



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

For the Third Quarter Ended July 31, 2009

Patheon Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following management discussion and analysis of financial condition and results of operations ("MD&A") of Patheon Inc. ("Patheon" or the "Company") for the three and nine month periods ended July 31, 2009 and 2008 should be read in conjunction with the Company's unaudited interim consolidated financial statements and related notes and the audited consolidated financial statements and MD&A for the year ended October 31, 2008. All amounts are in U.S. dollars unless otherwise indicated. This MD&A is dated as of September 14, 2009.

The purpose of this 2009 third quarter report is to provide an update to the information contained in the Company's MD&A section of the Company's 2008 Annual Report, which contains a more comprehensive discussion of the Company's strategy, capabilities to deliver results, risks and key performance indicators. Management assumes that the reader of this document has access to the MD&A section of the Company's 2008 Annual Report. This document and other information can be downloaded in portable document format ("PDF") from the Company's web site at www.patheon.com or from the SEDAR web site for Canadian regulatory filings at www.sedar.com. To request a printed copy, the reader may also contact Patheon's transfer agent, Computershare Investor Services Inc., at 1-800-564-6253 or via email at service@computershare.com, or Patheon at www.patheon.com.

Use of Non-GAAP Financial Measures

References in this MD&A to "Adjusted EBITDA" are to income (loss) from continuing operations before repositioning expenses, interest expense, foreign exchange losses reclassified from other comprehensive income, refinancing expenses, gains and losses on sale of fixed assets, gain on extinguishment of debt, income taxes, asset impairment charge, depreciation and amortization. "Adjusted EBITDA margin" is Adjusted EBITDA as a percentage of revenues.

Since Adjusted EBITDA is a non-GAAP measure that does not have a standardized meaning, it may not be comparable to similar measures presented by other issuers. Readers are cautioned that these non-GAAP measures should not be construed as alternatives to net income (loss) determined in accordance with GAAP as indicators of performance. Adjusted EBITDA is used by management as an internal measure of profitability. The Company's major credit facilities also have certain covenant calculations that are based on Adjusted EBITDA. The Company has included these measures because it believes that this information is used by certain investors to assess financial performance of the Company, before non-cash charges and large non-recurring costs. Please see Note 5 of the interim consolidated financial statements for an Adjusted EBITDA bridge reconciling these amounts to the closest Canadian GAAP measure.

Overview of Patheon

Patheon is focused exclusively on providing commercial manufacturing and pharmaceutical development services ("PDS") to pharmaceutical, biotechnology and specialty pharmaceutical companies located primarily in North America, Europe and Asia. Patheon serves its international clientele from its operating facilities in North America (including Puerto Rico) and Europe.

Patheon commercially manufactures prescription and over-the-counter products in solid, semi-solid and liquid dosage forms. Conventional dosage forms include compressed tablets, hard-shell capsules, powders, ointments, creams, gels, syrups, suspensions, solutions and suppositories. Sterile dosage forms include liquids and powders presented in ampoules, vials, bottles or pre-filled syringes. Sterile lyophilized products are also manufactured in both vials and ampoules.

Patheon provides manufacturing services for a broad range of products in many dosage forms and packaging formats in accordance with client specifications. Depending on the particular client, Patheon

may be responsible for most or all aspects of the manufacturing and packaging process, from sourcing excipient raw materials and packaging components to delivering the finished product in consumer-ready form to the client. Typically, Patheon's clients supply the active pharmaceutical ingredients used in the production process.

The pharmaceutical development services provided by Patheon include most of the pharmaceutical development services typically required by companies conducting clinical trials and preparing for full-scale commercial production of a new drug. In providing its pharmaceutical development services, Patheon is able to: (i) develop an appropriate dosage form; (ii) develop analytical methods; (iii) manufacture the proposed new drug product to client specifications during the regulatory drug approval process; (iv) manufacture pilot batches of proposed new drug products for the regulatory drug approval process; and (v) provide scale-up and technology transfer services designed to validate that a drug can be manufactured commercially.

At July 31, 2009, there were a total of 372 ongoing projects being carried out by Patheon's PDS business. This total includes stability and process optimization work on some products that have already been launched. The Company is working on eight new drug candidates at the new drug application stage on behalf of customers. During the third quarter of 2009, two new products developed by Patheon on behalf of its clients, received regulatory approval.

Vision and Strategy

Patheon's vision is to be the best provider of manufacturing and development services to the pharmaceutical industry. In implementing its strategy, the Company will grow with the market, increase its market share and increase efficiency. Growth within the market will be achieved by retaining existing customers with high quality products and service. The Company will also increase market share by diversifying its customer base and by expanding capacity and broadening its capabilities in higher value added service offerings. Efficiency has been and continues to be improved by consolidating existing facilities, cost containment and by implementing a system of continuous improvement with a Lean 6 Sigma program called "Patheon Advantage."

Recent Developments

New Leadership

Under the leadership of Wesley P. Wheeler, who joined Patheon as the Chief Executive Officer ("CEO") in December 2007, the Company has made changes to its executive management team, opened its U.S. headquarters in Research Triangle Park, North Carolina and opened a new European headquarters in Zug, Switzerland. The Company is also undertaking a series of operational initiatives to reduce operating expense and increase manufacturing efficiency, including launching the Patheon Advantage Lean 6 Sigma program and upgrading the Company's IT infrastructure. The Company has established a number of key performance indicators, including on time delivery, batches right first time and inventory turns to measure the benefits of these initiatives. Combined with re-focused sales efforts, these programs are expected to make the Company more competitive, reduce operating costs and improve long-term profitability.

