



**INTERIM UNAUDITED CONSOLIDATED FINANCIAL
STATEMENTS AND NOTES**

For the First Quarter Ended January 31, 2010

Patheon Inc.
CONSOLIDATED BALANCE SHEETS

(unaudited)

	As of January 31, 2010	As of October 31, 2009
<i>(in millions of U.S. dollars)</i>	\$	\$
Assets		
Current		
Cash and cash equivalents (Note 9)	20.3	22.3
Accounts receivable (Note 9)	118.5	151.5
Inventories	77.8	78.3
Income taxes receivable	2.1	2.6
Prepaid expenses and other	13.5	11.8
Future tax assets - short term	12.0	10.5
Total current assets	244.2	277.0
Capital assets	476.0	490.8
Intangible assets	2.8	3.2
Future tax assets	11.1	11.8
Goodwill	3.2	3.2
Investments	4.6	4.1
Long-term assets held for sale (Note 3)	0.7	0.7
Total assets	742.6	790.8
Liabilities and shareholders' equity		
Current		
Short term borrowings	15.5	14.0
Accounts payable and accrued liabilities	135.5	170.8
Income taxes payable	2.1	1.8
Deferred revenues - short term	11.8	4.6
Future tax liability - short term	0.1	1.7
Current portion of long-term debt	14.9	15.4
Total current liabilities	179.9	208.3
Long-term debt	220.2	221.1
Deferred revenues	39.0	37.1
Future tax liabilities	29.7	31.5
Other long-term liabilities	20.2	21.5
Total liabilities	489.0	519.5
Shareholders' equity		
Restricted voting shares (Note 4)	553.8	553.8
Contributed surplus	7.9	7.7
Deficit	(336.8)	(325.7)
Accumulated other comprehensive loss	28.7	35.5
Total shareholders' equity	253.6	271.3
Total liabilities and shareholders' equity	742.6	790.8

see accompanying notes

Patheon Inc.
CONSOLIDATED STATEMENTS OF LOSS

(unaudited)

	Three months ended January 31,	
	2010	2009
<i>(in millions of U.S. dollars, except loss per share)</i>	\$	\$
Revenues	154.8	147.2
Cost of goods sold	130.2	116.5
Gross profit	24.6	30.7
Selling, general and administrative expenses	28.8	26.3
Repositioning expenses (Note 7)	2.4	0.5
Operating (loss) income	(6.6)	3.9
Interest expense, net	3.2	4.5
Impairment charge (Note 3)	1.3	-
Foreign exchange (gain) loss (Note 8)	(0.4)	1.5
Loss from continuing operations before income taxes	(10.7)	(2.1)
Provision for (benefit from) income taxes	-	(0.6)
Loss before discontinued operations	(10.7)	(1.5)
Loss from discontinued operations (Note 3)	(0.4)	(4.5)
Net loss for the period	(11.1)	(6.0)
Dividends on convertible preferred shares (Note 4)	-	3.6
Net loss attributable to restricted voting shareholders	(11.1)	(9.6)
Basic and diluted loss per share		
From continuing operations	(\$0.083)	(\$0.056)
From discontinued operations	(\$0.003)	(\$0.050)
	(\$0.086)	(\$0.106)
Average number of shares		
outstanding during period - basic and diluted (in thousands)	129,168	91,149

see accompanying notes

Patheon Inc.**CONSOLIDATED STATEMENTS OF CHANGES IN
SHAREHOLDERS' EQUITY***(unaudited)*

	Three months ended January 31,	
	2010	2009
<i>(in millions of U.S. dollars)</i>	\$	\$
Convertible preferred shares - equity component		
Balance at beginning of period	-	149.2
Paid in-kind dividend on shares (Note 4)	-	3.6
Balance at end of period	-	152.8
Restricted voting shares		
Balance at beginning of period	553.8	393.5
Balance at end of period	553.8	393.5
Contributed surplus		
Balance at beginning of period	7.7	6.7
Stock-based compensation (Note 6)	0.2	0.5
Balance at end of period	7.9	7.2
Retained deficit		
Balance at beginning of period	(325.7)	(309.3)
Adjustment related to change in accounting policy	-	1.6
Net loss attributable to restricted voting shareholders	(11.1)	(9.6)
Balance at end of period	(336.8)	(317.3)
Accumulated other comprehensive income (loss)		
Balance at beginning of period	35.5	(2.9)
Other comprehensive loss for the period	(6.8)	(10.0)
Balance at end of period	28.7	(12.9)
Total shareholders' equity at end of period	253.6	223.3

