INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

For the Third Quarter Ended July 31, 2009

Patheon Inc.

CONSOLIDATED BALANCE SHEETS

(unaudited)

(in millions of U.S. dollars)	**As of July 31, 2009** **$**	As of October 31, 2008 $
Assets		
Current		
Cash and cash equivalents	**28.4**	20.2
Accounts receivable (Note 9)	**128.5**	141.6
Inventories	**79.2**	67.0
Prepaid expenses and other	**12.8**	7.8
Total current assets	**248.9**	236.6
Capital assets	**479.2**	428.5
Intangible assets	**3.5**	4.9
Future tax assets	**48.0**	35.9
Goodwill	**3.2**	2.9
Investments	**3.8**	1.7
Long-term assets held for sale (Note 3)	**1.4**	1.9
Total assets	**788.0**	712.4
Liabilities and shareholders' equity		
Current		
Short term borrowings	**17.8**	9.0
Accounts payable and accrued liabilities	**158.1**	174.9
Income taxes payable	**2.3**	2.6
Deferred revenues	**1.3**	-
Current portion of long-term debt	**13.1**	10.2
Total current liabilities	**192.6**	196.7
Long-term debt	**224.0**	200.5
Deferred revenues	**34.4**	22.5
Future tax liabilities	**51.3**	39.1
Other long-term liabilities	**23.0**	16.4
Total liabilities	**525.3**	475.2
Shareholders' equity		
Convertible preferred shares (Note 4)	**-**	149.2
Restricted voting shares (Note 4)	**553.8**	393.5
Contributed surplus	**7.6**	6.7
Deficit	**(330.3)**	(309.3)
Accumulated other comprehensive income (loss)	**31.6**	(2.9)
Total shareholders' equity	**262.7**	237.2
Total liabilities and shareholders' equity	**788.0**	712.4

see accompanying notes

Patheon Inc.

CONSOLIDATED STATEMENTS OF LOSS

(unaudited)

	Three months ended July 31,		Nine months ended July 31,	
	2009	2008	**2009**	2008
(in millions of U.S. dollars, except loss per share)	**$**	$	**$**	$
Revenues	**164.4**	195.0	**479.0**	545.1
Cost of goods sold	**134.6**	145.7	**376.1**	429.6
Gross profit	**29.8**	49.3	**102.9**	115.5
Selling, general and administrative expenses	**25.9**	35.1	**80.5**	91.3
Repositioning expenses (Note 7)	**0.2**	6.7	**1.6**	17.3
Operating income	**3.7**	7.5	**20.8**	6.9
Interest expense, net	**4.3**	8.3	**12.4**	24.1
Impairment charge	**-**	0.4	**-**	0.4
Foreign exchange loss (Note 8)	**1.1**	1.0	**6.6**	-
Gain on sale of fixed assets	**-**	-	**-**	(0.4)
Loss (income) from continuing operations before income taxes	**(1.7)**	(2.2)	**1.8**	(17.2)
Provision for income taxes	**3.5**	1.7	**6.7**	4.3
Loss before discontinued operations	**(5.2)**	(3.9)	**(4.9)**	(21.5)
Loss from discontinued operations (Note 3)	**(0.8)**	(10.1)	**(6.6)**	(15.1)
Net loss for the period	**(6.0)**	(14.0)	**(11.5)**	(36.6)
Dividends on convertible preferred shares	**3.8**	-	**11.1**	-
Net loss attributable to restricted voting shareholders	**(9.8)**	(14.0)	**(22.6)**	(36.6)
Basic and diluted loss per share				
From continuing operations	**($0.097)**	($0.043)	**($0.175)**	($0.237)
From discontinued operations	**($0.009)**	($0.111)	**($0.072)**	($0.167)
	($0.106)	($0.154)	**($0.247)**	($0.404)
Average number of shares outstanding during period - basic and diluted (in thousands)	**92,389**	90,742	**91,566**	90,667

see accompanying notes

Patheon Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited)

