



ANNUAL INFORMATION FORM
for the Fiscal Year Ended October 31, 2009

December 18, 2009

PRESENTATION OF INFORMATION

As used in this Annual Information Form, the term "Patheon" or "Company" means Patheon Inc. and its subsidiaries as of the most recent financial year ended on October 31, 2009.

Unless otherwise stated, all information is as of October 31, 2009 and all currency references are in U.S. dollars.

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Forward-Looking Statements

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

CORPORATE STRUCTURE

NAME, ADDRESS AND INCORPORATION

Patheon Inc. ("Patheon" or the "Company") is a corporation existing under the *Canada Business Corporations Act*. The registered office of Patheon is located at 2100 Syntex Court, Mississauga, Ontario, Canada, L5N 7K9. The Company filed Articles of Amendment to its Articles of Amalgamation on April 26, 2007. In the Articles of Amendment, the authorized shared capital of Patheon was amended by (1) redesignating the issued and unissued common shares as restricted voting shares; (2) increasing the Company's authorized capital by creating 150,000 Class I Preferred Shares, Series C; and (3) increasing the Company's authorized capital by creating 150,000 Class I Preferred Shares, Series D.

INTER-CORPORATE RELATIONSHIPS

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

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

GENERAL DEVELOPMENT OF THE BUSINESS

The following contains forward-looking statements about Patheon's business outlook. Reference should be made to *Forward-Looking Statements* on page 3. For a description of material factors that could cause actual results to differ materially from the forward-looking statements in the following, see *Description of the Business – Risk Factors*.

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

The three fiscal years ended October 31, 2009 included a period of transition with respect to the December 2004 acquisition of Patheon Puerto Rico, Inc. (formerly, MOVA Pharmaceutical Corporation) ("Patheon PR"), the largest acquisition in Patheon's history. The Company took several steps during fiscal 2007, 2008 and 2009 to improve the operating structure of the Puerto Rican operations. The most significant corporate development of the 2007 fiscal year was the completion of the strategic and financial alternatives review process commenced in September 2006. This resulted in a \$150 million investment in the Company by JLL Partners and a refinancing of the Company's remaining indebtedness under its North American credit facilities, which provided Patheon with a stable long-term capital structure.

INVESTMENT BY JLL

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

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

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

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

On March 11, 2009, JLL announced by way of press release that it was commencing the JLL Offer and filed a take-over bid circular on SEDAR.

The Board of Directors recommended that shareholders reject the JLL Offer. The Board determined that, based on the unanimous recommendation of a special committee of independent directors (the "Special Committee"), the JLL Offer was inadequate and advised holders of restricted voting shares of Patheon to not tender their shares to the JLL Offer. All of the independent members of the Board voted in favor of this recommendation. Each of JLL's three nominees on the Board declared his conflict of interest and refrained from voting, Joaquín B. Viso declared his interest and refrained from voting, and the Company's CEO, Wesley P. Wheeler, abstained.

On the expiry of the JLL Offer on August 26, 2009, JLL announced that a total of 33,847,408 restricted voting shares of Patheon had been validly deposited in response to JLL's Offer. The restricted voting shares taken up and paid for under the JLL Offer represented approximately 38% of the outstanding restricted voting shares of the Company not already owned by JLL or its affiliates and associates.

On July 29, 2009, JLL converted its 150,000 Class I Preferred Shares, Series C into a total of 38,018,538 restricted voting shares of Patheon, in accordance with the convertible preferred share terms. As of July 31, 2009, with the conversion and the restricted voting shares validly deposited in response to the JLL Offer, JLL owned an aggregate of 73,523,246 restricted voting shares, representing approximately 57% of Patheon's total restricted voting shares outstanding. As a result of the JLL conversion, the Company no longer pays dividends on the convertible preferred shares.

The Company incurred \$8.0 million in costs associated with the JLL Offer in the twelve month period ending October 31, 2009. These expenses consisted primarily of fees for legal and financial advisors to the Special Committee and the retainer and meeting expenses of the Special Committee.

On November 30, 2009, the Special Committee and JLL announced that they had entered into a settlement agreement in respect of pending legal actions between the parties. See *Legal Proceedings*.

2007 CREDIT FACILITIES

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

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

NEW LEADERSHIP

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

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

- Patheon Advantage™, is a companywide program that distinguishes Patheon from its competitors, based on the *Lean6Sigma* manufacturing process. *Lean6Sigma* combines “lean” manufacturing practices with “six sigma” manufacturing. The Company has 62 active projects in its Patheon Advantage™ program. All sites have completed their *Lean6Sigma* leadership training and have completed at least one round of base-line activities. The Patheon Advantage™ program is now providing Patheon with tools to streamline operations, open needed capacity and improve performance all throughout the network.
- One Patheon is the Company’s global initiative to create one consistent customer experience by operating as one unified company, with one way of doing business. The goal of One Patheon is to provide customers with consistent quotes and proposals, technical documents, invoicing procedures, workflow management, ongoing performance communication, project execution and a consistent management team.
- Quick to Clinic™, is a program designed to accelerate drug development timelines for customers by providing rapid distribution of clinical trial materials for First Time in Human (Phase 1) studies. Utilizing Patheon’s Milton Park (U.K.) and Whitby (Canada) facilities, the Quick to Clinic™ program assures delivery of finished drug product within four months from receipt of active pharmaceutical ingredients (“API”). These designated delivery centers provide responsive and flexible service to Patheon’s customers who are under pressure to screen product ideas and make proof of concept decisions quickly.
- Quick to Market™ is a unique Patheon program which offers accelerated transfer of commercially available products from an existing manufacturing plant to a plant within Patheon’s network. The program was formally established as a service within Patheon after excellent results and significant client satisfaction with recent rapid product transfers; and
- An information technology master plan has been developed which sets the overall direction for systems and services to the business for the next five years. It centres on the development of strategic information technology assets that will drive competitive advantages for Patheon’s business. The plan includes both the addition of new information technology assets and the enhancement of its existing information technology assets.

Over the last three fiscal years, Patheon has been working to reduce the size of its workforce, through retirements, attrition and terminations in order to implement a lower cost structure and adjust for changing business volumes at some sites. The Company's full-time equivalent employee headcount has been reduced from approximately 5,300 at November 1, 2007 to approximately 4,400 as at October 31, 2009.

REGIONAL DEVELOPMENTS

North American Network

Canada

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

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

To improve capacity utilization and profitability of the Whitby facility, Patheon completed the closure of its York Mills facility on January 31, 2009 and transferred all of York Mills' commercial production and development services to its site in Whitby. On December 31, 2007, the Company entered into a binding agreement of purchase and sale for the sale of the York Mills property for a purchase price of Cdn. \$12.5 million. The sale closed on April 15, 2008 for net proceeds of U.S.\$11.9 million, with Patheon leasing back the facility for up to two years in order to facilitate the decommissioning process, which is substantially complete.

In October 2008, the Company opened a new suite at the Whitby facility, thus expanding the Company's PDS capacity in Canada. The 2,500 square foot suite includes a designated area for the small-scale development and manufacturing of solid dosage forms for early clinical study needs, enhancing the Company's ability to provide rapid early phase development to its North American customers.

In April 2009, the Company announced the expansion of its Toronto manufacturing facility. The expansion adds 10,000 square feet of good manufacturing practice space dedicated to the production of oral contraceptives with a potential output of 1.3 billion tablets. This includes full-scale commercial production capabilities, including dispensing, granulation, compression, film coating and primary packaging. The new area will utilize abatement technology, which is used for the elimination of solvent emissions and meets projected 2020 Ontario Ministry of Environment standards. The expansion of dedicated space for the production of oral contraceptives, is a regulatory requirement to sell in many countries, and demonstrates Patheon's continuing commitment to providing the highest level of quality and standards to customers.

Puerto Rico

On December 14, 2007, the Company announced that, as a result of its comprehensive review of the Puerto Rican operations, with a focus on eliminating operating losses and developing a long-term plan for the business, it had decided to retain and continue to streamline its facilities in Caguas and Manatí and

divest its facility in Carolina, Puerto Rico that specializes in the manufacture of cephalosporin solid oral dosage forms.

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 during the year ended October 31, 2009.

During fiscal 2007, 2008 and 2009, local Puerto Rican operating and executive management as well as technical support were significantly upgraded with a view to re-focusing efforts to sell capacity. The Company has implemented an extensive program designed to optimize the manufacturing and business operations through improving operating performance, improving quality and training systems, reducing overhead costs, streamlining common services and pursuing new business opportunities for the Puerto Rico operations.

