



SECOND QUARTER 2008 REPORT TO SHAREHOLDERS

PATHEON REPORTS SECOND QUARTER RESULTS **Q2 2008 revenues increased 16% over last year (9% in local currencies)** **EBITDA margins improved**

Toronto, Canada (June 6, 2008) – Patheon (TSX:PTI) a global provider of drug development and manufacturing services to the international pharmaceutical industry, today announced its results for the second quarter ended April 30, 2008. (All amounts are in U.S. dollars unless otherwise indicated).

The consolidated results for the second quarter and first half of 2008 and comparative prior periods presented in this news release reflect the results for the Company's continuing operations. The results for Niagara-Burlington operations and the Carolina, Puerto Rico operations have been segregated and presented separately as discontinued operations in the consolidated financial statements.

“This quarter we delivered solid results that demonstrate the early progress we are making in reshaping Patheon,” said Wes Wheeler, President and Chief Executive Officer, Patheon Inc. “Revenues increased in all our businesses and for both North America and Europe as a result of our renewed commitment to customer service. We also made meaningful progress with the underlying profitability of the operations, however there is still room for improvement and it continues to be one of our key areas of focus.”

Second Quarter 2008 Operating Results from Continuing Operations

- **Revenues increase 16% year-over-year to \$186 million (9% in local currencies)**
- **Production Volumes increased 8% over Q1 2008**
- **EBITDA before repositioning expenses were \$23.1 million, compared to \$21.1 million for the same period last year**
- **Net loss was \$8.5 million compared to \$22.0 million for the same period last year**

Commercial manufacturing Q2 2008 revenues increased 15% year-over-year to \$151.2 million driven by strong growth in Europe particularly in Bourgoin-Jallieu, France and steady growth in North America led by Whitby. Production volumes in Q2 2008, based on a standard pack size, were 8% higher compared to Q1 2008.

Patheon hosted a live audio webcast of its analysts' conference call. See page 41 for details.
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Pharmaceutical Development Services Q2 2008 revenues increased 23% year-over-year to \$34.8 million with both North America and Europe experiencing strong growth. In the quarter, over 50 new PDS projects primarily from existing customers were signed making it the most successful quarter to date from a new contracts signed perspective.

Total North American Q2 2008 revenue increased 9% year-over-year to \$98.0 million reflecting improvements in all locations with the exception of Caguas, Puerto Rico and the Toronto Region Operations.

Total European Q2 2008 revenue increased 26% year-over-year to \$88.0 million reflecting higher manufacturing revenues from the existing business base in all locations with particular strength in Bourgoin and Ferentino and a benefit from foreign exchange of \$8.9 million.

Consolidated EBITDA before repositioning expenses was \$23.1 million in the second quarter, compared with \$21.1 million in the same period last year. Q2 2008 EBITDA margin before repositioning expenses were 12.4% compared with 13.2% in the same period last year. Overall, the net impact of foreign exchange was not material for the quarter.

In North America, EBITDA before repositioning expenses for the commercial operations was \$6.2 million in the second quarter of 2008, compared with \$2.5 million in the same period last year. The improvement arose from cost-savings from workforce reductions in the Puerto Rico operations and the benefits of higher revenues in the Whitby operations. In Canada the negative impact of a 15% decline in the value of the U.S. dollar, relative to the Canadian dollar in the same period last year was offset by benefits from the Company's cash flow hedging program and gains on the revaluation of working capital.

In Europe, EBITDA before repositioning expenses from the commercial operations was \$14.8 million in the second quarter of 2008, \$1.8 million higher than the same period a year ago. The benefits of revenue gains in all operations were offset by lower margins in Italy, due to a change in mix to lower margin products. The strengthening European currencies relative to the U.S. dollar compared with the same period last year, plus the benefits of foreign exchange gains on the revaluation of foreign currency denominated assets and liabilities, had the impact of increasing EBITDA before repositioning expenses by approximately \$3.3 million.

