



**INTERIM UNAUDITED CONSOLIDATED FINANCIAL
STATEMENTS AND NOTES**

For the Second Quarter Ended April 30, 2009

Patheon Inc.
CONSOLIDATED BALANCE SHEETS

(unaudited)

	As of April 30, 2009	As of October 31, 2008
<i>(in millions of U.S. dollars)</i>	\$	\$
Assets		
Current		
Cash and cash equivalents	22.3	20.2
Accounts receivable (Note 9)	135.6	141.6
Inventories	76.6	67.0
Prepaid expenses and other	6.2	7.8
Total current assets	240.7	236.6
Capital assets	442.2	428.5
Intangible assets	3.9	4.9
Future tax assets	44.5	35.9
Goodwill	2.9	2.9
Investments	3.6	1.7
Long-term assets held for sale (Note 3)	1.9	1.9
Total assets	739.7	712.4
Liabilities and shareholders' equity		
Current		
Bank indebtedness	13.2	9.0
Accounts payable and accrued liabilities	158.4	174.9
Income taxes payable	2.1	2.6
Current portion of long-term debt	10.3	10.2
Total current liabilities	184.0	196.7
Long-term debt	228.6	200.5
Deferred revenues	23.0	22.5
Future tax liabilities	45.5	39.1
Other long-term liabilities	22.8	16.4
Total liabilities	503.9	475.2
Shareholders' equity		
Convertible preferred shares	156.5	149.2
Restricted voting shares	393.5	393.5
Contributed surplus	7.6	6.7
Deficit	(320.4)	(309.3)
Accumulated other comprehensive loss	(1.4)	(2.9)
Total shareholders' equity	235.8	237.2
Total liabilities and shareholders' equity	739.7	712.4

see accompanying notes

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

	Three months ended April 30,		Six months ended April 30,	
	2009	2008	2009	2008
<i>(in millions of U.S. dollars, except income (loss) per share)</i>	\$	\$	\$	\$
Revenues	167.4	186.0	314.6	350.2
Cost of goods sold	125.0	145.7	241.4	283.9
Gross profit	42.4	40.3	73.2	66.3
Selling, general and administrative expenses (Note 12)	28.2	28.7	54.5	56.3
Repositioning expenses (Note 7)	0.8	8.3	1.3	10.6
Operating income (loss)	13.4	3.3	17.4	(0.6)
Interest expense, net	3.6	7.8	8.1	15.8
Foreign exchange loss (gain) (Note 8)	4.1	(0.4)	5.5	(1.0)
Gain on sale of fixed assets	-	(0.4)	-	(0.4)
Income (loss) from continuing operations before income taxes	5.7	(3.7)	3.8	(15.0)
Provision for income taxes	3.9	2.3	3.3	2.6
Income (loss) before discontinued operations	1.8	(6.0)	0.5	(17.6)
Loss from discontinued operations (Note 3)	(1.3)	(2.0)	(5.8)	(5.0)
Net income (loss) for the period	0.5	(8.0)	(5.3)	(22.6)
Dividends on convertible preferred shares	3.7	-	7.3	-
Loss attributable to restricted voting shareholders	(3.2)	(8.0)	(12.6)	(22.6)
Basic and diluted loss per share				
From continuing operations	(\$0.021)	(\$0.066)	(\$0.075)	(\$0.194)
From discontinued operations	(\$0.014)	(\$0.022)	(\$0.064)	(\$0.055)
	(\$0.035)	(\$0.088)	(\$0.139)	(\$0.249)
Average number of shares				
outstanding during period - basic and diluted (in thousands)	91,149	90,633	91,149	90,629