	Nine months ended July 31,	
	2009	2008
(in millions of U.S. dollars)	**$**	$
Convertible preferred shares - equity component		
Balance at beginning of period	**149.2**	15.9
Paid in-kind dividend on shares (Note 4)	**11.1**	-
Conversion of convertible preferred shares (Note 4)	**(160.3)**	-
Balance at end of period	**-**	15.9
Restricted voting shares		
Balance at beginning of period	**393.5**	392.0
Shares issued during the period, net of issue costs	**-**	0.4
Conversion of convertible preferred shares	**160.3**	-
Balance at end of period	**553.8**	392.4
Contributed surplus		
Balance at beginning of period	**6.7**	4.1
Stock based compensation (Note 6)	**0.9**	2.1
Balance at end of period	**7.6**	6.2
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	**(22.6)**	(36.6)
Balance at end of period	**(330.3)**	(329.8)
Accumulated other comprehensive (loss) income		
Balance at beginning of period	**(2.9)**	71.5
Other comprehensive income (loss) for the period	**34.5**	(11.0)
Balance at end of period	**31.6**	60.5
Total shareholders' equity at end of period	**262.7**	145.2

see accompanying notes

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

	Three months ended July 31,		Nine months ended July 31,	
	2009	2008	**2009**	2008
(in millions of U.S. dollars)	**$**	$	**$**	$
Net loss attributable to restricted voting shareholders	**(9.8)**	(14.0)	**(22.6)**	(36.6)
Other comprehensive income (loss), net of income taxes				
Change in foreign currency gains (losses) on investments in subsidiaries, net of hedging activities [1]	**25.9**	(0.8)	**22.4**	(4.5)
Change in value of derivatives designated as foreign currency and interest rate cash flow hedges [2]	**7.0**	1.3	**7.1**	(2.1)
Gains (losses) on foreign currency and interest rate cash flow hedges reclassified to consolidated statement of loss [3]	**0.1**	(1.2)	**5.0**	(4.4)
Other comprehensive income (loss) for the period	**33.0**	(0.7)	**34.5**	(11.0)
Comprehensive income (loss) attributable to restricted voting shareholders	**23.2**	(14.7)	**11.9**	(47.6)

see accompanying notes

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

[1] Net of an income tax expense of nil (2008 nil)

[2] Net of an income tax expense of $0.4 million and $0.6 million for the three and nine months ended July 31, 2009, respectively.
(Net of an income tax expense of $0.5 million and income tax recovery of $0.2 million for the three and nine months ended July 31, 2008.)

[3] Net of an income tax recovery of $0.2 million and $0.5 million for the three and nine months ended July 31, 2009, respectively.
(Net of an income tax recovery of $0.1 million and $0.2 million for the three and nine months ended July 31, 2008.)

Patheon Inc.
Consolidated Statements of Cash Flows
(unaudited)