Canadian Site Network

Previously, the Company announced that it would close its York Mills facility and transfer all commercial production and development services undertaken at its York Mills facility primarily to its Whitby facility. In accordance with this plan, the Company completed operations at the York Mills facility as of July 31, 2009. During the three months ended July 31, 2009 the Company incurred \$0.1 million in repositioning expenses due to validation and closing costs associated with the consolidation of the York Mills and Whitby facilities. On April 15, 2008, the Company completed the sale of the York Mills property for net proceeds of \$11.9 million and entered into a lease for up to two years in order to facilitate the decommissioning process, which is substantially complete.

Puerto Rico Operations

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

JLL Offer to Acquire Patheon's Restricted Voting Shares

On December 8, 2008, JLL Patheon Holding, LLC ("JLL") announced its intention to make an 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"). JLL held convertible preferred shares of the Company, which when converted and taken together with its holding of restricted voting shares, represented approximately 30% of the restricted voting shares of the Company.

On March 11, 2009, JLL announced by way of press release that it was commencing the JLL Offer and filed an Offering Circular on SEDAR.

The Board of Directors recommended that shareholders reject the JLL Offer. The Board determined that, based on the unanimous recommendation of a special committee of independent directors (the "Special Committee"), the Offer was inadequate and advised holders ("Shareholders") of Restricted Voting Shares of Patheon to not tender their shares to the Offer. All of the independent members of the Board voted in favor of this recommendation. Each of JLL's three nominees on the Board declared his conflict of interest and refrained from voting, Joaquín B. Viso declared his interest and refrained from voting, and the Company's CEO, Wesley P. Wheeler, abstained.

The Board's recommendation and its reasons are included in a Directors' Circular mailed to shareholders and filed with securities regulators. The Directors' Circular and related documents are available at www.sedar.com and at the Company's website www.patheon.com.

As of July 27, 2009, JLL announced that a total of 33,847,408 Restricted Voting Shares in the capital of Patheon had, since commencement of the offer, been validly deposited in response to JLL's Offer as of 6:00pm on July 27, 2009. The JLL Offer was extended numerous times and expired on August 26, 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. 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 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 July 27, 2009, the Ontario Superior Court of Justice rejected JLL's application in its entirety. Patheon's current Board of Directors, including the additional independent directors elected by shareholders at the April 29 meeting, remains in office.

On May 26, 2009, Patheon 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.

On July 10, 2009, the Ontario Superior Court of Justice issued a decision in respect of the motions by JLL and its nominees challenging Patheon's claims against them. In response to this decision Patheon has issued an amended Statement of Claim, striking certain portions of the Claim and providing certain particulars required by the Court's decision. Patheon will continue to pursue these claims to the full extent permitted by law. JLL and its nominees to Patheon's Board have filed their Statements of Defense. A date has not yet been set by the Court for the trial of this matter.

On July 29, 2009, JLL Partners 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 the Restricted Voting Shares validly deposited in response to the JLL Offer, JLL now owns an aggregate of 73,515,946 Patheon restricted voting shares, representing approximately 57% of Patheon's total Restricted Voting Shares outstanding. As a result of the JLL conversion, the Company no longer pays dividends on the Series C convertible preferred shares. For the three and nine months ended July 31, 2009, the Company had recorded dividends totaling \$3.8 million and \$11.1 million.

The Company has incurred \$2.8 million and \$6.2 million in costs associated with the JLL Offer in the three and nine month periods ending July 31, 2009, respectively. These expenses consist primarily of fees for legal and financial advisors and Special Committee retainer and meeting expenses.

Results of Operations

The results of operations of the Carolina and Niagara-Burlington operations have been segregated and presented separately as discontinued operations. The results of Carolina operations have been reported as discontinued operations in 2009, and the Carolina and Niagara-Burlington operations have been reported as discontinued in 2008.

The Company has modified its presentation of the consolidated statements of loss to separately present costs of goods sold and selling, general and administrative expenses. This resulted in the inclusion of depreciation within costs of goods sold and selling, general and administrative expenses. In addition, all foreign exchange gains and losses on the consolidated statements of loss have been aggregated into one line.

All comparative amounts have been reclassified to conform to the current period presentation.

Results of Consolidated Operations

	Three months ended July 31,			Nine months ended July 31,		
	2009	2008	%	2009	2008	%
<i>(in millions of U.S. dollars)</i>	\$	\$	Change	\$	\$	Change
Revenues	164.4	195.0	-15.7%	479.0	545.1	-12.1%
Cost of goods sold	134.6	145.7	-7.6%	376.1	429.6	-12.5%
Gross profit	29.8	49.3	-39.6%	102.9	115.5	-10.9%
Selling, general and administrative expenses	25.9	35.1	-26.2%	80.5	91.3	-11.8%
Repositioning expenses	0.2	6.7	-97.0%	1.6	17.3	-90.8%
Operating income	3.7	7.5	-50.7%	20.8	6.9	201.4%
Interest expense, net	4.3	8.3	-48.2%	12.4	24.1	-48.5%
Impairment charge	-	0.4	-100.0%	-	0.4	-100.0%
Foreign exchange loss	1.1	1.0	10.0%	6.6	-	100.0%
Gain on sale of fixed assets	-	-	-	-	(0.4)	100.0%
(Loss) income from continuing operations before income taxes	(1.7)	(2.2)	22.7%	1.8	(17.2)	110.5%
Provision for income taxes	3.5	1.7	105.9%	6.7	4.3	55.8%
Loss before discontinued operations	(5.2)	(3.9)	-33.3%	(4.9)	(21.5)	77.2%
Loss from discontinued operations	(0.8)	(10.1)	-92.1%	(6.6)	(15.1)	-56.3%
Net Loss for the period	(6.0)	(14.0)	57.1%	(11.5)	(36.6)	68.6%
Dividends on convertible preferred shares	3.8	-	-	11.1	-	-
Net loss attributable to restricted voting shareholders	(9.8)	(14.0)	-29.8%	(22.6)	(36.6)	-38.2%