see accompanying notes

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

	Six months ended April 30,	
	2009	2008
<i>(in millions of U.S. dollars)</i>	\$	\$
Convertible preferred shares - equity component		
Balance at beginning of period	149.2	15.9
Paid in-kind dividend on shares	7.3	-
Balance at end of period	156.5	15.9
Restricted voting shares		
Balance at beginning and end of period	393.5	392.0
Contributed surplus		
Balance at beginning of period	6.7	4.0
Stock options	0.9	1.5
Balance at end of period	7.6	5.5
Retained deficit		
Balance at beginning of period	(309.3)	(293.2)
Adjustment related to change in accounting policy (Note 1)	1.6	-
Net loss attributable to restricted voting shareholders	(12.6)	(22.6)
Balance at end of period	(320.4)	(315.8)
Accumulated other comprehensive (loss) income		
Balance at beginning of period	(2.9)	71.5
Other comprehensive income (loss) for the period	1.5	(10.3)
Balance at end of period	(1.4)	61.2
Total shareholders' equity at end of period	235.8	158.8

see accompanying notes

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

	Three months ended April 30,		Six months ended April 30,	
	2009	2008	2009	2008
<i>(in millions of U.S. dollars)</i>	\$	\$	\$	\$
Net loss attributable to restricted voting shareholders	(3.2)	(8.0)	(12.6)	(22.6)
Other comprehensive income (loss), net of income taxes				
Change in foreign currency gains (losses) on investments in subsidiaries, net of hedging activities ¹	6.5	3.5	(3.5)	(3.7)
Change in value of derivatives designated as foreign currency and interest rate cash flow hedges ²	2.3	1.7	0.1	(3.4)
Gains (losses) on foreign currency and interest rate cash flow hedges reclassified to consolidated statement of loss ³	2.6	(1.2)	4.9	(3.2)
Other comprehensive income (loss) for the period	11.4	4.0	1.5	(10.3)
Comprehensive income (loss) attributable to restricted voting shareholders	8.2	(4.0)	(11.1)	(32.9)

see accompanying notes

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

¹Net of an income tax expense of nil (2008 nil)²Net of an income tax expense of \$0.2 million and less than \$0.1 million for the three and six months ended April 30, 2009 (2008 - nil)³Net of an income tax recovery of \$0.1 million and \$0.3 million for the three and six months ended April 30, 2009 (2008 - expense of \$0.2 million and recovery of \$0.5 million)

Patheon Inc.
Consolidated Statements of Cash Flows

(unaudited)