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

The Company announced in August 2009 that its Manatí manufacturing facility had received regulatory approval from the European Medicines Evaluation Agency ("EMA") following the completion of a successful inspection in May 2009 by the Medical Products Agency of Sweden.

Subsequent to the end of fiscal year 2009, the Company announced its intention 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. The consolidation is expected to be completed by the end of fiscal 2011.

United States

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

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

European Network

United Kingdom

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

Patheon announced in June 2009 that its Swindon, U.K. facility had extended its aseptic vial filling capabilities to include the commercial supply of small scale specialty products. Following recent FDA approval at Swindon, Patheon can now provide clients with a seamless service, where development batches and commercial product can be supplied from the same filling line. The offering is especially suited to commercial supply of niche biological and orphan drug products where the annual volumes are small.

Additionally in May 2009, Patheon announced the introduction of cell based assay services to support biopharmaceutical product development. The new services strengthens Patheon's existing analytical capability in biopharmaceutical analysis. Cell based assays are a key technology used in determining the biological potency of biopharmaceuticals required for product licensing procedures. Biological potency analytics and the required supporting capabilities for tissue culture, such as assessment of cell viability and production of master and working cell banks, will take place at Patheon's Swindon, U.K. facility. This will enable all the analytical needs for biopharmaceutical product development to be completed in one location.

Switzerland

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

BUSINESS DEVELOPMENT

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

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

Another trend has been the establishment of long-term strategic relationships by multi-national pharmaceutical companies with high quality external service providers, including Patheon. For example,

the Company has entered into numerous master service agreements with customers. These agreements contemplate long-term multi-product and multi-site commercial manufacturing and/or PDS. Overall, Patheon believes, based on its internal analysis and experience, that as the pharmaceutical outsourcing industry matures, the Company's relationships with customers will continue to become broader and longer term. Three examples of this trend are discussed below.

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

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

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

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

DESCRIPTION OF THE BUSINESS

GENERAL

Patheon is a leading provider of commercial manufacturing and pharmaceutical development services to the international pharmaceutical industry, employing more than 4,400 people as at October 31, 2009. Its business is organized into two operating segments: commercial manufacturing and pharmaceutical development services.

For purposes of commercial manufacturing, Patheon owns and operates a total of ten manufacturing and packaging facilities globally: (i) six facilities in North America: three facilities in the United States, consisting of two in Puerto Rico, and one in Cincinnati, Ohio, and three facilities in Ontario, Canada consisting of Whitby, Toronto and Burlington, and (ii) four facilities in Europe: Monza (near Milan) and Ferentino (near Rome), Italy; Swindon (near London), U.K.; and Bourgoin-Jallieu (near Lyon), France, which together comprise approximately 3,000,000 square feet of commercial space. See *General Development of the Business –Regional Developments*.

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

COMMERCIAL MANUFACTURING

The Company delivers products to over 120 countries and offers a full array of services, including manufacturing, logistics and packaging of conventional dosage forms, sterile dosage forms and specialized products.

Patheon's commercial manufacturing activities relate primarily to prescription products in solid, semi-solid, and liquid dosage forms as well as various sterile dosage forms. Conventional dosage forms include both coated and uncoated compressed tablets, hard shell gelatin capsules, powders, ointments, creams, gels, syrups, suspensions, solutions and suppositories. Conventional sterile dosage forms include aseptically (sterile) filled and terminally sterilized liquids and powders in ampoules, vials, bottles or pre-filled syringes. Sterile lyophilized (freeze-dried) products are also manufactured in both vials and ampoules.

Patheon also operates a segregated sterile (injectable) cephalosporin powder filling and lyophilisation facility at its Swindon site in the U.K. The combination of the existing sterile cephalosporin capabilities at Swindon and the 65,000 square foot. lyophilisation plant dedicated to lyophilized cephalosporin products that Patheon constructed in Swindon in fiscal 2006 will allow it to provide a full range of dosage forms for this important category of antibiotics.

In fiscal 2009, Patheon's facilities and development centres were audited by 189 separate customer audit teams, representing both prospective and existing customers. Audits are an important means by which prospective and existing customers gain confidence that Patheon's operations are conducted in accordance with applicable regulatory requirements. These audits contribute to Patheon's ongoing improvement of manufacturing and development practices. In addition to customer audits, Patheon, like all commercial drug manufacturers, is subject to audits by various regulatory authorities. In fiscal 2009, 25 such audits by regulatory authorities were conducted at Patheon's sites in North America and Europe involving multiple products. Responses to audit observations were accepted and product approval was granted. It is not unusual for regulatory agencies or customers to request further clarification and/or follow-up on the Patheon responses provided.

PHARMACEUTICAL DEVELOPMENT SERVICES

Patheon is a leading global provider of contract PDS offering over 40 dosage forms and a broad range of services. Background information on the new drug development process is described in Appendix A. The Company's PDS include: (i) pre-formulation, formulation and development of dosage forms, ; (ii) development of analytical methods; (iii) manufacture to customer specifications of proposed new drug products during the regulatory drug approval process, including the manufacture of pilot (experimental) batches; (iv) clinical packaging and (v) scale-up and technology transfer services designed to validate commercial-scale drug manufacturing processes. Since the beginning of fiscal 2001, 23 new pharmaceutical products developed on behalf of customers by Patheon's PDS unit have been approved by regulators and launched through Patheon's commercial manufacturing facilities.

In addition to possessing pharmaceutical development capabilities for a broad range of dosage forms, Patheon's development centres provide a range of specialized pharmaceutical development capability (high-potency, sterile, lyophilisation and controlled-release). As at October 31, 2009, Patheon was working on a total of 350 projects for its customers, including eight drug candidates at the New Drug Application ("NDA") stage on behalf of clients. One product developed by Patheon for a client received new market approval during the fourth quarter of 2009. The growing PDS team included, at the end of fiscal 2009, more than 500 scientists and technical staff, with approximately 100 holding doctoral degrees. Patheon's development scientists have extensive development experience with a wide variety of pharmaceutical dosage forms. Patheon's PDS also serve as a pipeline or incubator for future commercial manufacturing opportunities.

CUSTOMERS

Customer Mix

During the fiscal years ended October 31, 2007, 2008 and 2009, no single customer accounted for more than 15% of Patheon's total revenues in its PDS business segment or in its commercial manufacturing business segment.

Customer Purchase-Commitment Process

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

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

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

Patheon announced in June 2009 its launch of a new performance guarantee initiative designed to enhance its service to customers. The Patheon Performance Guarantee will be added as a new feature in commercial manufacturing contracts for customers with critical supply requirements. Patheon will guarantee delivery performance while building on its reputation for exceptional quality and reliable regulatory compliance.

COMPETITION

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

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

Commercial Manufacturing Competitors

In North America and Europe, Patheon's competition includes: (i) companies, both public and private, that are not focused on contract manufacturing, but provide this service as part of a range of services to the

pharmaceutical industry; (ii) companies that focus on contract manufacturing, but offer services in a limited number of dosage forms; (iii) large pharmaceutical companies that offer third-party manufacturing services to fill excess capacity; and (iv) a few fully integrated companies that can provide a broad range of services in multiple dosage forms. In addition, in Europe there are a large number of privately owned, dedicated outsourcing companies that serve only their local or national markets. See *Description of the Business-Risk Factors-Competition*.

Pharmaceutical Development Services Competitors

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

In recent years a number of companies in Asia, particularly India, have been entering the pharmaceutical contract manufacturing market for generic products and the PDS sector and have been proceeding with obtaining FDA approval for some of their plants as well as acquiring additional plants in Europe and North America. See *Description of the Business-Risk Factors-Competition*.

Patheon Competitive Position

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

- the Company's geographic reach, breadth of services and depth of expertise enable it to offer a full suite of commercial manufacturing and pharmaceutical development solutions to its customers;
- in 2008 and 2009, as a result of new leadership, the Company has increased its focus on all aspects of operating excellence and customer key performance indicators; and
- the Company has in place a stable, long maturity capital structure, which ensures a solid liquidity position.

