



PATHEON INC.

**NOTICE OF MEETING**

**AND**

**MANAGEMENT PROXY CIRCULAR**

**ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD ON APRIL 15, 2010**



March 22, 2010

Dear Shareholder:

You are invited to attend the Annual Meeting of Shareholders to be held at Hilton Toronto, 145 Richmond Street West, Toronto, Ontario, Canada M5H 2L2 on Thursday, April 15, 2010 at 10:00 a.m. (EDT). Directly following the meeting, management will be making a presentation regarding our fiscal 2009 results and our strategy for moving forward.

We look forward to your attendance at the meeting. If you cannot attend the meeting, please complete, sign and date the enclosed proxy as soon as possible using any of the methods available. Your vote is important to us.

For shareholders who are unable to attend the meeting, we invite you to listen to the simultaneous webcast of the meeting that will be available on our website at [www.patheon.com](http://www.patheon.com). A recording of the webcast will also be available on our website following the meeting.

Yours truly,

(signed) *Ramsey A. Frank*

Chairman of the Board of Directors

(signed) *Wesley P. Wheeler*

Chief Executive Officer



## NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TAKE NOTICE that the Annual Meeting of Shareholders of Patheon Inc. ("Patheon" or the "Company") will be held at Hilton Toronto, 145 Richmond Street West, Toronto, Ontario, Canada M5H 2L2 at 10:00 a.m. (EDT) on Thursday, April 15, 2010 to:

- (a) receive Patheon's consolidated financial statements for the fiscal year ended October 31, 2009, together with the report of the auditors thereon;
- (b) elect directors;
- (c) appoint the auditors and authorize the directors to fix their remuneration; and
- (d) transact such other business as may properly come before the meeting.

**If you are unable to attend the meeting, please complete, sign, date and return the enclosed form of proxy using one of the methods available, or in the postage prepaid envelope provided for your convenience. For your vote by proxy to be recorded, it must be received by Computershare Investor Services Inc., at 100 University Avenue, 9<sup>th</sup> Floor, Toronto, Ontario, Canada, M5J 2Y1, no later than 10:00 a.m. (EDT) on Tuesday, April 13, 2010, or, if the meeting is adjourned, at least 48 hours (excluding Saturdays, Sundays and holidays) before any adjourned meeting is reconvened.**

Shareholders as at the close of business on March 11, 2010 will be entitled to vote at the meeting.

### BY ORDER OF THE BOARD

(signed) *Doaa A. Fathallah*

Executive Vice President, General Counsel and  
Corporate Secretary

Mississauga, Ontario, Canada

March 22, 2010

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## MANAGEMENT PROXY CIRCULAR

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**This Management Proxy Circular is provided in connection with the solicitation by the management of Patheon Inc. ("Patheon" or the "Company") of proxies to be used at the annual meeting of shareholders of Patheon, to be held at 10:00 a.m. (EDT) on Thursday, April 15, 2010 at Hilton Toronto, 145 Richmond Street West, Toronto, Ontario, Canada M5H 2L2, and at any adjournment(s) or postponement(s) thereof, to transact the business set out in the accompanying Notice of Meeting.**

This solicitation is made by the management of Patheon. It is expected that the solicitation will be primarily by mail but proxies may also be solicited personally or by telephone by Patheon's officers and directors (who will not receive additional remuneration for this service). Patheon may also retain, and pay a fee to, one or more proxy solicitation firms to solicit proxies from shareholders in favour of the matters set forth in the Notice of Meeting. Patheon may pay brokers or other persons holding restricted voting shares in their own names, or in the names of nominees, for their reasonable expenses for sending proxies and the Management Proxy Circular to beneficial owners of restricted voting shares and obtaining proxies therefor. The total cost of the solicitation will be borne directly by Patheon.

All information is as of March 12, 2010, unless otherwise indicated. All currency references are in US dollars, unless otherwise indicated.

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## PROXY INSTRUCTIONS

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A brief summary of the voting process is set out below to address the following questions:

- Who can vote?
- How to vote?

Different rules apply to registered shareholders and non-registered shareholders. You are a non-registered shareholder if your shares are registered in the name of an intermediary (such as a broker, securities dealer, trust company or a bank).

### ***Who Can Vote?***

#### **Registered Shareholders**

Registered holders of Patheon's restricted voting shares and Class I Preferred Shares, Series D as at the close of business on March 11, 2010 will be entitled to vote at the meeting. Please see "Voting Securities and Principal Shareholders" below for further information.

## **Non-Registered Shareholders**

If you are a non-registered shareholder, you should receive a package from your intermediary containing either: (i) a voting instruction form that must be completed and signed by the non-registered holder in accordance with the directions on the voting instruction form; or (ii) a form of proxy which may be signed by the intermediary and specifies the number of restricted voting shares beneficially owned by you, but is otherwise uncompleted.

If you are a non-registered shareholder and have not received such a package, please contact your intermediary.

### ***How to Vote?***

#### **Registered Shareholders**

##### Voting In Person

If you are a registered shareholder you have the right to attend and vote in person at the meeting. Please register your attendance with the scrutineer, Computershare Investor Services Inc., upon arrival at the meeting.

##### Voting By Proxy

If you are a registered shareholder and are unable to be present at the meeting in person, you can vote by using the form of proxy to appoint someone else to vote for you as your proxyholder. **You can choose any individual or company you want to be your proxyholder, including any individual or company who is not a shareholder, by inserting that person's name in the blank space provided in the enclosed form of proxy or by completing another form of proxy. If you leave the space in your enclosed form of proxy blank, the persons designated in the form, who are directors of Patheon, are appointed to act as your proxyholder.**

If you specify on the enclosed form of proxy how you want your shares to be voted on a particular matter, then your proxyholder must vote your shares accordingly.

If you appoint the persons designated in the enclosed form of proxy as your proxyholders, but you do not specify how to vote on a particular matter, then your shares will be voted at the meeting as follows:

- **FOR** the election as directors of the nominees whose names are set out in this Management Proxy Circular; and
- **FOR** the appointment of Ernst & Young LLP as auditors of Patheon and authorizing the directors to fix their remuneration.

If amendments are proposed to these matters, or if any other matters are properly brought before the meeting, your proxyholder will vote in accordance with his or her judgment, pursuant to the discretionary authority conferred by the form of proxy with respect to such matters. As of the date of this Management Proxy Circular, Patheon's management is not aware of any such amendments or other matters to come before the meeting.

**If you are unable to attend the meeting, please exercise your right to vote by (a) completing, signing, dating and returning the enclosed form of proxy in the postage prepaid envelope provided for your convenience to Computershare Investor Services Inc., Patheon's registrar and transfer agent, at 100 University Avenue, 9th Floor, Toronto, Ontario, Canada, M5J 2Y1; (b) by telephone, toll free, 24 hours a day, 7 days a week at 1-866-732-VOTE (8683); OR (c) using the Internet by going to [www.investorvote.com](http://www.investorvote.com). For your vote by proxy to be recorded, it must be received by Computershare Investor Services Inc. by one of the available methods described no**

later than 10:00 a.m. (EDT) on Tuesday, April 13, 2010, or, if the meeting is adjourned, at least 48 hours (excluding Saturdays, Sundays and holidays) before any adjourned meeting is reconvened.

### **Non-Registered Shareholders**

#### Voting in Person

Only registered shareholders or their duly appointed proxyholders are entitled to vote at the meeting. If you are a non-registered shareholder and you wish to attend and vote in person at the meeting, you must insert your own name in the space provided for the appointment of a proxyholder on the voting instruction form or proxy form provided by the intermediary and carefully follow the instructions provided by your intermediary for return of the executed form.

#### ***Voting by Proxy***

If you are a non-registered shareholder you can vote by completing and signing the voting instruction form, following the directions provided on the voting instruction form (which may in some cases, permit the completion of the voting instruction form by fax, internet or telephone voting) or form of proxy enclosed in the package which you should have received from your intermediary.

#### **Votes Required For Approval**

A majority of the votes cast at the meeting, by proxy or in person, is required for the approval of each of the matters being voted on at the meeting. Unless the shareholder specifies in the form of proxy that the restricted voting shares represented by such proxy are to be withheld from voting in the election of directors and the appointment of the auditors, the persons named in the enclosed form of proxy intend to vote **FOR** such matters, as set forth in more detail below.

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### **REVOCATION OF PROXY**

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You may revoke your proxy at any time prior to its use at the meeting. You or your authorized attorney (or, if the shareholder is a corporation, the authorized officers) must state clearly, in writing, that the proxy is revoked and deposit such document:

- at Patheon's head office, located at 2100 Syntex Court, Mississauga, Ontario L5N 7K9, at any time up to and including the last business day preceding the day of the meeting or any adjournment of the meeting; or
- with the Chair of the meeting prior to the commencement of the meeting on the day of the meeting or any adjournment of the meeting.

You may also revoke your proxy by completing a proxy bearing a later date and returning it as specified above.

If you are a registered shareholder and you revoke your proxy and do not replace it with another that is deposited as specified above, you can still vote your shares, but must do so in person at the meeting or any adjournment of the meeting.

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## VOTING SECURITIES AND PRINCIPAL SHAREHOLDERS

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### *Classes of Shares*

As at March 11, 2010, Patheon had 129,167,926 restricted voting shares issued and outstanding. Each restricted voting share carries one vote on all matters to be voted on at the meeting, except the election of those directors that may only be elected by the holders of the Special Voting Preferred Shares, as defined and described below.

As at March 11, 2010, Patheon had 150,000 Class I Preferred Shares, Series D ("Special Voting Preferred Shares") issued and outstanding. The holders of the Special Voting Preferred Shares are entitled to elect up to three directors of Patheon, but are not entitled to vote in respect of any other matters to be considered at the meeting.

The particulars of voting rights for each class of Patheon's shares on the election of directors are further discussed under "Business of Meeting – Election of Directors" below. Reference is also made to the disclosure of the characteristics of each class of Patheon's shares in the Annual Information Form of the Company dated December 18, 2009 under "Description of Capital Structure", which is available on SEDAR at [www.sedar.com](http://www.sedar.com) and, upon request, a copy of which will be provided free of charge to a securityholder of the Company.

### *Principal Shareholders*

To the knowledge of the directors and officers of Patheon, the only person or company that beneficially owns, or controls or directs, directly or indirectly, voting securities carrying 10% or more of the voting rights attached to the two classes of voting shares of Patheon is JLL Patheon Holdings, LLC, and its affiliates (collectively, "JLL"). JLL owns 73,515,946 restricted voting shares representing approximately 57% of the restricted voting shares of the Company, and 150,000 Special Voting Preferred Shares representing 100% of the Special Voting Preferred Shares of the Company.

The Special Voting Preferred Shares currently entitle JLL to elect three directors of the Company. In addition, pursuant to the Settlement Agreement (as defined and described below under "Business of the Meeting – Election of Directors"), JLL is required to vote all of its restricted voting shares in favour of re-election of certain directors, all as more particularly described under "Business of Meeting – Election of Directors" below.

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## BUSINESS OF THE MEETING

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The business to be conducted at the meeting is described in detail below. The matters to be considered are as follows:

- receipt of the 2009 audited consolidated financial statements;
- election of directors; and
- appointment of auditors and authorization to fix their remuneration.

## ***Financial Statements***

Patheon's audited consolidated financial statements for the fiscal year ended October 31, 2009 ("Fiscal 2009"), together with the notes thereto and the report of the auditors thereon, were filed on SEDAR ([www.sedar.com](http://www.sedar.com)) on December 18, 2009 and subsequently mailed to shareholders who requested them. The Fiscal 2009 financial statements will be presented to the shareholders at the meeting. These consolidated financial statements form part of the Patheon 2009 Annual Report, copies of which may be downloaded in portable document format ("PDF") from Patheon's corporate website at [www.patheon.com](http://www.patheon.com) or from the SEDAR website. Printed copies will be available at the meeting. To request a printed copy please contact Patheon's transfer agent, Computershare Investor Services Inc., at 1-888-564-6253 or via email at [service@computershare.com](mailto:service@computershare.com), or Patheon at [patheon@patheon.com](mailto:patheon@patheon.com).

## ***Election of Directors***

Patheon's articles of amalgamation dated November 1, 2003 provide for its board of directors (the "Board") to consist of a minimum of three and a maximum of 12 directors. The articles of amendment dated April 26, 2007 provide that the holders of Special Voting Preferred Shares are entitled to elect up to three directors depending on the number of restricted voting shares owned by such holders. In addition, currently the number and composition of the Board are determined pursuant to the Settlement Agreement, as defined and described below.

## ***Settlement Agreement***

A settlement agreement dated November 30, 2009 was entered into between Patheon, the current and former members of the Special Committee of the Board of Patheon, JLL Patheon Holdings, LLC and its designees to Patheon's Board (the "Settlement Agreement") to settle the litigation among them, all as disclosed and described in Patheon's public filings available on SEDAR at [www.sedar.com](http://www.sedar.com). The Settlement Agreement was approved by the Ontario Superior Court of Justice on December 4, 2009 and became effective on that date.

The Settlement Agreement provides, among other things, that until March 1, 2011, the Board will consist of nine directors who will initially be three nominees of JLL, one additional director selected by JLL, Wesley P. Wheeler, Joaquín B. Viso, and the following three directors referred to as "Independent Directors" in the Settlement Agreement: Derek J. Watchorn, Roy T. Graydon, and Brian G. Shaw.

Under the Settlement Agreement, at each meeting of shareholders held prior to March 1, 2011 at which directors of Patheon are to be elected, JLL is required to vote all of its restricted voting shares in favour of the re-election of each of the Independent Directors. Should either of Messrs. Graydon or Watchorn be unable or unwilling to stand for re-election or vacate his office, a replacement nominee shall be selected by the Board with the unanimous approval of all the remaining Independent Directors then in office, and JLL is required to vote all of its shares in favour of the election such replacement nominee. Should Mr. Shaw be unable or unwilling to stand for re-election or vacates his office, a replacement nominee who would be a qualifying independent director shall be selected by JLL.

The election of directors at any meeting of shareholders of Patheon held after March 1, 2011 and prior to March 1, 2012 is also governed by the Settlement Agreement. A copy of the Settlement Agreement is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## ***Proposed Nominees for Election as Directors at the Meeting***

The Board has determined that the total number of directors to be elected at the meeting is nine, consisting of six directors to be elected by the holders of restricted voting shares and three directors to be elected by the holders of Special Voting Preferred Shares.

In addition to the three directors to be elected by JLL, the holder of all of the issued and outstanding Special Voting Preferred Shares, pursuant to the Settlement Agreement, JLL has selected one additional director for election by the holders of the restricted voting shares, who is Daniel Agroskin.