see accompanying notes

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

<i>(in millions of U.S. dollars)</i>	Three months ended January 31,	
	2010	2009
	\$	\$
Net loss attributable to restricted voting shareholders	(11.1)	(9.6)
Other comprehensive loss, net of income taxes		
Change in foreign currency losses on investments in subsidiaries, net of hedging activities ¹	(8.1)	(10.0)
Change in value of derivatives designated as foreign currency and interest rate cash flow hedges ²	3.4	(2.3)
Losses (gains) on foreign currency and interest rate cash flow hedges reclassified to consolidated statement of loss ³	(2.1)	2.3
Other comprehensive loss for the period	(6.8)	(10.0)
Comprehensive loss attributable to restricted voting shareholders	(17.9)	(19.6)

see accompanying notes

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

¹Net of an income tax expense of nil (2009 nil)

²Net of an income tax expense of \$0.6 million and a recovery of \$0.2 million for the three months ended January 31, 2010 and 2009, respectively.

³Net of an income tax recovery of \$0.3 million and \$0.1 million for the three months ended January 31, 2010 and 2009, respectively.

Patheon Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

Three months ended January 31,

<i>(in millions of U.S. dollars)</i>	2010 \$	2009 \$
Operating activities		
Loss before discontinued operations	(10.7)	(1.5)
Add (deduct) charges to operations not requiring a current cash payment		
Depreciation and amortization	13.1	9.9
Impairment charge	1.3	-
Other non-cash interest	0.1	0.1
Change in other long-term liabilities	(0.3)	(0.9)
Future income taxes	(3.5)	(3.4)
Amortization of deferred revenues	(1.7)	(0.1)
Stock-based compensation expense	0.2	0.5
Other	(0.4)	-
	<u>(1.9)</u>	4.6
Net change in non-cash working capital balances related to continuing operations	(2.4)	3.0
Increase (decrease) in deferred revenues	11.2	(0.6)
Cash provided by operating activities of continuing operations	<u>6.9</u>	7.0
Cash used in operating activities of discontinued operations	<u>(0.8)</u>	(3.3)
Cash provided by operating activities	<u>6.1</u>	3.7
Investing activities		
Additions to capital assets	(10.2)	(8.5)
Net (increase) decrease in investments	(0.6)	0.3
Investment in intangibles	(0.1)	-
Cash used in investing activities of continuing operations	<u>(10.9)</u>	(8.2)
Cash used in investing activities	<u>(10.9)</u>	(8.2)
Financing activities		
Increase in short-term borrowings	2.4	0.5
Increase in long-term debt	8.1	19.8
Repayment of long-term debt	(6.0)	(9.1)
Cash provided by financing activities of continuing operations	<u>4.5</u>	11.2
Cash provided by financing activities	<u>4.5</u>	11.2
Effect of exchange rate changes on cash and cash equivalents	(1.7)	(2.9)
Net (decrease) increase in cash and cash equivalents during the period	<u>(2.0)</u>	3.8
Cash and cash equivalents, beginning of period	22.3	20.2
Cash and cash equivalents, end of period	<u>20.3</u>	24.0
Supplemental cash flow information		
Interest paid	3.5	4.0
Income taxes paid	-	0.4
<i>see accompanying notes</i>		

Notes to Unaudited Consolidated Financial Statements for the Three Months Ended January 31, 2010
(Dollar information in tabular form is expressed in millions of U.S. dollars)

1. Accounting policies

Basis of presentation

The accompanying unaudited consolidated financial statements have been prepared by Patheon Inc. (the “Company” or “Patheon”) in accordance with Canadian generally accepted accounting principles (“GAAP”) on a basis consistent with those followed in the most recent audited consolidated financial statements except as noted below. These consolidated financial statements do not include all the information and footnotes required by GAAP for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and notes for the year ended October 31, 2009.