SUPPLY ARRANGEMENTS

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

ENVIRONMENTAL AND HEALTH & SAFETY MATTERS

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

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

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

INTELLECTUAL PROPERTY

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

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

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

SEASONAL VARIABILITY OF RESULTS

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

RISK FACTORS

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

Customer Demand for Patheon's Services

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

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

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

Regulatory Matters Affecting Manufacturing and Pharmaceutical Development Services

Patheon is required to comply with the regulatory requirements of the national and international regulatory bodies having jurisdiction in the countries where the Company manufactures products or where its customers' products are distributed. In particular, Patheon is subject to laws and regulations concerning good manufacturing practices and drug safety. As a result, most of Patheon's facilities are subject to regulation by the FDA of the United States, and certain of Patheon's facilities are subject to regulation by the Health Products and Food Branch of Health Canada in Canada, the Medicines and Healthcare Products Regulatory Agency of the United Kingdom, the EMEA of the European Union, and other regulatory bodies. These regulatory requirements impact many aspects of Patheon's operations, including manufacturing, labelling, packaging, storage and record keeping related to customers' products.

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

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

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

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

Exposure to Complex Production Issues

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

Dependence Upon Key Management Personnel and Executives

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

International Operations and Foreign Currency Fluctuations

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

Substantial Financial Leverage

Patheon's total interest-bearing debt as at October 31, 2009 was \$250.5 million, and its consolidated financial leverage ratio (the ratio of total interest-bearing debt to equity) was 0.92:1.0.

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

Interest Rate Risks

The Company has exposure to movements in interest rates. The Company has entered into interest rate swaps to convert the interest expense on the \$150 million senior secured term loan from a floating interest rate to a fixed interest rate until June 2010. Taking this interest rate swap into account, as at October 31, 2009, 37.6% of the Company's total debt portfolio was subject to movements in floating interest rates. Assuming no change to the structure of the debt portfolio, the sensitivity to interest rate changes is as follows:

	<u>Approximate Impact on Annual Pre-Tax Earnings</u>
Change of 1% in floating interest rates	\$0.9 million

Potential Environmental, Health and Safety Liabilities

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

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

may be required to take additional, unplanned remedial measures for which no accounting reserves have been recorded.

Credit and Customer Concentration

During the fiscal years ended October 31, 2007, 2008 and 2009, no single customer accounted for more than 15% of Patheon's total revenues in its PDS business segment or in its commercial manufacturing business segment. Notwithstanding this, in the fiscal year ended October 31, 2009, Patheon's top twenty customers accounted for approximately 64% of the Company's commercial manufacturing revenue. This customer concentration increases credit risk and other risks associated with particular customers and particular products, including risks related to market demand for customer products, regulatory and other operating risks. Disruptions in the production of major products could materially adversely impact Patheon's results of operations in the future.

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

- (a) the negotiation of long-term manufacturing agreements with these customers;
- (b) the diversity of products and projects undertaken by Patheon; and
- (c) the expansion of PDS units in both Europe and North America: by increasing the variety of service activities, Patheon is increasing its customer base, thereby lowering the risk of depending on a small number of customers for a significant portion of its revenues.

Competition

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

One of the many factors affecting competition is the current excess of capacity, within the pharmaceutical industry generally, of facilities capable of manufacturing drugs in solid and semi-solid dosage forms. Thus, customers currently have a wide range of supply alternatives for these dosage forms. Another factor is a relatively recent development, where an increasing number of companies in Asia, particularly India, have been entering the pharmaceutical contract manufacturing and pharmaceutical development service sectors over the last few years and have been proceeding with obtaining FDA approval for some of their plants as well as acquiring additional plants in Europe and North America. One or more of these companies may become a significant competitor to Patheon. Patheon may also compete with the internal operations of pharmaceutical and biotechnology companies that choose to source manufacturing services internally.

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

Rapid Technological Change

The healthcare industry is characterized by rapid technological change. Demand for the Company's services may change in ways it may not anticipate because of evolving industry standards or as a result of evolving customer needs that are increasingly sophisticated and varied, or because of the introduction by competitors of new services and technologies. Innovations aimed at offering enhanced or new services generally may require a substantial investment before the Company can determine their commercial viability, and Patheon may not have the financial resources to fund such initiatives. Even if

Patheon were to succeed in creating new services or technologies, they may not produce revenues in excess of the costs of development and they may be quickly rendered obsolete by changing customer preferences or by technologies or features offered by its competitors.

Product Liability Claims

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

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

Intellectual Property

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

Significant Shareholder

On July 29, 2009, JLL converted its 150,000 Class I Preferred Shares, Series C into a total of 38,018,538 restricted voting shares of Patheon, in accordance with the convertible preferred share terms. As of July 31, 2009, with the conversion and the restricted voting shares validly deposited in response to the JLL Offer, JLL now owns an aggregate of 73,523,246 Patheon restricted voting shares, representing approximately 57% of Patheon's total restricted voting shares outstanding. See *General Development of the Business – Investment by JLL*.

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

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

Supply Arrangements

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

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

Pension Plans

Certain of Patheon's employees in Canada, France and the United Kingdom are participants in defined benefit pension plans which it sponsors. As of October 31, 2009, the unfunded pension liability on its pension plans was approximately \$22 million. The amount of future contributions to its defined benefit plans will depend upon asset returns and a number of other factors and, as a result, the amount the Company will be required to contribute to such plans in the future may vary. Such cash contributions to the plans will reduce the cash available for the Company's business.

Derivative Financial Instruments

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

Exposure to Foreign Currency Risk

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

Since the European and U.S. operations conduct business principally in their respective local currencies, the exposure to foreign currency gains and losses is not significant. However, revenues and operating expenses of the Canadian operations are transacted in Canadian and U.S. dollars. As a result, significant long-term strengthening of the Canadian dollar against the U.S. dollar could adversely affect the profitability of the Canadian operations of Patheon and its consolidated financial results, subject to the ability to increase prices for services or to reduce costs. Based on the Company's current U.S. denominated net inflows in Canada, as at October 31, 2009, fluctuations of +/- 5% in exchange rates, would, all else being equal, have an effect on EBITDA from continuing operations of approximately \$5.3 million, prior to hedging activities.

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

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

Risks Associated with Information Systems

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

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

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

DIVIDEND POLICY

Patheon has not paid dividends on its restricted voting shares during the three fiscal years ended October 31, 2009, October 31, 2008 and October 31, 2007. Patheon's current policy is to not pay dividends on its restricted voting shares, preferring to reinvest its cash to enhance its growth.

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

Dividends were payable to holders of Class I Preferred Shares, Series C which were converted by JLL on July 29, 2009 into 38,018,538 restricted voting shares. Patheon did not pay any cash dividends on such shares since their issuance in April 2007. However, the conversion rate of the Class I Preferred Shares, Series C was adjusted in lieu of any cash payment.

DESCRIPTION OF CAPITAL STRUCTURE

Patheon's authorized share capital consists of an unlimited number of restricted voting shares and an unlimited number of Class I preferred shares, issuable in series, of which, as at October 31, 2009, 129,167,926 restricted voting shares and 150,000 Class I Preferred Shares, Series D were issued and outstanding. As at October 31, 2009, Patheon had 4,699,348 stock options outstanding, of which 2,451,187 were exercisable.

RESTRICTED VOTING SHARES

Holders of restricted voting shares are entitled to dividends on a *pro rata* basis if, as and when declared by Patheon's Board of Directors. Subject to the rights of the holders of any other class of Patheon's shares entitled to receive dividends in priority to or rateably with the holders of restricted voting shares, Patheon's Board of Directors may declare dividends on the restricted voting shares to the exclusion of any other class of Patheon's shares. On the liquidation, dissolution or winding-up of Patheon, holders of restricted voting shares are entitled to participate rateably in any distribution of Patheon's assets, subject

to the rights of holders of any other class of Patheon's shares entitled to receive Patheon's assets on such a distribution in priority to or rateably with the holders of restricted voting shares. Holders of restricted voting shares are entitled to receive notice of and attend all annual and special meetings of shareholders of Patheon, other than separate meetings of holders of any other class or series of shares, and to one vote at shareholders' meetings in respect of each restricted voting share. Holders of restricted voting shares are not entitled to vote in respect of the election of some of the directors of Patheon. The holders of the Class I Preferred Shares, Series D are entitled to elect up to three directors of Patheon.

PREFERRED SHARES

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

Preferred Shares, Series C

On July 29, 2009, JLL converted its 150,000 Class I Preferred Shares, Series C into a total of 38,018,538 restricted voting shares of Patheon, in accordance with the convertible preferred share terms. As a result, no Class I Preferred Shares, Series C were outstanding as of October 31, 2009.