Accordingly, the Board has approved the following nominees as the six directors of Patheon for election by the holders of restricted voting shares:

Derek J. Watchorn	Joaquín B. Viso
Roy T. Graydon	Wesley P. Wheeler
Brian G. Shaw	Daniel Agroskin

Director	Restricted Voting Shares Owned, Controlled or Directed as at March 11, 2010	Outstanding Options as at March 11, 2010	Public Board Membership During Last Five Years	
<b>DEREK J. WATCHORN</b> <i>Schomberg, Ontario, Canada</i> Director since: 1998 Independent	30,825	25,000	Retirement Residences Real Estate Investment Trust	2001 - 2007
			IPC US Real Estate Investment Trust	2003 - 2007
<p>Mr. Watchorn was formerly President, Chief Executive Officer, and a director of Revera Inc. ("Revera") (provider of accommodation and care for seniors), a private, wholly-owned subsidiary of a Canadian (federal) crown corporation. Revera acquired Retirement Residences Real Estate Investment Trust ("RRR"), then a publicly traded issuer, in January 2007. Mr. Watchorn was President, Chief Executive Officer, and a trustee of RRR from October 2004 to January 2007. He was a trustee of IPC US Real Estate Investment Trust ("IPC") (asset and property management) from October 2004 to December 2007. He served in London, England as Executive Vice-President, Strategic Initiatives, of Canary Wharf Group plc (commercial property company) from January 2003 until June 2004. Mr. Watchorn received an LL.B. from the University of Toronto. Mr. Watchorn has served on the Board since 1998.</p>				
<b>ROY GRAYDON</b> <i>Ontario, Canada</i> Director since: April 2009 Independent	--	--	Aeroquest International Limited	
Member of:        Audit Committee				
<p>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, and from 2002 until 2003 was Managing Partner of VGC Capital Partners. From 1995 to 2001, Mr. Graydon was Portfolio Manager and then Vice President of Relationship Investing at the Ontario Teachers' Pension Plan Board where he oversaw the corporate governance activities of the Plan. Mr. Graydon also worked from 1988 to 1995 with TD Securities Inc. in the fields of Mergers &amp; Acquisitions and Corporate Finance. Mr. Graydon is a geophysicist by training and holds an MBA from the University of Western Ontario (1988). Mr. Graydon joined the Board in April 2009.</p>				
<b>BRIAN G. SHAW</b> <i>Ontario, Canada</i> Director since: December 2009 Independent	--	--	---	
Member of:        Audit Committee				
<p>Mr. Shaw is an experienced financial industry executive with particular expertise in capital markets and investing activities. He currently resides in Toronto and is a private investor and corporate advisor. Mr. Shaw is an alumnus of CIBC World Markets (and its predecessor firm Wood Gundy) where he was employed for 23 years. He was the Chairman and Chief Executive Officer of CIBC World Markets from 2005 to 2008 and prior to that managed the Global Equities Division for a number of years. Mr. Shaw is a CFA, MBA and is currently a Director of the Toronto CFA Society. Mr. Shaw joined Patheon's Board in December 2009 pursuant to the Settlement Agreement.</p>				

Director	Restricted Voting Shares Owned, Controlled or Directed as at March 11, 2010	Outstanding Options as at March 11, 2010	Public Board Membership During Last Five Years
<p><b>JOAQUIN B. VISO</b> <i>Puerto Rico, USA</i></p> <p>Director from: 2004 – April 2009 and since December 2009 Independent</p> <p>Member of:      Audit Committee                          Corporate Governance Committee                          Compensation and Human Resources Committee</p> <p>Mr. Viso founded MOVA Pharmaceutical Corporation in 1986, serving as its President and CEO until August 1, 2005 and as its Chairman until December 31, 2006. Prior to founding MOVA, he was with SmithKline (now GlaxoSmithKline), where he held various senior management positions, including President and General Manager of SmithKline’s operations in Puerto Rico. Mr. Viso holds a Bachelor of Science in Mechanical Engineering from the University of Puerto Rico and a Master of Science in Engineering from the University of Michigan. He is also Chairman of MC-21 Corporation, Alara Pharmaceutical Corporation and Grupo VL, Inc. Mr. Viso served on the Board of Patheon from December 23, 2004 to April 29, 2009 and re-joined the Board on December 4, 2009 pursuant to the Settlement Agreement.</p>	10,824,053	--	--
<p><b>WESLEY P. WHEELER</b> <i>North Carolina, U.S.A.</i></p> <p>Director From: 2007- April 2009 and Since: December 2009 Not Independent</p> <p>Mr. Wheeler joined Patheon as Chief Executive Officer on December 3, 2007, and joined the Board effective the same date. Prior to that, Mr. Wheeler was President, North America, R&amp;D and Engineering of Valeant Pharmaceuticals International (“Valeant”) (pharmaceutical company) 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. Prior to that, Mr. Wheeler was President and Chief Executive Officer of DSM Pharmaceuticals Inc. (“DSM”) (pharmaceutical company) from January 2002 to February 2003. Mr. Wheeler received a B.Sc. in mechanical engineering from Worcester Polytechnic Institute and an M.B.A. from California Lutheran University. Mr. Wheeler served on the Board of Patheon from 2007 to April 29, 2009 and re-joined the Board on December 4, 2009 pursuant to the Settlement Agreement.</p>	35,000	1,730,000	--
<p><b>DANIEL AGROSKIN<sup>(3)</sup></b> <i>New York, USA</i></p> <p>Director since: December 2009 Not Independent</p> <p>Member of:      Compensation and Human Resources Committee</p> <p>Mr. Agroskin is a Principal at JLL Partners, Inc., which he joined in 2005. Prior to joining JLL, he worked at JP Morgan Partners and in Merrill Lynch’s Mergers and Acquisitions Group. Mr. Agroskin is a graduate of Stanford University and the Wharton School of the University of Pennsylvania. Mr. Agroskin joined Patheon’s Board of Directors in December 2009 as an additional nominee of JLL, pursuant to the Settlement Agreement.</p>	--	--	PGT, Inc.

JLL has approved the following nominees as the three directors of Patheon to be elected by the holders of the Special Voting Preferred Shares:

- Ramsey A. Frank
- Paul S. Levy
- Thomas S. Taylor

Director	Restricted Voting Shares Owned, Controlled or Directed as at March 11, 2010 <sup>(1)</sup>	Outstanding Options as at March 11, 2010	Public Board Membership During Last Five Years
<p><b>RAMSEY A. FRANK</b> <sup>(1), (2)</sup> <i>Connecticut, USA</i></p> <p>Director since: 2007 Not Independent</p> <p>Member of: Corporate Governance Committee</p> <p>Mr. Frank is Chairman of the Board of Patheon Inc. Mr. Frank is a Managing Director of JLL Partners, which he joined in 1999. Prior to joining JLL, Mr. Frank served as Managing Director of Donaldson, Lufkin &amp; Jenrette Securities Corporation, and was also a Managing Director of Smith Barney &amp; Co. and a Vice President at Drexel Burnham Lambert. Mr. Frank holds a bachelor of science degree from Indiana University and a master of business administration with high honours from the University of Chicago. He joined Patheon's Board of Directors in April 2007.</p>	--	--	<p>Builders FirstSource, Inc. PGT, Inc.</p>
<p><b>PAUL S. LEVY</b> <sup>(1), (2)</sup> <i>New York, USA</i></p> <p>Director since: April 2007 Not Independent</p> <p>Paul Levy is a Managing Director of JLL Partners, which he founded in 1988. Prior to that, he served as a Managing Director of Drexel Burnham Lambert and as a Chief Executive Officer of Yves Saint Laurent, Inc. He has also worked as Vice President of Administration &amp; General Counsel of Quality Care, Inc. and as an attorney at Stroock &amp; Stroock &amp; Lavan LLP. Mr. Levy holds a bachelor of arts degree from Lehigh University, where he graduated summa cum laude and Phi Beta Kappa, and a J.D. from the University of Pennsylvania Law School. Mr. Levy joined Patheon's Board of Directors in April 2007.</p>	--	--	<p>Builders FirstSource, Inc. PGT, Inc.</p>
<p><b>THOMAS S. TAYLOR</b> <i>New York, USA</i></p> <p>Director since: April 2007 Not Independent</p> <p>Member of: Audit Committee Compensation and Human Resources Committee Corporate Governance Committee</p> <p>Mr. Taylor is a Managing Director of JLL Partners, which he joined in 2005 after serving as Business Strategy Consultant at The Hartford. Previously, Mr. Taylor was President and CEO of EPIX Holdings, a human resource outsourcer. Prior to that, he served as Vice President and Chief Financial Officer of Colorado Prime Corporation. He also has held various positions at Kraft Foods and PriceWaterhouse. Mr. Taylor holds a bachelor of science degree from Miami University of Ohio and a master of business administration from University of Notre Dame, where he was class valedictorian. He joined Patheon's Board of Directors in April 2007.</p>	--	--	--

(1) Messrs. Frank and Levy previously served as directors of New World Pasta Company, which filed for protection under Chapter 11 of the U.S. Bankruptcy Code in 2004 and as directors of Motor Coach Industries International, Inc., which filed for protection under Chapter 11 of the U.S. Bankruptcy Code in 2004. In May 2009, J.G. Wentworth LLC, J.G. Wentworth, Inc., and JGW Holdco, LLC filed for protection under Chapter 11 of the U.S. 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.

(2) JLL Patheon Holdings, LLC is the record and beneficial owner of 72,272,846 restricted voting shares, 150,000 Class I Preferred Shares, Series D of Patheon (collectively the "Shares"). JLL Patheon Holdings II, LLC is the record and beneficial owner of 1,250,000 restricted voting shares (the "Additional Shares"). By virtue of his position as the sole manager of each of JLL Patheon Holdings, LLC, and JLL Patheon Holdings II, LLC, Mr. Frank may be deemed the beneficial owner of the Shares and the Additional Shares. Mr. Frank disclaims beneficial ownership of the Shares and Additional Shares. By virtue of his position as managing member of JLL Associates G.P. V, L.L.C., the general partner of JLL Associates V, L.P., which in turn is the general partner of JLL Partners Fund V, L.P., which controls both JLL Patheon Holdings, LLC, and JLL Patheon Holdings II, LLC, Mr. Levy may be deemed the beneficial owner of the Shares and the Additional Shares. Mr. Levy disclaims beneficial ownership of the Shares and Additional Shares except to the extent of any pecuniary benefit thereof.

The information as to restricted voting shares beneficially owned, or controlled or directed, directly or indirectly, by each proposed nominee, not necessarily being within the knowledge of the Company, has been furnished by the respective proposed nominees individually.

It is not contemplated that any of these nominees will be unable or will become unwilling, for any reason, to serve as a director. Subject to the Settlement Agreement, each of these proposed nominees, if elected, will hold office until the next annual meeting of shareholders or until their successors are duly elected or appointed.

### ***Appointment of Auditors***

On the recommendation of the Audit Committee, the Board recommends that Ernst & Young LLP, Chartered Accountants, be re-appointed as Patheon's auditors until the next annual meeting of shareholders. Ernst & Young LLP have been auditors to Patheon and its predecessor corporation since May 1984.

For information regarding external auditor service fees, see "Audit Committee Information" in the Company's Annual Information Form dated December 18, 2009, which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

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## **EXECUTIVE COMPENSATION**

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### **Compensation Discussion and Analysis**

#### ***Background***

Patheon is a globally integrated provider of manufacturing services and pharmaceutical development services to the international pharmaceutical and biotechnology industries. Patheon serves approximately 300 of the world's leading pharmaceutical and biotechnology companies and employs more than 4,400 highly-skilled staff in a network of eleven modern manufacturing facilities and eight development centers located in North America and Europe.

#### ***Compensation and Human Resources Committee***

The Compensation and HR Committee of the Board (the "CHR Committee") oversees Patheon's executive compensation program in accordance with the Charter of the CHR Committee which has been approved by the Board. During Fiscal 2009, the Committee was composed of Derek J. Watchorn (Chair), Thomas S. Taylor and Paul W. Currie. The CHR Committee is currently comprised of Thomas S. Taylor (Chair), Daniel Agroskin and Joaquin B. Viso. No member of the CHR Committee was, during Fiscal 2009, or currently is a full-time employee of Patheon or of any of its affiliates.

Each year, the CHR Committee generally reviews compensation matters for the Chief Executive Officer (the "CEO"), the other executive officers and certain members of senior management. The CHR Committee reviews information it receives from the CEO and management, as well as advice it receives from outside advisors. The CHR Committee then makes recommendations to the Board about the CEO's compensation and, if appropriate, approves any annual cash incentive for the CEO. The CHR Committee also, if appropriate, approves the CEO's recommendations with respect to the compensation of other executive officers and senior management of the Corporation, including any annual cash incentive for such persons and reports to the Board thereon. The CHR Committee also, if appropriate, recommends to the Board for approval the grant of options and/or units under Patheon's compensation plans. For more information regarding the CHR Committee's responsibilities, see "Corporate Governance – Board Committees – Compensation and Human Resources Committee – Responsibilities".

Patheon engaged Towers Perrin HR Services (“Towers Perrin”) during Fiscal 2007 and 2008 to advise regarding appropriate comparative compensation information and regarding changes to Patheon’s compensation program in light of the financial restructuring undertaken during Fiscal 2007 and evolving market practices. Further to its review, the CHR Committee recommended, and the Board adopted, changes to the Company’s long-term incentive compensation program, which were applied to Fiscal 2008.

Most recently, in the first quarter of Fiscal 2010, due to the hiring or relocation of a number of executive officers at Patheon’s U.S. headquarters in Raleigh, North Carolina, Mercer was engaged to advise regarding additional changes to the long-term incentive compensation program. Under the terms of Mercer’s engagement, and in collaboration with Patheon, Mercer:

- constructed a custom peer group of U.S.- based publicly traded companies similar to Patheon in terms of revenue size, industry and operating characteristics to be used to gather market data on existing long-term incentive programs (the “Comparator Group”);
- reviewed typical long-term incentive practices (vehicles, mix, program details) of companies in the Comparator Group;
- summarized program details of companies in the Comparator Group based on publicly available information;
- compared and contrasted Patheon’s long-term incentive compensation programs with respect to use and mix of vehicles (such as options, restricted stock and performance shares) and measures, leverage, and other general program design parameters;
- compiled and summarized general market and industry specific trends in incentive plan design;
- assessed the existing long-term incentive compensation program relative to market data, emerging trends and best practices;
- developed alternative long-term incentive compensation program design changes for further consideration based on internal considerations and market data; and
- developed program design specifics pertaining to vesting conditions, termination scenarios, and other administrative issues.

The re-designed alternative long-term incentive compensation program has been approved by the Board and is expected to be implemented during Fiscal 2010. In particular, for Fiscal 2010 and beyond, the Company expects to shift its focus from PSU awards to option grants.

### ***Compensation Philosophy and Objectives***

The compensation philosophy of the CHR Committee is that “pay-for-performance” should be balanced against the need to provide a total compensation package which will enable Patheon to attract and retain qualified and experienced individuals.

The objectives of the Company’s compensation program are to:

- attract and retain qualified and experienced individuals to serve as executive officers;
- align the compensation level of each executive officer with his or her level of responsibility;
- motivate each executive officer to achieve short and long term corporate goals;
- align the interests of executive officers with those of shareholders; and
- ultimately, reward executive officers for excellent corporate and individual performance.

## Benchmarking

Based on reports received from management, the CHR Committee believes that Patheon's compensation program is consistent with that of other Canadian public companies of similar size and scope. Management generally compares Patheon against companies with similar market capitalizations in both the pharmaceutical industry and general industry sectors. Management also generally reviews compensation data related to the jurisdiction of residence of each Patheon executive officer when proposing compensation. No specific benchmark groups having particular components and consisting of particular companies pursuant to specified selection criteria are reviewed by management or the CHR Committee.

During Fiscal 2010, Patheon's long-term incentive compensation program was reviewed and redesigned in collaboration with Mercer. See "Compensation and Human Resources Committee" above. Mercer constructed a custom peer group of U.S.- based publicly traded companies similar to Patheon in terms of revenue size, industry and operating characteristics. The companies comprising the Comparator Group were as follows: Albany Molecular Research Inc.; Cambrex; Catalent; Cephalon; Charles River Laboratories International Covance Inc.; DSM; Hospira Inc.; ICON; InVentiv Health; Kendle International Laboratory Corp of America; Lonza; MDS; Parexel International; and Pharmaceutical Product Dvpt Inc.

## Elements of Compensation

During Fiscal 2009, the compensation of Patheon's executive officers, including its Named Executive Officers (as defined below), consisted of six elements: a fixed element of compensation, being base salary, and variable elements of compensation, being short-term incentives (an annual cash incentive) and long-term incentives (stock options and performance share units), as well as perquisites and personal benefits, pension plan benefits and termination and change of control benefits.