	Three months ended July 31,		Nine months ended July 31,	
	2009	2008	**2009**	2008
(in millions of U.S. dollars)	**$**	$	**$**	$
Operating activities				
Net loss from continuing operations	**(5.2)**	(3.9)	**(4.9)**	(21.5)
Add (deduct) charges to operations not requiring a current cash payment				
Depreciation and amortization	**10.7**	11.5	**30.7**	33.7
Foreign exchange loss on debt	**-**	1.9	**-**	4.7
Accreted interest on convertible preferred shares	**-**	3.9	**-**	11.3
Other non-cash interest	**0.1**	0.1	**0.4**	0.4
Change in other long-term liabilities	**0.7**	(0.3)	**0.3**	(1.9)
Future income taxes	**2.3**	(3.2)	**(0.5)**	(8.8)
Amortization of deferred revenues	**(0.1)**	(0.5)	**(0.4)**	(1.5)
Gain on sale of fixed assets	**-**	-	**-**	(0.4)
Impairment charge	**-**	0.4	**-**	0.4
Stock-based compensation expense	**-**	0.6	**0.9**	2.1
Other	**1.5**	0.1	**1.2**	0.1
	10.0	10.6	**27.7**	18.6
Net change in non-cash working capital balances related to continuing operations	**11.3**	5.2	**(0.2)**	(8.9)
Increase in deferred revenues	**0.9**	0.6	**5.0**	2.1
Cash provided by operating activities of continuing operations	**22.2**	16.4	**32.5**	11.8
Cash used in operating activities of discontinued operations	**(1.6)**	(0.3)	**(8.2)**	(6.5)
Cash provided by operating activities	**20.6**	16.1	**24.3**	5.3
Investing activities				
Additions to capital assets	**(12.2)**	(15.2)	**(33.4)**	(34.1)
Proceeds on sale of capital assets	**-**	-	**-**	12.1
Net increase in investments	**-**	(0.9)	**(0.3)**	(1.3)
Cash used in investing activities of continuing operations	**(12.2)**	(16.1)	**(33.7)**	(23.3)
Cash provided by investing activities of discontinued operations	**0.2**	-	**0.2**	10.4
Cash used in investing activities	**(12.0)**	(16.1)	**(33.5)**	(12.9)
Financing activities				
Increase in short-term borrowings	**3.4**	3.7	**7.3**	11.8
Increase in long-term debt	**7.7**	7.9	**48.4**	23.8
Repayment of long-term debt	**(11.5)**	(8.4)	**(36.7)**	(24.0)
Issue of restricted voting shares	**-**	0.4	**-**	0.4
Cash (used in) provided by financing activities of continuing operations	**(0.4)**	3.6	**19.0**	12.0
Cash used in financing activities of discontinued operations	**-**	-	**-**	(0.2)
Cash (used in) provided by financing activities	**(0.4)**	3.6	**19.0**	11.8
Effect of exchange rate changes on cash and cash equivalents	**(2.1)**	(0.3)	**(1.6)**	(0.7)
Net increase in cash and cash equivalents during the period	**6.1**	3.3	**8.2**	3.5
Cash and cash equivalents, beginning of period	**22.3**	30.8	**20.2**	30.6
Cash and cash equivalents, end of period	**28.4**	34.1	**28.4**	34.1

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, 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. Upon the adoption of this standard on November 1, 2008, the Company's inventory increased by $1.6 million, with a corresponding decrease in the deficit account. The increase was due to additional overhead and depreciation costs, 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 cost 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 cost 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 $1.6 million for the nine months ended July 31, 2009, and was reduced by $0.6 million and $1.6 million for the three and nine months ended July 31, 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 adoption 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.

(d) Financial instruments – disclosures

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). These standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after September 30, 2009. The Company is currently evaluating the effects of adopting these standards.

2. Going concern

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

The Company's ability to continue as a going concern is contingent on its ability to generate sales and earnings, and to obtain financing to meets 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 prior quarters for the severance and closure costs.

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. During the three months ended July 31, 2009, the Company incurred $0.1 million in additional repositioning expenses due to 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, which is substantially complete.

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 nine months ended July 31, 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 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 nine months ended July 31, 2009 and 2008 are as follows:

	Three months ended July 31,		**Nine months ended July 31,**	
	2009	2008	**2009**	2008
	$	$	**$**	$
Revenues	**-**	1.7	**2.6**	16.8
Cost of goods sold	**-**	3.8	**3.4**	21.2
Gross loss	**-**	(2.1)	**(0.8)**	(4.4)
Selling, general and administrative expenses	**0.8**	0.3	**2.5**	2.1
Repositioning expenses	**-**	-	**3.3**	0.2
Operating loss	**(0.8)**	(2.4)	**(6.6)**	(6.7)
Asset impairment charge	**-**	7.7	**-**	7.7
Loss on disposal of discontinued operations	**-**	-	**-**	0.6
Loss before income taxes	**(0.8)**	(10.1)	**(6.6)**	(15.0)
Provision for income taxes	**-**	-	**-**	0.1
Net loss for the period	**(0.8)**	(10.1)	**(6.6)**	(15.1)