Preferred Shares, Series D

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

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

MARKET FOR SECURITIES

TRADING PRICE AND VOLUME

Restricted voting shares of Patheon are traded on the TSX under the trading symbol "PTI". The following table sets forth the reported high and low trading prices (in Canadian dollars) and trading volumes of the restricted voting shares of Patheon on the TSX for each month of the fiscal year ending October 31, 2009.

Patheon Inc. Restricted Voting Shares

Month	High (\$)	Low (\$)	Volume Traded
November 2008	2.00	0.81	10,110,076
December 2008	2.21	1.02	9,022,309

Patheon Inc. Restricted Voting Shares

January 2009	2.25	2.06	3,303,797
February 2009	2.12	1.84	3,866,017
March 2009	2.55	1.99	30,897,420
April 2009	2.49	2.29	5,611,257
May 2009	2.97	2.32	1,543,994
June 2009	2.94	2.67	1,679,914
July 2009	2.83	2.52	812,726
August 2009	3.38	2.55	4,398,433
September 2009	3.05	2.88	1,986,879
October 2009	2.97	2.49	2,772,754

PRIOR SALES

On July 29, 2009, JLL converted its 150,000 Class I Preferred Shares, Series C into a total of 38,018,538 restricted voting shares of Patheon, in accordance with the convertible preferred share terms. Each Class I Preferred Share, Series C was convertible into 253.45692 restricted voting shares, and Patheon issued the 38,018,538 restricted voting shares to JLL on August 7, 2009. No additional consideration was provided at the time of the conversion.

DIRECTORS AND OFFICERS

EXECUTIVE OFFICERS

The names and places of residence of Patheon's executive officers and the offices held by them in Patheon as at December 18, 2009 are set out below together with their principal occupations during the past five years.

Name & Place of Residence	Office
WESLEY P. WHEELER ⁽¹⁾ North Carolina, U.S.A.	President and Chief Executive Officer
ERIC W. EVANS ⁽²⁾ North Carolina, U.S.A.	Chief Financial Officer
ALDO BRACA ⁽³⁾ Latina, Italy	President, Patheon Europe
PAUL M. GAROFALO ⁽⁴⁾ North Carolina, U.S.A.	Executive Vice President and Chief Technology Officer
GEOFFREY M. GLASS ⁽⁵⁾ North Carolina, U.S.A.	Executive Vice President, Global Strategy, Sales & Marketing
DOAA A. FATHALLAH ⁽⁶⁾ Zug, Switzerland	Senior Vice President, General Counsel Europe and Global PDS and Corporate Secretary

Name & Place of Residence	Office
ANDREW KELLEY ⁽⁷⁾ Zug, Switzerland	Senior Vice President, Commercial Operations, Europe and Asia Pacific
ANTONELLA MANCUSO ⁽⁸⁾ Rome, Italy	Senior Vice President & Managing Director, European Operations
JONATHAN ARNOLD ⁽⁹⁾ Zug, Switzerland	Vice President, Global Supply Chain
NORMAN BARRAS ⁽¹⁰⁾ Oxfordshire, U.K.	Vice President, PDS Europe and Asia
WARREN A. HORTON ⁽¹¹⁾ North Carolina, USA	Vice President, Global Quality Operations
COLIN M. MINCHOM, PH.D. ⁽¹²⁾ Ontario, Canada	Vice President, PDS North America
DEAN WILSON ⁽¹³⁾ North Carolina, USA	Vice President Finance and Controller

Notes:

1. Mr. Wheeler was appointed President in March 27, 2008 after joining Patheon as Chief Executive Officer in December 2007. Prior to that, Mr. Wheeler was President, North America, R&D and Engineering of Valeant Pharmaceuticals International from March to December 2007, President, North America and Research and Development of Valeant from April 2006 to March 2007 and President, North America and Global Commercial Development of Valeant from February 2003 to April 2006.
2. Mr. Evans joined Patheon as Chief Financial Officer in May 2008. Prior to that, Mr. Evans was Vice President, Financial Services of Novartis Pharmaceuticals Corporation from 2007 to May 2008, Vice President & Controller of Novartis Pharmaceuticals Corporation from 2005 to 2007, and Vice President & Chief Financial Officer of Sandoz Inc. from 2001 to 2005.
3. Mr. Braca was appointed President, Patheon Europe in January 2004. Prior to that, Mr. Braca was Executive Vice President, European Business Development and President, Patheon Italia S.p.A.
4. Mr. Garofolo joined Patheon in May 2008 as Senior Vice President and Chief Information Officer and was subsequently promoted to the position of Executive Vice President and Chief Technology Officer in November 2008. Prior to joining Patheon, Mr. Garofolo held a number of executive positions at Valeant Pharmaceuticals International, including Chief Information Officer from August 2007 to May 2008, and Vice President of Global Technology from 2004 to 2007.
5. Mr. Glass joined Patheon in April 2009 as Senior Vice President Strategy, Corporate Development and Integration, Sales and Marketing, and was subsequently promoted to the position of Executive Vice President Global Strategy, Sales and Marketing in October 2009. Previously, Mr. Glass spent almost five years as an executive at Valeant Pharmaceuticals as Senior Vice President Asian Operations and Senior Vice President and Chief Information Officer of Valeant Pharmaceuticals International.
6. Ms. Fathallah was appointed Senior Vice President, General Counsel Europe and Global Pharmaceutical Development Services, in May 2008. Prior to that, she was Vice President and General Counsel Europe, Middle East & Africa of Valeant Pharmaceuticals International from 2007 to

May 2008, Vice President, Assistant General Counsel of Valeant Pharmaceuticals International from 2004 to 2006, and Associate Attorney, Corporate Department, Corporate Finance Practice Group of Paul, Hastings, Janofsky & Walker LLP from 2000 to 2004.

7. Mr. Kelley joined Patheon in January 2006 as Vice President of Operations for the U.K. He progressed to the position of Vice President of Operations for the U.K. and France and now holds the position of Senior Vice President Commercial Operations for Europe and Asia Pacific. Mr. Kelley joined Patheon from Cardinal Health, where he spent 15 years in progressively senior production and operational roles, lastly serving as Vice President, Operations for Europe and Site Leader for Swindon.
8. Ms. Mancuso joined Patheon in 2001 as Production Manager of Patheon's facility in Monza, Italy and was appointed Site Director in June 2002. She became Director, Italian Operations in January 2005, with responsibility for integrating and managing both the Monza and Ferentino sites. In February 2009, Ms. Mancuso was appointed to her current position of Senior Vice President & Managing Director, European Operations. Prior to joining Patheon, Ms. Mancuso held progressively senior roles in production and manufacturing during her six years at Bristol-Myers Squibb in Italy.
9. Prior to joining Patheon in 2000, Mr. Arnold worked for five years at R P Scherer Ltd., a division of Cardinal Health Inc., where his roles included developing the company's export business and managing its key U.K. accounts.
10. Mr. Barras was appointed Vice President, PDS Europe and Asia in October 2008. Prior to that, he served as Vice President, Pharmaceutical Development Services, Europe, since April 2006, after joining Patheon in 2005 as Group Director, PDS Swindon. Prior to that, Mr. Barras held a number of senior roles at Norgine International Ltd., including Medical Director, Scientific Director, and Vice President of R&D.
11. Mr. Horton joined Patheon in May 2008 as Vice President, Global Quality Operations. Prior to joining Patheon, Mr. Horton held the position of Vice President Quality Assurance and Regulatory Affairs at DSM in Greenville, North Carolina. Prior to that, Mr. Horton spent approximately 10 years at Abbott Laboratories in a variety of Production and Quality Assurance roles.
12. Dr. Minchom joined Patheon in 2000. From June 2004 he served as Vice President, PDS, Canada, until his appointment to the role of Vice President, PDS North America in October 2008.
13. Mr. Wilson joined Patheon in August 2008. Prior to joining Patheon, Mr. Wilson was responsible for broad divisional finance and shared services at Coty. Prior to that, Mr. Wilson held several senior financial and accounting roles at Revlon, including Assistant Corporate Controller, North American Controller and VP Operations Finance.

DIRECTORS

The names and places of residence of the directors of Patheon, including their terms of office and committee memberships as at December 18, 2009, are set forth below together with their principal occupations during the past five years. Subject to the Settlement Agreement described under *Legal Proceedings – Settlement Agreement Between Patheon and JLL*, directors of Patheon hold office until the next annual meeting of shareholders or until their successors are duly elected or appointed.