The following table provides an overview of the base salary, short-term and long-term incentive elements and perquisites and personal benefits available under Patheon's compensation program in Fiscal 2009:

Element	Form	Eligibility	Performance Period	Determination
Base Salary	Cash	All employees	1 Year	Targets are set at market median and are further adjusted based on individual performance
Short-Term Incentive	Annual Cash Incentive Bonus	All employees	1 Year	Subject to Patheon's performance against pre-determined corporate objectives Also based on individual achievement of personal performance objectives
Long-Term Incentive	Restricted Share Units <sup>(1)</sup> (Cash)	Directors, officers, key employees and consultants	1/3 vest on each of first, second and third anniversaries of the grant	Initial value based on market value of restricted voting shares at time of grant Final value based on market value of restricted voting shares at time of payout
	Performance Share Units (Cash)	Directors, officers, key employees and consultants	3-year anniversary from date of grant, subject to corporate performance May be accelerated for termination or upon a change of control	Based on share price increase and return on invested capital during the three-year period Vesting period of each grant is determined at the time of grant
	Stock Options	Directors, officers, key employees and consultants	In the past, options generally vested over 3 years: 1/3 on each of the first, second and third anniversaries of the grant	Based on share price appreciation up to a 10-year term with vesting typically over initial three years Initial exercise price based on weighted average market price of restricted voting shares during the two trading days immediately preceding grant date Final value is based on market value at time of exercise relative to exercise price at time of grant
Benefits	Health, dental, pension, life insurance and disability	All employees	Ongoing	Based on market median

- (1) At this time, there are no plans to grant any additional units under the Restricted Share Unit Plan. Restricted Share Units granted prior to Fiscal Year 2008 will vest and become payable in accordance with the terms under which they were granted.

### **Fixed Compensation – Base Salary**

The only element of compensation that is fixed on an annual basis is base salary. Base salary is intended to reflect the skills, competencies, experience and performance of each Named Executive Officer. Base salary levels also reflect salaries offered for positions involving similar responsibilities and complexity at other companies. Competitive base salaries enable Patheon to attract and retain qualified individuals to serve as Named Executive Officers. Base salary also aligns the compensation level of each Named Executive Officer to his level of responsibility. Base salaries are adjusted annually where appropriate based on levels of responsibility and sustained performance. Base salary is linked to other elements of compensation such as the annual cash incentive bonus, certain pension plan benefits and termination and change of control benefits.

### **Variable Compensation**

The variable elements of compensation range from short-term incentives (annual cash incentive bonus) to long-term incentives (stock options and performance share units). The level of variable compensation offered to Named Executive Officers is determined, in part, based on an overall assessment of Patheon's business performance, including achievement against stated corporate objectives. In years where corporate performance meets or exceeds stated objectives, the foundation for award considerations will generally be above market median incentive levels. The opposite is true if performance does not meet objectives, and awards are adjusted accordingly.

#### *Short-Term Incentive - Annual Cash Incentive Bonus*

Patheon has established a cash incentive program pursuant to which the Named Executive Officers and other members of senior management may receive cash incentive bonuses based on certain performance criteria, subject to certain prescribed limits. The annual cash incentive bonus is intended to compensate for achievement of corporate objectives, as well as specific individual contributions. It is intended to motivate Named Executive Officers to achieve short term corporate goals and to ultimately reward them for excellent corporate and individual performance. The annual cash incentive bonus also influences the determination of certain pension plan benefits and certain termination and change of control benefits.

For Fiscal 2009, the annual cash incentive bonus for the Named Executive Officers and other members of senior management was based on the achievement of certain specified corporate, financial, key performance indicators ("KPI") and personal objectives established by the CHR Committee and CEO at the beginning of the fiscal year. Bonuses for the CEO and CFO were weighted 80% on the basis of cash flow objectives and 20% on the basis of personal objectives. Bonuses of executives at each of the Director, Vice President, Senior Vice President and Executive Vice President levels were weighted 70% on the basis of cash flow and 30% on the basis of personal objectives. Bonuses of the regional Presidents were weighted 20% on the basis of cash flow, 50% on the basis of EBITDA, 20% on the basis of revenue and 10% on the basis of personal objectives. All other positions, except sales, were weighted 10% on the basis of cash flow, 50% on the basis of EBITDA, 10% on the basis of revenue, 20% on the basis of KPI and 10% on the basis of personal objectives.

In light of Patheon's corporate performance and each Named Executive Officer's individual performance for Fiscal 2009, the CHR Committee approved annual cash incentive bonuses in the range of 25% to 85% of base salary for the Named Executive Officers.

#### *Long-Term Incentives*

Long term incentives are intended to compensate for achievement of corporate objectives. They are intended to motivate Named Executive Officers to achieve long term corporate goals and to ultimately reward them for excellent corporate performance. Long-term incentives do not influence any other

element of compensation other than the value of such incentives being generally considered within the total compensation of a Named Executive Officer. Long term incentives are provided through the award of performance share units (and previously restricted share units) and stock options.

#### *Restricted Share Unit Plan*

The Restricted Share Unit Plan (the "RSU Plan"), which was after Fiscal 2008 replaced by the Performance Share Unit Plan (the "PSU Plan"), was established in February 2005 as an additional mid-term incentive program for executive officers, senior management, key employees and certain consultants. The intent of the RSU Plan was to retain key employees by aligning a considerable portion of their compensation with a three-year term incentive program. The Board authorized the CHR Committee to administer the RSU Plan and all costs and expenses of administering it were paid for by Patheon.

Under the terms of the RSU Plan, a participant was entitled to a cash payment for each restricted share unit (an "RSU") equivalent to the market price of one Patheon restricted voting share (being the weighted average price at which the shares traded on the Toronto Stock Exchange (the "TSX") during the two days immediately prior to the vesting of the RSU). RSUs vested and were payable as to one third on each of the first three anniversaries of the RSU grant date. The CHR Committee had the authority to attach conditions, including financial performance targets to all or any portion of a RSU award, although historically, no financial performance targets were attached to RSUs granted. Vesting could be accelerated if the participant's employment was terminated or upon a change of control of Patheon. RSU awards were granted at the discretion of the CHR Committee as it determined appropriate to provide mid-term incentive compensation.

The maximum number of RSUs that could be granted under the RSU Plan was 2,000,000, subject to adjustments due to changes in the number of outstanding shares. As at October 31, 2009, 524,483 RSUs had been granted under the RSU Plan. No RSUs were granted during Fiscal 2008 or Fiscal 2009, and there is no intention to grant any additional RSUs under the RSU Plan. The final cash payment made under the RSU Plan was made in Fiscal 2009 in respect of RSUs vesting on February 3, 2009.

#### *Performance Share Unit Plan*

Further to the work conducted by Towers Perrin (see "Compensation and Human Resources Committee" above), the CHR Committee recommended, and, in December 2007, the Board adopted the PSU Plan to replace the RSU Plan for Fiscal 2008 onwards. The Board authorized the CHR Committee to administer the PSU Plan and all costs and expenses of administering it are paid for by Patheon.

The purposes of the PSU Plan are threefold: (i) to encourage participants under the PSU Plan to further the growth and development of the Company; (ii) to assist the Company to retain and attract executives and key employees; and (iii) to reward significant achievements. Each performance share unit ("PSU") represents the right, subject to certain conditions imposed at the time of grant, to receive a payment upon vesting of the PSU, equal to the market price at the end of a defined performance period applicable to the PSU. For the purposes of the PSU Plan, market price means the weighted average price at which the shares have traded on the TSX during the two trading days immediately prior to the last day of the performance period. The CHR Committee may impose additional conditions on the grant of PSUs, including for example, conditions as to the ownership of shares by a participant. The CHR Committee may also impose performance conditions to be applied to determine the extent to which PSUs will vest and the corresponding payments, if any, to be made in respect of vested PSUs, including (without limitation) conditions in respect of market price, financial performance or results of the Company or its subsidiaries or their respective business units, and the relative weighting of any applicable performance conditions. The CHR Committee determines whether performance conditions have been satisfied and may, in their discretion, waive their application.

Under the PSU Plan, PSUs will be eligible for vesting on the third anniversary of the date of grant based on the Company's performance. For Fiscal 2009, the CHR Committee determined that the vesting of PSUs would be based on Patheon's share price and return on invested capital during the three year period following the grant. Vesting may be accelerated if the participant's employment is terminated or

upon a change of control of Patheon. PSU awards will be granted at the discretion of the CHR Committee to provide long-term incentive compensation.

Each PSU award is a liability of Patheon, and the amount of such liability is, or will be, accrued evenly over the vesting period and based on the closing price of the restricted voting shares at the end of the reporting period. The liability is equal to the number of outstanding PSUs multiplied by Patheon's closing stock price then in effect. With respect to PSUs, the accrual will also take into account management's estimate of the likelihood of achieving the respective performance criteria.

Further to the work conducted by Mercer (see "Compensation and Human Resources Committee" above), for Fiscal 2010 and beyond, the Company expects to shift its focus from PSU awards to option grants.

#### *Incentive Stock Option Plan*

Long-term incentives are also awarded to executives through the Incentive Stock Option Plan ("Option Plan"). The Option Plan was established for the benefit of officers, key employees, directors and certain consultants of Patheon and its subsidiaries. The intent of the Option Plan is to link a significant portion of an executive's long-term compensation package to the growth and profitability of Patheon, thereby aligning the interests of executives with shareholders. A summary of the Option Plan is provided below.

The CHR Committee is responsible for the administration of the Option Plan and recommending to the Board any amendments to the Option Plan which the CHR Committee considers necessary or desirable from time to time. The CHR Committee is responsible for designating the persons who are considered eligible persons and for recommending which eligible persons are granted options and the terms and conditions that will attach to such grants, subject to the terms of the Option Plan. In granting such options, the Board considers recommendations by the CHR Committee and Patheon's CEO and the number and terms of existing options. The exercise periods and other terms of newly granted options are structured with the primary goal of aligning option holder and shareholder interests. Previous grants of options are taken into account when considering new grants.

The following is a summary of the Option Plan:

*Exercise Price:* The exercise price of restricted voting shares subject to an option is determined at the time of grant and the price cannot be less than the weighted average market price of the restricted voting shares of Patheon on the TSX during the two trading days immediately preceding the grant date.

*Expiry of Options:* The maximum term for options granted under the Option Plan is 10 years. In addition to expiry upon the end of the term of the grant (whether that be set at 10 years or a lesser period), options are also subject to early expiry in the event of:

- Death - the options shall terminate 24 months following the date of death;
- Resignation - the options shall terminate 12 months following such resignation;
- Dismissal for Willful Fault or Fraud - the options shall terminate immediately;
- Retirement - the options shall terminate 24 months following the date of retirement.

*Extension of Expiry for Blackout:* Following approval of amendments to the Option Plan at the meeting of shareholders on March 27, 2008, the Option Plan was amended such that any options that expire during or shortly following a blackout period will be automatically extended until 10 business days following the completion of the blackout period.

*Vesting:* The CHR Committee determines the vesting period of each grant on the date of grant. In the past, options have generally vested over three years, one-third on each of the first, second and third anniversary of the grant date.

*Change of Control:* In September 2008, the Option Plan was further amended to include “Change of Control” provisions. In the event of a Change in Control, each Option granted and outstanding under the Plan shall become exercisable, even in such Option is not otherwise vested or exercisable in accordance with its term. Further, in the event of a Change in Control or a potential Change in Control, the Board shall have the power, subject to restrictions on amendments for which shareholder approval is required, to change the terms of the Options as it considers fair and appropriate in the circumstances, including but not limited to: (i) accelerating the date at which Options become exercisable; and (ii) otherwise modifying the terms of the Options to assist the optionees to tender into a take-over bid or other arrangement leading to a Change in Control.

*Non-assignable:* Options are not assignable or transferable except in the event of the optionee's death, whereupon options may be exercised by the appropriate legal representatives in accordance with their terms.

*Adjustments:* The Option Plan provides for appropriate adjustments to be made to the type, number and/or price of the securities subject to the options in such events as subdivision, consolidation, stock dividend, reclassification or conversion, recapitalization or reorganization.

*No Financial Assistance:* Patheon provides no financial assistance to the optionees in connection with the exercise of stock options.

*Option Plan Amendments:* The CHR Committee determines the terms of each option granted, including the number of options granted, the exercise price, the expiry date and the vesting dates. The Board may at any time suspend or terminate the Option Plan in whole or in part. Currently, the TSX rules require that shareholder approval be obtained for any amendment to the Option Plan unless it expressly provides that amendments, other than amendments expressly stipulated in the Option Plan to be subject to shareholder approval, may be made without shareholder approval. The Option Plan includes provisions, complying with the current TSX rules, which set out the following specific types of amendments that cannot be made by the Board without shareholder approval:

- a change to increase the Option Plan limit;
- a change to reduce the exercise price of an outstanding option;
- a change to extend the original expiry date of an option;
- a change to extend the maximum option term permitted under the Option Plan;
- a change to increase the maximum number of restricted voting shares that may be issuable on exercise of options granted to outside directors;
- a change to increase any limit on grants of options to insiders set out in the Option Plan; and
- a change relating to the transferability of options other than for normal estate settlement purposes.

All other amendments may be made by the Board without the approval of the shareholders. Such amendments may include, without limitation, amendments related to:

- vesting provisions for the Option Plan or any option granted under the Option Plan;
- early termination provisions of the Option Plan or any option granted under the Option Plan;
- the addition of any form of financial assistance by Patheon for the acquisition by all or certain categories of participants, and the subsequent amendment of any such provision which is more favourable to such participants;

- the addition or modification of a cashless exercise feature, payable in cash or restricted voting shares, regardless of whether it provides for a full deduction of the number of restricted voting shares from the plan limit; and
- the suspension or termination of the Option Plan.

*Plan Limit.* Under amendments to the Option Plan approved by shareholders at the meeting of March 27, 2008, the maximum number of restricted voting shares that may be issued under the Option Plan was increased to 7.5% of the sum of the issued and outstanding restricted voting shares of Patheon from time to time and the number of restricted voting shares of Patheon issuable upon the conversion of the Convertible Preferred Shares outstanding from time to time. In addition, at the time of the granting of the options, the aggregate number of restricted voting shares reserved for issuance to any one individual may not exceed 5% of Patheon's then issued and outstanding restricted voting shares or 6,458,396 shares and the aggregate number of restricted voting shares reserved for issuance to directors of Patheon who are not employees of Patheon may not exceed 1% of Patheon's then issued and outstanding restricted voting shares or 1,291,679 shares. In addition, the number of restricted voting shares issuable to insiders of Patheon, at any time, under all security-based compensation arrangements, may not exceed 10% of Patheon's then issued and outstanding restricted voting shares. Additionally, the number of restricted voting shares issued to insiders of Patheon, within any one-year period and under all security-based compensation arrangements, cannot exceed 5% of Patheon's then issued and outstanding restricted voting shares.

Further to the work conducted by Mercer (see "Compensation and Human Resources Committee" above), for Fiscal 2010 and beyond, the Company expects to shift its focus from PSU awards to option grants.

#### **Perquisites and Personal Benefits**

The Company's group benefits are intended to provide competitive and adequate protection in case of sickness, disability or death. The Company offers health, dental, pension, life insurance and disability programs to Named Executive Officers, on the same basis as all other employees of the Company. The level of benefit provided to Named Executive Officers does not influence any other element of compensation other than the value of such benefit being generally considered within the total compensation of a Named Executive Officer.