	Three months ended April 30,		Six months ended April 30,	
	2009	2008	2009	2008
<i>(in millions of U.S. dollars)</i>	\$	\$	\$	\$
Operating activities				
Income (loss) from continuing operations	1.8	(6.0)	0.5	(17.6)
Add (deduct) charges to operations not requiring a current cash payment				
Depreciation and amortization	10.0	11.1	19.9	22.2
Foreign exchange loss on debt	-	0.8	-	2.8
Accreted interest on convertible preferred shares	-	3.8	-	7.4
Other non-cash interest	0.2	0.1	0.3	0.3
Change in other long-term liabilities	0.5	(1.0)	(0.3)	(1.6)
Future income taxes	0.6	(2.1)	(2.8)	(5.6)
Amortization of deferred revenues	(0.2)	(0.5)	(0.3)	(1.0)
Gain on sale of fixed assets	-	(0.4)	-	(0.4)
Stock-based compensation expense	0.4	0.6	0.9	1.5
Other	(0.3)	0.1	(0.5)	(0.1)
	<u>13.0</u>	<u>6.5</u>	<u>17.7</u>	<u>7.9</u>
Net change in non-cash working capital balances related to continuing operations	(14.4)	(13.9)	(11.5)	(14.1)
Increase in deferred revenues	4.7	1.5	4.1	1.5
Cash provided by (used in) operating activities of continuing operations	<u>3.3</u>	<u>(5.9)</u>	<u>10.3</u>	<u>(4.7)</u>
Cash used in operating activities of discontinued operations	<u>(3.3)</u>	<u>(1.7)</u>	<u>(6.6)</u>	<u>(6.2)</u>
Cash (used in) provided by operating activities	<u>-</u>	<u>(7.6)</u>	<u>3.7</u>	<u>(10.9)</u>
Investing activities				
Additions to capital assets	(12.7)	(10.7)	(21.2)	(18.9)
Proceeds on sale of capital assets	-	12.1	-	12.1
Net increase in investments	(0.5)	-	(0.2)	(0.4)
Cash (used in) provided by investing activities of continuing operations	<u>(13.2)</u>	<u>1.4</u>	<u>(21.4)</u>	<u>(7.2)</u>
Cash provided by investing activities of discontinued operations	-	2.2	-	10.4
Cash (used in) provided by investing activities	<u>(13.2)</u>	<u>3.6</u>	<u>(21.4)</u>	<u>3.2</u>
Financing activities				
Increase in bank indebtedness	3.4	6.8	3.9	8.1
Increase in long-term debt	20.8	4.2	40.7	15.9
Repayment of long-term debt	(16.1)	(8.6)	(25.2)	(15.6)
Cash provided by financing activities of continuing operations	<u>8.1</u>	<u>2.4</u>	<u>19.4</u>	<u>8.4</u>
Cash used in financing activities of discontinued operations	-	(0.1)	-	(0.2)
Cash provided by financing activities	<u>8.1</u>	<u>2.3</u>	<u>19.4</u>	<u>8.2</u>
Effect of exchange rate changes on cash and cash equivalents	<u>3.4</u>	<u>0.2</u>	<u>0.5</u>	<u>(0.4)</u>
Net (decrease) increase in cash and cash equivalents during the period	<u>(1.7)</u>	<u>(1.4)</u>	<u>2.1</u>	<u>0.2</u>
Cash and cash equivalents, beginning of period	<u>24.0</u>	<u>32.2</u>	<u>20.2</u>	<u>30.6</u>
Cash and cash equivalents, end of period	<u>22.3</u>	<u>30.8</u>	<u>22.3</u>	<u>30.8</u>

see accompanying notes

Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2009
(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, 2008.

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

Effective November 1, 2008 the Company adopted Canadian Institute of Chartered Accountants (“CICA”) Section 3031 “Inventories,” which requires inventory to be measured at the lower of cost and net realizable value. The standard also provides guidance on the types of costs that can be capitalized and requires reversal of previous inventory write-downs if economic circumstances have changed to support the higher inventory values. As of April 30, 2009, the adoption of this standard resulted in an increase to the Company’s inventory of \$1.6 million, with a corresponding decrease in the deficit account. The increase was due to additional overhead and depreciation costs, net of tax, which are now required under the standard to be capitalized into inventory versus expensing as period costs. This increase to the inventory value has been expensed through cost of goods sold during the first quarter 2009. In addition, the Company has modified its presentation of the consolidated statements of income (loss) to separately present costs of goods sold and selling, general and administrative expenses to conform with the disclosure requirements of this policy. This resulted in the inclusion of depreciation within costs of goods sold and selling, general and administrative expenses.

Effective November 1, 2008 the Company adopted CICA Section 3064 “Goodwill and Intangible Assets,” which clarifies that costs can be deferred only when they relate to an item that meets the definition of an asset, and as a result, start-up costs must be expensed as incurred. Section 1000 “Financial Statement Concepts,” was also amended to provide consistency with this new standard. As a result of the adoption of this standard, which is applied retrospectively, the Company adjusted all prior periods presented by writing off the deferred start-up costs and the associated deferred tax liability and currency translation adjustment to the deficit account. The net impact was an increase in the deficit account of \$3.1 million at October 31, 2008. As well as the elimination of depreciation expense, which would have been \$0.5 million and \$1.0 million for the three and six months ended April 30, 2009, respectively, and was reduced by \$0.5 million and \$1.0 million for the three and six months ended April 30, 2008. This resulted in a decrease in the loss per share of half a cent and one cent for the three and six months ended April 30, 2008.