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect: the reported amounts of assets and liabilities; the disclosure of contingent assets and liabilities at the date of the consolidated financial statements; and the reported amounts of revenue and expenses in the reporting period. Management believes that the estimates and assumptions used in preparing its consolidated financial statements are reasonable and prudent, however, actual results could differ from those estimates.

Changes in accounting policy

The Company had no changes in accounting policy from the previously audited consolidated financial statements for the year ended October 31, 2009.

Recently issued accounting pronouncements

(a) Business combinations

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

(b) Consolidations

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

(c) International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board announced the adoption of IFRS for publicly accountable enterprises. Patheon will be required to adopt IFRS no later than November 1, 2011. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement and disclosures which must be addressed. Determination of the key differences between IFRS and the Company’s accounting policies is in progress with an evaluation of the main potential impact on its business practices, systems, disclosure controls and procedures, and internal controls over financial reporting. Changes in accounting policies upon adoption of IFRS are likely and may materially impact the Company’s consolidated financial statements.

Notes to Unaudited Consolidated Financial Statements for the Three Months Ended January 31, 2010
(Dollar information in tabular form is expressed in millions of U.S. dollars)

2. Going concern

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

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

3. Discontinued operations and assets held for sale

Puerto Rico

The Company announced on December 10, 2009 its plan to consolidate its Puerto Rico operations into its manufacturing site located in Manatí and ultimately close or sell its plant in Caguas. The Company estimates this consolidation will result in total repositioning expenses of \$7.0 million, of which \$2.4 million was booked in the three months ended January 31, 2010. Patheon also booked an impairment charge of \$1.3 million in connection with the consolidation plan to write down the carrying value of the Caguas facility's long-lived assets to their anticipated fair value upon closure of the facility. The consolidation will be completed by the end of fiscal 2011, and will also result in accelerated depreciation of Caguas assets of approximately \$7.0 million during fiscal years 2010 and 2011. Because the business in the Caguas facility is being transferred within the existing site network, its results of operations are included in continuing operations.

The Company closed its Carolina facility in Puerto Rico effective January 31, 2009. The Company is currently marketing the remaining assets. Certain transitional activities continue at the facility to ensure proper and compliant closure.

The results of the Carolina operations have been reported in discontinued operations in fiscal years 2010 and 2009.

Canada

In connection with the planned restructuring of its network of pharmaceutical manufacturing facilities within Canada, the Company closed its York Mills facility and transferred all commercial production and development services undertaken at its York Mills facility to its site in Whitby. The Company exited this facility in the third quarter of 2009.

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

The results of discontinued operations for Carolina for the three months ended January 31, 2010 and 2009 are as follows:

	Three months ended January 31,	
	2010	2009
	\$	\$
	<hr/>	<hr/>
Revenues	-	3.0
Cost of goods sold	-	3.1
Gross loss	-	(0.1)
Selling, general and administrative expenses	0.4	1.1
Repositioning expenses (Note 7)	-	3.3
Operating loss	(0.4)	(4.5)
Loss before income taxes	(0.4)	(4.5)
Net loss for the period	(0.4)	(4.5)

Notes to Unaudited Consolidated Financial Statements for the Three Months Ended January 31, 2010
(Dollar information in tabular form is expressed in millions of U.S. dollars)

As of January 31, 2010 and October 31, 2009, the assets held for sale relate to the Carolina operations. In accordance with Section 3475 of the CICA handbook, long-lived assets held for sale are measured at the lower of their carrying amount or fair value less cost to sell.