Name & Place of Residence	Director Since	Current Committee Membership	Principal Occupation and During Past Five Years
RAMSEY A. FRANK Connecticut, U.S.A.	2007	Corporate Governance	Mr. Frank is Managing Director, JLL Partners, Inc. (a private equity investment firm)
PAUL S. LEVY New York, U.S.A.	2007	None	Mr. Levy is Managing Director, JLL Partners, Inc. (a private equity investment firm)
THOMAS S. TAYLOR New York, U.S.A.	2007	Audit; Compensation and Human Resources; Corporate Governance	Mr. Taylor is Managing Director, JLL Partners, Inc. (a private equity investment firm); from July 2004 to May 2005: Business Strategy Consultant at The Hartford Financial Services Group, Inc.
DANIEL AGROSKIN	2009	Compensation and Human Resources	Mr. Agroskin is Principal, JLL Partners, Inc. (a private equity investment firm); prior to 2005: Associate at J.P. Morgan Partners.
JOAQUÍN B. VISO Puerto Rico, U.S.A.	2004 ⁽¹⁾	Corporate Governance; Compensation and Human Resources	From August 2005 to December 2006: Chairman, MOVA Pharmaceutical Corporation (a pharmaceutical company) (now called "Patheon Puerto Rico, Inc."); prior to August 2005: President and Chief Executive Officer, MOVA Pharmaceutical Corporation.
DEREK J. WATCHORN Ontario, Canada	1998	Audit	From 2007 to 2009: President, Chief Executive Officer and a director of Revera Inc. ("Revera") (provider of accommodation and care for seniors); from October 2004 to January 2007: President, Chief Executive Officer and a trustee of Retirement Residences Real Estate Investment Trust (provider of accommodation and care for seniors) (acquired by Revera in January 2007); from October 2004 to December 2007: a trustee of IPC US Real Estate Investment Trust (asset and property management).
WESLEY P. WHEELER North Carolina, U.S.A.	2007 ⁽¹⁾	Not Applicable ⁽²⁾	From December 3, 2007 to present: Chief Executive Officer of Patheon (and President from March 27, 2008 onwards); from March to December 2007: President, North America, R&D and Global Manufacturing, Valeant Pharmaceuticals International (pharmaceutical company); from April 2006 to March 2007: President, North America and Research and Development, Valeant Pharmaceuticals International; from February 2003 to April 2006: President, North America and Global Commercial Development, Valeant Pharmaceuticals International.

Name & Place of Residence	Director Since	Current Committee Membership	Principal Occupation and During Past Five Years
ROY T. GRAYDON Ontario, Canada	2009	Audit	Mr. Graydon is President, CEO and a Director of Aeroquest International Limited, positions he has held since 2005. From 2003 until 2005, Mr. Graydon was Executive Vice President and Chief Financial Officer of Call-Net Enterprises Inc., a TSX-listed company.
BRIAN G. SHAW	2009		2005-2008: CEO and Chairman, CIBC World Markets; prior to 2005, head of CIBC World Markets Global Equities Division.

- (1) From the annual meeting of shareholders held on April 29, 2009 until court approval of a settlement agreement on December 4, 2009, these individuals were not directors of the Company.
- (2) Members of management are not members of any Committees of the Board.

SHAREHOLDINGS OF DIRECTORS AND EXECUTIVE OFFICERS

As at October 31, 2009, Patheon's directors and executive officers as a group beneficially owned or controlled or directed, directly or indirectly, 84,421,886 restricted voting shares of Patheon, representing 65.4% of the outstanding restricted voting shares. This includes 73,523,246 restricted voting shares owned by JLL Patheon Holdings LLC and JLL Patheon Holdings II LLC, and 10,824,053 restricted voting shares beneficially owned, directly or indirectly by Joaquín Viso.

CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS

Securities laws require the Company to disclose whether a director or executive officer has: (i) been a director or an executive officer of a company that has been subject to a cease trade or other order or become bankrupt; (ii) been bankrupt; (iii) been subject to any penalties or sanctions relating to securities legislation or has entered into a settlement agreement with a securities regulatory authority; and (iv) been subject to any other penalties or sanctions that would likely be considered important to a reasonable shareholder in making an investment decision. Except as set out below, to the Company's knowledge (based on information furnished by the directors and executive officers), no disclosure is required in respect thereof.

Mr. Levy previously served as a director of Hayes Lemmerz International, Inc., which made a proposal under Chapter 11 of the U.S. Bankruptcy Code in 2001, and as a director of New World Pasta Company and Motor Coach Industries, Inc., which made proposals under chapter 11 of the U.S. Bankruptcy Code in 2004 and 2008 respectively. In May 2009, J.G. Wentworth, LLC, J.G. Wentworth, Inc., and JGW Holdco, LLC filed for protection under Chapter 11 of the United States Bankruptcy Code. Mr. Levy is a director of J.G. Wentworth, LLC and J.G. Wentworth, Inc., which is the managing member of JGW Holdco, LLC.

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

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

CONFLICTS OF INTEREST

Messrs. Ramsey, Levy, Taylor and Agroskin hold positions with JLL, which is the controlling shareholder of Patheon. Conflicts of interest of these directors could arise from time to time in their capacities with JLL.

AUDIT COMMITTEE INFORMATION

COMPOSITION OF THE AUDIT COMMITTEE

The Audit Committee is currently comprised of the following three members: Roy T. Graydon (Chairman), Derek Watchorn, and Thomas S. Taylor. The Board of Directors has determined that each of Messrs. Watchorn and Graydon is "independent" within the meaning of National Instrument 52-110 – *Audit Committees* ("NI 52-110"). As regards to Mr. Taylor, he is considered not to be independent because of his position with JLL and the degree of control that JLL exercises over Patheon. Each of the members of the Audit Committee is "financially literate" within the meaning of NI 52-110 (see below).

RELEVANT EDUCATION AND EXPERIENCE

Mr. Graydon holds an MBA and has experience in corporate finance, mergers and acquisitions, portfolio management and corporate governance gained through his executive level and board positions at a number of private and publicly traded corporations. Mr. Watchorn holds an LL.B. and spent many years in private legal practice and as an executive at a number of private and public companies. Mr. Taylor is an investment banker and former Chief Financial Officer of several corporations. As such, all of the members of the Audit Committee are financially literate. Each of the Audit Committee members: (i) is fully cognizant of the accounting principles used by Patheon to prepare its financial statements; (ii) has the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves; (iii) has practical experience preparing, auditing, analyzing or evaluating financial statements; and (iv) has an understanding of internal controls and procedures for financial reporting.

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

RELIANCE ON CERTAIN EXEMPTIONS

Mr. Taylor is not "independent" for the purposes of NI 52-110 and the Company is relying on Section 3.3(2) of NI 52-110 (Controlled Companies) in respect of his membership on the Audit Committee. The Board has determined that Mr. Taylor is able, notwithstanding his affiliation with JLL, to exercise the impartial judgment necessary to fulfill his responsibilities as an Audit Committee member and that his appointment is required by the best interests of Patheon and its shareholders. The rationale for Mr. Taylor's membership on the Audit Committee is his knowledge and expertise regarding financial matters. A majority of the Audit Committee is "independent" as required by Section 3.7 of NI 52-110.

PRE-APPROVAL POLICIES AND PROCEDURES

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

EXTERNAL AUDITOR SERVICE FEES

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

FISCAL YEAR	AUDIT FEES	AUDIT-RELATED FEES	TAX FEES	ALL OTHER FEES
2009	\$1,690,853 ¹	\$33,765 ²	\$213,471 ³	\$0
2008	\$1,083,000	\$276,000	\$ 58,000	\$91,000

⁽¹⁾ Includes fees related to the fiscal year audit and quarterly reviews.

⁽²⁾ Includes fees related to the Special Committee and employee benefit plans.

⁽³⁾ Includes fees for transfer pricing and tax preparation services.

AUDIT COMMITTEE CHARTER

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

LEGAL PROCEEDINGS

The following is a summary of legal proceedings to which the Company has been a party during fiscal 2009. Litigation between the Company and JLL has since been settled by agreement of the parties dated November 30, 2009.

Background

JLL Offer

On December 8, 2008, JLL announced its intention to make the JLL Offer to purchase any and all of the outstanding restricted voting shares that it did not own at a price of U.S.\$2.00 per share, which represented approximately C\$2.54 at then-current exchange rates.

