



**INTERIM UNAUDITED CONSOLIDATED FINANCIAL  
STATEMENTS AND NOTES**

**For the Second Quarter Ended April 30, 2010**

**Patheon Inc.**  
**CONSOLIDATED BALANCE SHEETS**

(unaudited)

	As of April 30,	As of October 31,
	2010	2009
<i>(in millions of U.S. dollars)</i>	\$	\$
<b>Assets</b>		
Current		
Cash and cash equivalents (Note 11)	75.8	22.3
Accounts receivable (Note 11)	117.6	151.5
Inventories	72.9	78.3
Income taxes receivable	1.1	2.6
Prepaid expenses and other	11.4	11.8
Future tax assets - short term	10.8	10.5
<b>Total current assets</b>	<b>289.6</b>	<b>277.0</b>
Capital assets	468.2	490.8
Intangible assets	2.4	3.2
Future tax assets	7.3	11.8
Goodwill	3.4	3.2
Investments	4.9	4.1
Long-term assets held for sale (Note 3)	0.7	0.7
Other long-term assets (Note 14)	17.1	-
<b>Total assets</b>	<b>793.6</b>	<b>790.8</b>
<b>Liabilities and shareholders' equity</b>		
Current		
Short term borrowings (Note 4)	-	14.0
Accounts payable and accrued liabilities	133.4	170.8
Income taxes payable	4.1	1.8
Deferred revenues - short term	31.7	4.6
Future tax liability - short term	-	1.7
Current portion of long-term debt (Note 5)	3.4	15.4
<b>Total current liabilities</b>	<b>172.6</b>	<b>208.3</b>
Long-term debt (Note 5)	273.7	221.1
Deferred revenues	33.9	37.1
Future tax liabilities	23.4	31.5
Other long-term liabilities	24.8	21.5
<b>Total liabilities</b>	<b>528.4</b>	<b>519.5</b>
Shareholders' equity		
Restricted voting shares (Note 6)	553.8	553.8
Contributed surplus	8.3	7.7
Deficit	(325.9)	(325.7)
Accumulated other comprehensive income	29.0	35.5
Total shareholders' equity	265.2	271.3
<b>Total liabilities and shareholders' equity</b>	<b>793.6</b>	<b>790.8</b>

see accompanying notes

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

	Three months ended April 30,		Six months ended April 30,	
	2010	2009	2010	2009
<i>(in millions of U.S. dollars, except loss per share)</i>	\$	\$	\$	\$
<b>Revenues</b>	<b>175.4</b>	167.4	<b>330.2</b>	314.6
Cost of goods sold	<b>132.2</b>	125.0	<b>262.4</b>	241.4
Gross profit	<b>43.2</b>	42.4	<b>67.8</b>	73.2
Selling, general and administrative expenses	<b>27.2</b>	28.2	<b>56.0</b>	54.5
Repositioning expenses (Note 9)	<b>1.0</b>	0.8	<b>3.4</b>	1.3
Operating income	<b>15.0</b>	13.4	<b>8.4</b>	17.4
Interest expense, net	<b>3.2</b>	3.6	<b>6.4</b>	8.1
Impairment charge (Note 3)	-	-	<b>1.3</b>	-
Foreign exchange (gain) loss (Note 10)	<b>(0.9)</b>	4.1	<b>(1.3)</b>	5.5
Loss on sale of fixed assets	<b>0.1</b>	-	<b>0.1</b>	-
Refinancing Expenses (Note 15)	<b>11.7</b>	-	<b>11.7</b>	-
<b>Income (loss) from continuing operations before income taxes</b>	<b>0.9</b>	5.7	<b>(9.8)</b>	3.8
(Benefit from) provision for income taxes (Note 14)	<b>(10.4)</b>	3.9	<b>(10.4)</b>	3.3
<b>Income before discontinued operations</b>	<b>11.3</b>	1.8	<b>0.6</b>	0.5
Loss from discontinued operations (Note 3)	<b>(0.4)</b>	(1.3)	<b>(0.8)</b>	(5.8)
<b>Net income (loss) for the period</b>	<b>10.9</b>	0.5	<b>(0.2)</b>	(5.3)
Dividends on convertible preferred shares (Note 6)	-	3.7	-	7.3
<b>Net income (loss) attributable to restricted voting shareholders</b>	<b>10.9</b>	(3.2)	<b>(0.2)</b>	(12.6)
<b>Basic and diluted income (loss) per share</b>				
From continuing operations	<b>\$0.087</b>	(\$0.021)	<b>\$0.005</b>	(\$0.075)
From discontinued operations	<b>(\$0.003)</b>	(\$0.014)	<b>(\$0.006)</b>	(\$0.064)
	<b>\$0.084</b>	(\$0.035)	<b>(\$0.001)</b>	(\$0.139)
Average number of shares				
outstanding during period - basic and diluted (in thousands)	<b>129,168</b>	91,149	<b>129,168</b>	91,149

