liabilities	(31.5)	(26.2)
	(10.9)	(3.3)

The Company has tax-effected net operating losses carried forward of \$30.0 million; \$19.2 million of the losses have an indefinite life and \$10.8 million have expiry dates ranging from October 31, 2010 to October 31, 2029.

17. SEGMENTED INFORMATION

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

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	Year ended October 31, 2009			Total \$
	Commercial \$	PDS \$	Corp. & Other \$	
Revenues	530.0	125.1	-	655.1
Adjusted EBITDA	71.2	32.7	(29.9)	74.0
Total assets	671.3	61.3	58.2	790.8
Depreciation	37.0	5.1	0.5	42.6
Capital expenditures	39.0	8.2	1.9	49.1

	Year ended October 31, 2008			Total \$
	Commercial \$	PDS \$	Corp. & Other \$	
Revenues	577.8	139.5	-	717.3
Adjusted EBITDA	77.5	42.1	(37.0)	82.6
Total assets	608.2	48.2	45.5	701.9
Depreciation	38.1	5.5	1.7	45.3
Capital expenditures	47.2	7.5	1.1	55.8

The Company evaluates the performance of its segments based on segment Adjusted EBITDA which is defined as: income (loss) from continuing operations before repositioning expenses, interest expense, foreign exchange losses reclassified from other comprehensive loss, refinancing expenses, gains and losses on sale of fixed assets, gain on extinguishment of debt, income taxes, asset impairment charges and depreciation and amortization. The Company's presentation of Adjusted EBITDA 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 "Corp. and Other" in the breakout of total assets shown above. Below is a bridge reconciling Adjusted EBITDA to its closest GAAP measure.

Total assets include \$0.7 million and \$1.9 million in fiscal year 2009 and 2008 relating to the commercial segment that are classified as held for sale.

	Year ended October 31,	
	2009 \$	2008 \$
Adjusted EBITDA:		
Total adjusted EBITDA per above	74.0	82.6
Depreciation and amortization	(42.6)	(45.3)
Repositioning expenses	(2.1)	(19.9)
Interest expense, net	(15.8)	(30.8)
Impairment charge	-	(0.4)
Gain on sale of fixed assets	-	0.7
Gain on extinguishment of debt	-	34.9
Income taxes	(12.5)	(1.5)
Income before discontinued operations	1.0	20.3

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

	As of and year ended October 31, 2009				
	Canada \$	US* \$	Europe \$	Other \$	Total \$
Revenues	18.1	345.5	262.5	29.0	655.1
Capital assets	117.4	131.4	240.9	1.1	490.8
Goodwill	3.2	-	-	-	3.2

	As of and year ended October 31, 2008				
	Canada \$	US* \$	Europe \$	Other \$	Total \$
Revenues	21.9	346.1	324.9	24.4	717.3
Capital assets	104.8	118.6	205.1	-	428.5
Goodwill	2.9	-	-	-	2.9

* Includes Puerto Rico

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

During the year ended 2009, the Company did not have any one client that accounted for more than 10% of total revenues. During the year ended 2008, one client accounted for more than 10% of the Company's total revenues. As a percentage of total revenues, this client amounted to 10.4%.

18. COMMITMENTS AND CONTINGENCIES

Long-term operating leases

The Company has entered into long-term rental agreements expiring at various dates until 2019. The future rental payments for the next five years and thereafter are estimated as follows:

	\$
2010	4.0
2011	3.9
2012	3.3
2013	2.3
2014	1.0
Thereafter	4.7
Total payments	19.2

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

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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 changes in executive management. During fiscal 2008, the Company also incurred professional fees and other costs in connection with its review of strategic and financial alternatives.

The following is a summary of expenses and liabilities associated with these initiatives (collectively "repositioning expenses") as of and years ended October 31, 2009 and 2008:

	Commercial	PDS	Corporate	Total
	\$	\$	\$	\$
Total repositioning liabilities at October 31, 2007				6.0
Employee-related expenses	11.1	0.6	4.9	16.6
Consulting, professional and project management costs	2.9	-	0.4	3.3
Total expenses	14.0	0.6	5.3	19.9
Repositioning expenses paid				(17.2)
Foreign exchange				(0.7)
Total repositioning liabilities at October 31, 2008				8.0
Employee-related expenses	5.1	-	-	5.1
Consulting, professional and project management costs	0.4	-	-	0.4
Contract termination costs	-	-	-	-
Total expenses	5.5	-	-	5.5
Repositioning expenses paid				(10.8)
Foreign exchange				0.2
Total repositioning liabilities at October 31, 2009				2.9

Included in the employee-related expenses within the commercial segment for the year ended October 31, 2009 is \$3.4 million of repositioning expenses related to the closure of the Company's Carolina facility and is presented in discontinued operations.

20. SUBSEQUENT EVENTS

On November 30, 2009, The Special Committee and JLL announced that they entered into a settlement agreement in respect of the pending legal actions between the parties, and was confirmed by the courts on December 4, 2009. The settlement provides among other things that: until March 2011, the Board will consist of nine directors who will initially be four nominees of JLL, the Chief Executive Officer of the Company (Wesley P. Wheeler), Joaquín B. Viso and three independent directors. The three independent directors will include two members of the Special Committee, Derek J. Watchorn and Roy T. Graydon, and a new independent director, Brian G. Shaw; JLL has agreed not to acquire any additional restricted voting shares ("Shares") of the Company for a one-year period. Thereafter, and until April 27, 2012, JLL will not acquire any additional Shares unless, among other things, the acquisition complies with the standstill provisions of the Investor Agreement between Patheon and JLL and, if the acquisition is to be effected by means of a takeover bid, the bid is subject to an irrevocable condition requiring the

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valid tender to the bid of at least a majority of the minority held Shares. Also, until April 27, 2012, certain transactions by the Company, including certain rights offerings, issuer bids and related party transactions, would require independent director approval; and finally the Company will pay to JLL U.S. \$1.5 million in connection with the settlement.

The Company announced on December 10, 2009 its plan to consolidate its Puerto Rico operations into its manufacturing site located in Manatí and ultimately close or sell its plant in Caguas. The company estimates this consolidation will result in total repositioning expenses of \$7.0 million, of which approximately \$2.4 million will be booked in the first quarter of fiscal 2010. Patheon also expects to book an impairment charge of approximately \$1.3 million in the first quarter of fiscal 2010 in connection with the consolidation plan. The consolidation will be completed by the end of fiscal 2011, and will also result in accelerated depreciation of Caguas assets of approximately \$7.0 million during fiscal years 2010 and 2011.

21. COMPARATIVE AMOUNTS

Certain comparative amounts have been re-stated and reclassified to conform with current accounting policies and the current period presentation for discontinued operations and income tax related assets and liabilities. This resulted in a reclassification of \$2.4 million between income tax receivable and income tax payable and a reclassification of \$11.8 million between future tax assets and future tax liabilities.