EBITDA before repositioning expenses from the global PDS operations was \$9.6 million in the second quarter of 2008, \$2.3 million higher than the same period in 2007. The global PDS operations benefited from strong growth in Canada, Ferentino, Italy and Cincinnati. In Canada, the benefits of increased revenues were offset in part by the strengthening Canadian dollar, which reduced profitability in the Canadian PDS operations by approximately \$0.9 million.

Q2 2008 corporate costs were \$7.5 million compared with \$1.7 million in the same period last year. Additional costs incurred during the quarter were in connection with recruiting for senior and executive management positions, stock based compensation expenses and consulting fees related to new operational and strategic initiatives. Included in corporate costs were net foreign exchange losses of \$0.8 million compared with a gain of \$1.2 million for the same period last year. The impact of the strengthening Canadian dollar also had the impact of increasing U.S. translated values of Canadian corporate costs by approximately \$0.6 million.

Repositioning expenses for the quarter were \$8.3 million attributable to severance costs for changes in senior and executive management, a workforce reduction in Swindon U.K. and on-going restructuring of the Canadian and Puerto Rico site networks. Based on current planning and timelines, further repositioning expenses are expected in the third quarter of 2008 in connection with the previously announced consolidation of the York Mills and Whitby operations.

First Half 2008 Operating Results from Continuing Operations

- **Revenues increased 14% to \$350 million**
- **EBITDA before repositioning expenses were \$33.2 million, compared to \$39.8 million for the same period last year**
- **Net loss was \$23.7 million compared to \$24.0 million for the same period last year**

Total North American revenues in the first half of 2008 increased by \$4.6 million or 3% over the same period a year ago reflecting an increase in commercial manufacturing and PDS revenues in the Canadian and Cincinnati operations, offset in part by lower revenues in Caguas, Puerto Rico. The year-over-year decline in Caguas was most significant in the first quarter of 2008.

Total European revenue for the first half of 2008 increased by \$37.9 million or 30% over the same period a year ago. The year-over-year increase reflects higher manufacturing revenues from all operations, in particular Ferentino, Italy and Bourgoin-Jallieu, France and a benefit from foreign exchange of \$15.8 million.

Consolidated EBITDA before repositioning expenses for the first half of 2008 was \$33.2 million, compared with \$39.8 million in the same period a year ago. EBITDA margin before repositioning expenses was 9.5% in the six-month period ending April 30, 2008, compared with 12.9% in the same period a year ago. Had foreign exchange rates remained the same as those in the same period last year, EBITDA before repositioning expenses would have been approximately \$4.0 million higher than was reported.

Update on Restructuring the Canadian Site Network

The Company plans to close its York Mills, Toronto facility and is currently in the process of transferring all commercial production and development services undertaken

at its York Mills facility to, primarily, its Whitby facility. 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.

Update on Restructuring the Puerto Rico Operations

“We have made good progress on our plans to focus our Puerto Rico operations in Manati and Caguas and have already begun to see the benefits from the operational and service improvements. These include an increase in revenue since last quarter,” said Wes Wheeler.

Outlook

Revenues in the third quarter of 2008 are expected to be slightly higher than the second quarter of 2008. Revenues in the second half of 2008 are also expected to be slightly higher than the first half of 2008.

These expectations are based on internal management forecasts, which in the case of the revenue forecasts, are based on client purchase orders and forecasts of anticipated demand and other factors. These internal management forecasts were prepared for internal planning purposes and may not be appropriate for forecasting future financial results or for other purposes.

On behalf of the Board,



Wesley P. Wheeler
Chief Executive Officer



Peter A.W. Green
Chairman of the Board

June 6, 2008

FORWARD-LOOKING STATEMENTS

Cautionary Note

This report contains forward-looking statements which reflect management’s expectations regarding the Company’s future growth of operations, performance (both operational and financial) and business prospects and opportunities.

PLEASE REFER TO THE CAUTIONARY NOTE AT THE END OF THE MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (“MD&A”) ATTACHED TO AND FORMING PART OF THIS REPORT.