*see accompanying notes*

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

	Six months ended April 30,	
	2010	2009
<i>(in millions of U.S. dollars)</i>	\$	\$
<b>Convertible preferred shares - equity component</b>		
Balance at beginning of period	-	149.2
Paid in-kind dividend on shares (Note 6)	-	7.3
Balance at end of period	-	156.5
<b>Restricted voting shares</b>		
Balance at beginning of period	553.8	393.5
Balance at end of period	553.8	393.5
<b>Contributed surplus</b>		
Balance at beginning of period	7.7	6.7
Stock-based compensation (Note 8)	0.6	0.9
Balance at end of period	8.3	7.6
<b>Retained deficit</b>		
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	(0.2)	(12.6)
Balance at end of period	(325.9)	(320.4)
<b>Accumulated other comprehensive income (loss)</b>		
Balance at beginning of period	35.5	(2.9)
Other comprehensive (loss) income for the period	(6.5)	1.5
Balance at end of period	29.0	(1.4)
<b>Total shareholders' equity at end of period</b>	<b>265.2</b>	<b>235.8</b>

*see accompanying notes*

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

	Three months ended April 30,		Six months ended April 30,	
	2010	2009	2010	2009
<i>(in millions of U.S. dollars)</i>	\$	\$	\$	\$
<b>Net income (loss) attributable to restricted voting shareholders</b>	<b>10.9</b>	(3.2)	<b>(0.2)</b>	(12.6)
<b>Other comprehensive income (loss), net of income taxes</b>				
Change in foreign currency (losses) gains on investments in subsidiaries, net of hedging activities <sup>1</sup>	(2.5)	6.5	(10.6)	(3.5)
Change in value of derivatives designated as foreign currency and interest rate cash flow hedges <sup>2</sup>	5.9	2.3	9.3	0.1
(Losses) gains on foreign currency and interest rate cash flow hedges reclassified to consolidated statement of loss <sup>3</sup>	(3.1)	2.6	(5.2)	4.9
Other comprehensive income (loss) for the period	0.3	11.4	(6.5)	1.5
<b>Comprehensive income (loss) attributable to restricted voting shareholders</b>	<b>11.2</b>	8.2	<b>(6.7)</b>	(11.1)
<i>see accompanying notes</i>				

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

<sup>1</sup>Net of an income tax expense of \$0.1 million for three and six month periods (2009 nil).

<sup>2</sup>Net of an income tax expense of \$1.8 million and \$2.4 million for the three and six months ended April 30, 2010.

(Net of an income tax expense of \$0.2 million and less than \$0.1 million for the three and six months ended April 30, 2009.)

<sup>3</sup>Net of an income tax recovery of \$0.5 million and \$0.8 million for the three and six months ended April 30, 2010.

(Net of an income tax recovery of \$0.1 million and \$0.3 million for the three and six months ended April 30, 2009.)

**Patheon Inc.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited)

	Three months ended April 30,		Six months ended April 30,	
	2010	2009	2010	2009
<i>(in millions of U.S. dollars)</i>	\$	\$	\$	\$
<b>Operating activities</b>				
Income before discontinued operations	11.3	1.8	0.6	0.5
Add (deduct) charges to operations not requiring a current cash payment				
Depreciation and amortization	13.2	10.0	26.3	19.9
Impairment charge	-	-	1.3	-
Other non-cash interest	2.0	0.2	2.1	0.3
Change in other long-term assets and liabilities	(9.0)	0.5	(9.3)	(0.3)
Future income taxes	(9.6)	0.6	(13.1)	(2.8)
Amortization of deferred revenues	(9.8)	(0.2)	(11.5)	(0.3)
Loss on sale of fixed assets	0.1	-	0.1	-
Stock-based compensation expense	0.4	0.4	0.6	0.9
Other	-	(0.3)	(0.4)	(0.6)
	<u>(1.4)</u>	<u>13.0</u>	<u>(3.3)</u>	<u>17.6</u>
Net change in non-cash working capital balances related to continuing operations	11.3	(14.4)	8.9	(11.5)
Increase in deferred revenues	29.1	4.7	40.3	4.1
Cash provided by operating activities of continuing operations	<u>39.0</u>	<u>3.3</u>	<u>45.9</u>	<u>10.2</u>
Cash used in operating activities of discontinued operations	<u>(0.3)</u>	<u>(3.3)</u>	<u>(1.1)</u>	<u>(6.6)</u>
<b>Cash provided by operating activities</b>	<u>38.7</u>	<u>0.0</u>	<u>44.8</u>	<u>3.6</u>
<b>Investing activities</b>				
Additions to capital assets	(9.2)	(12.7)	(19.4)	(21.2)
Net increase in investments	(0.3)	(0.5)	(0.9)	(0.2)
Investment in intangibles	(0.1)	-	(0.2)	-
Cash used in investing activities of continuing operations	<u>(9.6)</u>	<u>(13.2)</u>	<u>(20.5)</u>	<u>(21.4)</u>
<b>Cash used in investing activities</b>	<u>(9.6)</u>	<u>(13.2)</u>	<u>(20.5)</u>	<u>(21.4)</u>
<b>Financing activities</b>				
(Decrease) increase in short-term borrowings	(15.0)	3.4	(12.6)	3.9
Increase in long-term debt	278.8	20.8	286.9	40.7
Repayment of long-term debt	(238.3)	(16.1)	(244.3)	(25.2)
Cash provided by financing activities of continuing operations	<u>25.5</u>	<u>8.1</u>	<u>30.0</u>	<u>19.4</u>
<b>Cash provided by financing activities</b>	<u>25.5</u>	<u>8.1</u>	<u>30.0</u>	<u>19.4</u>
Effect of exchange rate changes on cash and cash equivalents	0.9	3.4	(0.8)	0.5
<b>Net increase (decrease) in cash and cash equivalents during the period</b>	<u>55.5</u>	<u>(1.7)</u>	<u>53.5</u>	<u>2.1</u>
Cash and cash equivalents, beginning of period	20.3	24.0	22.3	20.2
<b>Cash and cash equivalents, end of period</b>	<u>75.8</u>	<u>22.3</u>	<u>75.8</u>	<u>22.3</u>
<b>Supplemental cash flow information</b>				
Interest paid	3.8	4.5	7.3	8.5
Income taxes paid, net of refunds	(0.9)	8.7	(0.9)	9.1