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

Effective for the quarter ending January 31, 2009, the Company adopted CICA Emerging Issues Committee (“EIC”) abstract EIC-173, “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities.” EIC-173 provides further information on the determination of the fair value of financial assets and financial liabilities under Section 3855, “Financial Instruments-Recognition and Measurement.” It states that an entity’s own credit and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC-173 should be applied retrospectively, without restatement of prior periods, to all financial assets and financial liabilities measured at fair value. The application of this guidance had no material impact on the Company’s consolidated financial statements.

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 International Financial Reporting Standards ("IFRS") for publicly accountable enterprises. Patheon will be required to adopt IFRS no later than November 1, 2011. The Company is currently evaluating the effects of adopting these standards.

2. Going concern

These financial statements have been prepared in accordance with Canadian 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

The Company closed its Carolina facility in Puerto Rico effective January 31, 2009. The Company is currently marketing the remaining assets. Certain transitional activities continue at the facility to ensure proper and compliant closure. The Company recorded a \$3.3 million accrual in the prior quarter for the severance and closure costs.

In the first quarter of 2008, the Company undertook a comprehensive review of the Puerto Rico operations, with a focus on restructuring the operations, eliminating operating losses and developing a long-term plan for the business. After this review, the Company had decided to retain and continue to streamline its facilities in Caguas and Manati and divest its facility in Carolina.

In connection with the planned restructuring of its network of pharmaceutical manufacturing facilities within Canada, the Company plans to close its York Mills, Toronto facility and is currently in the process of transferring all commercial production and development services undertaken at its York Mills facility to its site in Whitby. The Company expects to exit this facility by the end of the third quarter 2009. During the three months ended April, 30, 2009, the Company incurred \$0.8 million in additional repositioning expenses due to further workforce reductions

Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2009
(Dollar information in tabular form is expressed in millions of U.S. dollars)

and validation and closing costs associated with the consolidation of the York Mills and Whitby facilities. In accordance with this plan, on April 15, 2008, the Company completed the sale of the York Mills property for net proceeds of \$11.9 million and has entered into a lease for up to two years in order to facilitate the decommissioning process.

The Company also completed the sale of its Niagara-Burlington commercial manufacturing business to Pharmetics Inc. on January 31, 2008. Pharmetics acquired the assets, including equipment, facilities and land, at the Company's facilities in Fort Erie and Burlington (Gateway Drive) in Ontario. Pharmetics offered employment to all of the commercial manufacturing employees at the two sites and continues to manufacture and supply all of the products manufactured at these sites. Proceeds from the divestiture, net of transaction costs and including post closing adjustments, were \$10.5 million. During the six months ended April 30, 2008, the Company recorded a loss of \$0.6 million on the disposal.

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

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

The results of discontinued operations for the three and six months ended April 30, 2009 and 2008 are as follows:

	Three months ended April 30,		Six months ended April 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Revenues	(0.4)	3.8	2.6	15.2
Cost of goods sold	(0.3)	4.8	2.8	17.4
Gross loss	(0.1)	(1.0)	(0.2)	(2.2)
Selling, general and administrative expenses	1.2	0.9	2.3	1.9
Repositioning expenses	-	-	3.3	0.2
Operating loss	(1.3)	(1.9)	(5.8)	(4.3)
Loss on disposal of discontinued operations	-	-	-	0.6
Loss before income taxes	(1.3)	(1.9)	(5.8)	(4.9)
Provision for income taxes	-	0.1	-	0.1
Net loss for the period	(1.3)	(2.0)	(5.8)	(5.0)

For the three months ended April 30, 2009, the Company settled a billing discrepancy with a customer and issued a \$0.4 million credit.

As of April 30, 2009 and October 31, 2008, the assets held for sale relate to the Carolina operations. In accordance with Section 3475 of the CICA handbook, long-lived assets held for sale are measured at the lower of their carrying amount or fair value less cost to sell. All prior period amounts have been reclassified to conform to the current period presentation.