Three Months Ended July 31, 2009 Compared with Three Months Ended July 31, 2008

Operating Income Summary

Revenue for the period was \$164.4 million, down 15.7% from the prior period. Excluding currency fluctuations, current year revenues would have decreased by approximately 9.6%. Revenue from commercial manufacturing decreased 15.5% to \$132.9 million from \$157.3 million in the prior period. PDS also saw a reduction in revenue of 16.4% to \$31.5 million from \$37.7 million in the prior period.

Gross profit for the period decreased 39.6% to \$29.8 million. Gross profit margin decreased to 18.1% in the third quarter 2009 from 25.3% in the third quarter of 2008. This decrease was due to the impact of volume, mix, overhead costs, and Puerto Rico operational issues.

Selling, general and administrative costs were \$25.9 million or 26.2% lower than prior year. The decrease is attributable to favorable foreign exchange rates, lower bonus and equity based compensation, timing of marketing programs, and cost saving initiatives implemented this year. These expense reductions were partially offset by the JLL Offer costs of \$2.8 million. Prior year was impacted by the voluntary severance program in Cincinnati of \$3.3 million, costs related to recruiting and relocation for executive management and operational and strategic initiatives.

Repositioning expenses for the three months ended July 31, 2009 were \$0.2 million in connection with the ongoing shut down and transition of business out of the York Mills facility. During the three months ended July 31, 2008, the Company incurred \$6.7 million of repositioning expenses in connection with changes in executive management, and workforce reductions in Swindon and the manufacturing sites in Puerto Rico and Canada.

Operating income for the period decreased to \$3.7 million or 2.3% of revenues from \$7.5 million or 3.8% of revenues in the same period last year as a result of the factors discussed above.

Interest Expense

Interest expense for the three months ended July 31, 2009 was \$4.3 million, compared with \$8.3 million for the same period of 2008. The decrease in interest expense primarily reflects a \$3.9 million reduction from the impact of the completion of the agreement with JLL (the "JLL Agreement") in the fourth quarter of 2008, which eliminated the non-cash accretive interest charge (see discussion on the convertible preferred

shares in the MD&A of the Company's annual report for the year ended October 31, 2008 for further information).

Foreign Exchange Losses (Gains)

Foreign exchange losses for the three months ended July 31, 2009 were \$1.1 million, compared to \$1.0 million for the same period of 2008. The increased strength of the U.S. dollar led to \$1.7 million in losses related to cash flow hedges compared to a gain of \$0.3 million in 2008. These hedge losses were offset by revaluation gains. The prior period also contains \$1.3 million in losses associated with the revaluation of certain U.S. dollar denominated debt in Canada. 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.

Income (Loss) from Continuing Operations Before Income Taxes

The Company reported a loss from continuing operations before income taxes of \$1.7 million for the three months ended July 31, 2009, compared to \$2.2 million for the same period of 2008.

Income Taxes

The income tax expense for the three months ended July 31, 2009 was \$3.5 million, compared with \$1.7 million for the same period of 2008. Income tax expense is higher than the prior year due to a \$3.0 million future income tax recovery in the U.K. related to prior research and development tax credits that were approved for assessment in the third quarter of 2008. This was partially offset by lower income in Italy and France which have higher tax rates.

Income (Loss) from Continuing Operations and Income (Loss) Per Share from Continuing Operations

The Company recorded a loss from continuing operations for the three months ended July 31, 2009 of \$5.2 million, compared with a loss of \$3.9 million in the same period last year. The loss per share from continuing operations, after taking into account the dividends on the convertible preferred shares, for the quarter was 9.7¢ compared with a loss of 4.3¢ a year earlier.

Loss and Loss Per Share from Discontinued Operations

Discontinued operations in the three months ended July 31, 2009 and 2008 include the results of the Carolina, Puerto Rico operations. Financial details of the operating activities are disclosed in Note 3 in the interim consolidated financial statements. The net loss from discontinued operations for the three months ended July 31, 2009 was \$0.8 million, or 0.9¢ per share compared with a net loss of \$10.1 million or 11.1¢ per share in the same period of 2008.

Net Loss, Loss Attributable to Restricted Voting Shareholders and Loss Per Share

The Company recorded a loss for the three months ended July 31, 2009 of \$9.8 million, or 10.6¢ per share compared with a loss of \$14.0 million, or 15.4¢ per share in the same period of 2008. As a result of the completion of the JLL Agreement related to the convertible preferred shares in the fourth quarter of 2008, dividends on the convertible preferred shares of \$3.8 million were recorded in the three months ended July 31, 2009 and no dividends were recorded for the same period of 2008.

Because the Company reported a loss in the three months ended July 31, 2009 and 2008, there is no impact of dilution.

Revenue and Adjusted EBITDA by Business Segment

The Company was historically organized and managed as a single business segment as a provider of commercial manufacturing and 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.