As of July 31, 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 July 31, 2009	As at October 31, 2008
	$	$
Long-term assets		
Capital assets	**1.4**	1.9

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 July 31, 2009:

	Outstanding	Exercisable
Class I convertible preferred shares series D	150,000	-
Restricted voting shares	129,167,926	-
Restricted voting share stock options	4,784,580	2,867,645

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

On July 29, 2009, JLL converted their 150,000 series C convertible preferred shares of Patheon into a total of 38,018,538 restricted voting shares of Patheon, in accordance with the convertible preferred share terms. As of July 31, 2009, with the conversion and shares purchased through the JLL Offer, JLL owned an aggregate of 73,515,946 Patheon restricted voting shares, representing approximately 57% of the total restricted voting shares outstanding.

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. The Company had been recording paid in-kind dividends to JLL until the date of conversion.

The Company had paid in-kind dividends of $3.8 million and $11.1 million for the three and nine months ended July 31, 2009.

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 Nine Months Ended July 31, 2009

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

	Three months ended July 31, 2009			
	Commercial	PDS	Corp. & Other	Total
	$	$	$	$
Revenues	**132.9**	**31.5**	**-**	**164.4**
Adjusted EBITDA	**12.1**	**8.1**	**(6.7)**	**13.5**
Depreciation	**9.4**	**1.3**	**-**	**10.7**
Capital expenditures	**7.6**	**2.6**	**2.1**	**12.3**

	Three months ended July 31, 2008			
	Commercial	PDS	Corp. & Other	Total
	$	$	$	$
Revenues	157.3	37.7	-	195.0
Adjusted EBITDA	21.6	13.9	(10.8)	24.7
Depreciation	10.4	1.1	-	11.5
Capital expenditures	13.5	1.8	-	15.3

	Nine months ended July 31, 2009			
	Commercial	PDS	Corp. & Other	Total
	$	$	$	$
Revenues	**385.8**	**93.2**	**-**	**479.0**
Adjusted EBITDA	**46.9**	**22.6**	**(23.0)**	**46.5**
Total assets	**637.8**	**60.4**	**98.5**	**796.7**
Depreciation	**27.1**	**3.6**	**-**	**30.7**
Capital expenditures	**25.6**	**5.6**	**2.2**	**33.4**

	Nine months ended July 31, 2008			
	Commercial	PDS	Corp. & Other	Total
	$	$	$	$
Revenues	442.4	102.7	-	545.1
Adjusted EBITDA	53.4	29.4	(24.9)	57.9
Total assets	673.2	52.2	87.0	812.4
Depreciation	29.8	3.9	-	33.7
Capital expenditures	28.2	5.6	0.3	34.1

The Company evaluates the performance of its segments based on segment Adjusted EBITDA 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 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.

	Three months ended July 31,		Nine months ended July 31,	
	2009	2008	**2009**	2008
	$	$	**$**	$
Adjusted EBITDA:				
Total adjusted EBITDA per above	**13.5**	24.7	**46.5**	57.9
Depreciation and amortization	**(10.7)**	(11.5)	**(30.7)**	(33.7)
Repositioning expenses	**(0.2)**	(6.7)	**(1.6)**	(17.3)
Interest expense, net	**(4.3)**	(8.3)	**(12.4)**	(24.1)
Impairment charge		(0.4)	**-**	(0.4)
Gain on sale of fixed assets	**-**	-	**-**	0.4
Income taxes	**(3.5)**	(1.7)	**(6.7)**	(4.3)
Net loss before discontinued operations	**(5.2)**	(3.9)	**(4.9)**	(21.5)

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

	Three months ended July 31, 2009				
	Canada	US*	Europe	Other	Total
	$	$	$	$	$
Revenues	**4.4**	**78.6**	**73.9**	**7.5**	**164.4**

	Three months ended July 31, 2008				
	Canada	US*	Europe	Other	Total
	$	$	$	$	$
Revenues	8.6	85.4	93.7	7.3	195.0