#### **Pension Plan Benefits**

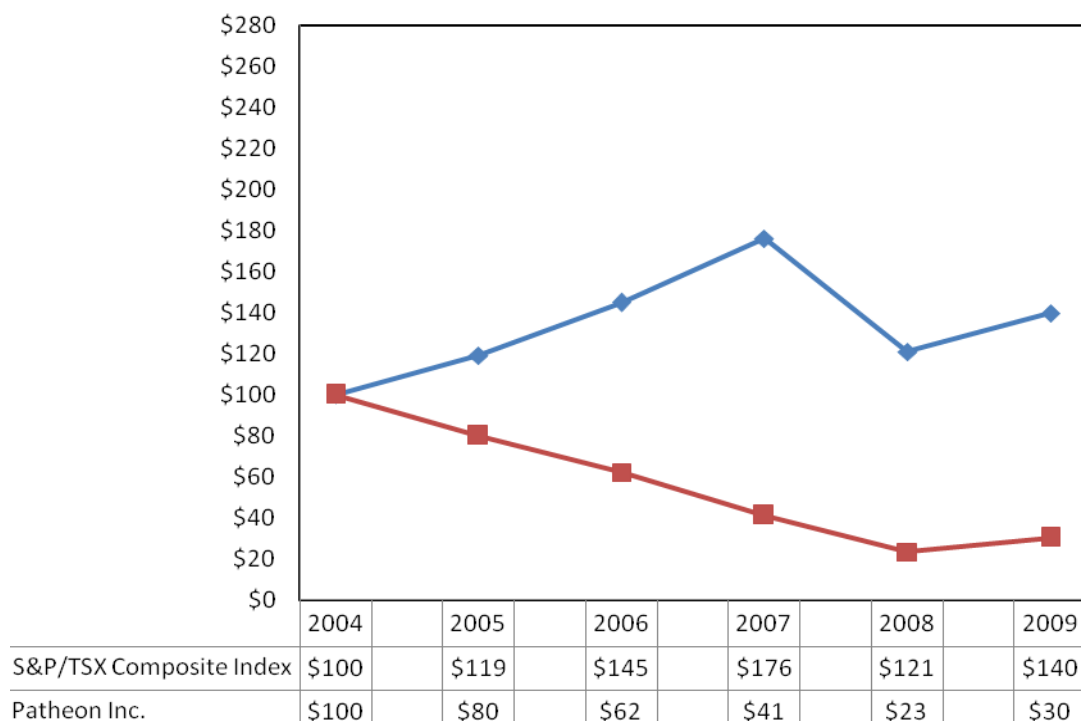
Patheon maintains or contributes to private and/or government-sponsored pension plans and health and welfare plans in the countries in which it has operations and has a deferred compensation plan for certain executive employees. See "Pension Plan Benefits and Deferred Compensation Plans" below for details on the pension arrangements and deferred compensation plans for certain Named Executive Officers. The level of benefit provided to Named Executive Officers does not influence any other element of compensation other than the value of such benefit being considered within the total compensation of a Named Executive Officer.

#### **Termination and Change of Control Benefits**

Each Named Executive Officer also has termination and change of control provisions in his employment agreement. See "Termination and Change of Control Benefits". The events that trigger payment under these arrangements were determined through the negotiation of the applicable employment agreement.

## Performance Graph

The graph below compares Patheon’s cumulative total shareholder return on a \$100 investment in restricted voting shares to the cumulative total return of the S&P/TSX Composite Total Return Index for the five-year period commencing on November 1, 2004 and ending on October 31, 2009. The graph below assumes that dividends have been reinvested. In the graph below, Patheon is represented by the square-spotted line, while the S&P/TSX Composite Total Return Index is represented by the diamond-spotted line.



Patheon’s cumulative shareholder return, like that of the S&P/TSX Composite Index, increased between Fiscal 2008 and Fiscal 2009. The rate of increase in Patheon’s return was similar to the rate of increase in the S&P/TSX Composite Index for the same period. During the period between Fiscal 2008 and Fiscal 2009, none of the base salaries of any of the Named Executive Officers were increased, with the exception of that of Mr. Garofolo, whose salary was increased by approximately 8 % over the period. During the corresponding period, the value of the S&P TSX Composite Index shareholder return had increased by approximately 15%, and the value of Patheon’s shareholder return increased by approximately 30%. Bonuses for each of the Named Executive Officers decreased between Fiscal 2008 and Fiscal 2009; in one case, no bonus was paid in Fiscal 2009, while in other cases, bonuses were reduced by up to approximately 1/3 of the amount paid to the same executives during the previous fiscal year.

## Summary Compensation Table

The following table (presented in accordance with Form 51-102F6 – Statement of Executive Compensation (“Form 51-102F6”) under National Instrument 51-102 – Continuous Disclosure Obligations) sets forth all direct and indirect compensation for, or in connection with, services provided to Patheon and its subsidiaries for Fiscal 2009 in respect of the CEO, the Chief Financial Officer and the other three most highly compensated executive officers of Patheon (the “Named Executive Officers”). All amounts are expressed in US dollars.

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary (\$)</u>	<u>Option-based awards (\$)</u>	<u>Share-based awards (\$)</u>	<u>Non-equity incentive plan compensation (\$)</u>		<u>Pension value (\$)</u>	<u>All Other Compensation (\$)<sup>(1)</sup></u>	<u>Total Compensation (\$)</u>
					<u>Annual incentive plans</u>	<u>Long-term incentive plans</u>			
<b>Wesley P. Wheeler<sup>(5)</sup></b> Chief Executive Officer	2009	600,000	---	---	400,000	---	---	4,114 <sup>(2)</sup>	1,004,114
<b>Eric W. Evans<sup>(5)</sup></b> Chief Financial Officer	2009	350,000	140,600 <sup>(7)</sup>	---	140,000	---	10,157 <sup>(3)</sup>	---	640,757
<b>Aldo Braca<sup>(5)</sup></b> President, Patheon Europe	2009	330,409	---	19,753 <sup>(3)</sup>	281,940	---	---	---	632,102
<b>Paul Garofolo<sup>(5)</sup></b> Executive Vice President, and Chief Technology Officer	2009	313,397	70,300 <sup>(7)</sup>	---	108,000	---	11,733 <sup>(3)</sup>	---	503,430
<b>Terry Novak<sup>(5)</sup></b> President, North American Operations and Chief Marketing Officer (left Patheon Nov.30, 2009)	2009	425,000 <sup>(6)</sup>	---	---	---	---	12,400 <sup>(3)</sup>	---	437,400

(1) Perquisites and other personal benefits did not, in the aggregate, exceed the lesser of \$50,000 (US\$42,742) or 10% of the respective salary for each of the Named Executive Officers.

(2) Represents the premiums paid for by the Company for a life insurance policy for Mr. Wheeler.

(3) "Pension Value" includes amount of matching contributions made by the Company to the employees' 401(k) savings plans.

(4) Dollar amount listed represents the value of the RSUs paid out as at the vesting date. As at October 31, 2009, there were no RSUs outstanding.

- (5) Amounts represent the Canadian-dollar equivalent of payments actually earned or paid to Mr. Braca in Euros and Messrs. Wheeler, Evans, Garofolo and Novak in U.S. dollars. Amounts have been converted using the average of the Bank of Canada exchange rates in effect during each fiscal year, as set forth below:

<u>Average Exchange Rates</u>	<b>Fiscal 2009</b>	<b>Fiscal 2008</b>	<b>Fiscal 2007</b>
1 euro equals Canadian dollars:	1.5933	1.5323	1.4779
U.S. dollar equals Canadian dollars:	1.1698	1.0269	N/A

- (6) Includes \$35,000 contributed to Mr. Novak's deferred compensation account by the Company during Fiscal 2009. However, pursuant to the terms of the contribution, the entire amount was unvested as of Mr. Novak's termination date and therefore was forfeited upon his termination in Fiscal 2010.
- (7) Fair value of options granted is \$1.406 per option, based on Black-Scholes model. Mr. Evans and Mr. Garofolo were awarded 100,000 options and 50,000 options, respectively, during Fiscal 2009.

### ***Discussion of Summary Compensation Table***

Significant factors necessary to understand the information disclosed in the Summary Compensation Table above include the terms of each Named Executive Officer's employment agreement.

#### **Employment Agreements**

##### *Wesley P. Wheeler*

Patheon appointed Mr. Wheeler as CEO of the Company, effective December 3, 2007. His employment terms provide for an initial term of two years and for successive one-year terms thereafter unless, not less than 90 days prior to the end of any such term, either Patheon or Mr. Wheeler notifies the other of its or his intention not to renew the agreement. The agreement was amended on May 5, 2009 to clarify that the initial term of the agreement will expire on December 3, 2010. The amendment further stated that the term shall be automatically renewed on every annual anniversary of the effective date for an additional one year period, unless either Patheon or Mr. Wheeler provides 90 days notification to the other of its or his intention not to renew the agreement.

Mr. Wheeler is entitled to an annual base salary of US\$600,000, subject to revisions by the Board, and to receive a performance bonus of up to 100% of his base salary based on achieving financial and other targets set by the Board and the CHR Committee.

Upon agreeing to his employment terms, Mr. Wheeler received a signing bonus of US\$380,000 and was granted 1,730,000 options in the aggregate under the Option Plan. 1,260,000 of these options vest in three equal amounts on the first, second and third anniversaries of the date of their grant and have a seven-year term. The remaining 470,000 options vested immediately on the date of their grant and have a seven-year term.

Mr. Wheeler's employment agreement also contains termination and change of control benefits. See "Termination and Change of Control Benefits" below.

##### *Eric W. Evans*

Patheon Pharmaceutical Services Inc. entered into an employment agreement with Mr. Evans as Chief Financial Officer for an indefinite term beginning May 27, 2008. Under that agreement, Mr. Evans is entitled to an annual base salary of US\$350,000, subject to annual review by the CEO, and to receive a performance bonus of up to 45% of his base salary based on achieving financial and other targets as agreed to with the CEO.

Upon agreeing to his employment terms, Mr. Evans received a signing bonus of US\$50,000 and was granted 200,000 options in the aggregate under the Option Plan. These options will vest in three equal amounts on the first, second and third anniversaries of the date of their grant and have a seven-year term.

Mr. Evans' employment agreement also contains termination and change of control benefits. See "Termination and Change of Control Benefits" below.

*Aldo Braca*

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 (referred to as the "Transition Period"), 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. Mr. Braca's compensation was reduced to reflect the part-time status. In addition to his base salary of US\$281,939, he is also entitled to an incentive bonus equal to his base salary and 60% of the annual costs attributable to his company car (US\$26,919).

*Paul Garofolo*

Patheon entered into an employment agreement with Mr. Garofolo as Chief Information Officer on May 12, 2008 for an indefinite term. Under that agreement, Mr. Garofolo is entitled to a base salary of US\$290,000, subject to annual review by the CEO, and to receive a performance bonus of up to 40% of his base salary based upon achieving financial and other targets as agreed to with the CEO.

Upon agreeing to his employment terms, Mr. Garofolo received a signing bonus of US\$50,000 and was granted 75,000 options in the aggregate under the Option Plan. These options will vest in three equal amounts on the first, second and third anniversaries of the date of their grant and have a seven-year term. Mr. Garofolo's employment agreement also contains termination and change of control benefits. See "Termination and Change of Control Benefits" below.

Mr. Garofolo's employment agreement was amended on November 23, 2008. His position became Executive Vice President, Corporate Technology. Under the amended terms, his base salary was increased to US\$315,000 and his bonus target was increased to 45%, and he received an additional 50,000 in stock options. All other terms and conditions of his original agreement remain in effect.

*Terry Novak*

Patheon entered into an employment agreement with Mr. Novak as President North America and Chief Marketing Officer for an indefinite term beginning February 18, 2008. Under that agreement, Mr. Novak was entitled to a base salary of US\$390,000, subject to annual review by the CEO, and to receive a performance bonus of up to 45% of his base salary based upon achieving financial and other targets as agreed to with the CEO.

Upon agreeing to his employment terms, Mr. Novak received a signing bonus of US\$100,000 and was granted 100,000 options in the aggregate under the Option Plan. These options were to vest in three equal amounts on the first, second and third anniversaries of the date of their grant and had a seven-year term. Mr. Novak was also provided with a one-time credit of US\$45,000 under Patheon's US subsidiary's deferred compensation plan, one fifth of which was to vest on each anniversary of his hire date. In addition, he was eligible to receive an additional annual credit of US\$35,000 to his deferred compensation plan account, which was to vest on the fifth anniversary of the date of the credit. In the event of a change of control, the annual credit vesting would have accelerated. See "Pension Plan Benefits and Deferred Compensation Plan."

The employment agreement provided that if Mr. Novak's employment was terminated without cause or if he terminated his employment with the Company for "good reason", as described below, Patheon was required to pay him his annual base salary for one year in a lump sum plus an amount necessary such

that after payment by Mr. Novak of all taxes imposed on this additional amount (calculated after assuming that Mr. Novak paid such taxes for the year of termination at the highest marginal tax rate applicable), Mr. Novak retained an amount equal to US\$12,000 for car related expenses, also payable in a lump sum. Patheon was also required to pay in cash an amount determined by the Board at its sole discretion to reflect the annual incentive Mr. Novak would have otherwise earned during the year in which the termination occurred, payable in a lump sum. In addition, Patheon was required to pay in a lump sum, the sum of matching contributions under the Corporation's qualified and non-qualified defined contribution plans in which Mr. Novak participated, and that he would have received had his employment continued for 12 months following his date of termination, under certain conditions as outlined in Mr. Novak's employment agreement. Mr. Novak's employment with Patheon was terminated effective November 30, 2009 upon the terms described above. He received a final payment of US\$428,794 in accordance with the above terms. Such amount is not reflected in the Summary Compensation Table above as it was effective and paid in Fiscal 2010.

## Incentive Plan Awards

### *Outstanding Option-Based Awards and Share-Based Awards*

The following table (presented in accordance with Form 51-102F6) sets forth for each Named Executive Officer all awards outstanding at the end of Fiscal 2009, including awards granted before Fiscal 2009.

Name	Option-based Awards				Share-based Awards	
	Number of securities underlying unexercised options (#) <sup>(1)</sup>	Option exercise price (C\$)	Option expiration date	Value of unexercised in-the-money options (\$) <sup>(2)</sup>	Number of shares or units of shares that have not vested (#) <sup>(3)</sup>	Market or payout value of share-based awards that have not vested (\$) <sup>(3)(4)</sup>
W. Wheeler	1,260,000	3.14	Dec. 18, 2014	---	---	---
	470,000	3.14	Dec. 18, 2014	---		
Eric Evans	200,000	4.16	Jun. 19, 2015	---	---	---
	100,000	2.58	Oct. 26, 2016	---		
Aldo Braca	88,046	3.25	Jan. 21, 2015	---	38,046	88,267
	210,000	3.28	Apr. 14, 2015	---		
	100,000	3.13	Sep. 25, 2015	---		
P. Garofolo	75,000	4.16	Jun. 19, 2015	---	---	---
	50,000	2.58	Oct. 26, 2016	---		
T. Novak	100,000	3.28	Apr. 14, 2015	---	---	---

(1) Options vest in thirds, on each of the first, second and third anniversaries of the grant date, except for the grant of 470,000 to Mr. Wheeler, which vested immediately upon the grant date.

(2) No options were in-the-money as of the end of Fiscal 2009.

(3) The units and values reflect the number PSUs outstanding and their value as of the end of Fiscal 2009.

(4) The value is based on the number of PSUs multiplied by the weighted average price at which the restricted voting shares of Patheon traded on the TSX during the two trading days immediately preceding the last day of Fiscal 2009 (US\$2.32).

### ***Incentive Plan Awards – Value Vested or Earned During the Year***

The following table (presented in accordance with Form 51-102F6) sets forth details of the value vested or earned during Fiscal 2009 for each incentive plan award.

<b>Name</b>	<b>Option-based awards – Value vested during the year (\$) (1)</b>	<b>Share-based awards – Value vested during the year (US\$)</b>	<b>Non-equity incentive plan compensation – Value earned during the year (US\$)</b>
W. Wheeler	---	N/A	400,000
E. Evans	---	N/A	140,000
A. Braca	---	19,753	281,940
P. Garofolo	---	N/A	108,000
T. Novak	---	N/A	---

(1) Based on the closing price of the restricted voting shares on each vesting date, no options were in the money during Fiscal 2009.

(2) Share-based awards reflect RSUs vested as of February 3, 2009.

### ***Discussion of Incentive Plan Awards***

During Fiscal 2009, no RSUs were granted. As of the end of Fiscal 2009, no RSUs were outstanding. For details on the RSU Plan, please see “Compensation Discussion and Analysis – Elements of Compensation – Variable Compensation – Long-Term Incentives – Restricted Share Unit Plan”.