Consolidated Statements of Loss

(unaudited)

	Three months ended April 30,			Six months ended April 30,		
	2008	2007	%	2008	2007	%
(in thousands of U.S. dollars, except loss per share)	\$	\$	Change	\$	\$	Change
Revenues	185,997	160,218	16.1%	350,169	307,588	13.8%
Operating expenses	162,063	140,234	15.6%	314,188	268,930	16.8%
Foreign exchange loss (gain) on debt (note 7)	820	(1,156)	-170.9%	2,824	(1,156)	-344.3%
Repositioning expenses (note 6)	8,295	3,631	128.4%	10,647	6,942	53.4%
Depreciation and amortization	10,718	9,917	8.1%	21,856	19,545	11.8%
Amortization of intangible assets	471	490	-3.9%	942	943	-0.1%
Foreign exchange loss on foreign operations	-	858		-	858	
Interest	7,817	7,204	8.5%	15,775	14,303	10.3%
Refinancing expenses	-	13,471		-	13,471	
Loss from continuing operations before income taxes	(4,187)	(14,431)	71.0%	(16,063)	(16,248)	1.1%
Provision for income taxes	2,284	7,519	-69.6%	2,623	9,278	-71.7%
Loss from continuing operations	(6,471)	(21,950)	70.5%	(18,686)	(25,526)	26.8%
(as a % of revenues)	-3.5%	-13.7%		-5.3%	-8.3%	
Earnings (loss) from discontinued operations (note 2)	(2,004)	(36)	-5466.7%	(4,977)	1,516	-428.3%
Net loss for the period	(8,475)	(21,986)	61.5%	(23,663)	(24,010)	1.4%
Basic and diluted earnings (loss) per share						
From continuing operations	(7.1¢)	(23.5¢)	69.8%	(20.6¢)	(27.4¢)	24.8%
From discontinued operations	(2.2¢)	(0.1¢)	-2100.0%	(5.5¢)	1.6¢	-443.8%
	(9.3¢)	(23.6¢)	60.6%	(26.1¢)	(25.8¢)	-1.2%
Average number of shares						
outstanding during period - basic and diluted (in thousands)	90,633	92,959	-2.5%	90,629	92,959	-2.5%

see accompanying notes

Consolidated Balance Sheets

(unaudited)

	As at April 30,	As at October 31,
	2008	2007
<i>(in thousands of U.S. dollars)</i>	\$	\$
Assets		
Current		
Cash and cash equivalents	30,764	30,557
Accounts receivable	132,213	127,691
Inventories	87,913	85,991
Prepaid expenses and other	6,934	11,887
Current assets held for sale (note 2)	5,279	16,151
Total current assets	<u>263,103</u>	<u>272,277</u>
Capital assets	477,335	479,682
Intangible assets	5,828	6,770
Deferred costs	7,654	8,878
Future tax assets	34,773	31,039
Goodwill	3,431	3,658
Investments	1,406	946
Long-term assets held for sale (note 2)	9,395	26,367
	<u>802,925</u>	<u>829,617</u>
Liabilities and Shareholders' equity		
Current		
Bank indebtedness	17,174	8,224
Accounts payable and accrued liabilities	151,659	159,335
Income taxes payable	3,863	4,684
Current portion of long-term debt	12,017	11,719
Current liabilities related to assets held for sale (note 2)	3,770	7,743
Total current liabilities	<u>188,483</u>	<u>191,705</u>
Long-term debt	208,770	203,615
Deferred revenues	25,192	25,994
Future tax liabilities	46,924	47,397
Convertible preferred shares - debt component	147,344	139,916
Other long-term liabilities	21,366	22,069
Long-term liabilities related to assets held for sale (note 2)	194	1,736
Total liabilities	<u>638,273</u>	<u>632,432</u>
Shareholders' equity		
Convertible preferred shares - equity component	15,925	15,925
Restricted voting shares	391,992	391,967
Contributed surplus	5,538	4,049
Deficit	(309,913)	(286,250)
Accumulated other comprehensive income	61,110	71,494
Total shareholders' equity	<u>164,652</u>	<u>197,185</u>
	<u>802,925</u>	<u>829,617</u>

see accompanying notes

Consolidated Statements of Changes in Shareholders' Equity

(unaudited)