<i>(in millions of U.S. Dollars)</i>	Three months ended July 31,			Nine months ended July 31,		
	2009	2008	%	2009	2008	%
	\$	\$	Change	\$	\$	Change
Revenues						
Commercial Manufacturing						
North America	57.4	70.2	-18.3%	179.8	207.9	-13.5%
Europe	75.5	87.1	-13.3%	206.0	234.5	-12.2%
Total Commercial Manufacturing	132.9	157.3	-15.5%	385.8	442.4	-12.8%
Pharmaceutical Development Services	31.5	37.7	-16.4%	93.2	102.7	-9.3%
Total Revenues	164.4	195.0	-15.7%	479.0	545.1	-12.1%
Adjusted EBITDA						
Commercial Manufacturing						
North America	(1.1)	1.5	-177.2%	10.9	11.2	-2.8%
Europe	13.2	20.1	-34.4%	36.0	42.3	-14.8%
Total Commercial Manufacturing	12.1	21.6	-44.2%	46.9	53.5	-12.5%
Pharmaceutical Development Services	8.1	13.9	-41.9%	22.6	29.4	-23.2%
Corporate Costs	(6.7)	(10.8)	-38.0%	(23.0)	(25.0)	-7.9%
Total adjusted EBITDA	13.5	24.7	-45.2%	46.5	57.9	-19.7%

Commercial Manufacturing

Revenues from commercial manufacturing operations for the three months ended July 31, 2009 decreased by 15.5%, or \$24.4 million, to \$132.9 million from \$157.3 million in the same period of 2008. Had local currencies remained constant to the rates of the prior year, commercial manufacturing revenues would have been approximately 8.6% lower than 2008.

Revenues from the North American operations were down \$12.8 million, or 18.3%. Had the Canadian dollar remained constant to the rates of the prior year, North American revenues would have been approximately 16.9% lower than 2008. This reduction was primarily due to a lower customer demand for some products, as well as operational issues in Puerto Rico. The Company expected new product introductions would more than cover normal business erosion in the quarter, however, they were negatively impacted by product approval delays and slower prescription uptake for certain new products from Toronto and Whitby. This was partially offset by higher revenue in the Cincinnati operations versus prior year.

Revenues from the European operations decreased by \$11.6 million or 13.3%. Had European currencies remained constant to the rates of the prior year, European revenues would have been approximately 2.0% lower than the same period of 2008. The decrease is due to lower volume in Bourgoin and Monza, partially offset by stronger revenues from Swindon and Ferentino.

Adjusted EBITDA from the commercial manufacturing operations for the three months ended July 31, 2009 decreased by 44.2%, or \$9.5 million to \$12.1 million from \$21.6 million in the same period of 2008. This represents an Adjusted EBITDA margin of 9.1% compared with 13.7% in the same period last year. Had local currencies remained constant to prior year rates and after eliminating the impact of all foreign exchange gains and losses, commercial manufacturing Adjusted EBITDA would have been approximately \$1.0 million higher than the reported number in the current period.

North American operations reported a decrease of \$2.6 million, or 177.2% in Adjusted EBITDA. The decrease in Adjusted EBITDA was driven by operational issues in Puerto Rico and lower revenues in Canada, partially offset by stronger EBITDA in Cincinnati due to higher revenues and a non-recurring severance expense in the prior year of \$3.3 million.

European Adjusted EBITDA decreased by \$6.9 million, or 34.4% for the three months ended July 31, 2009. This decrease was due lower operating results in Monza and Bourgoin and strengthening of the U.S. dollar.

Pharmaceutical Development Services

PDS revenues for the three months ended July 31, 2009 decreased by 16.4%, or \$6.2 million, to \$31.5 million from \$37.7 million in the same period of 2008. Had the local currency rates remained constant from the prior year, PDS revenues would have been approximately 14% lower. This reflects a slowdown in demand for development services due to general market conditions.

Adjusted EBITDA from the PDS operations for the three months ended July 31, 2009 decreased by 41.9%, or \$5.8 million to \$8.1 million from \$13.9 million in the same period of 2008. Had local currencies remained constant to the rates of the prior year and after eliminating the impact of all foreign exchange gains and losses, PDS Adjusted EBITDA would have been approximately \$0.6 million higher than the reported amount. Reduced revenue on a relatively fixed cost basis was the primary driver of the EBITDA reduction.

Corporate Costs

Corporate costs for three months ended July 31, 2009 were \$6.7 million, compared with \$10.8 million for the same period of 2008. This decrease is primarily due to lower bonus and equity based compensation, timing of marketing programs, favorable foreign exchange rates, and cost saving initiatives implemented this year. These expense reductions were partially offset by \$2.8 million associated with the JLL Offer and transitional expenses of \$0.3 million related to the opening of the U.S. headquarters in North Carolina. Prior year was impacted by costs related to recruiting and relocation for executive management and operational and strategic initiatives and \$1.2 million in losses associated with the revaluation of certain U.S. dollar denominated debt in Canada. 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.

Nine Months Ended July 31, 2009 Compared with Nine Months Ended July 31, 2008

Operating Income Summary

Revenue for the period was \$479.0 million, down 12.1% from the prior period. Excluding currency fluctuations, current year revenues would have decreased by approximately 4.9%. Revenue from commercial manufacturing decreased 12.8% to \$385.8 million from \$442.4 million in the prior period. PDS also saw a reduction in revenue of 9.3% to \$93.2 million from \$102.7 million in the prior period.