see accompanying notes

## **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 and Six Months Ended April 30, 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.

**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 \$1.0 million and \$3.4 million was booked in the three and six months ended April 30, 2010, respectively. 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 and six months ended April 30, 2010 and 2009 are as follows:

	<b>Three months ended April 30,</b>		<b>Six months ended April 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenues	-	(0.4)	-	2.6
Cost of goods sold	-	(0.3)	-	2.8
Gross loss	-	(0.1)	-	(0.2)
Selling, general and administrative expenses	<b>0.4</b>	1.2	<b>0.8</b>	2.3
Repositioning expenses (Note 7)	-	-	-	3.3
Operating loss	<b>(0.4)</b>	(1.3)	<b>(0.8)</b>	(5.8)
Loss before income taxes	<b>(0.4)</b>	(1.3)	<b>(0.8)</b>	(5.8)
Net loss for the period	<b>(0.4)</b>	(1.3)	<b>(0.8)</b>	(5.8)

As of April 30, 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:

**Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2010**  
*(Dollar information in tabular form is expressed in millions of U.S. dollars)*

	<b>As of April 30, 2010</b>	As at October 31, 2009
	\$	\$
<b>Long-term assets</b>		
Capital assets	<b>0.7</b>	0.7

**4. Short-term borrowings**

	<b>April 30, 2010</b>	October 31, 2009
	\$	\$
Italian short-term operating credit facilities totaling €17.0 million (October 2009 -€15.0 million), bearing interest at 3-month Euribor plus spreads between 0.8% and 1.35%. Amount utilized at October 31, 2009 was €8.2 million.	-	12.1
Short-term insurance premium financing	-	1.9
Balance, end of the year	-	14.0

As a result of the refinancing completed in the second quarter of 2010 (Note 5), the Company used a portion of the proceeds to repay the Italian short-term operating credit facilities.

**5. Long-term debt**

Long-term debt in the accompanying consolidated balance sheets at April 30, 2010 and October 31, 2009 consists of the following:

	<b>April 30, 2010</b>	October 31, 2009
	\$	\$
8.625% Senior secured notes due April 15, 2017	<b>280.0</b>	-
Senior secured term loan maturing April 28, 2014, bearing interest at 2.8% based upon floating LIBOR, US or CAD prime, or federal funds effective rates, plus applicable margins.	-	146.3
\$75 million senior secured revolving loan facility maturing April 23, 2014, bearing interest ranging from 4.1% to 6.0% based upon floating LIBOR, US, or CAD prime, or federal funds effective rates, plus applicable margins.	-	37.7
U.S. obligations under capital leases bearing interest at fixed rate of 5.6%, maturing November 2011.	<b>0.9</b>	1.1
U.K. obligations under capital lease bearing interest at 6%, maturing in 2012, payable in Euros.	<b>2.0</b>	6.3
Italian mortgage, bearing interest at 6.3% based upon floating 3-month Euribor, maturing in 2014.	-	18.8
Italian mortgage, bearing interest at 6.5% based upon floating 3-month Euribor, maturing in 2014.	-	25.6
Italian unsecured government loan, bearing interest at 0.9% per annum, maturing in 2012.	<b>1.8</b>	3.1
Total long-term debt outstanding	<b>284.7</b>	238.9
Less unamortized transaction costs	<b>7.6</b>	2.4
Less current portion	<b>3.4</b>	15.4
Balance, end of the year	<b>273.7</b>	221.1

**Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2010**

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

In April 2010, the Company issued \$280 million in aggregate principal amount of 8.625% senior secured notes due April 15, 2017 (“the Notes”) in a private placement. The net proceeds of the offering were used to repay all of the outstanding indebtedness under the Company’s previous senior secured term loan and asset-based revolving credit facility (“ABL”), to repay certain other indebtedness and to pay related fees and expenses. The remaining proceeds will be used for general corporate purposes.