During Fiscal 2009, no PSUs were granted to the Named Executive Officers. For details on the PSU Plan, please see “Compensation Discussion and Analysis – Elements of Compensation – Variable Compensation – Long-Term Incentives – Performance Share Unit Plan”.

### **Pension Plan Benefits and Deferred Compensation Plans**

The Named Executive Officers, other than Mr. Wheeler, participate in various pension plan arrangements as described below.

#### ***Pension Plan Benefits***

Mr. Braca is a resident of Italy and is eligible to participate in the pension plan administered by the Italian government. In accordance with the Italian National Collective Bargaining Agreement applicable to managers of Patheon Italia S.p.A., including Mr. Braca, Patheon is required to make contributions to this pension plan based on a prescribed percentage of Mr. Braca’s salary and bonus.

During Fiscal 2009, Messrs. Evans, Novak and Garofolo each participated in the Patheon US Retirement Plan, which is a 401(k) matching plan whereby the Company matches 100% of the first 4% of employee contributions to a 401(k) plan. The Company’s contributions vest over a period of five years, at the rate of 20% per year.

#### ***Deferred Compensation Plan***

Named Executive Officers who are employed by Patheon’s US subsidiary (being all of the Named Executive Officers except for Mr. Braca) are eligible to participate in the Company’s deferred compensation plan (the “DCP”). The DCP is administered by the Patheon Pharmaceuticals, Inc. Benefits Plan Committee. In many respects, the DCP functions like a 401(k) plan: compensation is deferred pre-tax; deferrals and investment returns are exempt from federal and state income taxes until distributed; and there are a variety of investment options. The DCP allows higher deferrals and more flexible distribution options (while employed and/or after employment) than a 401(k) plan. Each year, participants have the opportunity to defer: up to 25% of annual base salary earned during the following year; and, if applicable, up to 100% of annual incentive compensation (i.e. bonus) earned during the next “performance period”. The DCP also provides that the Company may make contributions to a participant’s account, subject to the terms and conditions determined by the Patheon Pharmaceuticals, Inc. Benefit

Plans Committee. Of the Named Executive Officers, only Mr. Novak has received Company contributions. See "Summary Compensation Table – Discussion of Summary Compensation Table – Employment Agreements – Terry Novak". Participants in the DCP are 100% vested in deferrals in their account. Any contribution the Company makes will vest according to the vesting schedule established by the Company for that contribution.

With respect to distribution alternatives, each year the participants may allocate deferrals to a sub-account that will either pay in a future year while the participant is still employed (an "in-service sub-account") or after the participant's employment ends (a "retirement sub-account"). Any Company contributions are credited to the sub-account designated by the Patheon Pharmaceuticals, Inc. Benefit Plans Committee at the time of the contribution. Participants may receive a penalty-free distribution from the DCP while still employed. Participants may receive amounts credited to an in-service sub-account in January of a year that is at least 2 years after the date in which the deferral allocation election was made during enrolment. Distributions are paid or start in January of the year elected, as long as the participant is still employed by the Company at the time of payment. If employment is terminated prior to a scheduled in-service withdrawal, the balance will be paid in accordance with post-employment distribution rules. Deferrals will be paid to the participant's beneficiaries or estate within 30 days of death, in a lump sum. Under the DCP, participants are allowed to elect to receive their entire vested account balance in a lump sum within 30 days following a "change in control" (as defined in the DCP). Such election must be made on the first payment election on joining the DCP. If no such election is made, then upon a "change in control," the account will remain in the DCP and subject to its terms.

The DCP allows participants to allocate their deferrals among a variety of different investment options in an array of asset classes. The value of a participant's plan account will vary depending on the performance of the investment options selected. The participant bears the risk relating to these investment options.

#### **Termination and Change of Control Benefits**

The following contracts, agreements, plans and arrangements provide for payments to the applicable Named Executive Officers at, following or in connection with any termination (whether voluntary, involuntary or constructive), resignation, retirement, a change in control of Patheon or change in such Named Executive Officer's responsibilities:

##### ***Wesley P. Wheeler***

If Mr. Wheeler's employment is terminated without cause during the term of his agreement, or if Mr. Wheeler terminates his employment for good reason, as described below, Patheon is required to pay him his base salary for two years, in equal monthly instalments.

The employment terms with Mr. Wheeler provide certain rights in the event of a change of control of Patheon. A change of control includes an event that results in any person other than JLL Partners or its affiliates owning more than 50% of the then outstanding voting securities of the Company. If Mr. Wheeler is terminated without cause, or if Mr. Wheeler terminates his employment for good reason, at any time within a six-month period following a change of control, Mr. Wheeler will be entitled to receive his base salary for two years payable in equal monthly instalments plus his target performance bonus for two years. Mr. Wheeler's unvested options will also immediately vest and remain in force for the duration of their original term.

For the purposes of Mr. Wheeler's employment terms, good reason means the occurrence of any of the following events: (i) the removal of Mr. Wheeler from his position as CEO; (ii) a material reduction in Mr. Wheeler's duties or responsibilities or the assignment to Mr. Wheeler of duties materially inconsistent with his position; or (iii) the material breach by Patheon of the employment terms which is not remedied within 30 days of written notice from Mr. Wheeler.

### ***Eric W. Evans***

If Mr. Evans' employment is terminated without cause or if he terminates his employment with the Company for "good reason" as described below, Patheon is required to pay him his annual base salary for one year in a lump sum. In addition, Mr. Evans would be paid a lump sum of an amount equal to the average bonus he earned during the previous two years prior to the termination.

The employment terms with Mr. Evans provide certain rights in the event of a change of control of Patheon. A change of control includes an event that results in any person other than JLL Partners or its affiliates owning more than 50% of the then outstanding voting securities of the Company. If Mr. Evans is terminated without cause, or if Mr. Evans terminates his employment for good reason, at any time within a twelve-month period following a change of control, Mr. Evans will be entitled to receive a lump sum equal to his annual base salary, plus a lump sum equal to his target annual bonus within 60 days of the termination date. Mr. Evans unvested options will immediately become vested and exercisable and remain in force for the duration of their original term.

### ***Paul Garofolo***

If Mr. Garofolo's employment is terminated without cause or if he terminates his employment with the Company for "good reason", as described below, Patheon is required to pay him his annual base salary for one year in a lump sum within 60 days of termination. Patheon would also be required to pay in a lump sum an amount equal to Mr. Garofolo's average annual bonus. Average annual bonus is described as an amount equal to the average of the bonuses earned by the executive under the Company's annual incentive plan for the last two fiscal years prior to the date of termination.

The employment terms with Mr. Garofolo provide certain rights in the event of a change of control of Patheon. A change of control includes a consummated merger or consolidation of Patheon or any direct or indirect subsidiary of Patheon with any other company, other than a merger or consolidation that would result in the voting securities of Patheon outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted to voting securities of the surviving entity or any parent thereof) at least fifth percent (50%) of the combined voting power of the securities of Patheon or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation; or the shareholders of Patheon approve a plan of complete liquidation or dissolution of the company or there is consummated an agreement for the sale or disposition of Patheon of all or substantially all of its assets. If the date of termination occurs within 12 months after the occurrence of a change in control, then, in lieu of the amounts described above, Mr. Garofolo is entitled to be paid in a lump sum his annual base salary and an amount of bonus equal to his target bonus, payable within 60 days of termination. In addition, any stock options to purchase shares of Patheon then held by Mr. Garofolo shall, to the extent not otherwise provided in the applicable stock related documents, become immediately vested and exercisable and shall remain exercisable for the remaining term of such stock option (which remaining term shall be determined without regard to Mr. Garofolo's termination of employment).

For illustrative purposes, if a Named Executive Officer had been terminated other than for cause on October 31, 2009, termination benefits would have been as follows:

<b>Name</b>	<b>Salary (US\$)</b>	<b>Bonus (US\$)</b>	<b>Total (US\$)</b>
W. Wheeler	1,200,000	N/A	1,200,000
E. Evans	350,000	157,500	507,500
P. Garofolo	315,000	124,620	439,620

For illustrative purposes, if a Named Executive Officer had been terminated on October 31, 2009 following a change of control, termination benefits would have been as follows:

Name	Salary (US\$)	Bonus (US\$)	Option Benefits <sup>(1)</sup>	Total (US\$)
W. Wheeler	1,200,000	1,200,000	N/A	2,400,000
E. Evans	350,000	157,500	N/A	507,500
P. Garofolo	315,000	141,750	N/A	456,750

(1) Based on the closing price of the restricted voting shares on October 31, 2009, no options were in the money at that time.

## Director Compensation

### Director Compensation Table

The following table (presented in accordance with Form 51-102F6) sets forth all amounts of compensation provided to the non-employee directors for Fiscal 2009. All amounts are expressed in US dollars.

Name	Fees earned (\$)	Share-based awards (\$)	Option-based awards (\$)	Non-equity incentive plan compensation (\$)	Pension value (\$)	All other compensation (\$)	Total (\$)
Peter A. W. Green <sup>(1)</sup>	167,167	67,000	---	---	---	---	234,167
Claudio Bussandri <sup>(2)</sup>	236,000	67,000	---	---	---	---	303,000
Paul W. Currie <sup>(3)</sup>	302,000	67,000	---	---	---	---	369,000
G. Wesley Voorheis <sup>(4)</sup>	111,500	48,000	---	---	---	---	159,500
Roy T. Graydon <sup>(5)</sup>	118,500	48,000	---	---	---	---	166,500
Joaquín B. Viso <sup>(6)</sup>	20,500	33,500	---	---	---	---	54,000
Derek J. Watchorn	237,500	67,000	---	---	---	---	244,200
Ramsey A. Frank	23,500	67,000	---	---	---	---	90,500
Paul S. Levy	10,500	67,000	---	---	---	---	77,500
Thomas S. Taylor	56,500	67,000	---	---	---	---	123,500
Daniel Agroskin <sup>(7)</sup>	---	---	---	---	---	---	---
Brian G. Shaw <sup>(7)</sup>	---	---	---	---	---	---	---

(1) Mr. Green resigned from the Board on July 15, 2009.

(2) Mr. Bussandri resigned from the Board effective December 4, 2009.

(3) Mr. Currie resigned from the Board effective December 4, 2009.

(4) Mr. Voorheis was elected to the Board on April 29, 2009. Mr. Voorheis resigned as a director effective December 4, 2009.

(5) Mr. Graydon was elected to the Board on April 29, 2009.

(6) Mr. Viso was a member of the Board until April 29, 2009. Mr. Viso was reappointed to the Board on December 4, 2009.

(7) Neither Mr. Agroskin nor Mr. Shaw was a director during Fiscal 2009 and therefore no compensation was paid to either of these directors in respect of this period.

## ***Discussion of Director Compensation Table***

In Fiscal 2008, the Company implemented changes to its compensation program for directors pursuant to advice received from Towers Perrin (see “Compensation Discussion and Analysis – Compensation and Human Resources Committee”) regarding appropriate comparative compensation information and changes to Patheon’s compensation program for directors in light of the financial restructuring undertaken during Fiscal 2007 and evolving market practices. Effective November 1, 2007, the Board approved a new compensation program for non-employee directors consisting of (i) cash retainers and fees, and (ii) deferred share units (“DSUs”) granted pursuant to a directors deferred share unit plan (the “DSU Plan”), all as more fully described below.

### ***Cash Retainers and Fees***

The following table summarizes the cash retainers and fees that the directors of Patheon were entitled to in Fiscal 2009. Each director (other than the Chair of the Board) was entitled to an annual retainer, an annual committee Chair retainer, if applicable, an annual committee member retainer and meeting attendance fees, as applicable. The Chair of the Board was entitled to an annual retainer and an annual committee member retainer.

Board Retainer	US\$67,000 <sup>(1)</sup> per annum
Chairman Retainer	US\$140,000 <sup>(2)</sup> per annum
Committee Chair Retainer	
Chair of Audit Committee	US\$14,000 per annum
Chair of Other Standing Board Committee	US\$5,000 per annum
Chair of Special Committee	US\$40,000 from Dec. 2008 to Apr. 2009 US\$40,000 from May 2009 to Oct. 2009
Committee Member Retainer	
Member of Audit Committee	US\$6,000 per annum
Member of Other Standing Board Committee	US\$4,000 per annum
Member of the Special Committee	US\$20,000 from Dec. 2008 to Apr. 2009 US\$20,000 from May 2009 to Oct. 2009
Board and Standing Committee Meeting Attendance Fees	US\$1,500 per meeting <sup>(3)</sup>
Special Committee Meeting Attendance Fees (Chair and Members)	US\$2,500 per meeting

<sup>(1)</sup> US\$32,000 of this amount is payable in DSUs, and the remainder is payable in cash or DSUs at the election of the director. See “Deferred Share Unit Plan” below.

<sup>(2)</sup> US\$67,000 out of US\$140,000 is payable in cash or DSUs at the election of the Chair, and the remainder is payable in cash.

<sup>(3)</sup> The Chair of the Board is not entitled to any meeting attendance fees for Board or standing committee meetings; however, he was entitled to meeting attendance fees for Special Committee meetings.

### *Deferred Share Unit Plan*

The DSU Plan was developed following a study prepared by Towers Perrin on the then current compensation levels for comparable public companies in the Canadian marketplace. It was approved by the Board on February 22, 2008 and amended on March 27, 2008. The purposes of the DSU Plan are to (i) promote a greater alignment of interests between the directors and shareholders of the Company; and (ii) to provide a compensation system for directors that, together with the other director compensation mechanisms of the Company, is reflective of the responsibility, commitment and risk accompanying Board membership and the performance of duties required of the various committees of the Board. Only directors of Patheon who are not employees of Patheon or any of its affiliates, including any non-executive Chair of the Board (each an “Eligible Director”) are eligible to participate in the DSU Plan. The DSU Plan is administered by the CHR Committee.

Under the DSU Plan, each Eligible Director (other than the Chair of the Board) will receive in DSUs (i) an initial retainer fee for serving as a director payable on initiation of the DSU Plan or on being elected or appointed a director (the “Initial Retainer”) and (ii) a base retainer in respect of each fiscal year (the “Base Retainer”). In addition, each Eligible Director may elect to receive an annual retainer for serving as a director (the “Annual Retainer”) or an annual chairman’s retainer (the “Chair’s Retainer”), as applicable, in the form of DSUs or cash or any combination thereof.

DSUs allocated to an Eligible Director pursuant to the DSU Plan are credited to an account maintained by the Company on the last day of each fiscal quarter in which the remuneration provided in DSUs accrued. The number of DSUs is determined by dividing the remuneration provided in DSUs by the “Market Price” on the particular payment day. The “Market Price” is defined to mean, in respect of any date, the weighted average price at which restricted voting shares of Patheon have traded on the TSX during the two trading days immediately prior to such date. If any dividends are paid on restricted voting shares of Patheon, an Eligible Director will be credited with dividend equivalents in respect of the DSUs credited to his account as of the record date for payment of dividends, which dividend equivalents will be converted into additional DSUs. DSUs are fully vested upon being credited to an Eligible Director’s account.

An Eligible Director will be paid the value of the DSUs credited to his account on voluntary resignation or retirement, death or disability, removal from the Board whether by shareholder resolution or failure to be re-elected, and in the case of an Eligible Director who is a U.S. taxpayer, on the date on which he has a “separation from service” within the meaning of U.S. Internal Revenue Code. Each DSU represents the right to receive a payment for such DSU equal to the Market Price on the redemption date applicable to such DSU.

Under the new compensation program, the Board approved the Initial Retainer of US\$32,000 (to be paid in DSUs), the Base Retainer of US\$32,000 (to be paid in DSUs) and the Annual Retainer of US\$35,000 (to be paid in cash or DSUs) for Eligible Directors other than the Chair of the Board. The Board approved the Chair’s Retainer of US\$140,000 (US\$67,000 of which to be paid in cash or DSUs) for the Chair of the Board.

During Fiscal 2009, a total of 283,077 DSUs were credited to Eligible Directors under the DSU Plan. As of October 31, 2009, a total of 544,091 DSUs were outstanding.