Assets held for sale:

	As of April 30,	As at October 31,
	2009	2008
	\$	\$
Long-term assets		
Capital assets	1.9	1.9

Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2009
(Dollar information in tabular form is expressed in millions of U.S. dollars)

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 April 30, 2009:

	<u>Outstanding</u>	<u>Exercisable</u>
Class I convertible preferred shares series C and D outstanding	150,000	-
Restricted voting shares outstanding	91,149,388	-
Restricted voting share stock options	5,117,034	2,862,064

The completion of the agreement with JLL Patheon Holdings, LLC (the "JLL Agreement") related to convertible preferred shares (see description of the JLL Agreement in Note 12 of the October 31, 2008 audited financial statements) in the fourth quarter of 2008 resulted in the full carrying value of the convertible preferred shares being classified within shareholders' equity on the Company's consolidated balance sheet. Paid in-kind dividend equivalents (or cash dividends, if the Company so elects after October 27, 2009) on the convertible preferred shares are now reported below net loss to arrive at a loss attributable to the restricted voting shareholders. Any paid in-kind dividend equivalents have the effect of increasing the carrying value of the convertible preferred shares in shareholders' equity.

5. Segmented information

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

Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2009
(Dollar information in tabular form is expressed in millions of U.S. dollars)

	Three Months Ended April 30, 2009			
	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

	Three Months Ended April 30, 2008			
	Commercial	PDS	Corp. & Other	Total
	\$	\$	\$	\$
Revenues	151.2	34.8	-	186.0
Adjusted EBITDA	21.1	9.6	(7.6)	23.1
Depreciation	9.5	1.4	0.2	11.1
Capital expenditures	8.2	2.4	0.1	10.7

	Six Months Ended April 30, 2009			
	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

	Six Months Ended April 30, 2008			
	Commercial	PDS	Corp. & Other	Total
	\$	\$	\$	\$
Revenues	285.1	65.0	-	350.2
Adjusted EBITDA	31.8	15.5	(14.1)	33.2
Total assets	678.0	56.8	62.7	797.5
Depreciation	18.9	2.7	0.6	22.2
Capital expenditures	14.8	3.8	0.3	18.9

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

Cash and cash equivalents as well as deferred tax assets are considered to be part of "Corp. and Other" in the breakout of total assets shown above. Below is a bridge reconciling Adjusted EBITDA to its closest GAAP measure.

Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2009
(Dollar information in tabular form is expressed in millions of U.S. dollars)

	Three months ended April 30,		Six months ended April 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Adjusted EBITDA:				
Total adjusted EBITDA per above	20.2	23.1	33.0	33.2
Depreciation and amortization	(10.0)	(11.1)	(19.9)	(22.2)
Repositioning expenses	(0.8)	(8.3)	(1.3)	(10.6)
Interest expense, net	(3.6)	(7.8)	(8.1)	(15.8)
Gain on sale of fixed assets	-	0.4	-	0.4
Income taxes	(3.9)	(2.3)	(3.3)	(2.6)
Net income (loss) before discontinued operations	1.8	(6.0)	0.5	(17.6)

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

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

	Three months ended April 30, 2008				
	Canada	US*	Europe	Other	Total
	\$	\$	\$	\$	\$
Revenues	5.5	84.4	93.4	2.7	186.0

* Includes Puerto Rico

	Six months ended April 30, 2009				
	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

	Six months ended April 30, 2008				
	Canada	US*	Europe	Other	Total
	\$	\$	\$	\$	\$
Revenues	9.9	164.8	167.7	7.8	350.2
Capital assets	116.0	111.2	250.1	-	477.3
Goodwill	3.4	-	-	-	3.4

* 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 attaching to the issued and outstanding Class I Preferred Shares, Series C of the Company. As of April 30, 2009, the total number of restricted voting shares issuable under the Plan was 9,627,618 of which there are stock options outstanding to purchase 5,117,034 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

Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2009

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

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. The Company did not grant any options during the three and six months ended April 30, 2009. During the three and six months ended April 30, 2008, the Company granted 496,000 and 3,203,736 options. The weighted average fair value of the options granted during the three and six months ended April 30, 2008 was \$1.36 and \$1.35, 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. Stock-based compensation expense recorded in the three and six months ended April 30, 2008 was \$0.6 million and \$1.5 million, respectively.