Gross profit for the period decreased 10.9% to \$102.9 million. Gross profit margin for the period increased to 21.5% for the nine months ended July 31, 2009 from 21.2% in the same period last year. This increase resulted from favorable foreign exchange impact on operating costs, improved cost structure and lower inventory reserves.

Selling, general and administrative costs were \$80.5 million or 11.8% lower than prior year. The decrease is attributable to favorable foreign exchange rates, lower bonus and equity based compensation and cost saving initiatives implemented this year. These expense reductions were partially offset by the JLL Offer costs of \$6.2 million, and \$2.0 million of transitional expenses for the opening of the U.S. headquarters in North Carolina, which included severance and relocation expenses. Prior year was impacted by the voluntary severance program in Cincinnati of \$3.3 million, costs related to recruiting and relocation for executive management and operational and strategic initiatives.

Repositioning expenses for the nine months ended July 31, 2009 were \$1.6 million in connection with the ongoing shut down and transition of business out of the York Mills facility. During the first three quarters

of 2008, the Company incurred \$17.3 million of expenses in connection with changes in executive management, and workforce reductions in Swindon, Puerto Rico and Canadian manufacturing sites.

Operating income for the nine months ended July 31, 2009 increased to \$20.8 million or 4.3% of revenues from income of \$6.9 million or 1.3% in the same period last year as a result of the issues discussed above.

Interest Expense

Interest expense for the nine months ended July 31, 2009 was \$12.4 million, compared with \$24.1 million for the same period of 2008. The decrease in interest expense primarily reflects a \$11.6 million reduction from the impact of the completion of the JLL Agreement in the fourth quarter of 2008, which eliminated the non-cash accretive interest charge.

Foreign Exchange Losses (Gains)

Foreign exchange losses for the nine months ended July 31, 2009 were \$6.6 million, compared to less than \$0.1 million for the same period of 2008. The increased strength of the U.S. dollar led to \$8.1 million in losses related to cash flow hedges in 2009 compared to \$1.8 million in gains in cash flow hedges in 2008. The prior period also contains \$4.1 million in losses associated with the revaluation of certain U.S. dollar denominated debt in Canada. 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.

Income (Loss) from Continuing Operations Before Income Taxes

The Company reported income from continuing operations before income taxes of \$1.8 million for the nine months ended July 31, 2009, compared with a loss of \$17.2 million for the same period of 2008.

Income Taxes

The income tax expense for the nine months ended July 31, 2009 was \$6.7 million, compared with an expense of \$4.3 million for the same period of 2008. The increase in tax expense was due to prior year tax recoveries of \$2.0 million in Italy for future income taxes arising from a reduction in tax rates that were substantially enacted in the first quarter of 2008 and a \$3.0 million future income tax recovery in the U.K. related to prior research and development tax credits that were approved for assessment in the third quarter of 2008. In addition, Italy and France experienced reduced income tax expense as a result of lower operating results versus prior year.

Income (Loss) from Continuing Operations and Income (Loss) Per Share from Continuing Operations

The Company recorded a loss from continuing operations for the nine months ended July 31, 2009 of \$4.9 million, compared with a loss of \$21.5 million in the same period last year. The loss per share from continuing operations, after taking into account the dividends on the convertible preferred shares, for the first three quarters was 17.5¢ compared with a loss of 23.7¢ a year earlier.

Loss and Loss Per Share from Discontinued Operations

Discontinued operations in the nine months ended July 31, 2009 include the results of the Carolina, Puerto Rico operations. The comparable results for 2008 include both the Carolina and Niagara-Burlington operations. Financial details of the operating activities are disclosed in Note 3 in the interim consolidated financial statements. The loss from discontinued operations for the nine months ended July 31, 2009 was \$6.6 million, or 7.2¢ per share compared with a loss of \$15.1 million or 16.7¢ per share in the same period of 2008. The loss in 2009 reflects \$3.3 million in restructuring costs related to the shutdown of the Carolina facility as well the operating losses of the facility. Prior year costs include a \$0.6 million loss related to the final divestiture of the Niagara-Burlington operations and an impairment charge of \$7.7 million relating to assets of the Carolina operations.

Net Loss, Loss Attributable to Restricted Voting Shareholders and Loss Per Share

The Company recorded a net loss for the nine months ended July 31, 2009 of \$22.6 million, or 24.7¢ per share compared with a net loss of \$36.6 million, or 40.4¢ per share in the same period of 2008. As a result of the completion of the JLL Agreement related to convertible preferred shares in the fourth quarter of 2008, dividends on the convertible preferred shares of \$11.1 million were recorded in the nine months ended July 31, 2009 and no dividends were recorded in the first three quarters of 2008.

Because the Company reported a loss in the nine months ended July 31, 2009 and 2008 there is no impact of dilution.

Revenue and Adjusted EBITDA by Business Segment

Commercial Manufacturing

Revenues from commercial manufacturing operations for the nine months ended July 31, 2009 decreased by 12.8%, or \$56.6 million, to \$385.8 million from \$442.4 million in the same period of 2008. Had local currencies remained constant to the rates of the prior year, commercial manufacturing revenues would have been approximately 5.2% lower than 2008.

North American operations reported a \$28.1 million, or 13.5% decrease in revenues. Had the Canadian dollar remained constant to the rates of the prior year, North American revenues would have been approximately 11.7% lower than 2008. This reduction was primarily due to lower customer demand for some products. The Company expected new product introductions would more than cover normal business erosion in the quarter, however, they were negatively impacted by product approval delays and slower prescription uptake for certain new products from the Whitby and Cincinnati operations.