Patheon also amended and restated its existing \$75 million ABL subject to the substantially concurrent with the closing of the notes and the satisfaction of certain customary closing conditions. Under the amended terms of the ABL, the maturity date was extended from 2012 to 2014.

Interest on the Notes is accrued at the rate of 8.625% per annum and is payable semi-annually in arrears on April 15 and October 15, commencing on October 15, 2010 to the holders of Notes of record on the immediately preceding April 1 and October 1. Interest on the Notes accrues from the most recent date to which interest has been paid or, if no interest has been paid, from and including the issue date. Interest on the Notes is computed on the basis of a 360-day year comprised of twelve 30-day months.

At any time prior to April 15, 2013 the Company may redeem all or a part of the Notes, at a redemption price equal to 100% of the principal amount of Notes redeemed plus the greater of 1% or the 2013 redemption price set forth in the table below (expressed as percentages of principal amount of the Notes to be redeemed), discounted back to the date of redemption (the “Redemption Date”) and all required but unpaid interest due through April 15, 2013 subject to the rights of holders on the relevant record date.

On and after April 15, 2013, the Company may redeem the Notes, in whole or in part, at the redemption prices (expressed as percentages of principal amount of the Notes to be redeemed) set forth below, plus accrued and unpaid interest thereon, if any, to the applicable redemption date, subject to the rights of holders of record on the relevant record date to receive interest due on the relevant interest payment date, if redeemed during the twelve-month period beginning on April 15 of each of the years indicated below:

<u>Year</u>	<u>%</u>
2013	106.469%
2014	104.313%
2015	102.156%
2016 and thereafter	100.000%

In addition, until April 15, 2013, the Company may, at its option, redeem up to 35% of the aggregate principal amount of Notes issued by it at a redemption price equal to 108.625% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon, if any, to the applicable redemption date, subject to the right of holders of Notes of record on the relevant record date to receive interest due on the relevant interest payment date, with the net cash proceeds of one or more equity offerings; provided that at least 65% of the sum of the aggregate principal amount of Notes originally issued under the indenture and any additional notes issued under the indenture after the issue date remains outstanding immediately after the occurrence of each such redemption; provided further that each such redemption occurs within 90 days of the date of closing of each such equity offering.

Additionally, at any time prior to April 15, 2013, the Company may redeem a portion of the Notes, at a redemption price equal to 103.000% of the principal amount thereof, plus accrued and unpaid interest thereon, if any, to the applicable date of redemption, subject to the rights of holders of Notes on the relevant record date to receive interest due on the relevant interest payment date; provided that in no event may the Company redeem more than 10% of the original aggregate principal amount of the Notes and any additional notes during any twelve-month period.

These optional pre-payment clauses require the Company to account for their value separately as an embedded derivative under Canadian GAAP. The embedded derivative has been bifurcated from the notes and recorded separately at fair value. In each subsequent period any change in fair value will be recorded in the Company’s net income.

**Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2010**

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

The agreements that govern the terms of its debt, including the indenture that governs the notes and the credit agreement that governs its ABL, contain covenants that restrict the Company's ability and the ability of its subsidiaries to, among other things:

- incur additional indebtedness;
- pay dividends on or make distributions in respect of capital stock or make certain other restricted payments or investments;
- enter into agreements that restrict distributions from restricted subsidiaries or restrict its ability to incur liens on certain of its assets;
- sell or otherwise dispose of assets, including capital stock of restricted subsidiaries;
- enter into transactions with affiliates;
- create or incur liens; and
- merge, consolidate or sell substantially all of the Company's assets.

In addition, under its ABL, if the Company's borrowing availability falls below the greater of \$10.0 million and 13.3% of total commitments under the Company's ABL for two consecutive days (which is defined under the ABL as a "Liquidity Event"), the Company will be required to satisfy and maintain a fixed charge coverage ratio of not less than 1.10 to 1.00 until the first day thereafter on which its borrowing availability has been greater than the greater of \$10.0 million and 13.3% of its total commitments for 30 consecutive days. The Company will also be required to satisfy the required fixed charge coverage ratio in order to borrow on any day when its borrowing availability is below that level but a Liquidity Event has not yet occurred. The Company's ability to meet the required fixed charge coverage ratio can be affected by events beyond the Company's control, and the Company may not be able to meet this ratio. A breach of any of these covenants could result in a default under the Company's ABL.