	Six months ended April 30,	
	2008	2007
(in thousands of U.S. dollars)	\$	\$
Convertible preferred shares - equity component		
Balance at beginning of period	15,925	-
Shares issued during the period, net of issue costs	-	15,925
Balance at end of period	15,925	15,925
Restricted voting shares		
Balance at beginning of period	391,967	400,721
Shares issued during the period, net of issue costs	25	24
Balance at end of period	391,992	400,745
Contributed surplus		
Balance at beginning of period	4,049	3,829
Stock options	1,489	94
Balance at end of period	5,538	3,923
Deficit		
Balance at beginning of period	(286,250)	(189,900)
Adjustment related to change in accounting policy	-	(1,749)
Net loss for the period	(23,663)	(24,010)
Balance at end of period	(309,913)	(215,659)
Accumulated other comprehensive income		
Balance at beginning of period	71,494	36,081
Transition adjustment	-	(762)
Other comprehensive income (loss) for the period	(10,384)	11,442
Balance at end of period	61,110	46,761
Total shareholders' equity at end of period	164,652	251,695

see accompanying notes

Consolidated Statements of Comprehensive Loss

(unaudited)

	Three months ended April 30,		Six months ended April 30,	
	2008	2007	2008	2007
(in thousands of U.S. dollars)	\$	\$	\$	\$
Net loss for the period	(8,475)	(21,986)	(23,663)	(24,010)
Other comprehensive income (loss), net of income taxes				
Change in foreign currency gains on investments in subsidiaries, net of hedging activities ¹	3,566	11,602	(3,786)	7,097
Foreign currency losses on investments in subsidiaries, net of hedging activities reclassified to consolidated statement of loss ²	-	2,793	-	2,793
Change in value of derivatives designated as foreign currency and interest rate cash flow hedges ³	1,730	3,340	(3,363)	831
(Gains) losses on foreign currency and interest rate cash flow hedges reclassified to consolidated statement of loss ⁴	(1,201)	448	(3,235)	721
Other comprehensive income (loss) for the period	4,095	18,183	(10,384)	11,442
Comprehensive loss for the period	(4,380)	(3,803)	(34,047)	(12,568)

see accompanying notes

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

¹Net of an income tax expense of nil (2007 - nil).

²Net of an income tax expense of nil (Three and six months ended April 30, 2007, recovery of \$1,935,000).

³Net of an income tax expense of \$205,000 and income tax recovery of \$531,000 for the three and six months ended April 30, 2008, respectively (2007 - nil).

⁴Net of an income tax recovery of \$69,000 for the three and six months ended April 30, 2008 (Three and six months ended April 30, 2007, recovery of \$323,000 and 343,000, respectively).

Consolidated Statements of Cash Flows

(unaudited)