Assets held for sale:

	As of January 31, 2010	As at October 31, 2009
	\$	\$
Long-term assets		
Capital assets	0.7	0.7

4. Convertible preferred shares and restricted voting shares

The following table summarizes information on convertible preferred shares, and restricted voting shares and related matters at January 31, 2010:

	<u>Outstanding</u>	<u>Exercisable</u>
Class I convertible preferred shares series D	150,000	-
Restricted voting shares	129,167,926	-
Restricted voting share stock options	4,031,644	2,535,683

On March 11, 2009, JLL Patheon Holding, LLC (“JLL”) announced by way of press release that it was commencing its unsolicited offer to acquire any or all of the outstanding restricted voting shares of Patheon that it did not already own at a price of US\$2.00 per share in cash (“JLL Offer”)

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

Upon expiry of the JLL Offer on August 26, 2009, JLL had acquired an aggregate of 33,853,508 restricted voting shares that were validly deposited under the Offer. The restricted voting shares taken up and paid for by JLL since the JLL Offer was launched represent approximately 38% of the outstanding restricted voting shares of the Company not already owned by JLL or its affiliates and associates. As of January 31, 2010, with the conversion and the restricted voting shares validly deposited in response to the JLL Offer, JLL now owns an aggregate of 73,523,246 Patheon restricted voting shares, representing approximately 57% of Patheon’s total restricted voting shares outstanding.

5. Segmented information

The Company is organized and managed in two business segments: commercial manufacturing and PDS. These segments are organized around the service activities provided to the Company's customers.

Notes to Unaudited Consolidated Financial Statements for the Three Months Ended January 31, 2010
(Dollar information in tabular form is expressed in millions of U.S. dollars)

	As of and three months ended January 31, 2010			
	Commercial	PDS	Corp. & Other	Total
	\$	\$	\$	\$
Revenues	128.1	26.7	-	154.8
Adjusted EBITDA	9.1	7.4	(7.2)	9.3
Total assets	630.0	56.4	56.2	742.6
Depreciation	11.5	1.5	0.1	13.1
Capital expenditures	9.4	0.8	-	10.2

	As of and three months ended January 31, 2009			
	Commercial	PDS	Corp. & Other	Total
	\$	\$	\$	\$
Revenues	117.7	29.5	-	147.2
Adjusted EBITDA	15.2	5.8	(8.2)	12.8
Total assets	580.8	53.5	69.4	703.7
Depreciation	8.7	1.2	-	9.9
Capital expenditures	6.2	1.0	1.3	8.5

Cash and cash equivalents as well as deferred tax assets are considered to be part of “Corp. and Other” in the breakout of total assets shown above. Total assets in the commercial segment include \$0.7 million and \$1.9 million for the three months ended January 31, 2010 and 2009, respectively that are classified as held for sale.

The Company evaluates the performance of its segments based on segment Adjusted EBITDA which is defined as: income (loss) before discontinued operations before repositioning expenses, interest expense, foreign exchange losses reclassified from other comprehensive loss, refinancing expenses, gains and losses on sale of fixed assets, gain on extinguishment of debt, income taxes, asset impairment charges and depreciation and amortization. The Company’s presentation of Adjusted EBITDA may not be comparable to similarly-titled measures used by other companies.

Below is a bridge reconciling Adjusted EBITDA to its closest GAAP measure.

	Three months ended January 31,	
	2010	2009
	\$	\$
Adjusted EBITDA:		
Total adjusted EBITDA per above	9.3	12.8
Depreciation and amortization	(13.1)	(9.9)
Repositioning expenses	(2.4)	(0.5)
Interest expense, net	(3.2)	(4.5)
Impairment charge	(1.3)	-
Income taxes	-	0.6
Loss before discontinued operations	(10.7)	(1.5)

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

Notes to Unaudited Consolidated Financial Statements for the Three Months Ended January 31, 2010
(Dollar information in tabular form is expressed in millions of U.S. dollars)

	As of and three months ended January 31, 2010				
	Canada	US*	Europe	Other	Total
	\$	\$	\$	\$	\$
Revenues	2.6	79.0	69.2	4.0	154.8
Capital assets	116.8	131.1	227.1	1.0	476.0
Goodwill	3.2	-	-	-	3.2

	As of and three months ended January 31, 2009				
	Canada	US*	Europe	Other	Total
	\$	\$	\$	\$	\$
Revenues	3.4	79.1	59.3	5.4	147.2
Capital assets	102.8	121.0	196.0	-	419.8
Goodwill	2.8	-	-	-	2.8