At that time, JLL owned approximately 1.8% of the outstanding restricted voting shares and convertible preferred shares convertible, at a price of U.S.\$4.77 per share, into restricted voting shares that would represent approximately 28.3% of the outstanding restricted voting shares. As a result of JLL's share ownership, the JLL Offer was an "insider bid" for the purposes of Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions* ("MI 61-101"), and subject to the requirements of that instrument, including the preparation of a formal valuation of the restricted voting shares under the supervision of an independent committee of the Board (the "Valuation").

At meetings on December 11 and 19, 2008, the Board formed a Special Committee, composed of Paul W. Currie (Chair), Peter A.W. Green, Claudio F. Bussandri and Derek J. Watchorn, each of whom was an independent director within the meaning of MI 61-101, with a mandate to, among other things: (i) assess, consider and review the terms of the JLL Offer; (ii) consider whether alternatives to the JLL Offer, including permitting Patheon to remain an independent company and to execute its business plan ("Alternative Proposals"), may be more desirable than the Offer; (iii) report and make recommendations to the Board with respect to the JLL Offer or any Alternative Proposal; and (iv) supervise the preparation of the Valuation.

On January 9, 2009, the Special Committee announced that it had engaged BMO Nesbitt Burns Inc. ("BMO Capital Markets") to prepare the Valuation and Goldman, Sachs & Co. as financial advisor to the Special Committee.

On February 19, 2009, BMO Capital Markets delivered to the Special Committee the Valuation, which concluded that, as of February 16, 2009, in BMO Capital Markets' opinion, the fair market value of the

restricted voting shares was in the range of U.S.\$4.20 to U.S.\$5.00 per share. Further information regarding the Valuation is contained in Patheon's Directors' Circular dated March 25, 2009 (the "Directors' Circular").

On March 11, 2009, JLL announced that it was commencing the JLL Offer and filed its take-over bid circular (the "Offering Circular") with Canadian securities regulators.

The Special Committee and the Board determined that the JLL Offer was inadequate and recommended that shareholders reject the JLL Offer and not tender their restricted voting shares. The reasons for this recommendation and further details regarding the deliberations of the Special Committee were detailed in a Directors' Circular.

JLL Agreement with Joaquín B. Viso and Ontario Securities Commission Proceedings

The Offering Circular disclosed that, as of March 10, 2009, JLL had entered into a voting agreement (the "Voting Agreement") with a group of shareholders led by Joaquín Viso (the "Viso Shareholders"). The Special Committee alleged that the agreement purported to give the Viso Shareholders, who were party to it the option to elect to either accept the JLL Offer or to obtain certain rights and protections not offered to the other shareholders, including protection from certain compulsory acquisitions and subsequent acquisition transactions so they would be "entitled to retain ownership of their respective restricted voting shares" in the event that Patheon were to become a private company.

On April 6, 2009, the Special Committee formally applied to the Ontario Securities Commission (the "OSC") for certain remedies including a cease trade order prohibiting JLL from acquiring any restricted voting shares under the JLL Offer until such time as identical consideration was offered to all holders of restricted voting shares.

On April 12, 2009, JLL advised OSC staff that it would terminate the Voting Agreement if the Special Committee application would not then proceed to a hearing. After discussions with OSC staff regarding the conditions, in addition to the termination of the Voting Agreement, on which the JLL Offer would be permitted to proceed, the issue of the appropriate additional conditions proceeded to an OSC hearing on April 16, 2009. At the conclusion of that hearing, the OSC ordered JLL to revise the JLL Offer and take certain other steps before it could proceed with the JLL Offer. These steps included the termination of the Voting Agreement, and undertakings by JLL and the other parties to the Voting Agreement, including the Viso Shareholders, that, among other things, they would not enter into any oral or written agreement, arrangement or understanding, formal or informal, direct or indirect, in respect of Patheon or any of its securities while the Offer was outstanding and for a period of 120 days thereafter.

JLL amended the Offer on April 22, 2009 to comply with the conditions set out in the OSC decision.

Application by Joaquín B. Viso in Connection with Shareholder Meeting Requisition

Shareholders Joaquín B. Viso and Olga Lizardi (the "Applicants") delivered a requisition dated May 5, 2009 (the "Requisition") for a special shareholders meeting (the "Meeting") to consider certain proposals put forward by the Applicants, including the removal from office of certain of the Company's directors; and to fill the vacancies created by the election of nominees to be proposed by the Applicants.

On May 26, 2009, in response to the Requisition, the Special Committee called the Meeting to be held on September 11, 2009. On July 28, 2009, the Special Committee postponed the Meeting date to October 30, 2009. On August 21, 2009, the Special Committee announced that Lonza Group AG ("Lonza") had submitted a non-binding proposal to acquire all of the outstanding restricted voting shares at a price of U.S.\$3.55 per share.

On September 2, 2009, the Applicants commenced an application in the Ontario Superior Court of Justice seeking an order requiring the Meeting to be held no later than October 30, 2009. On September 17,

2009, the Special Committee postponed the Meeting date to December 15, 2009. On September 28, 2009, the application was adjourned on consent. The Special Committee agreed that the Meeting would not be postponed beyond December 15th unless the Special Committee in good faith in its discretion believed at the relevant time that a certain strategic transaction involving Lonza may be achievable, in which case the Meeting could be postponed to a later date.

Since the settlement of the litigation between the Company and JLL which, among other things, provided for the removal of certain directors and the reappointment of Joaquín B. Viso and Wesley P. Wheeler to the Board, Mr. Viso has withdrawn his requisition for a special meeting and has obtained an order dismissing the application in connection with the requisitioned meeting in return for the payment by Patheon of \$350,000 for legal and meeting expenses.

Patheon's Legal Action against JLL and the JLL Nominees

On May 22, 2009, Patheon commenced an action in the Ontario Superior Court of Justice against JLL and its nominees to the Board (the "JLL Nominees"). The action related to the conduct of JLL and the JLL Nominees in connection with the JLL Offer and related matters, including the Requisition.

In response, JLL commenced a legal action on August 27, 2009 against each of current and former members of the Special Committee in respect of such members' conduct in connection with the JLL Offer and other related matters.

Settlement Agreement between Patheon and JLL

A settlement agreement dated November 30, 2009 was entered into between Patheon and JLL (the "Settlement Agreement"). The Settlement Agreement provides among other things that:

- Until March 1, 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 of the Company for a one-year period. Thereafter, and until April 27, 2012, JLL will not acquire any additional restricted voting 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 valid tender to the bid of at least a majority of the minority restricted voting shares.
- Until April 27, 2012, certain transactions by the Company, including certain rights offerings, issuer bids and related party transactions, would require approval by a majority of the independent directors.
- The Company paid JLL U.S.\$1.5 million in connection with the settlement.

A copy of the Settlement Agreement is available at www.sedar.com.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Mr. Joaquín B. Viso, who, as at October 31, 2009, together with his wife, jointly owns approximately 8.4% of the issued and outstanding restricted voting shares of Patheon and is a director of the Company, is a controlling shareholder of Alara Pharmaceutical Corporation ("Alara") which has two contractual commercial relationships with Patheon Puerto Rico, Inc. ("Patheon PR"). One of these agreements involves a significant product for Patheon PR. According to the terms of the commercial manufacturing

agreement, the right to place orders for such product has been assigned to a third party who purchases this product directly from Patheon PR; however, the NDA for such product remains the property of Alara. This commercial manufacturing agreement expires in 2019, and grants Patheon PR the right to manufacture 85% of the worldwide requirements for such product for the term of the agreement. In addition, Mr. Viso has been appointed to the Board of Directors of the Company pursuant to the terms of the Settlement Agreement. See *Legal Proceedings*.

The Company indirectly holds, through Patheon Italia S.p.A. and Patheon B.V. (of the Netherlands), an equity interest of 18% in BSP Pharmaceuticals S.r.l. ("BSP"), a privately-held Italian company. BSP operates an oncology production facility in Latina, Italy that specializes in the provision of third-party development and manufacturing of cytotoxic pharmaceutical products. On July 2, 2008, the Company announced that it had completed a shareholders' agreement in respect of BSP as well as a sales and marketing agreement with BSP. Under the terms of the latter agreement, Patheon is promoting BSP's manufacturing capacity and development services. Mr. Aldo Braca, President, Patheon Europe, and/or his immediate family members, either directly or indirectly through entities controlled by Mr. Braca and/or his immediate family members, hold(s) an aggregate equity interest of 47% in BSP. Mr. Braca has been appointed President and Chief Executive Officer of BSP. Patheon amended its employment agreement with Mr. Braca effective January 1, 2009. The agreement will terminate by mutual consent on December 31, 2009, unless both parties agree in writing to extend it for an additional year. Beginning on January 1, 2009 and until the termination of the agreement, Mr. Braca's employment status will be part-time and his agreement states that he will devote 40% of his time and efforts to Patheon business while Patheon searches for a successor to his position.