	Three months ended April 30,		Six months ended April 30,	
	2008	2007	2008	2007
(in thousands of U.S. dollars)	\$	\$	\$	\$
Operating activities				
Net loss from continuing operations	(6,471)	(21,950)	(18,686)	(25,526)
Add (deduct) charges to operations not requiring a current cash payment				
Depreciation and amortization	11,189	10,407	22,798	20,488
Foreign exchange loss (gain) on debt	820	(1,156)	2,824	(1,156)
Foreign exchange loss on foreign operations	-	858	-	858
Accreted interest on convertible preferred shares	3,762	-	7,428	-
Other non-cash interest	130	1,311	260	1,380
Employee future benefits, net of contributions	(957)	29	(1,565)	388
Future income taxes	(2,061)	295	(5,554)	166
Amortization of deferred revenues	(532)	(483)	(1,009)	(969)
Other	733	231	1,345	507
	<u>6,613</u>	<u>(10,458)</u>	<u>7,841</u>	<u>(3,864)</u>
Net change in non-cash working capital balances related to continuing operations	(13,849)	567	(14,105)	(7,443)
Increase in deferred revenues	1,478	-	1,478	-
Cash used in operating activities of continuing operations	<u>(5,758)</u>	<u>(9,891)</u>	<u>(4,786)</u>	<u>(11,307)</u>
Cash provided by (used in) operating activities of discontinued operations	<u>(1,765)</u>	<u>4,152</u>	<u>(6,196)</u>	<u>10,049</u>
Cash used in operating activities	<u>(7,523)</u>	<u>(5,739)</u>	<u>(10,982)</u>	<u>(1,258)</u>
Investing activities				
Additions to capital assets	(10,667)	(4,408)	(18,850)	(12,414)
Proceeds on sale of capital assets	12,089	-	12,089	-
Net increase (decrease) in investments	-	-	(385)	116
Increase in deferred pre-operating costs	-	(646)	-	(1,711)
Cash provided by (used in) investing activities of continuing operations	<u>1,422</u>	<u>(5,054)</u>	<u>(7,146)</u>	<u>(14,009)</u>
Cash provided by (used in) investing activities of discontinued operations	<u>2,237</u>	<u>(395)</u>	<u>10,439</u>	<u>(453)</u>
Cash provided by (used in) investing activities	<u>3,659</u>	<u>(5,449)</u>	<u>3,293</u>	<u>(14,462)</u>
Financing activities				
Increase (decrease) in bank indebtedness	6,715	(8,258)	8,073	(1,316)
Increase in long-term debt	4,161	166,470	15,940	175,840
Repayment of long-term debt	(8,585)	(288,453)	(15,576)	(312,587)
Issue of convertible preferred shares	-	150,000	-	150,000
Convertible preferred share issue cost - equity component	-	(1,213)	-	(1,213)
Issue of restricted voting shares	25	24	25	24
Cash provided by financing activities of continuing operations	<u>2,316</u>	<u>18,570</u>	<u>8,462</u>	<u>10,748</u>
Cash used in financing activities of discontinued operations	<u>(70)</u>	<u>(30)</u>	<u>(173)</u>	<u>(366)</u>
Cash provided by financing activities	<u>2,246</u>	<u>18,540</u>	<u>8,289</u>	<u>10,382</u>
Effect of exchange rate changes on cash and cash equivalents	<u>228</u>	<u>2,360</u>	<u>(393)</u>	<u>1,153</u>
Net increase (decrease) in cash and cash equivalents during the period	<u>(1,390)</u>	<u>9,712</u>	<u>207</u>	<u>(4,185)</u>
Cash and cash equivalents, beginning of period	<u>32,154</u>	<u>36,826</u>	<u>30,557</u>	<u>50,723</u>
Cash and cash equivalents, end of period	<u>30,764</u>	<u>46,538</u>	<u>30,764</u>	<u>46,538</u>

see accompanying notes

Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2008
(Dollar information in tabular form is expressed in thousands of U.S. dollars)

1. Accounting policies

Basis of presentation

The accompanying unaudited consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles 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 generally accepted accounting principles 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, 2007.

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles 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, 2007, the Company adopted the Canadian Institute of Chartered Accountants (“CICA”) accounting standards Section 3862 “Financial Instruments – Disclosure”, Section 3863 “Financial Instruments – Presentation”, Section 1535 “Capital Disclosures” and Section 1506 “Accounting Changes”. The adoption of the new standards resulted in additional disclosures with regard to financial instruments and the Company’s objectives, policies and process for managing capital (notes 8 and 9). The new standards have no impact on the classification and valuation of the Company’s consolidated financial instruments.

Recently issued accounting pronouncements

(a) Inventories

The CICA issued a new accounting standard, Section 3031 “Inventories”, which requires inventory to be measured at the lower of cost and net realizable value. The standard 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. The Company will adopt this standard beginning November 1, 2008 and is currently evaluating the effects of adopting the new requirements of this standard.

(b) General Standards of Financial Statement Presentation

The CICA amended 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 Company will adopt the amendments to this standard beginning November 1, 2008 and is currently evaluating the effects of adopting the new requirements of this standard.

(c) Goodwill, Intangible Assets and Financial Statement Concepts

The CICA has issued a new accounting standard, 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. The new and amended standards are effective for the Company beginning November 1, 2008. The Company is currently assessing the impact of these standards on its consolidated financial statements.

Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2008
(Dollar information in tabular form is expressed in thousands of U.S. dollars)

2. Discontinued operations and assets held for sale

On April 17, 2007 the Company announced that as part of its strategy to focus on developing and manufacturing prescription pharmaceutical products and to improve the Company's profitability, it planned to restructure its network of pharmaceutical manufacturing facilities in Canada.