* Includes Puerto Rico

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

6. Stock-based compensation

The Company has an incentive stock option plan (the "Plan"). Persons eligible to participate in the Plan are directors, officers, and key employees of the Company and its subsidiaries or any other person engaged to provide ongoing management or consulting services to Patheon and its subsidiaries. The Plan provides that the maximum number of shares that may be issued under the Plan is 7.5% of the sum, at any point in time, of the issued and outstanding restricted voting shares of the Company and the aggregate number of restricted voting shares issuable upon exercise of the conversion rights attached to the issued and outstanding Class I Preferred Shares, Series C of the Company. As of January 31, 2010, the total number of restricted voting shares issuable under the Plan was 9,687,594 of which there are stock options outstanding to purchase 4,031,644 shares. The exercise price of restricted voting shares subject to an option is determined at the time of grant and the price cannot be less than the weighted-average market price of the restricted voting shares of Patheon on the Toronto Stock Exchange during the two trading days immediately preceding the grant date. Options generally expire seven to ten years after the grant date and are also subject to early expiry in the event of death, resignation, dismissal or retirement of an optionee. Options generally vest over three years, with one-third vesting on each of the first, second and third anniversaries of the grant date for those vesting over three years.

For the purposes of calculating the stock-based compensation expense, the fair value of stock options is estimated at the date of the grant using the Black-Scholes option pricing model and the cost is amortized over the vesting period. During the three months ended January 31, 2010, the Company granted 140,000 options. The Company did not grant any options for the three months ended January 31, 2009. The weighted average fair value of the options granted during the three months ended January 31, 2010 was \$1.34. The following assumptions were used in arriving at the fair value of options granted during the three months ended January 31, 2010:

	Three months ended January 31, 2010
Risk free interest rate	2.7%
Expected volatility	62%
Expected weighted average life of options	5 years
Expected dividends yield	0%

Stock-based compensation expense recorded in the three months ended January 31, 2010 and 2009 was \$0.2 million and \$0.5 million, respectively.

7. Repositioning expenses

The Company incurred \$2.4 million in expenses associated with the shutdown of the Caguas facility in the three months ended January 31, 2010. The following is a summary of these expenses and other charges associated with

Notes to Unaudited Consolidated Financial Statements for the Three Months Ended January 31, 2010
(Dollar information in tabular form is expressed in millions of U.S. dollars)

operational improvements, cost reduction initiatives and changes in executive management (collectively “repositioning expenses”) for the three months ended January 31, 2010 and 2009:

As of and three months ended January 31, 2010	Commercial	PDS	Corporate	Total
	\$	\$	\$	\$
Total repositioning liabilities at October 31, 2009				2.9
Employee-related expenses	2.0	-	-	2.0
Consulting, professional and project management costs	0.4	-	-	0.4
Total expenses	2.4	-	-	2.4
Repositioning expenses paid				(2.1)
Total repositioning liabilities at January 31, 2010				3.2

As of and three months ended January 31, 2009	Commercial	PDS	Corporate	Total
	\$	\$	\$	\$
Total repositioning liabilities at October 31, 2008				8.0
Employee-related expenses	2.4	0.4	-	2.8
Consulting, professional and project management costs	0.4	-	-	0.4
Contract termination costs	0.5	-	-	0.5
Total expenses	3.3	0.4	-	3.7
Repositioning expenses paid				(2.9)
Foreign exchange				0.3
Total repositioning liabilities at January 31, 2009				9.1

Included in the employee-related expenses within the commercial segment for the three months ended January 31, 2009 is \$3.3 million of repositioning expenses related to the closure of the Company’s Carolina facility and is presented in discontinued operations.

8. Other information

Foreign exchange

During the three months ended January 31, 2010, the Company recorded a foreign exchange gain on forward contract hedges and transactions related to operating exposures of \$0.4 million compared to a loss of \$1.5 million in the three months ended January 31, 2009.