## Incentive Plan Awards

### *Outstanding Option-Based Awards and Share-Based Awards*

The following table (presented in accordance with Form 51-102F6) sets forth for each non-employee director all awards outstanding at the end of Fiscal 2009, including awards granted before Fiscal 2009.

Name	Option-based Awards				Share-based Awards	
	Number of securities underlying unexercised options (#)	Option exercise price (C\$)	Option expiration date	Value of unexercised in-the-money options (\$)	Number of shares or units of shares that have not vested (#) <sup>(1)</sup>	Market or payout value of share-based awards that have not vested (\$) <sup>(1)(2)</sup>
P. Green	N/A	N/A	N/A	N/A	---	---
C. Bussandri	N/A	N/A	N/A	N/A	59,542.09	138,715.15
P. Currie	N/A	N/A	N/A	N/A	59,542.09	138,715.15
W. Voorheis	N/A	N/A	N/A	N/A	---	---
R. Graydon	N/A	N/A	N/A	N/A	22,822.62	53,169.84
J. Viso	N/A	N/A	N/A	N/A	---	---
D. Watchorn	5000	\$9.43	June 8, 2015	---	67,056.13	156,220.60
	5000	\$11.04	April 21, 2014	---		
	5000	\$13.21	March 28, 2013	---		
	5000	\$12.28	January 22, 2012	---		
	5000	\$14.92	January 2, 2011	---		
R. Frank	N/A	N/A	N/A	N/A	67,056.13	156,220.60
P. Levy	N/A	N/A	N/A	N/A	67,056.13	156,220.60
T. Taylor	N/A	N/A	N/A	N/A	67,056.13	156,220.60
D. Agroskin	N/A	N/A	N/A	N/A	N/A	N/A
B. Shaw	N/A	N/A	N/A	N/A	N/A	N/A

(1) The units and values reflect the number DSUs outstanding and their value as of the end of Fiscal 2009.

(2) The value is based on the number of DSUs multiplied by the weighted average price at which the restricted voting shares of Patheon traded on the TSX during the two trading days immediately preceding the last day of Fiscal 2009 (US\$2.32).

### **Incentive Plan Awards – Value Vested or Earned During the Year**

The following table (presented in accordance with Form 51-102F6) sets forth details of the value vested or earned during Fiscal 2009 for each incentive plan award.

<b>Name</b>	<b>Option-based awards – Value vested during the year (\$) (1)</b>	<b>Share-based awards – Value vested during the year (US\$) <sup>(1)</sup></b>	<b>Non-equity incentive plan compensation – Value earned during the year (US\$)</b>
P. Green	N/A	161,934.90	N/A
C. Bussandri	N/A	185,371.86 <sup>(2)</sup>	N/A
P. Currie	N/A	185,371.86 <sup>(2)</sup>	N/A
W. Voorheis	N/A	74,621.93 <sup>(2)</sup>	N/A
R. Graydon	N/A	N/A	N/A
J. Viso	N/A	130,371.10	N/A
D. Watchorn	N/A	N/A	N/A
R. Frank	N/A	N/A	N/A
P. Levy	N/A	N/A	N/A
T. Taylor	N/A	N/A	N/A
D. Agroskin	N/A	N/A	N/A
B. Shaw	N/A	N/A	N/A

(1) Based on the closing price of the restricted voting shares on each vesting date.

(2) Value of DSUs redeemed on January 18, 2010 for resigning directors services up to December 4, 2009.

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### **OTHER INFORMATION**

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### **Securities Authorized for Issuance under Equity Compensation Plans**

The following table provides information as of October 31, 2009:

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options</b>	<b>Weighted-average exercise price of outstanding options</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b>
	<b>(a)</b>	<b>(b)</b>	<b>(c)</b>
Equity compensation plans approved by securityholders - Option Plan	4,699,348	\$5.12	4,988,246
Equity compensation plans not approved by securityholders - None	Nil	Nil	Nil
<b>Total</b>	<b>4,699,348<sup>(1)</sup></b>	<b>\$5.12</b>	<b>4,988,246<sup>(2)</sup></b>

(1) 3.6% of the total number of currently issued and outstanding restricted voting shares of Patheon.

(2) 7.5% of the total number of currently issued and outstanding restricted voting shares of Patheon

## **Indebtedness of Directors and Executive Officers**

As at March 11, 2010 and throughout Fiscal 2009, no current or former director, officer or employee (or any associate of such individuals) was indebted to Patheon or any of its subsidiaries.

## **Interests of Informed Persons in Material Transactions**

Reference is made to the disclosure in the Annual Information Form of the Company dated December 18, 2009 under "Interests of Management and Others in Material Transactions", which is available on SEDAR at [www.sedar.com](http://www.sedar.com) and, upon request, a copy of which will be provided free of charge to a securityholder of the Company.

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## **CORPORATE GOVERNANCE**

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The mandate of the Board's Corporate Governance Committee is, in part, to monitor and evaluate Patheon's corporate governance policies and procedures. Details of Patheon's corporate governance practices are addressed below in accordance with National Instrument 58-101 – *Disclosure of Corporate Governance Practices*.

### **THE BOARD OF DIRECTORS**

#### ***Composition of the Board***

The number of directors of the Board is currently set at nine and there are nine directors including Patheon's CEO.

The Board has considered the independence of each of its directors under National Instrument 52-110 - *Audit Committees*. Under this instrument, a director is considered to be "independent", subject to certain bright line exceptions, if the director has no direct or indirect material relationship with Patheon which could, in the view of the Board, be reasonably expected to interfere with the exercise of the director's independent judgment.

The Board has determined that the following four directors are independent: Roy T. Graydon, Brian G. Shaw, Joaquin B. Viso and Derek J. Watchorn. The Board has determined that the following four directors are not independent: Ramsey A. Frank, Paul S. Levy and Thomas S. Taylor (each a Managing Director of JLL Partners, Inc.), and Daniel Agroskin (a Principal of JLL Partners, Inc.), (collectively, the "JLL Directors"). Under National Instrument 52-110, the JLL Directors are not independent directors because of their positions with JLL Patheon Holdings, LLC or its affiliates and the degree of control that JLL Patheon Holdings, LLC exercises over Patheon. In addition, Mr. Wheeler is not an independent director due to his position as the CEO of Patheon.

As a result of the right of JLL Patheon Holdings, LLC to designate up to three nominees for election or appointment to the Board depending on the number of restricted voting shares held pursuant to the investor agreement with Patheon dated April 27, 2007 and as a result of the Settlement Agreement, at least until March 1, 2011, the composition of the Board and therefore the mix of non-independent versus independent directors has effectively been pre-determined and a majority of directors are not and will not be independent. See "Business of the Meeting – Election of Directors – Settlement Agreement". The Board relies on the four independent directors to facilitate the Board's exercise of independent judgment in carrying out its responsibilities. Going forward, the Board expects that it (and its committees) will include a number of independent directors that is reflective of the share ownership of Patheon and in accordance with Patheon's contractual and other legal obligations.

### **Other Directorships**

Certain directors of the Company are also presently directors of other issuers that are reporting issuers (or the equivalent) in Canada or elsewhere. Information as to such directorships is set out below.

Mr. Frank	Builders FirstSource, Inc. PGT, Inc.
Mr. Graydon	Aeroquest International Limited
Mr. Levy	Builders FirstSource, Inc. PGT, Inc.
Mr. Agroskin	PGT, Inc.

### **Chair of the Board**

Since 1996, the office of Chair of the Board has been separate from that of the CEO. It is anticipated that after the election of directors at the meeting of shareholders to be held on April 15, 2010, the office of the Chair of the Board will continue to be separate from that of the CEO and will continue to be held by an individual who is not a member of management.

From the meeting of shareholders held on April 29, 2009 until his resignation on July 15, 2009, the office of Chair of the Board was held by Mr. Peter Green. Following Mr. Green's resignation, Mr. Claudio Bussandri was appointed to the office of Chair of the Board and served in that capacity until December 4, 2009. Following Mr. Bussandri's resignation effective December 4, 2009, Mr. Ramsey Frank was appointed to the office of Chair of the Board.

Mr. Frank is not considered an independent director within the meaning of National Instrument 52-110 and therefore the current Chair of the Board is not independent. An independent lead director has not been appointed. To provide leadership for its independent directors, the Board provides for the independent directors to hold at least one meeting per year at which non-independent directors and members of management are not in attendance.

### **Attendance at Meetings of the Directors**

In addition to the Board, Patheon has three standing committees of the Board which meet on a regular basis: the Audit Committee, the Corporate Governance Committee (the "CG Committee") and the Compensation and Human Resources Committee (the "CHR Committee"). During Fiscal 2009, a special committee of independent directors (the "Special Committee") was formed in connection with JLL's insider bid and related matters. Attendance at Board and committee meetings during Fiscal 2009 (for all directors throughout Fiscal 2009) was as follows:

	<u>Board</u>	<u>Audit Committee</u>	<u>CG Committee</u>	<u>CHR Committee</u>	<u>Special Committee</u>
Mr. Agroskin <sup>(1)</sup>			N/A		
Mr. Bussandri <sup>(2)</sup>	13 of 13	---	1 of 1	---	62 of 63
Mr. Currie <sup>(3)</sup>	13 of 13	7 of 7	---	11 of 11	63 of 63
Mr. Frank	12 of 13	---	1 of 1	---	---
Mr. Graydon <sup>(4)</sup>	6 of 6	4 of 4	---	---	24 of 28
Mr. Green <sup>(5)</sup>	7 of 9	---	---	---	38 of 46
Mr. Levy	7 of 13	---	---	---	---
Mr. Shaw <sup>(6)</sup>			N/A		

	<u>Board</u>	<u>Audit Committee</u>	<u>CG Committee</u>	<u>CHR Committee</u>	<u>Special Committee</u>
Mr. Taylor	13 of 13	7 of 7	---	11 of 11	---
Mr. Viso <sup>(7)</sup>	7 of 7	3 of 3	---	---	---
Mr. Voorheis <sup>(8)</sup>	5 of 6	---	0 of 1	---	25 of 28
Mr. Watchorn	12 of 13	---	1 of 1	11 of 11	61 of 63
Mr. Wheeler <sup>(9)</sup>	7 of 7	---	---	---	---

- (1) Mr. Agroskin was first appointed to the Board during Fiscal 2010 and therefore did not attend any meetings during Fiscal 2009.
- (2) Mr. Bussandri resigned from the Board effective December 4, 2009.
- (3) Mr. Currie resigned from the Board effective December 4, 2009.
- (4) Mr. Graydon was elected to the Board on April 29, 2009 after which six meetings of the Board, four meetings of the Audit Committee and 28 meetings of the Special Committee were held during the remainder of Fiscal 2009.
- (5) Mr. Green resigned on July 15, 2009, up to which time nine meetings of the Board and 46 meetings of the Special Committee had been held during Fiscal 2009.
- (6) Mr. Shaw was first appointed to the Board during Fiscal 2010 and therefore did not attend any meetings during Fiscal 2009.
- (7) Mr. Viso was a member of the Board until April 29, 2009, up to which time seven meetings of the Board and three meetings of the Audit Committee had been held during Fiscal 2009. Mr. Viso was reappointed to the Board on December 4, 2009.
- (8) Mr. Voorheis was elected to the Board on April 29, 2009 after which six meetings of the Board and 28 meetings of the Special Committee were held during the remainder of Fiscal 2009. Mr. Voorheis resigned as a director effective December 4, 2009.
- (9) Mr. Wheeler was a member of the Board until April 29, 2009, up to which time seven meetings of the Board had been held during Fiscal 2009. Mr. Wheeler was reappointed to the Board on December 4, 2009.

### ***Meetings of the Independent Directors***

During Fiscal 2009, the independent directors, in the form of the Special Committee, held 63 meetings at which non-independent directors and members of management were not in attendance. Going forward, in accordance with the Charter of the Board, the independent directors are expected to hold at least one meeting per year at which non-independent directors and members of management are not in attendance. This is intended to facilitate open and candid discussion among the Board's independent directors.

### ***Board Charter***

The Charter of the Board was updated and approved by the Board on March 12, 2010 and is attached as Appendix A to this Management Proxy Circular.

### **BOARD COMMITTEES**

Patheon has three standing committees of the Board: the Audit Committee, the CG Committee and the CHR Committee. The Special Committee was disbanded effective December 4, 2009.

### ***Audit Committee***

#### *Composition*

The Audit Committee is currently comprised of the following three members: Mr. Shaw (Chair), Mr. Taylor and Mr. Viso. Messrs. Shaw and Viso are considered to be independent within the meaning of National Instrument 52-110. Mr. Taylor is considered not to be independent because of his position with JLL Partners, Inc. for the reasons discussed above.

As Mr. Taylor is not independent for the purposes of National Instrument 52-110, which requires that all three members of the Audit Committee be independent, Patheon is relying on section 3.3(2) of National Instrument 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. In addition, a majority of the Audit Committee is independent as required by section 3.7 of National Instrument 52-110.

#### *Charter and Responsibilities*

The Charter of the Audit Committee was updated and approved by the Board on March 12, 2010 and is attached as Appendix B to this Management Proxy Circular. The Charter of the Audit Committee establishes its: (i) objectives; (ii) constitution; and (iii) responsibilities relating to, among other things, the external auditor, pre-approval and non-audit services, review of financial statements and MD&A, review of public disclosure of financial information, submission systems and treatment of complaints, hiring policies and internal controls and management information systems.

Further information regarding the Audit Committee is contained in the section entitled "Audit Committee Information" of Patheon's Annual Information Form dated December 18, 2009 which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Corporate Governance Committee**

#### *Composition*

The CG Committee is currently comprised of the following three members: Mr. Frank (Chair), Mr. Taylor and Mr. Viso. Mr. Viso is considered to be independent within the meaning of National Instrument 52-110. Messrs. Frank and Taylor are considered not to be independent because of their positions with JLL Partners, Inc. for the reasons discussed above. As a result, the CG Committee, which serves as the Board's nominating committee, is not composed entirely of independent directors.

#### *Charter*

The Charter of the CG Committee was updated and approved by the Board on March 12, 2010 and is published on Patheon's website. The Charter of the CG Committee establishes its: (i) objectives; (ii) constitution; and (iii) responsibilities relating principally to corporate governance and nominations.

#### *Corporate Governance Responsibilities*

With respect to its corporate governance responsibilities, the CG Committee is responsible for, among other things:

- methods for assessing the effectiveness and contribution of the Board as a whole, each of the committees of the Board and each of the individual directors;
- communication processes between the Board and management;
- the mandates/charters, composition and membership of each committee of the Board;
- position descriptions;
- an appropriate orientation program for new members of the Board and continuing education opportunities for all directors;

- procedures to enable directors or committees of the Board to engage outside counsel and any other external advisors at the expense of Patheon in appropriate circumstances;
- reviewing the disclosure about Patheon's governance practices;
- reviewing Patheon's Code of Business Conduct; and
- reviewing Patheon's trading policies.

The CG Committee may retain, at Patheon's expense, such consultants or advisors as it may require to assist it and may invite directors, officers and employees of Patheon or any other person to attend meetings of the CG Committee to assist in the discussion and examination of the matters under consideration by the CG Committee.

#### *Nomination Process*

As a result of the right of JLL Patheon Holdings, LLC to designate up to three nominees for election or appointment to the Board depending on the number of restricted voting shares held pursuant to the investor agreement with Patheon dated April 27, 2007 and as a result of the Settlement Agreement, the CG Committee and the Board are currently limited in their nomination abilities. See "Business of the Meeting – Election of Directors – Settlement Agreement".

However, generally with respect to its nomination responsibilities, the CG Committee is responsible for making such recommendations to the Board as it may consider appropriate from time to time concerning the nomination of individuals for election or appointment to the Board, including recommendations relating to:

- the size and composition of the Board and the competencies and skills required for nomination, re-election or appointment of any individual to the Board; and
- those individuals to be nominated for election, to stand for re-election or for appointment to the Board.