In connection with this initiative, on January 31, 2008, the Company completed the sale of its Niagara-Burlington commercial manufacturing business to Pharmetics Inc. 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 \$10,492,000. The Company recorded a loss of \$601,000 on the disposal.

The Company also plans to close its York Mills, Toronto facility and is currently in the process of transferring all commercial production and development services undertaken at its York Mills facility to its site in Whitby. In accordance with this plan, on April 15, 2008 the Company completed the sale of the York Mills property for net proceeds of \$11,864,000 and has entered into a lease for up to two years in order to facilitate the decommissioning process.

On December 14, 2007, the Company announced that as a result of its comprehensive review of the Puerto Rico operations, with a focus on restructuring the operations, eliminating operating losses and developing a long-term plan for the business, it has decided to retain and continue to streamline its facilities in Caguas and Manati and divest its facility in Carolina. The decision follows the genericization of Omnicel® in May 2007 and the resulting significant drop in revenue at the facility.

The results of the Niagara-Burlington and Carolina operations have been reported as discontinued operations. Because the business in the York Mills, Toronto facility is being transferred within the existing site network, its results of operations are included in continuing operations. All prior period amounts have been reclassified to conform to the current period presentation.

The results of discontinued operations for the three and six months ended April 30, 2008 and 2007 are as follows:

	Three months ended April 30,		Six months ended April 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
Revenues	3,781	20,791	15,160	45,116
Operating expenses	5,616	17,924	18,854	37,689
Repositioning expenses	18	321	166	711
Depreciation and amortization	-	862	45	1,704
Amortization of intangible assets	-	1,692	324	3,420
Loss on disposal of discontinued operations	-	-	601	-
Interest	6	20	12	32
Earnings (loss) before income taxes	(1,859)	(28)	(4,842)	1,560
Provision for income taxes	145	8	135	44
Net earnings (loss) for the period	(2,004)	(36)	(4,977)	1,516

As at April 30, 2008, the assets and liabilities held for sale relate to the Carolina operations. As at October 31, 2007, the assets held for sale and the related liabilities included the Niagara-Burlington and Carolina operations and the land and buildings at York Mills. 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.

Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2008
(Dollar information in tabular form is expressed in thousands of U.S. dollars)

Assets held for sale and the related liabilities of discontinued operations are as follows:

	As at April 30,	As at October 31,
	2008	2007
	\$	\$
Current assets		
Accounts receivable	3,683	7,486
Inventories	1,436	8,045
Prepaid expenses and other	160	620
Total current assets	5,279	16,151
Long-term assets		
Capital assets	7,754	24,403
Intangible assets	1,625	1,948
Future tax assets	16	16
Total long-term assets	9,395	26,367
Current liabilities		
Accounts payable and accrued liabilities	3,750	7,743
Current portion of long-term debt	20	-
Total current liabilities	3,770	7,743
Long-term liabilities		
Long-term debt	23	213
Future tax liabilities	171	-
Other long-term liabilities	-	1,523
Total long-term liabilities	194	1,736

3. Convertible preferred shares and restricted voting shares

The following table summarizes information on convertible preferred shares, and restricted voting shares and related matters at April 30, 2008:

	Outstanding	Exercisable
Class I preferred shares series C and D outstanding	150,000	
Restricted voting shares outstanding	90,634,388	
Restricted voting share stock options	7,007,986	4,358,416

Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2008
(Dollar information in tabular form is expressed in thousands of U.S. dollars)

4. Segmented information

The Company is organized and managed as a single business segment, being the provider of commercial manufacturing and pharmaceutical development services.