* Includes Puerto Rico

	Nine months ended July 31, 2009				
	Canada	US*	Europe	Other	Total
	$	$	$	$	$
Revenues	**12.6**	**234.2**	**217.9**	**14.3**	**479.0**
Capital assets	**116.1**	**132.7**	**230.4**	**-**	**479.2**
Goodwill	**3.2**	**-**	**-**	**-**	**3.2**

	Nine months ended July 31, 2008				
	Canada	US*	Europe	Other	Total
	$	$	$	$	$
Revenues	18.5	250.1	261.4	15.1	545.1
Capital assets	117.4	114.0	247.5	-	478.9
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 attached to the issued and outstanding Class I Preferred Shares, Series C of the Company. As of July 31, 2009, the total number of restricted voting shares issuable under the Plan was 9,687,594 of which there are

stock options outstanding to purchase 4,784,580 shares. The exercise price of restricted voting shares subject to an option is determined at the time of grant and the price cannot be less than the weighted-average market price of the restricted voting shares of Patheon on the Toronto Stock Exchange during the two trading days immediately preceding the grant date. Options generally expire seven to ten years after the grant date and are also subject to early expiry in the event of death, resignation, dismissal or retirement of an optionee. Options generally vest over three years, with one-third vesting on each of the first, second and third anniversaries of the grant date for those vesting over three years.

For the purposes of calculating the stock-based compensation expense, the fair value of stock options is estimated at the date of the grant using the Black-Scholes option pricing model and the cost is amortized over the vesting period. The Company did not grant any options during the three and nine months ended July 31, 2009. During the three and nine months ended July 31, 2008, the Company granted 357,140 and 3,560,876 options. The weighted average fair value of the options granted during the three and nine months ended July 31, 2008 was $1.75 and $1.39, respectively.

Stock-based compensation expense recorded in the three and nine months ended July 31, 2009 was less than $0.1 million and $0.9 million, respectively. Stock-based compensation expense recorded in the three and nine months ended July 31, 2008 was $0.6 million and $2.1 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 nine months ended July 31, 2009 and 2008:

Three months ended July 31, 2009	Commercial	PDS	Corporate	Total
	$	$	$	$
Total repositioning liabilities at April 30, 2009				**5.8**
Employee-related expenses	**0.2**	**-**	**-**	**0.2**
Consulting, professional and project management costs	**-**	**-**	**-**	**-**
Contract termination costs	**-**	**-**	**-**	**-**
Total expenses	**0.2**	**-**	**-**	**0.2**
Repositioning expenses paid				**(3.2)**
Foreign exchange				**1.1**
Total repositioning liabilities at July 31, 2009				**3.9**

Three months ended July 31, 2008	Commercial	PDS	Corporate	Total
	$	$	$	$
Total repositioning liabilities at April 30, 2008				5.9
Employee-related expenses	6.7	-	0.1	6.8
Consulting, professional and project management costs	0.1	-	(0.2)	(0.1)
Total expenses	6.8	-	(0.1)	6.7
Repositioning expenses paid				(3.6)
Foreign exchange				-
Total repositioning liabilities at July 31, 2008				9.0

Nine months ended July 31, 2009	Commercial	PDS	Corporate	Total
	$	$	$	$
Total repositioning liabilities at October 31, 2008				**8.0**
Employee-related expenses	**4.6**	**-**	**-**	**4.6**
Consulting, professional and project management costs	**0.3**	**-**	**-**	**0.3**
Contract termination costs	**-**	**-**	**-**	**-**
Total expenses	**4.9**	**-**	**-**	**4.9**
Repositioning expenses paid				**(9.7)**
Foreign exchange				**0.7**
Total repositioning liabilities at July 31, 2009				**3.9**

Nine months ended July 31, 2008	Commercial	PDS	Corporate	Total
	$	$	$	$
Total repositioning liabilities at October 31, 2007				6.0
Employee-related expenses	11.7	0.4	4.7	16.8
Consulting, professional and project management costs	0.3	-	0.2	0.5
Total expenses	12.0	0.4	4.9	17.3
Repositioning expenses paid				(14.4)
Foreign exchange				0.1
Total repositioning liabilities at July 31, 2008				9.0