On September 4, 2008, Patheon and JLL entered into an agreement pursuant to which JLL agreed to waive the mandatory redemption requirement in respect of the Class I Preferred Shares, Series C held by JLL. Patheon estimates that the amount otherwise payable to JLL under the mandatory redemption requirement to be at least U.S.\$185,000,000. In consideration of this waiver, among other things, Patheon issued to JLL, 400,000 restricted voting shares and agreed to provide a limited waiver of the standstill provisions of the Investor Agreement to permit JLL to acquire, through the facilities of the TSX, over a one year period, up to 1,256,929 restricted voting shares. In September 2008 and October 2008 JLL purchased an aggregate of 1,250,000 restricted voting shares on the TSX. For additional details, please see the agreement, a copy of which was filed on www.sedar.com on September 11, 2008.

On December 8, 2008, JLL announced its intention to make an offer to purchase from shareholders of Patheon for U.S.\$2.00 payable in cash, any and all outstanding restricted voting shares of Patheon not already owned by JLL or its affiliates or associates. JLL commenced that offer on March 11, 2009. Then, on July 29, 2009, JLL filed a Notice of Conversion with the Company, converting all of its 150,000 convertible preferred shares into 38,018,538 restricted voting shares. At the expiry of the JLL Offer at 6:00 p.m. on August 26, 2009, a total of 33,854,708 restricted voting shares had been deposited to the JLL Offer. Altogether, following the expiry of the bid and the conversion of the convertible preferred shares, JLL holds 73,523,246 restricted voting shares (the "JLL Shares"), or 57% of the issued and outstanding restricted voting shares of the Company. Each of Messrs. Paul Levy and Ramsey Frank and Thomas Taylor are Managing Directors of JLL Partners, Inc. and each is also director of Patheon. By virtue of Mr. Levy's position as managing member of JLL Associates GP V, LLC, the general partner of JLL Associates V, LP, which in turn is the general partner of JLL Partners Fund V, LP, which controls both JLL Patheon Holdings, LLC and JLL Patheon Holdings II, LLC, Mr. Levy may be deemed the beneficial owner of the JLL Shares. Mr. Levy disclaims beneficial ownership of the JLL Shares except to the extent of any pecuniary benefit thereof. By virtue of Mr. Frank's position as the sole member of each of JLL Patheon Holdings, LLC and JLL Patheon Holdings II, LLC, Mr. Frank may be deemed the beneficial owner of the JLL Shares; however, Mr. Frank disclaims beneficial ownership of the JLL Shares. Mr. Daniel Agroskin is a Principal of JLL Partners, Inc. and also a director of Patheon. In addition, Mr. Agroskin has been nominated to the Board of Directors of the Company pursuant to the terms of the Settlement Agreement. See *Legal Proceedings*.

Mr. Brian Shaw has been appointed to the Board of Directors of the Company pursuant to the terms of the Settlement Agreement. Messrs. Derek Watchorn and Roy Graydon continue on the Board of

Directors and have been appointed to the Audit Committee of the Board until the release of the 2009 financials, also pursuant to the terms of the Settlement Agreement. The Settlement Agreement also requires that, at any meeting of shareholders held prior to March 1, 2011, JLL shall vote all of its restricted voting shares in favour of the re-election of each of Messrs. Shaw, Watchorn and Graydon, and to vote all of its restricted shares against removal of any of these same directors. See *Legal Proceedings*.

Mr. Wesley P. Wheeler, Patheon's CEO and a director of the Company, has been appointed to the Board of Directors of the Company pursuant to the terms of the Settlement Agreement. See *Legal Proceedings*.

TRANSFER AGENT AND REGISTRAR

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

MATERIAL CONTRACTS

Other than the agreements described below, copies of which have been filed on SEDAR (www.sedar.com), Patheon did not enter into any material contracts during fiscal 2009, nor did Patheon enter into any material contracts prior to fiscal 2009 that remain in effect. See also *Description of Capital Structure – Restricted Voting Shares*.

SETTLEMENT AGREEMENT WITH JLL

See a summary of the terms of the settlement agreement between Patheon and JLL in the preceding section on *Legal Proceedings*.

INVESTOR AGREEMENT

JLL and Patheon entered into the Investor Agreement, dated April 27, 2007, in connection with the purchase by JLL of the convertible preferred shares and Special Voting Preferred Shares for gross proceeds of \$150 million. The following is a summary of the key terms of the Investor Agreement and is not complete.

The key terms of the Investor Agreement relate to:

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

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

- (a) create or issue any shares of capital stock ranking *pari passu* with or senior to the convertible preferred shares, or issue any additional restricted voting shares or other equity securities of Patheon, or securities convertible for or exchangeable into such securities, other than pursuant to Patheon's incentive stock option plan or any other security-based compensation arrangement consented to by JLL;

- (b) declare or pay dividends or other distributions (including capital) on the restricted voting shares or other equity securities;
- (c) redeem, repurchase or acquire any restricted voting shares or other equity securities;
- (d) change the articles of Patheon;
- (e) change the rights of the existing classes of shares of Patheon;
- (f) merge, consolidate or sell all or substantially all of the assets of Patheon or undertake any similar business combination transaction;
- (g) incur any indebtedness for borrowed money in excess of \$20 million, excluding borrowings under Patheon's credit facilities and any indebtedness incurred to fund all or part of the redemption price for all of the convertible preferred shares;
- (h) initiate any insolvency, restructuring or reorganization process, voluntary liquidation, dissolution or winding-up of Patheon;
- (i) change the Chief Executive Officer of Patheon; or
- (j) change the size of the Board of Directors of Patheon.

Standstill: Unless JLL is making an offer to acquire all of the outstanding restricted voting shares of Patheon by way of a take-over bid circular and in compliance with the terms of Patheon's shareholder rights plan (if then in effect), JLL will not acquire or offer to acquire, directly or indirectly, any restricted voting shares or convertible preferred shares or direct or indirect rights or options to acquire any restricted voting shares, other than restricted voting shares received through: (i) a stock dividend or recapitalization of Patheon, (ii) any dividend reinvestment plan, (iii) a rights offering to all holders of restricted voting shares, (iv) Patheon's shareholders rights plan or (v) conversion of the convertible preferred shares. JLL will not act jointly or in concert with any third party to propose or effect any take-over bid, amalgamation, merger, arrangement or other business combination with respect to Patheon or to propose or effect any acquisition or purchase of any of the assets of Patheon. JLL will not solicit votes or proxies to attempt to alter the structure of the Board of Directors as it existed on April 27, 2007. The standstill provisions will expire on the earliest of (i) April 27, 2012, (ii) the date upon which JLL or any of its affiliates (A) ceases to own beneficially, directly or indirectly, restricted voting shares and convertible preferred shares that represent at least 20% of the number of restricted voting shares then issued and outstanding and (B) no longer has the right to nominate a representative to the Board, and (iii) the date on which the Board approves any of the following actions, or approves the entering into by Patheon of an agreement in respect of any transaction involving: (A) the sale of restricted voting shares or convertible preferred shares representing more than 35% of the fully-diluted shares held by JLL to any third party other than a member of JLL and its affiliates or any person acting jointly or in concert with any member of JLL and its affiliates, (B) a consolidation, merger, arrangement or amalgamation (statutory or otherwise) of Patheon with any such third party, or (C) the acquisition by any such third party or group of such third parties of restricted voting shares or convertible preferred shares representing more than 35% of the fully-diluted shares held by JLL. (Note that, subsequent to the Investor Agreement, Patheon agreed to provide a limited waiver of these standstill provisions. See *Material Contracts – Redemption Waiver Agreement* for information concerning this limited waiver.)

Coat-tail Protection: In addition to any restrictions under applicable law, the convertible preferred shares may only be transferred (i) to an affiliate of JLL, (ii) to a purchaser that has also offered or has made a follow-up offer to purchase all the restricted voting shares on the same terms and on an economically-equivalent basis, or (iii) pursuant to a transaction that would, if the convertible preferred shares were restricted voting shares, be an exempt take-over bid or otherwise would not require that an offer or follow-up offer be made to all holders.

Transfer of Special Voting Preferred Shares: The Special Voting Preferred Shares are not transferable, except to an affiliate of JLL.