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

	\$
2010	0.3
2011	3.4
2012	1.0
2013	-
2014	-
Thereafter	280.0
<b>Total payments</b>	<b>284.7</b>

Included within the above future repayments of long-term debt are obligations under capital leases. Future minimum capital lease payments under capital leases in effect at April 30, 2010 are as follows:

	\$
2010	0.3
2011	2.4
2012	0.1
2013	-
<b>Total payments</b>	<b>2.8</b>
<b>Less capital lease minimum payments representing interest</b>	<b>-</b>
<b>Total payments</b>	<b>2.8</b>

**Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2010**  
*(Dollar information in tabular form is expressed in millions of U.S. dollars)*

**6. Convertible preferred shares and restricted voting shares**

The following table summarizes information on convertible preferred shares, and restricted voting shares and related matters at April 30, 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	6,316,912	2,434,951

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 its 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 33,854,708 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 represented approximately 38% of the outstanding restricted voting shares of the Company not already owned by JLL or its affiliates and associates. As of April 30, 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.

**7. 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.

	<b>Three months ended April 30, 2010</b>			
	Commercial	PDS	Corp. & Other	Total
	\$	\$	\$	\$
Revenues	<b>142.2</b>	<b>33.2</b>	<b>0.0</b>	<b>175.4</b>
Adjusted EBITDA	<b>18.8</b>	<b>16.9</b>	<b>(5.7)</b>	<b>30.0</b>
Depreciation	<b>11.6</b>	<b>1.5</b>	<b>0.1</b>	<b>13.2</b>
Capital expenditures	<b>7.6</b>	<b>1.5</b>	<b>0.1</b>	<b>9.2</b>

  

	<b>Three months ended April 30, 2009</b>			
	Commercial	PDS	Corp. & Other	Total
	\$	\$	\$	\$
Revenues	135.2	32.2	-	167.4
Adjusted EBITDA	19.6	8.7	(8.1)	20.2
Depreciation	8.8	1.1	0.1	10.0
Capital expenditures	11.9	2.0	(1.2)	12.7

**Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2010**  
*(Dollar information in tabular form is expressed in millions of U.S. dollars)*

	<b>As of and six months ended April 30, 2010</b>			
	Commercial	PDS	Corp. & Other	Total
	\$	\$	\$	\$
Revenues	<b>270.3</b>	<b>59.9</b>	<b>0.0</b>	<b>330.2</b>
Adjusted EBITDA	<b>27.9</b>	<b>24.4</b>	<b>(12.9)</b>	<b>39.4</b>
Total assets	<b>624.3</b>	<b>61.7</b>	<b>107.6</b>	<b>793.6</b>
Depreciation	<b>23.1</b>	<b>2.9</b>	<b>0.3</b>	<b>26.3</b>
Capital expenditures	<b>17.0</b>	<b>2.3</b>	<b>0.1</b>	<b>19.4</b>

	<b>As of and six months ended April 30, 2009</b>			
	Commercial	PDS	Corp. & Other	Total
	\$	\$	\$	\$
Revenues	252.9	61.7	-	314.6
Adjusted EBITDA	34.8	14.5	(16.3)	33.0
Total assets	607.2	57.5	75.0	739.7
Depreciation	17.5	2.3	0.1	19.9
Capital expenditures	18.1	3.0	0.1	21.2

Cash and cash equivalents as well as future tax assets are considered to be part of “Corp. & Other” in the breakout of total assets shown above. Total assets in the commercial segment include \$0.7 million and \$1.9 million as of April 30, 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 April 30,		Six months ended April 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Adjusted EBITDA:				
<b>Total adjusted EBITDA per above</b>	<b>30.0</b>	20.2	<b>39.4</b>	33.0
Depreciation and amortization	<b>(13.2)</b>	(10.0)	<b>(26.3)</b>	(19.9)
Repositioning expenses	<b>(1.0)</b>	(0.8)	<b>(3.4)</b>	(1.3)
Interest expense, net	<b>(3.2)</b>	(3.6)	<b>(6.4)</b>	(8.1)
Impairment charge	-	-	<b>(1.3)</b>	-
Loss on sale of fixed assets	<b>(0.1)</b>	-	<b>(0.1)</b>	-
Refinancing expenses	<b>(11.7)</b>	-	<b>(11.7)</b>	-
Income taxes	<b>10.4</b>	(3.9)	<b>10.4</b>	(3.3)
Income (loss) before discontinued operations	<b>11.3</b>	1.8	<b>0.6</b>	0.5

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

**Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2010**  
*(Dollar information in tabular form is expressed in millions of U.S. dollars)*

	<b>Three months ended April 30, 2010</b>				
	Canada	US*	Europe	Other	Total
	\$	\$	\$	\$	\$
Revenues	<b>5.6</b>	<b>80.2</b>	<b>84.5</b>	<b>5.1</b>	<b>175.4</b>

	<b>Three months ended April 30, 2009</b>				
	Canada	US*	Europe	Other	Total
	\$	\$	\$	\$	\$
Revenues	4.9	76.4	84.7	1.4	167.4