Employee future benefits

The employee future benefit expense in connection with defined benefit pension plans and other post retirement benefit plans for the three months ended January 31, 2010 and 2009 was \$2.2 million and \$1.4 million, respectively.

9. Financial instruments and risk management

Categories of financial assets and liabilities

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

Notes to Unaudited Consolidated Financial Statements for the Three Months Ended January 31, 2010
(Dollar information in tabular form is expressed in millions of U.S. dollars)

	As of January 31,	As of October 31,
	2010	2009
	\$	\$
Held-for-trading ⁽¹⁾	20.3	22.3
Loans and receivables ⁽²⁾	118.5	151.5
Other financial liabilities ⁽³⁾	386.1	421.3
<u>Derivatives designated as effective hedges ⁽⁴⁾ - loss</u>	(1.7)	(3.2)

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

(2) Includes accounts receivable.

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

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

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. The fair values of the Company's financial instruments are not materially different from their carrying value, with the exception of the Company's senior secured term loan of \$145.9 million. Based on current interest rates for debt with similar terms and maturities, the fair market value of the senior secured term loan is estimated to be \$134.7 million.

During 2009, the Company recorded a capital lease obligation of \$7.9 million related to customer financed equipment. The capital lease relates to a customer contract signed for the Swindon site in 2006. The initial lease will be paid down over three years assuming the customer achieves forecast annual production volumes. The remaining obligation at January 31, 2010, recorded as long-term debt, was \$5.9 million.

As of January 31, 2010 and October 31, 2009, the carrying amount of the financial assets that the Company has pledged as collateral for its long-term debt facilities was \$73.0 million and \$80.9 million, respectively.

Fair value measurements

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

The fair value under the amendment to Section 3862 is principally applied to financial assets and liabilities such as derivative instruments consisting of interest rate swaps and foreign exchange forward contracts. The following table provides summary of financial assets and liabilities that are measured at fair value as of January 31, 2010 and October 31, 2009:

Notes to Unaudited Consolidated Financial Statements for the Three Months Ended January 31, 2010
(Dollar information in tabular form is expressed in millions of U.S. dollars)

Assets measured at fair value

	Fair value measurement at January 31, 2010 using:				Fair value measurement at October 31, 2009 using:			
	Level 1	Level 2	level 3	Total	Level 1	Level 2	level 3	Total
Derivatives designated as hedging instruments:								
Interest rate swaps	-	-	-	\$ -	-	-	-	\$ -
Foreign exchange forward contracts	-	1.9	-	\$ 1.9	-	2.1	-	\$ 2.1
Total assets	\$ -	\$ 1.9	\$ -	\$ 1.9	\$ -	\$ 2.1	\$ -	\$ 2.1

Liabilities measured at fair value

	Fair value measurement at January 31, 2010 using:				Fair value measurement at October 31, 2009 using:			
	Level 1	Level 2	level 3	Total	Level 1	Level 2	level 3	Total
Derivatives designated as hedging instruments:								
Interest rate swaps	-	3.0	-	\$ 3.0	-	4.7	-	\$ 4.7
Foreign exchange forward contracts	-	-	-	\$ -	-	-	-	\$ -
Total liabilities	\$ -	\$ 3.0	\$ -	\$ 3.0	\$ -	\$ 4.7	\$ -	\$ 4.7

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

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

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

The following table presents the fair value of the Company's derivative financial instruments as well as their classification on the consolidated balance sheets as of January 31, 2010 and October 31, 2009:

Fair values of derivative instruments

	Asset Derivatives as of January 31, 2010		Asset Derivatives as of October 31, 2009	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Interest rate swaps		\$ -		\$ -
Foreign exchange forward contracts	Prepaid expenses	1.9	Prepaid expenses	2.1
Total designated derivatives		\$ 1.9		\$ 2.1
	Liability Derivatives as of January 31, 2010		Liability Derivatives as of October 31, 2009	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Interest rate swaps	Other accrued liabilities	\$ 3.0	Other accrued liabilities	\$ 4.7
Foreign exchange forward contracts		-		-
Total designated derivatives		\$ 3.0		\$ 4.7

Foreign exchange forward contracts, interest rate swaps and other hedging arrangements

The Company utilizes financial instruments to manage the risk associated with fluctuations in foreign exchange and interest rates. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions.