Revenues from the European operations decreased by \$28.5 million or 12.2%. Had European currencies remained constant to the rates of the prior year, European revenues would have been marginally higher than the same period of 2008.

Adjusted EBITDA from the commercial manufacturing operations for the nine months ended July 31, 2009 decreased by 12.5%, or \$6.5 million to \$46.9 million from \$53.5 million in the same period of 2008. This represents an Adjusted EBITDA margin of 12.2% compared with 12.1% in the same period last year. Had local currencies remained constant to prior year rates, and after eliminating the impact of all foreign exchange gains and losses, commercial manufacturing Adjusted EBITDA would have been approximately \$1.0 million higher than the numbers reported.

North American operations reported a decrease of \$0.3 million, or 2.8% in Adjusted EBITDA. The decrease in Adjusted EBITDA was driven by improvements in Puerto Rico and Cincinnati, partially offset by weakness in the Canadian operations. Although Puerto Rico reported significantly improved results versus prior year, it did generate a loss for the period due to operational issues. North American Adjusted EBITDA for the nine months ended July 31, 2008 included a charge of \$3.3 million in connection with the early retirement program in Cincinnati.

European Adjusted EBITDA decreased by \$6.3 million, or 14.8% for the nine months ended July 31, 2009. This decrease was due to lower Adjusted EBITDA in Monza and Bourgoin due to lower revenue performance, and unfavorable foreign exchange rates, partially offset by strengths in Ferentino and Swindon as a result of revenue mix and improved operating performance.

Pharmaceutical Development Services

PDS revenues for the nine months ended July 31, 2009 decreased by 9.3%, or \$9.5 million, to \$93.2 million from \$102.7 million in the same period of 2008. Had local currencies remained constant to the rates of the prior year, PDS revenues would have been approximately 3.7% lower than 2008. This decline was primarily due to lower overall demand for development services due to general market conditions.

Adjusted EBITDA from the PDS operations for the nine months ended July 31, 2009 decreased by 23.2%, or \$6.8 million to \$22.6 million from \$29.4 million in the same period of 2008. Had local currencies remained constant to the rates of the prior year and after eliminating the impact of all foreign exchange gains and losses, PDS Adjusted EBITDA would have been approximately \$0.5 million higher than 2008. Reduced revenue on a relatively fixed cost basis was the primary driver of the EBITDA reduction.

Corporate Costs

Corporate costs for nine months ended July 31, 2009 were \$23.0 million, compared with \$25.0 million for the same period of 2008. This decrease is attributable to favorable foreign exchange rates, lower bonus and equity based compensation and cost saving initiatives implemented this year. These expense reductions were partially offset by the JLL Offer costs of \$6.2 million, and \$2.0 million of transitional expenses for the opening of the U.S. headquarters in North Carolina, which included severance and relocation expenses. Prior year was impacted by costs related to recruiting and relocation for executive management and operational and strategic initiatives and \$4.1 million in losses associated with the revaluation of certain U.S. dollar denominated debt in Canada. 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.

Liquidity and Capital Resources

Summary of Cash Flows

The following table summarizes the Company's cash flows for the periods indicated:

	Three months ended July 31,		Nine months ended July 31,	
	2009	2008	2009	2008
(in millions of U.S. dollars)	\$	\$	\$	\$
Loss from continuing operations	(5.2)	(3.9)	(4.9)	(21.5)
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
Working capital	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
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) provided by financing activities	(0.4)	3.6	19.0	11.8
Other	(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 Provided by (Used in) Operating Activities

Cash provided by operating activities from continuing operations was \$22.2 million for the three months ended July 31, 2009 versus \$16.4 million in the comparable period in 2008. Cash provided by operating activities from continuing operations was \$32.5 million for the nine months ended July 31, 2009 versus \$11.8 million in the comparable period in 2008. The improvement in cash flows is primarily due to improvement in working capital for the current quarter, and a combination of reduced losses and non-cash charges and working capital improvements on a year to date basis.

Cash used in operating activities from discontinued operations was \$1.6 million for the three months ended July 31, 2009 compared to \$0.3 million in the comparable period in 2008. Cash used in operating activities from discontinued operations was \$8.2 million for the nine months ended July 31, 2009 compared to \$6.5 million in the comparable period in 2008. The higher cash outflow in 2009 is due to payments of severance and closing costs during the period.

Cash Used in Investing Activities

Cash used in investing activities from continuing operations for the three months ended July 31, 2009 was \$12.2 million, compared to \$16.1 million in the same period a year ago. Cash used in investing activities from continuing operations for the nine months ended July 31, 2009 was \$33.7 million, compared to cash usage of \$23.2 million in the same period a year ago. The reduced cash outflow in the quarter was due to lower capital spending while year to date was impacted by \$11.9 million in net proceeds from the sale of the York Mills facility in 2008.

Cash provided by investing activities from discontinued operations during the three months ended July 31, 2009 was \$0.2 million, and no cash was provided in the same period last year. Cash provided by investing activities from discontinued operations during the nine months ended July 31, 2009 was \$0.2 million compared to \$10.4 million in the same period last year. The cash inflow in 2008 principally reflects net proceeds after transaction costs from the sale of the Niagara-Burlington operations of \$10.5 million.