7. Repositioning expenses

The Company has incurred a number of expenses associated with operational improvements, cost reduction initiatives and changes in executive management. During fiscal 2008, the Company also incurred professional fees and other costs in connection with its review of strategic and financial alternatives.

The following is a summary of expenses associated with these initiatives (collectively “repositioning expenses”) for the three and six months ended April 30, 2009 and 2008:

Three months ended April 30, 2009	Commercial	PDS	Corporate	Total
	\$	\$	\$	\$
Total repositioning liabilities at January 31, 2009				9.1
Employee-related expenses	0.8	-	-	0.8
Consulting, professional and project management costs	-	-	-	-
Contract termination costs	-	-	-	-
Total expenses	0.8	-	-	0.8
Repositioning expenses paid				(3.5)
Foreign exchange				(0.6)
Total repositioning liabilities at April 30, 2009				5.8
Three months ended April 30, 2008	Commercial	PDS	Corporate	Total
	\$	\$	\$	\$
Total repositioning liabilities at January 31, 2008				3.8
Employee-related expenses	4.8	0.4	2.9	8.1
Consulting, professional and project management costs	0.2	-	0.0	0.2
Total expenses	5.0	0.4	2.9	8.3
Repositioning expenses paid				(6.2)
Foreign exchange				-
Total repositioning liabilities at April 30, 2008				5.9
Six months ended April 30, 2009	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)
Total repositioning liabilities at April 30, 2009				5.8

Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2009
(Dollar information in tabular form is expressed in millions of U.S. dollars)

Six months ended April 30, 2008	Commercial	PDS	Corporate	Total
	\$	\$	\$	\$
Total repositioning liabilities at October 31, 2007				6.0
Employee-related expenses	5.0	0.4	4.6	10.0
Consulting, professional and project management costs	0.2	-	0.4	0.6
Total expenses	5.2	0.4	5.0	10.6
Repositioning expenses paid				(10.8)
Foreign exchange				0.1
Total repositioning liabilities at April 30, 2008				5.9

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 and is presented in discontinued operations.

8. Other information

Foreign exchange

During the three months ended April 30, 2009, the foreign exchange gain on operating exposures (including losses from cash flow hedges and the revaluation of all foreign currency denominated working capital) recorded a loss on consolidated statement of income (loss) of \$4.1 million and a gain of \$1.2 million for the three months ended April 30, 2008. During the six months ended April 30, 2009, the foreign exchange gain on operating exposures recorded in operating expenses was a loss of \$5.5 million and a gain of \$3.8 million for the six months ended April 30, 2008. The Company recorded a loss on the revaluation of certain U.S. dollar denominated debt, net of hedging activities, in its Canadian legal entity of \$0.8 million and \$2.8 million during the three and six months ended April 30, 2008. As a result of the completion of the JLL Agreement in the fourth quarter of 2008, the revaluation of certain U.S. denominated debt is now reclassified in other comprehensive income (loss) for 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 April 30, 2009 and 2008 was \$1.6 million and \$1.3 million, respectively. For the six months ended April 30, 2009 and 2008, the employee and future benefit expense was \$3.0 million and \$2.8 million, respectively.