As of January 31, 2010, the Company's Canadian operations had entered into foreign exchange forward contracts to sell an aggregate amount of US\$26.1 million. These contracts hedge the Canadian operations' expected exposure to U.S. dollar denominated cash flows and mature at the latest on October 27, 2010, at an average exchange rate of \$1.150 Canadian. The mark-to-market value on these financial instruments as of January 31, 2010 was an unrealized gain of \$1.9 million, with no income tax impact, which has been recorded in accumulated other comprehensive income (loss) in shareholders' equity.

As of January 31, 2010, the Company has designated \$87.5 million of U.S. dollar denominated debt as a hedge against its net investment in its subsidiaries in the U.S. and Puerto Rico. The exchange gains and losses arising from this debt, from the date so designated, are recorded in accumulated other comprehensive income (loss) in shareholders' equity.

The Company has entered into interest rate swap contracts to convert all of the interest costs on its senior secured term loan from a floating to a fixed rate of interest until June 30, 2010. The mark-to-market value of these financial instruments at January 31, 2010 was an unrealized loss of \$3.0 million.

Notes to Unaudited Consolidated Financial Statements for the Three Months Ended January 31, 2010
(Dollar information in tabular form is expressed in millions of U.S. dollars)

Risks arising from financial instruments and risk management

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

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

Foreign exchange risk

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

The most significant transaction exposures arise in the Canadian operations. The balance sheet of the Canadian operations includes U.S. dollar denominated debt. The Canadian operations are required to revalue the Canadian dollar equivalent of the U.S. dollar denominated debt at each period end. The senior secured term loan is designated as an effective hedge against the Company's investments in subsidiaries in the U.S.A. and Puerto Rico and the related foreign exchange gains and losses are recorded in other comprehensive income. In addition, approximately 70% of revenues of the Canadian operations and approximately 20% of its operating expenses are transacted in U.S. dollars. As a result, the Company may experience transaction exposures because of volatility in the exchange rate between the Canadian and U.S. dollar. Based on the Company's current U.S. denominated net inflows, as of January 31, 2010, fluctuations of +/-5% would, everything else being equal, have an effect on loss from continuing operations before taxes of approximately +/- \$1.4 million, prior to hedging activities.

The objective of the Company's foreign exchange risk management activities is to minimize transaction exposures and the resulting volatility of the Company's earnings. The Company manages this risk by entering into foreign exchange forward contracts. Certain U.S. dollar debt exposure is hedged by the Canadian investment in U.S. and Puerto Rico. As of January 31, 2010, 96% of the U.S. dollar debt exposure is hedged and the Company has entered into forward foreign exchange contracts to cover approximately 33% of its Canadian-U.S. dollar cash flow exposures for its 2010 fiscal year. With the exception of the hedges against the Company's investments in the U.S. and Puerto Rico noted above, the Company does not currently hedge translation exposures.

Interest rate risk

The Company's interest rate risk primarily arises from its floating rate debt, in particular its senior secured term loan in North America and its Italian mortgages. At January 31, 2010, \$242.4 million of the Company's total debt portfolio is subject to movements in floating interest rates. A +/-100 basis points change in interest rates would, everything else being equal, have an effect on the loss from continuing operations before income taxes of approximately +/- \$2.4 million, prior to hedging activities.

The objective of the Company's interest rate management activities is to minimize the volatility of the Company's earnings. In order to manage this risk, the Company has entered into interest rate swaps to convert the interest expense on its senior secured term loan, until June 2010, from a floating interest rate to a fixed interest rate. As of January 31, 2010, taking the interest rate swap into account, \$96.5 million of the Company's debt portfolio is subject to floating interest rates.

Notes to Unaudited Consolidated Financial Statements for the Three Months Ended January 31, 2010

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

Credit risk

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

The objective of managing counter party credit risk is to prevent losses in financial assets. The Company assesses the credit quality of the counter parties, taking into account their financial position, past experience and other factors. Management also monitors the utilization of credit limits regularly. In cases where the credit quality of a client does not meet the Company's requirements, a cash deposit is received before any services are provided. As of January 31, 2010 and October 31, 2009, the Company held deposits of \$15.1 million and \$15.7 million, respectively.