A summary of cash used in investing activities is as follows:

Cash Used in Investing Activities	Three months ended July 31,		Nine months ended July 31,	
	2009	2008	2009	2008
(in millions of U.S. dollars)	\$	\$	\$	\$
Total 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)

Cash Provided by (Used in) Financing Activities

Cash used in financing activities was \$0.4 million for the three months ended July 31, 2009, compared to cash provided of \$3.6 million for the same period last year. Cash provided by financing activities was \$19.0 million for the nine months ended July 31, 2009, compared to \$11.8 million for the same period last year. The cash inflows on a year to date basis in 2009 and 2008 reflect net drawings on existing credit facilities and insurance financings to fund operations and repositioning expenses year to date.

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.

A summary of cash provided by financing activities is as follows:

Cash (Used in) Provided by Financing Activities

	Three months ended July 31,		Nine months ended July 31,	
	2009	2008	2009	2008
(in millions of U.S. dollars)	\$	\$	\$	\$
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

Financing Arrangements and Ratios

There have been no significant changes to the Company's financing arrangements during the nine months ended July 31, 2009.

Total cash interest-bearing debt, at July 31, 2009 was \$254.9 million, being \$35.2 million higher than at October 31, 2008. At July 31, 2009, the Company's consolidated ratio of interest-bearing debt to shareholders' equity was 97%, compared with 93% at October 31, 2008. The increase reflects a combination of increased debt and shareholders' equity, arising from the losses and a reduction in accumulated other comprehensive income.

Adequacy of Financial Resources

As of July 31, 2009, the Company had cash balances of \$28.4 million and \$25.6 million in undrawn credit facilities available to it and was in compliance with all covenant requirements under its financing arrangements. The Company believes that, subject to usual business risks, its financial resources are sufficient to fund projected capital expenditures, debt service requirements and employee future benefit obligations in the normal course of business. There have been no material changes to the contractual obligations disclosed in the MD&A section of the Company's 2008 Annual Report that are outside the normal course.

Critical Accounting Policies and Estimates

Accounting policies are consistent with those described in Note 2 of Patheon's 2008 Audited Consolidated Financial Statements, other than for developments set out below.

Changes in and Significant New Accounting Policies

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 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 \$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 application of this guidance had no material impact on the Company’s consolidated financial statements.

Recently issued accounting pronouncements

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 the International Financial Reporting Standard (“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.

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.

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.

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.

Risk Management

The following are updates to certain risks and uncertainties described in the Company’s MD&A for the year ended October 31, 2008, available on SEDAR (www.sedar.com) or on Patheon’s website (www.patheon.com).

Foreign Currency

The Company’s business activities are conducted in several currencies – Canadian dollars and U.S. dollars for the Canadian operations, U.S. dollars for the U.S. operations and Euros, U.K. sterling and U.S. dollars for the European operations.

The Company’s Canadian operations negotiate sales contracts for payment in both U.S. and Canadian dollars, and materials and equipment are purchased in both U.S. and Canadian dollars. The majority of its non-material costs (including payroll, facilities’ costs and costs of locally sourced supplies and inventory) are denominated in Canadian dollars. 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 trading and translation gains or losses because of volatility in the exchange rate between the Canadian dollar and the U.S. dollar. Based on the Company’s current U.S. denominated net inflows, for each one-percent change in the Canadian-U.S. exchange rate, the impact on annual pre-tax income, excluding any hedging activities, is approximately \$1.0 million.

In addition certain sales contracts in Swindon, U.K. are denominated in Euros and U.S. dollars. This exposes the UK operations to certain limited trading and translation gains or losses because of volatility in the exchange rate between U.K sterling, the Euro and the U.S. dollar.

The Company mitigates its foreign exchange risk by engaging in foreign currency hedging activities using derivative financial instruments. The Company does not purchase any derivative instruments for speculative purposes.

At July 31, 2009, the Company’s Canadian operations had outstanding foreign exchange forward contracts to sell US\$50.7 million at an average exchange rate of \$1.1236 Canadian. The contracts mature at the latest on October 27, 2010 and cover approximately 60% of the Company’s expected foreign exchange exposure for fiscal year 2009. The mark-to-market value at July 31, 2009 that is recorded in accumulated other comprehensive income (loss) is an unrealized gain of \$2.1 million.

As of July 31, 2009, the Company’s U.K operations 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.

Translation gains and losses related to the carrying value of the Company’s foreign operations and certain foreign currency denominated debt held by the Company and designated as a hedge against the carrying value of certain foreign subsidiaries, are included in accumulated other comprehensive income (loss) in shareholders’ equity. At July 31, 2009, the Company had designated \$88.0 million of U.S. dollar denominated debt as a hedge against its investment in its U.S. and Puerto Rico subsidiaries.

Interest Rate Exposure

The Company has exposure to movements in interest rates. The Company has entered into interest rate swaps to convert the interest expense on its senior secured term loan from a floating interest rate to a fixed interest rate 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. Taking this interest rate swap into account, at July 31, 2009, 38% of the Company's total debt portfolio was subject to movements in floating interest rates. Assuming no change to the structure of the debt portfolio, a 1% change in floating interest rates has an impact on annual pre-tax income of approximately \$1.0 million.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of July 31, 2009, the Company's management evaluated the effectiveness of the Company's disclosure controls and procedures, as defined under rules adopted by the Canadian Securities Administrators ("CSA"). This evaluation was performed under the supervision of, and with the participation of, the CEO and the Chief Financial Officer ("CFO").