9. Financial instruments and risk management

Categories of financial assets and liabilities

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

	As of April 30,	As of October 31,
	2009	2008
	\$	\$
Held for trading ⁽¹⁾	22.3	20.2
Loans and receivables ⁽²⁾	135.6	141.6
Other financial liabilities ⁽³⁾	412.6	397.2
Derivatives designated as effective hedges ⁽⁴⁾ - loss	(10.2)	(15.7)

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

Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2009

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

- (2) Includes accounts receivable.
- (3) Includes bank indebtedness, accounts payable and accrued liabilities, income taxes payable, and long-term debt.
- (4) Includes the Company's foreign exchange forward contracts and interest rate swaps, both of which are effective hedges.

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, 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 \$147.0 million. Based on current interest rates for debt with similar terms and maturities, the fair market value of the senior secured term loan is estimated to be \$124.9 million.

During the second quarter of 2009, after construction and validation, the Company recorded a capital lease obligation of \$7.9 million and a payment of \$2.2 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, 2009, recorded as long-term debt, was \$5.7 million.

As of April 30, 2009 and October 31, 2008, the carrying amount of the financial assets that the Company has pledged as collateral for its long-term debt facilities was \$83.9 million and \$87.7 million, respectively.

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, 2009, the Company's Canadian operations had entered into foreign exchange forward contracts to sell an aggregate amount of US\$33.7 million. These contracts hedge the Canadian operations' expected exposure to U.S. dollar denominated cash flows and mature at the latest on October 28, 2009, at an average exchange rate of \$1.0686 Canadian. The mark-to-market value on these financial instruments as of April 30, 2009 was an unrealized loss of \$3.5 million, which has been recorded in accumulated other comprehensive income (loss) in shareholders' equity.

As of April 30, 2009, the Company's U.K operations had entered into foreign exchange forward contracts to sell an aggregate amount of US\$5.1 million. These contracts hedge the Swindon, U.K operation's expected exposure to U.S. dollar cash flows and mature at the latest on October 9, 2009, at an average exchange rate of £0.7066. The mark-to-market value on these financial instruments as of April 30, 2009 was an unrealized gain of \$0.2 million, which has been recorded in accumulated other comprehensive income in shareholders' equity.

As of April 30, 2009, the Company has designated \$88.2 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 April 30, 2009 was an unrealized loss of \$7.0 million which has been recorded in accumulated other comprehensive income (loss) in shareholders' equity.

Risks arising from financial instruments and risk management

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

Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2009
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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. This debt is designated as an effective hedge against the Company's investments in subsidiaries in the U.S. and Puerto Rico and the related foreign exchange gains and losses are recorded in other comprehensive income (loss). In addition, approximately 80% of revenues of the Canadian operations and approximately 18% 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, 2009, fluctuations of +/-5% would, everything else being equal, have an effect on income (loss) from continuing operations before taxes of approximately +/- \$1.3 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. The U.S. dollar debt exposure is hedged by the Canadian investment in U.S. and Puerto Rico. As of April 30, 2009, approximately 90% of the U.S. dollar debt exposure is hedged and the Company has entered into forward foreign exchange contracts to cover approximately 60% of its Canadian-U.S. dollar cash flow exposures for its 2009 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 April 30, 2009, \$245.1 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 income (loss) from continuing operations before income taxes of approximately +/- \$2.5 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 April 30, 2009, taking the interest rate swap into account, \$98.1 million of the Company's debt portfolio is subject to floating interest rates.

Credit risk

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

The objective of managing counterparty credit risk is to prevent losses in financial assets. The Company assesses the credit quality of the counterparties, 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

Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2009
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not meet the Company's requirements, a cash deposit is received before any services are provided. As of April 30, 2009, the Company held deposits of \$19.8 million.

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 statement of income (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 income statement.

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 April 30,
	2009
	\$
Total accounts receivable	137.1
Less: Allowance for doubtful accounts	(1.5)
Total accounts receivable, net	135.6
Of which:	
Not overdue	103.6
Past due for more than one day but for not more than three months	29.0
Past due more for than three months but for not more than six months	3.7
Past due for more than six months but not for more than one year	0.7
Past due for more than one year	0.1
Less: Allowance for doubtful accounts	(1.5)
Total accounts receivable, net	135.6

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, 2009, the Company was holding cash and cash equivalents of \$22.3 million and had undrawn lines of credit available to it of \$34.6 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, 2008.