The carrying amount of accounts receivable are reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statements of loss within operating expenses. When a receivable balance is considered uncollectible, it is written off against the allowance for accounts receivable. Subsequent recoveries of amounts previously written off are credited against operating expenses in the consolidated statements of loss.

The following table sets forth details of the age of receivables that are not overdue as well as an analysis of overdue amounts and related allowance for the doubtful accounts:

	As of January 31,
	2010
	\$
Total accounts receivable	119.6
Less: Allowance for doubtful accounts	(1.1)
	118.5
Of which:	
Not overdue	105.2
Past due for more than one day but for not more than three months	12.6
Past due more for than three months but for not more than six months	1.0
Past due for more than six months but not for more than one year	0.4
Past due for more than one year	0.4
Less: Allowance for doubtful accounts	(1.1)
Total accounts receivable, net	118.5

Liquidity risk

Liquidity risk arises through excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and cash equivalents and through the availability of funding from credit facilities. As of January 31, 2010, the Company was holding cash and cash equivalents of \$20.3 million and had undrawn lines of credit available to it of \$25.6 million.

The contractual maturities of the Company's financial liabilities were presented in the Company's consolidated financial statements for the year ended October 31, 2009.

10. Management of capital

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

Notes to Unaudited Consolidated Financial Statements for the Three Months Ended January 31, 2010

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

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

As of January 31, 2010 and October 31, 2009, total managed capital was \$504.2 million and \$521.8 million, respectively, comprised of: shareholders' equity of \$253.6 million and \$271.3 million, respectively and cash interest-bearing debt of \$250.6 million and \$250.5 million, respectively.

11. Related party transactions

Revenues from companies controlled by a former director and significant shareholder of the Company were in the amount of \$0.1 million and \$0.3 million for the three months ended January 31, 2010 and 2009, respectively. These transactions were conducted in the normal course of business and are recorded at the exchanged amount. Accounts receivable at January 31, 2010 and October 31, 2009 includes a balance of \$0.1 million and \$0.5 million, respectively, resulting from these transactions.

As of January 31, 2010 and 2009, the Company had an investment of \$2.7 million and \$1.5 million, respectively, representing an 18% interest in two Italian companies (collectively referred to as "BSP Pharmaceuticals") whose largest investor is an officer of the Company. These companies specialize in the manufacturing of cytotoxic pharmaceutical products. On July 2, 2008, the Company signed a shareholders' agreement with the other investors in BSP Pharmaceuticals, the terms of which provide the Company with significant influence over the strategic operating, investing and financing policies of BSP Pharmaceuticals. As a result, the Company is now accounting for its investment in BSP Pharmaceuticals using the equity method. Accordingly, for the three months ended January 31, 2010 and 2009, the Company recorded investment income of \$0.4 million and a loss of \$0.2 million, respectively.

There was no management fees recorded under a management services agreement with BSP Pharmaceuticals for the three months ended January 31, 2010 and 2009. Accounts receivable at January 31, 2010 and October 31, 2009 include a balance of \$2.1 million and \$1.5 million, respectively, in connection with the management services agreement. These services were conducted in the normal course of business and are recorded at the exchanged amounts.

In connection with certain of BSP Pharmaceuticals' bank financing, the Company has made commitments that it will not dispose of its interest in BSP Pharmaceuticals prior to January 1, 2011.

12. Income taxes

While evaluating the Company's future tax assets and liabilities during the first quarter 2010, the Company concluded it will be able to utilize certain Investment Tax Credits ("ITCs") relating to Scientific Research and Development costs. Therefore, the Company recorded a decrease of \$2.8 million in the cost of goods sold relating to the utilization of previous period's ITCs in the three months ended January 31, 2010.

13. Comparative amounts

Certain comparative amounts have been re-stated and reclassified to conform with current accounting policies and the current period presentation.