Registration Rights: JLL may request Patheon to effect a qualification under Canadian securities laws of the distribution to the public in any or all of the provinces of Canada of all or part of the convertible preferred shares (or restricted voting shares received on conversion) held by JLL (a "Demand Registration"), subject to a maximum of two Demand Registrations. In addition, each time Patheon elects to proceed with the preparation and filing of a prospectus under any Canadian securities laws in connection with a proposed distribution of any of its securities for cash, JLL shall be entitled to request that Patheon cause any or all of the shares held by JLL to be included in such prospectus (an "Incidental Registration"). All registration expenses (excluding underwriting or placement discounts and commissions) will be borne by Patheon. The Demand Registration rights terminate when JLL and its affiliates no longer beneficially own convertible preferred shares (or restricted voting shares received on conversion) representing at least 12,500,000 fully-diluted restricted voting shares, and the Incidental Registration rights terminate when JLL and its affiliates no longer beneficially own convertible preferred shares (or restricted voting shares received on conversion) representing at least 6,250,000 fully-diluted restricted voting shares.

On July 29, 2009, JLL filed a Notice of Conversion with the Company, converting all of JLL's 150,000 convertible preferred shares into 38,018,538 restricted voting shares.

REDEMPTION WAIVER AGREEMENT

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

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

2007 CREDIT FACILITIES

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

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

The Company is required to make quarterly installment payments of \$375,000 on the term loan facility, along with additional mandatory repayments based on certain excess cash flow measures. Interest on the facilities is at floating rates based on LIBOR, U.S. or CAD prime, or the federal funds effective rate, plus applicable margins. The Company has entered into interest rate swaps to convert the interest

expense on the \$150 million senior secured term loan from a floating interest rate to a fixed interest rate. The facilities are secured 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. Drawings under the revolving credit facility are limited by the level of accounts receivable and inventories; accordingly at October 31, 2009 the maximum amount available under the revolving facility was \$60.1 million. At October 31, 2009 the balance on the senior secured term loan was \$146.3 million and \$40.0 million was drawn on the revolving credit facility, including letters of credit of \$2.3 million.

The senior secured term loan and the senior secured revolving loan each contain a definition of "Change in Control" which includes the acquisition of ownership, directly or indirectly, beneficially or of record, by any person or group (within the meaning of the U.S. Securities Exchange Act of 1934 and the rules of the U.S. Securities and Exchange Commission) other than Permitted Holders (as defined in the agreements), of equity interests representing more than 40% of the aggregate ordinary voting power represented by the issued and outstanding equity interests of the Company. As JLL is a Permitted Holder, a Change in Control was not triggered by the acquisition by JLL of restricted voting shares under its offer announced December 8, 2008 for any and all outstanding restricted voting shares of the Company. If a Change in Control were triggered, it would constitute an "Event of Default" which would entitle the lenders by notice to the Company to terminate the commitments and declare the loans to be due and payable.

INTERESTS OF EXPERTS

NAMES OF EXPERTS

The auditors of Patheon are Ernst & Young LLP, Chartered Accountants. Patheon's consolidated financial statements as at October 31, 2009 and for the year then ended have been filed under National Instrument 51-102 in reliance on the report of Ernst & Young LLP, Chartered Accountants, given on their authority as experts in auditing and accounting.

INTERESTS OF EXPERTS

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

ADDITIONAL INFORMATION

Additional information, including information regarding directors' and officers' remuneration, principal holders of Patheon's securities and options to purchase securities, is contained in Patheon's Management Proxy Circular in respect of Patheon's annual meeting held on April 29, 2009, and filed on SEDAR (www.sedar.com) in compliance with securities regulations and prior to the meeting. Additional financial information is provided in the consolidated financial statements and management's discussion and analysis for the fiscal year ended October 31, 2009, filed on SEDAR.

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

APPENDIX A - BACKGROUND ON THE DRUG DEVELOPMENT PROCESS

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

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

Discovery

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

Synthesis of the NME

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

Pre-Clinical Studies

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

Investigation New Drug Application (IND)

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

Clinical Trials & Pharmaceutical Development

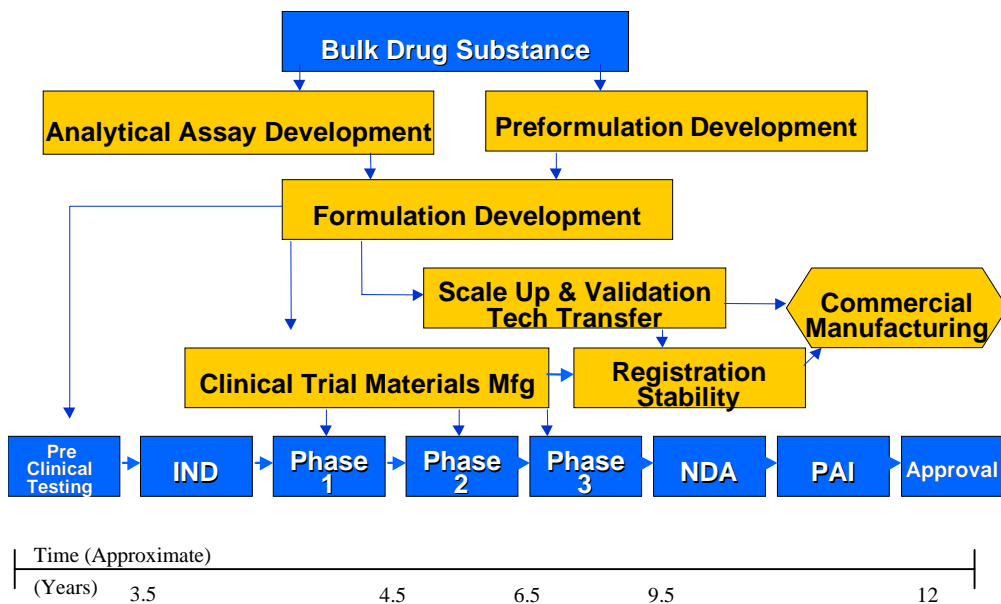
During the drug development process, an NME must undergo safety and clinical evaluation before it is approved as a commercial therapeutic product. The NME must pass through Phase I, Phase II and Phase III clinical trials prior to receiving approval. An essential part of this process is the development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

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

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

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

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



Pre-Approval Inspection ("PAI")

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

Post-Marketing Approval (Phase IV)

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

Commercial Manufacturing

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

APPENDIX B - GLOSSARY OF TECHNICAL TERMS

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

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

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

APPENDIX C - AUDIT COMMITTEE CHARTER

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

1. DEFINITIONS

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

2. AUDIT COMMITTEE RESPONSIBILITIES

2.1 Relationship with External Auditor

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

2.2 Audit Committee Responsibilities

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

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

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

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

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

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

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

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

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

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

2.3 De Minimis Non-Audit Services

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

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

2.4 Delegation of Pre-Approval Function

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

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

2.5 Pre-Approval Policies and Procedures

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

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

3. COMPOSITION OF THE AUDIT COMMITTEE

3.1 Composition

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

(2) Every *audit committee* member must be a director of the Corporation.

(3) Subject to sections 3.2, 3.3, 3.4 and 3.5, every *audit committee* member must be *independent*.

(4) Subject to sections 3.4 and 3.7, every *audit committee* member must be *financially literate*.

3.2 Controlled Companies

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

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

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

3.3 Events Outside Control of Member

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

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

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

3.4 Death, Disability or Resignation of Member

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

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

3.5 Temporary Exemption for Limited and Exceptional Circumstances

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

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

3.6 Majority Independent

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

3.7 Acquisition of Financial Literacy

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

3.8 Restriction on Use of Certain Exemptions

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

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

4. AUTHORITY OF THE AUDIT COMMITTEE

4.1 Authority

The *audit committee* has the authority

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

5. GENERAL

5.1 Subject to by-laws, etc.

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

5.2 Annual Review of Charter

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

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

SCHEDULE A

DEFINITIONS AND INTERPRETATION

1.1 Definitions

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

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

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

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

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

"marketplace" means

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

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

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

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

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

1.2 Meaning of Affiliated Entity, Subsidiary Entity and Control

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

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

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

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

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

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

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

1.3 Meaning of Independence

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

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

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

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

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

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

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

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

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

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

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

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

1.4 Additional Independence Requirements

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

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

is considered to have a material relationship with the Corporation.

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

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

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

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

1.5 Meaning of Financial Literacy

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

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