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.

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, 2009 and October 31, 2008, total managed capital was \$487.9 million and \$456.9 million, respectively, comprised of: shareholders' equity of \$235.8 million and \$237.2 million, respectively and cash interest-bearing debt of \$252.1 million and \$219.7 million, respectively. The Company has no obligation to pay cash dividends on the convertible preferred shares until after October 27, 2009, at which time the Company can elect to pay a cash dividend or increase the liquidation preference and conversion rate of the convertible preferred shares.

11. Related party transactions

Revenues from companies controlled by a director (until April 29, 2009) and significant shareholder of the Company were in the amount of less than \$0.1 million and \$0.4 million for the three and six months ended April 30, 2009, respectively. The revenues were less than \$0.1 million and \$0.1 million for the three and six months ended April 30, 2008, respectively. These transactions were conducted in the normal course of business and are recorded at the exchanged amount. Accounts receivable at April 30, 2009 include a balance of less than \$0.1 million resulting from these transactions.

As of April 30, 2009 and 2008, the Company had an investment of \$1.6 million and \$1.2 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 this agreement 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, 2009, the Company has recorded an investment loss of \$0.2 million.

There were no management fees recorded under a management services agreement with BSP Pharmaceuticals for the three and six months ended April 30, 2009, respectively. The management fees were \$0.4 million and \$0.8 million for the three and six months ended April 30, 2008, respectively. Accounts receivable at April 30, 2009 and October 31, 2008 include a balance of \$2.0 million and \$0.2 million, respectively, in connection with the management services agreement. These services were conducted in the normal course of business and are recorded at the exchanged amounts.

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. Subsequent events

On March 11, 2009 JLL Patheon Holdings, 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 does not already own at a price of US\$2.00 per share in cash ("JLL Offer") and filed an Offering Circular on SEDAR. On June 2, 2009, JLL announced that 33,667,752 Restricted Voting Shares in the capital of Patheon had been validly deposited in response to JLL's Offer as of 6:00pm on June 1, 2009, which was the second expiry date of the JLL Offer. The JLL Offer has been further extended and will now expire on June 15, 2009. The Restricted Voting Shares taken up and paid 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.

On May 11, 2009, JLL filed an application with the Ontario Superior Court of Justice to commence a legal action against Patheon Inc. In its application, JLL requests orders from the Court that, among other things, (i) the results of the election of the Board of Directors of Patheon Inc. held at the annual general meeting of shareholders of Patheon on April 29, 2009 be nullified due to certain alleged illegalities and inconsistencies in the solicitation and counting of proxies, (ii) requires Patheon to hold a new election of members of the Board of Directors of Patheon, (iii) the management of the business and the affairs of Patheon be conducted by the Board of Directors that was in place prior to April 29, 2009 until a new election is held.

On May 26, 2009, Patheon Inc. commenced a legal action in the Ontario Superior Court of Justice against JLL and its nominees to Patheon's Board, Ramsey A. Frank, Paul S. Levy and Thomas S. Taylor. The legal action is in respect of the conduct of JLL and its nominees in connection with JLL's insider bid for the Restricted Voting Shares of Patheon as well as related matters. The Statement of Claim sets out Patheon's allegations against the JLL Board nominees and JLL and is requesting that the Court make findings of breach of fiduciary duties, oppression, conspiracy and breach of contract, the particulars of which are set out in the Statement of Claim which is available on Patheon's website.

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The Company has incurred \$2.9 million and \$3.4 million in costs associated with the JLL Offer in the three and six month periods ending April 30, 2009, respectively. These expenses consist primarily of fees for legal and financial advisors and Special Committee retainer and meeting expenses.

13. Comparative amounts

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