In making its recommendations with respect to the nomination of individuals for election or appointment to the Board, the CG Committee considers the following:

- the competencies and skills that the Board considers to be necessary for the Board, as a whole, to possess;
- the competencies and skills that the Board considers each director to possess;
- the competencies and skills that each individual will bring to the Board; and
- whether or not each individual can devote sufficient time and resources to his or her duties as a Board member.

The Board then considers the recommendations of the CG Committee with respect to nominations and with respect to the size and composition of the Board and nominates individuals for election as directors by the shareholders. In selecting individuals for nomination as directors, the Board considers what competencies and skills the Board, as a whole, should possess and assesses what competencies and skills each existing director possesses.

As the CG Committee is not composed entirely of independent directors, to encourage an objective nomination process, the Board will generally consider the views of the directors relating to nominations.

## ***Compensation and Human Resources Committee***

### *Composition*

The CHR Committee is currently comprised of the following three members: Mr. Taylor (Chair), Mr. Agroskin, and Mr. Viso. Mr. Viso is considered to be independent within the meaning of National Instrument 52-110. Messrs. Taylor and Agroskin are considered not to be independent because of their positions with JLL Partners, Inc. for the reasons discussed above. As a result, the CHR Committee, which serves as the Board's compensation committee, is not composed entirely of independent directors.

### *Charter*

The Charter of the CHR Committee was updated and approved by the Board on March 12, 2010 and is published on Patheon's website. The Charter of the CHR Committee establishes its: (i) objectives; (ii) constitution; and (iii) responsibilities relating principally to compensation and succession planning.

### *Responsibilities*

The CHR Committee is responsible for, among other things:

- reviewing management proposals regarding compensation policies and compensation programs for the members of the Board and the CEO;
- reviewing Patheon's executive and management compensation policies and programs;
- reviewing the fees and other compensation arrangements in place for members of the Board;
- reviewing any employment contract between Patheon and the CEO;
- recommending to the Board an appropriate overall compensation package for the CEO;
- reviewing and, if appropriate, approving, the CEO's recommendation with respect to the compensation of other executive officers and senior management of Patheon and reporting to the Board thereon;
- reviewing and, if appropriate, approving matters relating to the annual cash incentive plans for the executive officers (including the CEO) and senior management of Patheon and reporting to the Board thereon;
- assuring itself that Patheon's executive and director compensation programs have been administered in accordance with their terms;
- reviewing all executive compensation disclosure;
- administering each compensation plan, designating eligible persons under such plans and recommending to the Board for approval the grant of options and/or units to such eligible persons; and
- reviewing the succession plans for the CEO and other senior executives of Patheon and providing any recommendations to the Board as appropriate.

The CHR Committee may retain, at Patheon's expense, such consultants or advisors as it may require to assist it and may invite directors, officers and employees of Patheon or any other person to attend meetings of the CHR Committee to assist in the discussion and examination of the matters under consideration by the CHR Committee. In particular, Patheon has retained outside advisors from time to time to advise the CHR Committee on Patheon's compensation policies and programs. Patheon retained Towers Perrin and Mercer to provide services as further described below.

## *Compensation Process*

Each year, the CHR Committee generally reviews compensation matters for the CEO, the other executive officers and certain members of senior management. The CHR Committee reviews information it receives from the CEO and management, as well as advice it receives from outside advisors. The CHR Committee then makes recommendations to the Board about the CEO's compensation and, if appropriate, approves any annual cash incentive for the CEO. The CHR Committee also, if appropriate, approves the CEO's recommendations with respect to the compensation of other executive officers and senior management of the Corporation, including any annual cash incentive for such persons and reports to the Board thereon. The CHR Committee also, if appropriate, recommends to the Board for approval the grant of options and/or units under Patheon's compensation plans.

As the CHR Committee is not composed entirely of independent directors, to ensure an objective process for determining compensation, the Board provides for the engagement of outside advisors to obtain advice on compensation matters.

Patheon engaged Towers Perrin during Fiscal 2007 and Fiscal 2008 to advise regarding appropriate comparative compensation information and regarding changes to Patheon's compensation program in light of the financial restructuring undertaken in Fiscal 2007 and evolving market practices. Further to its review, the CHR Committee recommended, and the Board adopted, changes to the Company's long-term incentive compensation program, which were applied to Fiscal 2008.

Most recently, in the first quarter of Fiscal 2010, Mercer was engaged to advise regarding additional changes to the long-term incentive compensation program. Design changes to the performance and retention components of the long-term incentive compensation program were recommended and were approved for implementation during Fiscal 2010. See "Executive Compensation" for additional information regarding the mandate of Mercer.

## **POSITION DESCRIPTIONS**

The Board has adopted a position description for the Chair of the Board which defines the Chair's responsibilities. Among other things, the Chair is required to fulfill responsibilities relating to board management, meetings, adequate and timely information, liaising with management and monitoring director performance.

The Board has also adopted a position description for the Chairs of its committees. Among other things, the Chair of each committee is required to fulfill responsibilities relating to meetings, leadership and organization of the applicable committee.

The Board has adopted a position description for the CEO which defines the CEO's responsibilities. Among other things, the CEO is required to fulfill responsibilities relating to planning, management, ethics, culture, policy and public representation, and communications with the Board.

The CG Committee is responsible for making recommendations to the Board on these position descriptions.

## **ORIENTATION AND CONTINUING EDUCATION**

The CG Committee is responsible for making recommendations to the Board regarding an appropriate orientation program for new members of the Board and continuing education opportunities for all directors.

In order to orient new directors regarding the role of the Board, its committees and directors, including the business and operations of Patheon, all potential new directors are given the opportunity to meet with the CEO, the Chair of the Board and other directors to ask questions and become familiar with Patheon prior to being elected or appointed as a director. New directors are also presented with information packages prepared by management which include incorporation documents, by-laws, the Board and committee charters, position descriptions for the Chair of the Board, for the Chairs of committees, and for the CEO,

the policies of Patheon, and summaries on the existing operations of Patheon, the industries it is serving and its ongoing strategic and other plans.

With respect to continuing education for directors, management regularly makes presentations to the Board on the pharmaceutical industry generally, and provides reports on Patheon's business and affairs specifically. Management also keeps the Board apprised of new developments in the pharmaceutical industry. Management also prepares information summaries and conducts presentations to the Board regarding legislative changes and requirements pertaining to securities laws and public company obligations. From time to time, when convenient, directors are invited to visit Patheon's facilities in various jurisdictions.

### **CODE OF BUSINESS CONDUCT AND ETHICS**

The Board has approved a Code of Business Conduct ("Code") applicable to directors, officers, consultants, employees and agents. A copy of the Code was filed on SEDAR at [www.sedar.com](http://www.sedar.com) on January 29, 2007 and is published on Patheon's website.

The Code is designed to promote integrity, respect, and excellence, and to deter wrongdoing. The Code addresses each of the following issues:

- compliance with laws, including those relating to insider trading, conflicts of interest, corporate opportunities and business gifts and payments;
- responsibility to shareholders, including making public statements and shareholder value;
- commitment to clients, including confidentiality of client information and good faith dealings;
- commitment to employees, including equality of opportunity, freedom from discrimination or harassment, substance abuse and privacy;
- proper use and protection of corporate assets, including signing authority, confidentiality of Patheon information, inventions and discoveries, capital expenditures, building security, and business records;
- community relations, including community participation and political participation and contributions; and
- reporting of any illegal or unethical conduct.

The Board has delegated the monitoring of compliance with the Code to the Audit Committee. The Audit Committee is responsible for this and for reviewing the reports of management concerning compliance with the Code and, if appropriate, reporting and making recommendations to the Board with respect to these matters.

Patheon uses EthicsPoint, Inc. as a service provider with respect to a confidential whistleblower program that employees may use in connection with violations, or any activities they suspect may be in violation, of the Code, including matters relating to accounting, internal accounting controls and auditing. The program is both telephone- and web-based. The EthicsPoint reporting system is available to Patheon employees in all jurisdictions except Italy and France, where certain laws preclude Patheon from offering an anonymous reporting service to its employees, and where, instead, employees may report violations to management only on a non-anonymous basis.

Patheon has no undisclosed contracts or other arrangements in place in which any of its directors or officers have a material interest. If such arrangements arise, they must be considered and approved by the Board. In considering transactions and agreements where a director or officer has a material interest, that individual is expected to give notice of that interest and abstain from voting with respect to that matter.

## **BOARD ASSESSMENTS**

The CG Committee is responsible for recommending to the Board methods to properly assess the effectiveness and contribution of the Board as a whole, each of the committees of the Board and each of the individual directors, and has determined that the Chair of the Board should make such assessments and report to the CG Committee following his review. Given the numerous changes to the Board and its committees throughout Fiscal 2009, an assessment was not conducted during Fiscal 2009. It is expected that the Chair of the Board will conduct an assessment towards the end of Fiscal 2010.

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## **AVAILABILITY OF DOCUMENTS**

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Additional information relating to Patheon is available on SEDAR at [www.sedar.com](http://www.sedar.com). In addition, Patheon will provide to any person and, in the case of a securityholder, without charge, upon request to Patheon's Secretary at 2100 Syntex Court, Mississauga, Ontario, Canada L5N 7K9, the following documents:

- (a) one copy of Patheon's latest annual information form together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the annual information form;
- (b) one copy of Patheon's comparative financial statements and MD&A for its most recently completed financial year, together with the accompanying report of the auditor, and one copy of any interim financial statements or MD&A of Patheon that have been filed for any period subsequent to such annual financial statements; and
- (c) this Management Proxy Circular.

Financial information is provided in Patheon's comparative financial statements and MD&A for the most recently completed financial year.

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## **SHAREHOLDER PROPOSALS**

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A shareholder entitled to vote at an annual meeting of shareholders who intends to raise a proposal at the 2011 Annual Meeting must deliver the proposal to Patheon's Secretary by no later than December 22, 2010.

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## **CERTIFICATE**

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The contents and the sending of this Management Proxy Circular have been approved by Patheon's board of directors.

(signed) *Doaa A. Fathallah*

Executive Vice-President, General Counsel  
and Corporate Secretary

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## APPENDIX A

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### CHARTER OF THE BOARD OF DIRECTORS

#### GENERAL

##### 1. PURPOSE AND RESPONSIBILITY OF THE BOARD

By approving this Charter, the Board explicitly assumes responsibility for the stewardship of Patheon and its business. This stewardship function includes responsibility for the matters set out in this Charter, which form part of the Board's statutory responsibility to manage or supervise the management of Patheon's business and affairs.

##### 2. REVIEW OF CHARTER

The Board shall review and assess the adequacy of this Charter annually and at such other times as it considers appropriate and shall make such changes as it considers necessary or appropriate.

##### 3. DEFINITIONS AND INTERPRETATION

###### 3.1. Definitions

In this Charter:

- a. "Board" means the board of directors of Patheon;
- b. "CEO" means Patheon's chief executive officer;
- c. "Chair" means the chair of the Board;
- d. "Charter" means this charter, as amended from time to time;
- e. "Director" means a member of the Board;
- f. "Patheon" means Patheon Inc.; and
- g. "Stock Exchanges" means, at any time, the Toronto Stock Exchange and any other stock exchange on which any securities of Patheon are listed for trading at the applicable time.

###### 3.2. Interpretation

This Charter is subject to and shall be interpreted in a manner consistent with Patheon's articles and by-laws, the *Canada Business Corporations Act* (the "CBCA"), and any other applicable legislation.

## CONSTITUTION OF THE BOARD

### 4. ELECTION AND REMOVAL OF DIRECTORS

#### 4.1. Number of Directors

The Board shall consist of such number of Directors as the Board may determine from time to time, within the range set out in Patheon's articles at such time.

#### 4.2. Election of Directors

Directors shall be elected by the shareholders annually for a one year term, but if Directors are not elected at a meeting of shareholders, the incumbent Directors shall continue in office until their successors are elected.

#### 4.3. Vacancies

The Board may appoint an individual to fill a vacancy which occurs in the Board between annual elections of Directors, to the extent permitted by the CBCA.

#### 4.4. Ceasing to Be a Director

A Director will cease to hold office upon:

- a. delivering a resignation in writing to Patheon and such resignation, if not effective upon receipt by Patheon, shall be effective in accordance with its terms;
- b. being removed from office by an ordinary resolution of the shareholders of Patheon;
- c. his or her death;
- d. becoming bankrupt; or
- e. a court in Canada or elsewhere finding him or her to be of unsound mind.

### 5. CRITERIA FOR DIRECTORS

#### 5.1. Qualifications of Directors

Every Director shall be an individual who is at least 18 years of age, has not been determined by a court to be of unsound mind and does not have the status of bankrupt.

#### 5.2. Residency

At least 25% of the Directors shall be "resident Canadians" as defined in the CBCA.

#### 5.3. Independence of Directors

At least two of the Directors shall not be officers or employees of Patheon or any of its affiliates.

The Board should include a number of "independent" directors (within the meaning of applicable regulatory and Stock Exchange requirements), that is reflective of the share ownership of Patheon and in accordance with Patheon's contractual and other legal obligations.

5.4. Other Criteria

The Board may establish by resolution additional criteria for Directors as contemplated in this Charter.

**6. BOARD CHAIR**

Board to Appoint Chair

The Board shall appoint the Chair annually at the first meeting of the Board after the meeting of the shareholders of Patheon at which Directors are elected. If the Board does not so appoint a Chair, the Director who is then serving as Chair shall continue as Chair until his or her successor is appointed.

**7. REMUNERATION OF DIRECTORS AND RETAINING ADVISORS**

7.1. Remuneration

The remuneration to be paid to the Directors shall be such as the Directors shall from time to time by resolution determine and such remuneration may be in addition to the salary paid to any officer or employee of Patheon who is also a Director. The Directors may also by resolution award special remuneration to any Director to compensate him or her for any special services rendered to Patheon other than the normal work ordinarily required of a director of a corporation. The confirmation of any such resolution or resolutions by the shareholders shall not be required. The Directors shall also be entitled to be paid their travelling and other expenses properly incurred by them in connection with the affairs of Patheon.

7.2. Retaining and Compensating Advisors

Each Director and non-standing committee of the Board shall have the authority to retain outside counsel and any other external advisors at the expense of the Corporation in appropriate circumstances but only with the approval of the Corporate Governance Committee acting in the best interests of the Corporation, such retainers to be subject to such conditions to be determined and approved by the Corporate Governance Committee.

Each standing committee of the Board shall have, through the terms of its charter, the authority to retain outside counsel and any other external advisors at the expense of the Corporation in appropriate circumstances, such retainers to be subject to such conditions to be determined and approved by the applicable standing committee acting in the best interests of the Corporation.

**MEETINGS OF THE BOARD**

**8. MEETINGS OF THE BOARD**

8.1. Time and Place of Meetings

Meetings of the Board shall be called and held in the manner and at the location contemplated in Patheon's by-laws.

8.2. Frequency of Board Meetings

Subject to Patheon's by-laws, the Board shall meet at least four times per year on a quarterly basis.

8.3. Quorum

In order to transact business at a meeting of the Board:

- a. a majority of the number of Directors shall be present; and
- b. 25% of the Directors present must be resident Canadians (or, if this is not possible, a resident Canadian Director who is unable to be present and whose presence at the meeting would have resulted in the required number of resident Canadian Directors being present, must approve the business transacted at the meeting, whether in writing or by telephonic, electronic or other communication facility).

8.4. Secretary of the Meeting

The Chair shall designate from time to time a person who may, but need not, be a member of the Board, to be Secretary of any meeting of the Board.

8.5. Right to Vote

Each member of the Board shall have the right to vote on matters that come before the Board, subject to the restrictions on voting specified in the CBCA where a Director is required to disclose an interest in a material contract or material transaction.

8.6. Invitees

The Board may invite any of Patheon's officers, employees, advisors or consultants or any other person to attend meetings of the Board to assist in the discussion and examination of the matters under consideration by the Board.