\* Includes Puerto Rico

	<b>As of and six months ended April 30, 2010</b>				
	Canada	US*	Europe	Other	Total
	\$	\$	\$	\$	\$
Revenues	<b>8.2</b>	<b>159.2</b>	<b>153.8</b>	<b>9.0</b>	<b>330.2</b>
Capital assets	<b>120.0</b>	<b>131.9</b>	<b>215.3</b>	<b>1.0</b>	<b>468.2</b>
Goodwill	<b>3.4</b>	-	-	-	<b>3.4</b>

	<b>As of and six months ended April 30, 2009</b>				
	Canada	US*	Europe	Other	Total
	\$	\$	\$	\$	\$
Revenues	8.2	155.5	144.0	6.9	314.6
Capital assets	105.6	129.7	206.9	-	442.2
Goodwill	2.9	-	-	-	2.9

\* Includes Puerto Rico

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

## **8. 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 April 30, 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 6,316,912 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 or five years, vesting equally over the anniversaries of the grant date.

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 and six months ended April 30, 2010, the Company granted 2,391,000 and 2,531,000 options. The Company did not grant any options for the three and six months ended April 30, 2009. The weighted average fair value of the options granted during the three and six months ended April 30, 2010 was \$1.40 and \$1.40. The following assumptions were used in arriving at the fair value of options granted during the three and six months ended April 30, 2010:

**Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2010**  
*(Dollar information in tabular form is expressed in millions of U.S. dollars)*

	<b>Three months ended April 30, Six months ended April 30,</b>	
	<b>2010</b>	<b>2010</b>
Risk free interest rate	2.8%	2.8%
Expected volatility	61%	61%
Expected weighted average life of options	5 years	5 years
Expected dividends yield	0%	0%

Stock-based compensation expense recorded in the three and six months ended April 30, 2010 was \$0.4 million and \$0.6 million, respectively. Stock-based compensation expense recorded in the three and six months ended April 30, 2009 was \$0.4 million and \$0.9 million, respectively.

**9. Repositioning expenses**

The Company incurred \$1.0 million and \$3.4 million in expenses associated with the shutdown of the Caguas facility in the three and six months ended April 30, 2010, respectively. The following is a summary of these expenses and other charges associated with operational improvements (collectively “repositioning expenses”) for the three and six months ended April 30, 2010 and 2009:

<b>As of and three months ended April 30, 2010</b>	Commercial	PDS	Corporate	Total
	\$	\$	\$	\$
Total repositioning liabilities at January 31, 2010				<b>3.2</b>
Employee-related expenses	<b>(0.1)</b>	-	-	<b>(0.1)</b>
Consulting, professional and project management costs	<b>1.1</b>	-	-	<b>1.1</b>
Total expenses	<b>1.0</b>	-	-	<b>1.0</b>
Repositioning expenses paid				<b>(1.6)</b>
Foreign exchange				-
<b>Total repositioning liabilities at April 30, 2010</b>				<b>2.6</b>
<b>As of and three months ended April 30, 2009</b>	Commercial	PDS	Corporate	Total
	\$	\$	\$	\$
Total repositioning liabilities at January 31, 2009				9.1
Employee-related expenses	0.8	-	-	0.8
Total expenses	0.8	-	-	0.8
Repositioning expenses paid				(3.5)
Foreign exchange				(0.6)
<b>Total repositioning liabilities at April 30, 2009</b>				<b>5.8</b>

**Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2010**  
*(Dollar information in tabular form is expressed in millions of U.S. dollars)*

<b>As of and six months ended April 30, 2010</b>	Commercial	PDS	Corporate	Total
	\$	\$	\$	\$
Total repositioning liabilities at October 31, 2009				<b>2.9</b>
Employee-related expenses	<b>1.9</b>	-	-	<b>1.9</b>
Consulting, professional and project management costs	<b>1.5</b>	-	-	<b>1.5</b>
Total expenses	<b>3.4</b>	-	-	<b>3.4</b>
Repositioning expenses paid				<b>(3.6)</b>
Foreign exchange				<b>(0.1)</b>
<b>Total repositioning liabilities at April 30, 2010</b>				<b>2.6</b>
<hr/>				
<b>As of and six months ended April 30, 2009</b>	Commercial	PDS	Corporate	Total
	\$	\$	\$	\$
Total repositioning liabilities at October 31, 2008				8.0
Employee-related expenses	3.6	-	-	3.6
Consulting, professional and project management costs	0.5	-	-	0.5
Contract termination costs	0.5	-	-	0.5
Total expenses	4.6	-	-	4.6
Repositioning expenses paid				(6.5)
Foreign exchange				(0.3)
<b>Total repositioning liabilities at April 30, 2009</b>				<b>5.8</b>

Included in the employee-related expenses within the commercial segment for the six months ended April 30, 2009 is \$3.3 million of repositioning expenses related to the closure of the Company's Carolina facility which is presented in discontinued operations.