Disclosure controls and procedures are controls and other procedures designed to provide reasonable assurance that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis and is accumulated and communicated to the Company's management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding required disclosure.

The Company's management, inclusive of the CEO and the CFO, does not expect that the Company's disclosure controls and procedures will prevent or detect all error and all fraud. The inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within the Company have been detected.

Based on this evaluation, the CEO and the CFO have concluded that, subject to the inherent limitations noted above, the Company's disclosure controls and procedures are effective in providing reasonable assurance that material information relating to the Company and its consolidated subsidiaries is made known to the CEO and the CFO by others within those entities on a timely basis.

Internal Control over Financial Reporting

As of July 31, 2009, the Company's management evaluated the effectiveness of the Company's internal control over financial reporting, as defined under rules adopted by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the CEO and the CFO.

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements.

Based on this evaluation, the CEO and the CFO have concluded that, subject to the inherent limitations noted above, the Company's internal control over financial reporting is effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

There was no change in the Company's internal control over financial reporting that occurred during the period beginning on November 1, 2008, and ended on July 31, 2009, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company filed certifications, signed by the President and CEO and the Executive Vice President and CFO, with the CSA upon filing of the 2009 interim filings. In those filings, the CEO and CFO certify, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of the disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting.

Seasonal Variability of Results

Historically, the Company's manufacturing and PDS revenues are lower in the first and fourth fiscal quarters. The Company attributes this to several factors, including: (i) many clients reassess their need for additional product in the last quarter of the calendar year in order to use existing inventories of products; (ii) the lower production of seasonal cough and cold remedies in the first quarter; (iii) many small pharmaceutical and small biotechnology clients involved in PDS projects limit their project activity toward the end of the calendar year in order to reassess progress on their projects and manage cash resources; and (iv) the Patheon-wide plant shut-down during a portion of the traditional holiday period in December and January. Revenues in the fourth fiscal quarter are also typically impacted by summer shut-downs during August in the European operations.

Selected Quarterly Financial Information

The following is selected financial information for the eight most recent quarters:

Quarterly Consolidated Financial Information

Quarter ended (in millions of U.S. dollars, except per share amounts)	REVENUES	EBITDA BEFORE REPOSITIONING EXPENSES	(LOSS) INCOME FROM CONTINUING OPERATIONS	BASIC AND DILUTED (LOSS) INCOME PER SHARE FROM CONTINUING OPERATIONS	(LOSS)	BASIC AND DILUTED (LOSS) INCOME PER SHARE
					INCOME ATTRIBUTABLE TO RESTRICTED VOTING SHAREHOLDERS	
	\$	\$	\$	\$	\$	\$
2009						
July 31	164.4	13.5	(5.2)	(0.09)	(9.8)	(0.10)
April 30	167.4	20.2	1.8	(0.02)	(3.2)	(0.04)
January 31	147.2	12.8	(1.5)	(0.06)	(9.6)	(0.11)
2008						
October 31	172.1	24.8	41.3	0.44	35.4	0.39
July 31	195.0	24.7	(3.9)	(0.04)	(14.0)	(0.16)
April 30	186.0	23.1	(6.5)	(0.07)	(8.5)	(0.09)
January 31	164.2	10.0	(11.7)	0.13	(14.7)	(0.16)
2007						
October 31	161.8	23.7	(5.9)	(0.06)	(7.5)	(0.08)

Additional Information

Share Capital

As of July 31, 2009, the Company had outstanding 129,167,926 restricted voting shares and 150,000 Class I Series D special voting shares. At July 31, 2009, the Company had 4,784,580 stock options outstanding of which 2,867,645 were exercisable.

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.

Public Securities Filings

Other information about the Company, including the annual information form and other disclosure documents, reports, statements or other information that are filed with Canadian securities regulatory authorities can be accessed through SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements which reflect management’s expectations regarding the Company’s future growth, results of operations, performance (both operational and financial) and business prospects and opportunities. All statements, other than statements of historical fact, are forward-looking statements. Wherever possible, words such as “plans”, “expects” or “does not expect”, “forecasts”, “anticipates” or “does not anticipate”, “believes”, “intends” and similar expressions or statements that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved have been used to identify these forward-looking statements. Although the forward-looking statements contained in this MD&A reflect management’s current assumptions based upon information currently available to management and based upon what management believes to be reasonable assumptions, the Company cannot be certain that actual results will be consistent with these forward-looking statements. Current material assumptions relate to customer volumes, regulatory compliance and foreign exchange rates. Forward-looking statements necessarily involve significant known and unknown risks, assumptions and uncertainties that may cause the Company’s actual results, performance, prospects and opportunities in future periods to differ materially from those expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things: regulatory approval of and market demand for client products; general economic risks; credit and client concentration; the ability to identify and secure new contracts; regulatory matters, including compliance with pharmaceutical regulations; international operations risks; exposure to foreign currency risks; competition; product liability claims; intellectual property; environmental, health and safety risks; substantial financial leverage; interest rates; initiatives to

reduce operating expenses; use of non-GAAP financial measures, significant shareholders; risks associated with information systems; and supply arrangements. For additional information regarding risks and uncertainties that could affect our business, please see the “Description of the Business – Risk Factors” section in our Annual Information Form, and the “Risk Factors” section in our MD&A for the year ended October 31, 2008, both of which are available on SEDAR at www.sedar.com. Although the Company has attempted to identify important risks and factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors and risks that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date of this MD&A and, except as required by law, the Company assumes no obligation to update or revise them to reflect new events or circumstances.