**9. IN CAMERA SESSIONS**

9.1. In Camera Sessions of Non-Management Directors

At the conclusion of each meeting of the Board, the non-management Directors shall meet without any member of management being present (including any Director who is a member of management).

9.2. In Camera Sessions of Independent Directors

To the extent that non-management Directors include Directors who are not independent Directors within the meaning of applicable regulatory and Stock Exchange requirements, the independent Directors shall meet at least once per year with only independent Directors present.

**DELEGATION OF DUTIES AND RESPONSIBILITIES OF THE BOARD**

**10. DELEGATION AND RELIANCE**

10.1. Delegation to Committees

The Board may establish and delegate to committees of the Board any duties and responsibilities of the Board which the Board is not prohibited by law from delegating. However, no committee of the Board shall have the authority to make decisions which bind Patheon, except to the extent that such authority has been specifically delegated to such committee by the Board.

## 10.2. Requirement for Certain Committees

The Board shall establish and maintain the following committees of the Board, each having mandates/charters that incorporate all applicable regulatory and Stock Exchange requirements and that follow such guidelines of applicable regulatory authorities and Stock Exchanges as the Board may consider appropriate:

- a. Audit Committee;
- b. Corporate Governance Committee (which shall have responsibility for nomination matters); and
- c. Compensation and Human Resources Committee.

## 10.3. Composition of Committees

The Board will appoint and maintain in office members of each of its committees such that the composition of each such committee is in compliance with applicable regulatory and Stock Exchange requirements and with such guidelines of applicable regulatory authorities and Stock Exchanges as the Board may consider appropriate and shall require the Corporate Governance Committee to make recommendations to it with respect to such matters.

## 10.4. Review of Mandates/Charters

On an annual basis, the Board will review the recommendations of the Corporate Governance Committee with respect to the mandates/charters of each committee of the Board. The Board will approve those changes to the mandates/charters that it determines are appropriate.

## 10.5. Delegation to Management

- a. Subject to Patheon's articles and by-laws, the Board may designate the offices of Patheon, appoint officers, specify their duties and delegate to them powers to manage the business and affairs of Patheon, except to the extent that such delegation is prohibited by the CBCA.
- b. Notwithstanding any delegation to management to manage the business and affairs of Patheon, management must seek Board approval in respect of all material transactions, including, (i) those transactions that could reasonably be expected to significantly affect the market price or value of Patheon's securities, (ii) changes in the authorized or issued capital of Patheon, (iii) any action that may lead to or result in a material change in the nature of the business, operations, outstanding debt or capital of Patheon, and (iv) the sale, lease or exchange of all or substantially all of the property of Patheon.

## 10.6. Reliance on Management

The Board is entitled to rely in good faith on the information and advice provided to it by Patheon's management.

## 10.7. Reliance on Others

The Board is entitled to rely in good faith on information and advice provided to it by advisors, consultants and such other persons as the Board considers appropriate.

10.8. Oversight

The Board retains responsibility for oversight of any matters delegated to any committee of the Board or to management.

## **DUTIES AND RESPONSIBILITIES**

### **11. RESPONSIBILITY FOR SPECIFIC MATTERS**

11.1. Responsibility for Specific Matters

The Board explicitly assumes responsibility for the matters set out below, recognizing that these matters represent in part responsibilities reflected in requirements and guidelines of applicable regulatory authorities and Stock Exchanges and do not limit the Board's overall stewardship responsibility or its responsibility to manage or supervise the management of Patheon's business and affairs.

11.2. Delegation to Committees

Whether or not specific reference is made to committees of the Board in connection with any of the matters referred to in Sections 12, 13, 14 and 16, the Board may direct any committee of the Board to consider such matters and to report and make recommendations to the Board with respect to these matters and the Board may, where appropriate, specifically delegate authority to a committee of the Board to make decisions which bind Patheon on such matters.

### **12. CORPORATE GOVERNANCE GENERALLY**

12.1. Governance Practices and Principles

The Board shall be responsible for developing Patheon's approach to corporate governance.

12.2. Governance Disclosure

- a. The Board shall approve disclosure about Patheon's governance practices in any document before it is delivered to Patheon's shareholders or filed with applicable regulatory authorities or with the Stock Exchanges.
- b. If Patheon's governance practices differ from the guidelines of applicable regulatory authorities or the Stock Exchanges, the Board shall consider these differences and why the Board considers them to be appropriate.

12.3. Delegation to Corporate Governance Committee

The Board may direct the Corporate Governance Committee to consider the matters contemplated in this Section 12 and to report and make recommendations to the Board with respect to these matters and the Board may, where appropriate, specifically delegate authority to the Corporate Governance Committee to make decisions which bind Patheon on such matters.

### **13. RESPONSIBILITIES RELATING TO MANAGEMENT**

13.1. Integrity of Management

The Board shall, to the extent feasible, satisfy itself:

- a. as to the integrity of the CEO and other executive officers; and
- b. that the CEO and other executive officers create a culture of integrity throughout the organization.

13.2. Succession Planning

The Board shall be responsible for succession planning, including appointing, training and monitoring senior management.

13.3. Executive Compensation Policy

The Board shall approve the compensation of the CEO but may specifically delegate the authority to approve one or more components of the compensation of the CEO to the Compensation and HR Committee provided that the Board receives a report from the Compensation and HR Committee thereon.

The Board shall receive regular reports from the Compensation and HR Committee on its approval of any recommendations of the CEO with respect to the compensation of other executive officers and senior management of Patheon.

13.4. Delegation to Compensation and Human Resources Committee

The Board may direct the Compensation and Human Resources Committee to consider the matters contemplated in this Section 13 and to report and make recommendations to the Board with respect to these matters and the Board may, where appropriate, specifically delegate authority to the Compensation and HR Committee to make decisions which bind Patheon on such matters.

**14. OVERSIGHT OF THE OPERATION OF THE BUSINESS**

14.1. Risk Management

Taking into account the reports of management and such other persons as the Board may consider appropriate, the Board shall identify the principal risks of Patheon's business and satisfy itself as to the implementation of appropriate systems to manage these risks. The Board may specifically delegate authority to the Audit Committee to consider these matters and, if appropriate, to report and make recommendations to the Board with respect to these matters.

14.2. Strategic Planning Process

The Board shall adopt a strategic planning process and shall review and approve, on at least an annual basis, Patheon's strategic plan which should take into account, among other things, the opportunities and risks of Patheon's business.

As part of this process, the Board shall receive reports and recommendations from management, on at least an annual basis, regarding Patheon's operational and financial plans and budgets and the Board shall adopt the same with such changes as the Board deems appropriate.

In connection with the above, the Board shall seek to provide a balance of long-term versus short-term orientation of Patheon's strategic, operational and financial plans.

14.3. Internal Control and Management Information Systems

The Board shall review the reports of management and the Audit Committee concerning the integrity of Patheon's internal control and management information systems. Where appropriate, the Board shall require management and the Audit Committee to implement changes to such systems to ensure the integrity of such systems.

14.4. Corporate Disclosure Policy

The Board shall review and, if determined appropriate, approve a corporate disclosure policy for Patheon for communicating with shareholders, the investment community, the media, governments and their agencies, employees and the general public. The Board shall consider, among other things, the recommendations of management and the Audit Committee with respect to this policy.

14.5. Financial Statements

The Board shall review the recommendations of the Audit Committee with respect to the annual and interim financial statements and MD&A of Patheon to be delivered to shareholders. The Board shall approve such financial statements and MD&A.

14.6. Other Disclosure Documents

The Board shall review the recommendations of management and the applicable committees of the Board with respect to any annual information form, circular and prospectus of Patheon. The Board shall approve all such disclosure documents.

14.7. Pension Matters

The Board shall receive and review reports from management covering administration, investment performance, funding, financial impact, actuarial reports and other pension related matters.

14.8. Code of Business Conduct

The Board will review and approve a Code of Business Conduct for Patheon. In adopting the Code of Business Conduct, the Board will consider the recommendations of the Corporate Governance Committee concerning its compliance with applicable regulatory and Stock Exchange requirements and with the guidelines of applicable regulatory authorities and Stock Exchanges as the Board may consider appropriate.

14.9. Compliance and Disclosure

The Board will monitor compliance with the Code of Business Conduct and shall review the report of management concerning compliance with the Code of Business Conduct. The Board may specifically delegate authority to the Audit Committee to consider these matters and, if appropriate, to report and make recommendations to the Board with respect to these matters.

The Board is responsible for approving, if determined appropriate, any and all waivers granted to a Director or executive officer of Patheon from complying with the Code of Business Conduct and will determine whether disclosure thereof is required.

## **15. NOMINATION OF DIRECTORS**

### **15.1. Nomination and Appointment of Directors**

- a. The Board shall nominate individuals for election as Directors by the shareholders and shall require the Corporate Governance Committee to make recommendations to it with respect to such nominations.
- b. In selecting individuals for nomination as Directors, the Board shall:
  - i. consider what competencies and skills the Board, as a whole, should possess; and
  - ii. assess what competencies and skills each existing Director possesses.
- c. The Board shall consider recommendations made to it by the Corporate Governance Committee with respect to the size and composition of the Board.

## **16. BOARD EFFECTIVENESS**

### **16.1. Position Descriptions**

The Board shall review and, if determined appropriate, approve formal position descriptions for:

- a. individual Directors and for the Chair of the Board and for the Chair of each committee of the Board; and
- b. the CEO (which shall include the delineation of management's responsibilities),

provided that in approving a position description for the CEO, the Board shall consider the input of the CEO and shall develop and approve corporate goals and objectives that the CEO is responsible for meeting (which may include goals and objectives relevant to the CEO's compensation, as recommended by the Compensation and Human Resources Committee).

The Board may direct the Corporate Governance Committee to consider the matters contemplated in this Section 16.1 and to report and make recommendations to the Board with respect to these matters and the Board may, where appropriate, specifically delegate authority to the Corporate Governance Committee to make decisions which bind Patheon on such matters.

### **16.2. Director Orientation and Continuing Education**

The Board shall review and, if determined appropriate, approve the recommendations of the Corporate Governance Committee concerning:

- a. a comprehensive orientation program for new Directors; and
- b. continuing education opportunities for all Directors.

### **16.3. Board, Committee and Director Assessments**

The Board shall review and, if determined appropriate, adopt a process recommended by the Corporate Governance Committee for assessing the effectiveness and contribution of the Board as a whole, each of the committees of the Board and each of the individual Directors on an annual basis.

16.4. Annual Assessment of the Board

Each year, the Board shall assess its effectiveness and contribution and that of each of its committees and each individual Director in accordance with the process recommended by the Corporate Governance Committee and approved by the Board.

Approved by the Board of Directors

Patheon Inc.

March 12, 2010.

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## APPENDIX B

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### CHARTER OF THE AUDIT COMMITTEE

This charter governs the operations of the Audit Committee of Patheon Inc. (the "Corporation").

#### 1. OBJECTIVES

The Committee has three major objectives:

- (a) to assist the board of directors of the Corporation (the "Board") in fulfilling its oversight responsibilities relating to the Corporation's financial statements;
- (b) to assist the Board in fulfilling its oversight responsibilities relating to the integrity of the Corporation's internal control and management information systems; and
- (c) to fulfill the responsibilities assigned to the Committee by the Board pursuant to this charter.

#### 2. CONSTITUTION

##### 2.1 Membership

The Committee must be composed of a minimum of three members. Every Committee member must be a director of the Corporation (a "Director"). Every Committee member must be "independent" as such term is defined in National Instrument 52-110 – *Audit Committees* ("NI 52-110") or an exemption from the requirement that every Committee member be "independent" must be available for the Corporation to rely upon. Every Committee member must be "financially literate" as such term is defined in NI 52-110.

##### 2.2 Chair

The Board shall appoint the Chair of the Committee from the members of the Committee (or if it fails to do so, the members of the Committee shall appoint the Chair of the Committee from among its members).

##### 2.3 Annual Appointment of Members

The appointment of members of the Committee and the designation of its Chair shall take place annually at the first meeting of the Board after a meeting of the shareholders at which Directors are elected. The Board may appoint a member to fill a vacancy which occurs in the Committee between annual elections of Directors.

##### 2.4 Continuance of Existing Mandate

If an appointment of members of the Committee is not made as prescribed, the members shall continue as such until their successors are appointed.

##### 2.5 Quorum

A quorum of the Committee shall be a majority of its members.

## 2.6 Secretary

The Chair of the Committee may designate from time to time a person to be the Secretary of the Committee. The Secretary may, but need not, be a member of the Committee.

## 2.7 Committee Procedures

The time and place of the meetings of the Committee and the calling of meetings and the procedure in all things at such meetings shall be determined by the Committee.

## 2.8 Attendees at Meetings

The Committee may invite Directors, officers and employees of the Corporation or any other person to attend meetings of the Committee to assist in the discussion and examination of the matters under consideration by the Committee.

## 3. AUTHORITY

The Committee has the authority:

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

The Committee also has the authority to delegate to individual members or subcommittees of the Committee.

## 4. RESPONSIBILITIES

### 4.1 External Auditor

- (a) The Corporation's external auditor is required to report directly to the Committee.
- (b) The Committee is responsible for recommending to the Board:
  - (i) 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
  - (ii) the compensation of the external auditor.
- (c) The 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.
- (d) The Committee is responsible for reviewing and approving the proposed audit scope, focus areas, timing and key decisions underlying the audit plan.
- (e) The Committee is also responsible for:
  - (i) monitoring and reporting to the Board with regards to the qualifications, independence and performance of the external auditor;
  - (ii) receiving and reviewing reports from the external auditor on the progress against the approved audit plan, important findings, recommendations for improvements and the auditors' final report;

- (iii) reviewing, at least annually, a report from the external auditor on all relationships and engagements that may reasonably be thought to bear on the independence of the auditor; and
- (iii) meeting in private with the external auditor.

#### 4.2 Pre-Approval and Non-Audit Services

The Committee is responsible for pre-approving all “non-audit services” (as such term is defined in NI 52-110) to be provided to the Corporation or its subsidiary entities by the Corporation’s external auditor.

#### 4.3 Review of Financial Statements and MD&A

The Committee is responsible for reviewing the Corporation’s financial statements, MD&A and annual and interim earnings press releases before the Corporation publicly discloses this information.

#### 4.4 Review of Public Disclosure of Financial Information

The Committee is responsible for being 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 section 4.3 above, and periodically assessing the adequacy of those procedures.

#### 4.5 Submission Systems and Treatment of Complaints

The Committee is responsible for establishing 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.

#### 4.6 Hiring Policies

The Committee is responsible for reviewing and approving the Corporation’s hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Corporation.

#### 4.7 Internal Controls and Management Information Systems

The Committee is responsible for reviewing and monitoring the integrity and adequacy of the Corporation’s internal control and management information systems, reporting to the Board thereon and overseeing the implementation by management of any changes to such systems to ensure the integrity of such systems as required by the Board.

#### 4.8 Other Responsibilities

The Committee is also responsible for:

- (a) taking into account the reports of management and such other persons as the Committee may consider appropriate, identifying the principal risks of the Corporation’s business, satisfying itself as to the implementation of appropriate systems to manage these risks and reporting and making recommendations to the Board with respect to these matters;
- (b) reviewing and making recommendations to the Board on the Corporation’s Corporate Disclosure Policy; and

- (c) monitoring compliance with the Code of Business Conduct, reviewing the report of management concerning compliance with the Code of Business Conduct and, if appropriate, reporting and making recommendations to the Board with respect to these matters.

#### 4.9 Consultation with the Board

The Committee shall report to the Board at the Board's next meeting on the proceedings of any meeting of the Committee, all recommendations to the Board made by the Committee at such meeting and any approvals given by the Committee at such meeting.

### 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 will review the recommendations of the Corporate Governance Committee with respect to this charter. The Board will approve those changes to this charter that it determines are appropriate.

Approved by the Board of Directors

Patheon Inc.

March 12, 2010