## **10. Other information**

### **Foreign exchange**

During the three and six months ended April 30, 2010, the Company recorded a foreign exchange gain of \$0.9 million and \$1.3 million on forward contract hedges, transactions related to operating exposures and certain ineffective hedges, respectively. During the three and six months ended April 30, 2009, the Company recorded a foreign exchange loss of \$4.1 million and a loss of \$5.5 million on forward contract hedges and transactions related to operating exposures, respectively.

### **Employee future benefits**

The employee future benefit expense in connection with defined benefit pension plans and other post retirement benefit plans for the three and six months ended April 30, 2010 was \$1.6 million and \$3.7 million, respectively. For the three and six months ended April 30, 2009, the employee future benefit expense in connection with defined benefit pension plans and other post retirement benefit plans was \$1.6 million and \$3.0 million, respectively.

## **11. 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 and Six Months Ended April 30, 2010**  
*(Dollar information in tabular form is expressed in millions of U.S. dollars)*

	<b>As of April 30,</b>	As of October 31,
	<b>2010</b>	2009
	\$	\$
Held-for-trading <sup>(1)</sup>	<b>75.8</b>	22.3
Loans and receivables <sup>(2)</sup>	<b>117.6</b>	151.5
Other financial liabilities <sup>(3)</sup>	<b>410.5</b>	421.3
Derivatives designated as effective hedges <sup>(4)</sup> - gain (loss)	<b>3.1</b>	(3.2)
Derivatives designated as ineffective hedges <sup>(5)</sup> - loss	<b>(1.8)</b>	-

(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.

(5) Includes the Company's interest rate swaps that became ineffective as a result of the refinancing.

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.

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 April 30, 2010 was \$2.0 million.

As of April 30, 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 \$126.4 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 April 30, 2010 and October 31, 2009:

**Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2010**  
*(Dollar information in tabular form is expressed in millions of U.S. dollars)*

Assets measured at fair value

	Fair value measurement at April 30, 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	-	3.1	-	\$ 3.1	-	2.1	-	\$ 2.1
Total assets	\$ -	\$ 3.1	\$ -	\$ 3.1	\$ -	\$ 2.1	\$ -	\$ 2.1

Liabilities measured at fair value

	Fair value measurement at April 30, 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	-	1.2	-	\$ 1.2	-	4.7	-	\$ 4.7
Foreign exchange forward contracts	-	-	-	\$ -	-	-	-	\$ -
Total liabilities	\$ -	\$ 1.2	\$ -	\$ 1.2	\$ -	\$ 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 April 30, 2010 and October 31, 2009:

Fair values of derivative instruments

	Asset Derivatives as of April 30, 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	3.1	Prepaid expenses	2.1
Total designated derivatives		\$ 3.1		\$ 2.1
	Liability Derivatives as of April 30, 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	\$ 1.2	Other accrued liabilities	\$ 4.7
Foreign exchange forward contracts		-		-
Total designated derivatives		\$ 1.2		\$ 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 April 30, 2010, the Company's Canadian operations had entered into foreign exchange forward contracts to sell an aggregate amount of US\$35.2 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 \$1.1082 Canadian. The mark-to-market value on these financial instruments as of April 30, 2010 was an unrealized gain of \$3.1 million, with no income tax impact, which has been recorded in accumulated other comprehensive income (loss) in shareholders' equity.

As of April 30, 2010, the Company has designated \$280.0 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 the effective portion of this debt related hedge, from the date so designated, are recorded in accumulated other comprehensive income (loss) in shareholders' equity.

Prior to the refinancing the Company had 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. In April, 2010, the Company completed a private placement of \$280 million of senior secured notes. The net proceeds of the offering were used to repay all of the outstanding indebtedness under the Company's existing senior secured term loan, asset -

**Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2010**  
*(Dollar information in tabular form is expressed in millions of U.S. dollars)*

based revolving credit facility, and mortgages. With the exception of possible future borrowings on the Company's credit facilities, the Company currently does not have any variable rate debt. The Company opted not to cancel the interest rate swap until the expiration date on June 30, 2010, and at that time will pay \$1.8 million in hedging losses related to these financial instruments. These losses were accrued in the current quarter as part of the refinancing costs.

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 notes are designated as a hedge against the Company's investments in subsidiaries in the U.S.A. and Puerto Rico and the foreign exchange gains and losses related to the effective portion of the hedge are recorded in other comprehensive income. In addition, approximately 80% of revenues of the Canadian operations and approximately 10% 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 April 30, 2010, fluctuations of +/-5% would, everything else being equal, have an effect on loss from continuing operations before taxes of approximately +/- \$1.2 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 April 30, 2010, 85% of the U.S. dollar debt exposure is hedged and the Company has entered into forward foreign exchange contracts to cover approximately 65% of its Canadian-U.S. dollar cash flow exposures for the remainder of the 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*

Prior to the issuance of the senior secured notes, the Company's interest rate risk primarily arose from its floating rate debt, in particular its revolving debt, demand lines, senior secured term loan in North America and its Italian mortgages. 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 had 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. In April, 2010, the Company completed a private placement of \$280 million of senior secured notes. The net proceeds of the Offering were used to repay all of the outstanding indebtedness under the Company's existing senior secured term loan, ABL, and mortgages. With the exception of possible future borrowings on the Company's credit facilities, the Company currently does not have any variable rate debt. The Company opted not to cancel the interest rate swap

**Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2010**

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

until the expiration date on June 30, 2010, and at that time will pay \$1.8 million in hedging losses related to these financial instruments. These losses were accrued in the current quarter as part of the refinancing costs.