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

8. Other information

Foreign exchange

During the three months ended July 31, 2009, the foreign exchange gain/loss on operating exposures (including losses from cash flow hedges and the revaluation of all foreign currency denominated working capital) recorded in operating expenses was a loss of $1.1 million and a loss of $0.1 million for the three months ended July 31, 2008. During the nine months ended July 31, 2009, the foreign exchange gain/loss on operating exposures recorded in operating expenses was a loss of $6.6 million and a gain of $3.9 million for the nine months ended July 31, 2008. The Company also recorded a loss on the revaluation of certain U.S. dollar denominated debt, net of hedging activities, in its Canadian legal entity of $1.3 million and $4.1 million during the three and nine months ended July 31, 2008, respectively. 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 July 31, 2009 and 2008 was $1.7 million and $1.2 million, respectively. For the nine months ended July 31, 2009 and 2008, the employee and future benefit expense was $4.6 million and $4.0 million, respectively.

9. Financial instruments and risk management

<u>Categories of financial assets and liabilities</u>

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 July 31, 2009 $	As of October 31, 2008 $
Held for trading [(1)]	**28.4**	20.2
Loans and receivables [(2)]	**128.5**	141.6
Other financial liabilities [(3)]	**416.6**	397.2
Derivatives designated as effective hedges [(4)] - loss	**(4.1)**	(15.7)

(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, 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 $146.6 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 $132.0 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 July 31, 2009, recorded as long-term debt, was $6.3 million, of which $0.6 million relates to foreign exchange.

As of July 31, 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 $70.6 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 July 31, 2009, the Company's Canadian operations had entered into foreign exchange forward contracts to sell an aggregate amount of US$50.7 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 $1.1236 Canadian. The mark-to-market value on these financial instruments as of July 31, 2009 was an unrealized gain of $2.1 million, with no income tax impact, which has been recorded in accumulated other comprehensive income (loss) in shareholders' equity.

As of July 31, 2009, the Company's U.K. operation's had entered into foreign exchange forward contracts to sell an aggregate amount of US$2.6 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 July 31, 2009 was an unrealized gain of $0.5 million, which has been recorded in accumulated other comprehensive income (loss) in shareholders' equity, net of future income tax expense of $0.1 million.

As of July 31, 2009, the Company has designated $88.0 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 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 July 31, 2009 was an unrealized loss of $5.1 million, net of deferred income tax benefit of $0.9 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.

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 20% of its operating expenses are transacted in U.S. dollars. As a result, the Company may experience transaction exposures because of volatility in the exchange rate between the Canadian and U.S. dollar. Based on the Company's current U.S. denominated net inflows, as of July 31, 2009, fluctuations of +/-5% would, everything else being equal, have an effect on income (loss) from continuing operations before income taxes of approximately +/- $1.4 million, prior to hedging activities.

The objective of the Company's foreign exchange risk management activities is to minimize transaction exposures and the resulting volatility of the Company's earnings. The Company manages this risk by entering into foreign exchange forward contracts. The U.S. dollar debt exposure is hedged by the Canadian investment in U.S. and Puerto Rico. As of July 31, 2009, 100% 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 July 31, 2009, $243.5 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 +/- $2.4 million, prior to hedging activities.

The objective of the Company's interest rate management activities is to minimize the volatility of the Company's earnings. In order to manage this risk, the Company has entered into interest rate swaps to convert the interest expense on its senior secured term loan, until June 2010, from a floating interest rate to a fixed interest rate. As of July 31, 2009, taking the interest rate swap into account, $96.9 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 not meet the Company's requirements, a cash deposit is received before any services are provided. As of July 31, 2009, the Company held deposits of $21.0 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 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 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 July 31, 2009 $
Total accounts receivable	130.1
Less: Allowance for doubtful accounts	(1.6)
Total accounts receivable, net	**128.5**
Of which:	
Not overdue	106.3
Past due for more than one day but for not more than three months	20.8
Past due more for than three months but for not more than six months	2.8
Past due for more than six months but not for more than one year	-
Past due for more than one year	0.2
Less: Allowance for doubtful accounts	(1.6)
Total accounts receivable, net	**128.5**

Liquidity risk

Liquidity risk arises through excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and cash equivalents and through the availability of funding from credit facilities. As of July 31, 2009, the Company was holding cash and cash equivalents of $28.4 million and had undrawn lines of credit available to it of $25.6 million.