*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 April 30, 2010 and October 31, 2009, the Company held deposits of \$14.3 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:

	<b>As of April 30, 2010</b>
	<b>\$</b>
Total accounts receivable	119.4
Less: Allowance for doubtful accounts	(1.8)
	<b>117.6</b>
Of which:	
Not overdue	98.2
Past due for more than one day but for not more than three months	20.6
Past due more for than three months but for not more than six months	0.4
Past due for more than six months but not for more than one year	(0.2)
Past due for more than one year	0.4
Less: Allowance for doubtful accounts	(1.8)
<b>Total accounts receivable, net</b>	<b>117.6</b>

*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 April 30, 2010, the Company was holding cash and cash equivalents of \$75.8 million and had undrawn lines of credit available to it of \$83.9 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 and were updated in Note 5 to reflect the impact of the recent refinancing.

**12. Management of capital**

**Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2010**  
*(Dollar information in tabular form is expressed in millions of U.S. dollars)*

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

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

As of April 30, 2010 and October 31, 2009, total managed capital was \$542.3 million and \$521.8 million, respectively, comprised of: shareholders' equity of \$265.2 million and \$271.3 million, respectively and cash interest-bearing debt of \$277.1 million and \$250.5 million, respectively.

### **13. Related party transactions**

Revenues from companies controlled by a director and significant shareholder of the Company were in the amount of \$0.1 million and \$0.2 million for the three and six months ended April 30, 2010, respectively. The revenues were \$0.1 million and \$0.4 million for the three and six months ended April 30, 2009, respectively. These transactions were conducted in the normal course of business and are recorded at the exchanged amount. Accounts receivable at April 30, 2010 and October 31, 2009 includes a balance of \$0.1 million and \$0.5 million, respectively, resulting from these transactions.

As of April 30, 2010 and 2009, the Company had an investment of \$2.9 million and \$1.6 million, respectively, representing an 18% interest in two Italian companies (collectively referred to as "BSP Pharmaceuticals") whose largest investor was an officer of the Company until December 31, 2009. 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 six months ended April 30, 2010, and 2009, the Company recorded investment income of \$0.5 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 and six months ended April 30, 2010 and 2009. Accounts receivable at April 30, 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.

### **14. Income taxes**

While evaluating the Company's future tax assets and liabilities during the first half of 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 \$4.4 million and \$7.2 million in the cost of goods sold relating to the utilization of previous years ITCs in the three and six months ended April 30, 2010.

During the second quarter of 2010 the Company evaluated its valuation reserves. The Company determined that the valuation allowance on its net Canadian future tax assets is no longer required based on its assessment of the future prospects of its Canadian operations. As a result of this determination, the Company released \$13.8 million of valuation reserves through income tax benefit in the income statement.

Previously the Company recorded the ITC's under future tax assets. Of the \$17.1 million on the balance sheet at April 30, 2010, \$8.3 million was reclassified from future tax assets, and the remainder was recorded in fiscal year 2010 as the Company is in a position to utilize current and prior period ITCs.

**Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2010**

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

The effective tax rate change for the six months ended April 30, 2010 of 106% versus six months ended 2009 of 87% was due to the elimination of the tax valuation reserve in Canada during the quarter ended April 30, 2010 of \$13.8 million and a larger loss in Puerto Rico which has a 100% tax valuation reserve.

**15. Refinancing expenses**

For the three months ended April 30, 2010, the Company incurred expenses of \$11.7 million in connection with its refinancing activities. These transaction costs relate to expenses associated with obtaining debt financing, including fees paid to advisors and other related costs. Included in the \$11.7 million are \$1.8 million in refinancing costs related to the term loan that were written off and \$1.8 million in losses for the interest rate swaps on the previous debt that expire on June 30, 2010. Financing costs of \$7.6 million, including lenders and arrangement fees paid to lenders, were capitalized and netted against the carrying value of the related debt and amortized into interest expense over the life of the notes and credit agreement.

**16. Subsequent events**

On June 7, 2010, the Company announced enhancements to the restructuring program related to the closure of the Caguas facility in Puerto Rico. These additional costs relate to increased severance and a retention program that will raise the anticipated costs of the restructuring program from approximately the \$7.0 million previously disclosed to approximately \$9.0 million.

**17. Comparative amounts**

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