The contractual maturities of the Company's financial liabilities were presented in the Company's consolidated financial statements for the year ended October 31, 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 July 31, 2009 and October 31, 2008, total managed capital was $517.6 million and $456.9 million, respectively, comprised of: shareholders' equity of $262.7 million and $237.2 million, respectively and cash interest-bearing debt of $254.9 million and $219.7 million, respectively.

11. Related party transactions

Revenues from companies controlled by a former director and significant shareholder of the Company were in the amount of $0.2 million and $0.6 million for the three and nine months ended July 31, 2009, respectively. The revenues were $0.2 million and $0.3 million for the three and nine months ended July 31, 2008, respectively. These transactions were conducted in the normal course of business and are recorded at the exchanged amount. Accounts receivable at July 31, 2009 include a balance of $0.2 million resulting from these transactions.

As of July 31, 2009 and 2008, the Company had an investment of $1.5 million and $2.1 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 nine months ended July 31, 2009, the Company has recorded an investment loss of $0.7 million.

There were no management fees recorded under a management services agreement with BSP Pharmaceuticals for the three and nine months ended July 31, 2009, respectively. The management fees were $0.5 million and $1.3 million for the three and nine months ended July 31, 2008, respectively. Accounts receivable at July 31, 2009 and October 31, 2008 include a balance of $1.6 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 August 21, 2009, Lonza Group AG announced that it had submitted a non-binding proposal to acquire all of the outstanding Restricted Voting Shares of Patheon at a price of US$3.55 per Restricted Voting Share. Lonza has signed a confidentiality and standstill agreement with Patheon. In turn, Patheon has also agreed not to negotiate an acquisition transaction with any party other than Lonza for a period ending September 30, 2009, subject to extension in certain circumstances. During this period, Lonza will be given additional access to information regarding Patheon so that it may complete its confirmatory due diligence. The terms of the exclusivity period permit Patheon to respond to an unsolicited superior acquisition proposal, subject to certain restrictions. The Lonza proposal does not commit either party to complete any transaction. JLL has publicly stated that it will not enter into negotiations regarding the Lonza proposal and that JLL is not interested in selling its holding of 57% of Patheon's Restricted Voting Shares at this time. JLL has also stated publicly that it reserves the right to engage in other transactions involving Patheon and its securities in the future.

On August 27, 2009, JLL filed a third party claim in the action previously commenced by Patheon in the Ontario Superior Court of Justice against JLL and JLL's nominee directors to Patheon's board of directors. The third party claim names the members of the special committee of Patheon's board of directors and Mr. Peter Green, former Chairman of the Board of Patheon and former special committee member. The third party claim alleges, among other things, that the third party defendants have exercised their powers in an oppressive manner and have not acted in the best interests of Patheon.

On September 2, 2009, in the Ontario Superior Court of Justice, an application was brought by Mr. Joaquin Viso and Mrs. Olga Lizardi under Rule 14.05 of the Rules of Civil Procedure and Section 144 of the Canada Business Corporations Act, against Patheon Inc., as respondent. The applicants seek, among other relief, an order directing that the meeting of the shareholders of Patheon, previously requisitioned by the applicants on May 5, 2009 (see press releases dated May 7, 2009, May 26, 2009 and July 28, 2009), be held on or before October 30, 2009. In the alternative, the applicants seek a declaration that the applicants may call, fix the record date for and give notice of the requisitioned meeting of shareholders.

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.