Canadian and foreign continuing operations consist of:

	Manufacturing location			
	Three months ended April 30, 2008			
	Canada	USA	Europe	Total
	\$	\$	\$	\$
Revenues by client's billing location:				
Canada	5,219	260	5	5,484
USA	34,858	39,360	10,199	84,417
Europe	15,459	1,075	76,890	93,424
Other geographic areas	1,011	724	937	2,672
Total revenues	56,547	41,419	88,031	185,997
Capital assets	115,961	111,238	250,136	477,335
Goodwill	3,431	-	-	3,431

	Manufacturing location			
	Three months ended April 30, 2007			
	Canada	USA	Europe	Total
	\$	\$	\$	\$
Revenues by client's billing location:				
Canada	2,826	111	487	3,424
USA	35,563	39,281	2,936	77,780
Europe	10,920	523	64,384	75,827
Other geographic areas	891	83	2,213	3,187
Total revenues	50,200	39,998	70,020	160,218
Capital assets	99,910	109,007	234,615	443,532
Goodwill	3,113	-	-	3,113

	Manufacturing location			
	Six months ended April 30, 2008			
	Canada	USA	Europe	Total
	\$	\$	\$	\$
Revenues by client's billing location:				
Canada	9,335	487	106	9,928
USA	66,457	76,762	21,570	164,789
Europe	27,067	1,982	138,645	167,694
Other geographic areas	2,017	1,573	4,168	7,758
Total revenues	104,876	80,804	164,489	350,169

	Manufacturing location			
	Six months ended April 30, 2007			
	Canada	USA	Europe	Total
	\$	\$	\$	\$
Revenues by client's billing location:				
Canada	7,154	349	859	8,362
USA	68,767	83,050	6,759	158,576
Europe	19,063	955	115,380	135,398
Other geographic areas	1,570	139	3,543	5,252
Total revenues	96,554	84,493	126,541	307,588

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.

Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2008
(Dollar information in tabular form is expressed in thousands of U.S. dollars)

Revenue information by service activity is as follows:

	Three months ended April 30,			
	2008		2007	
	\$		\$	
Commercial manufacturing - prescription	132,973	71%	121,578	76%
Commercial manufacturing - over-the-counter	18,235	10%	10,432	6%
Development services	34,789	19%	28,208	18%
	185,997	100%	160,218	100%

	Six months ended April 30,			
	2008		2007	
	\$		\$	
Commercial manufacturing - prescription	251,708	72%	232,546	76%
Commercial manufacturing - over-the-counter	33,418	9%	20,467	6%
Development services	65,043	19%	54,575	18%
	350,169	100%	307,588	100%

5. Stock-based compensation

The Company has an incentive stock option plan. Persons eligible to participate in the plan are directors, officers, and key employees of the Company and its subsidiaries or any other person engaged to provide ongoing management or consulting services to Patheon and its subsidiaries. The plan provides that the maximum number of shares that may be issued under the plan is 7.5% of the sum, at any point in time, of the issued and outstanding restricted voting shares of the Company and the aggregate number of restricted voting shares issuable upon exercise of the conversion rights attaching to the issued and outstanding Class I Preferred Shares, Series C of the Company. As of April 30, 2008, the total number of restricted voting shares issuable under the plan was 9,363,812 of which there are stock options outstanding to purchase 7,007,986 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 one to 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.

Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2008
(Dollar information in tabular form is expressed in thousands of U.S. dollars)

For the purposes of calculating the stock-based compensation expense, the fair value of stock options is estimated at the date of the grant using the Black-Scholes option pricing model and the cost is amortized over the vesting period. During the three and six months ended April 30, 2008, the Company granted 496,000 and 3,203,736 options, respectively. For the three and six months ended April 30, 2007, the Company granted 100,000 options. The weighted average fair value of the options granted for the three and six months ended April 30, 2008 was \$1.36 and \$1.35, respectively. The weighted average fair value of 100,000 options granted for the three and six months ended April 30, 2007 was \$1.92. The following assumptions were used in arriving at the fair value of options issued during the three and six months ended April 30, 2008:

	Three months ended April 30, 2008	Six months ended April 30, 2008
Risk free interest rate	3.0%	3.8%
Expected volatility	44%	43%
Expected weighted average life of options	5 years	5 years
Expected dividends yield	0%	0%

Stock-based compensation expense recorded in the three months ended April 30, 2008 was \$629,000 (2007 - \$49,000). Stock-based compensation expense recorded in the six months ended April 30, 2008 was \$1,489,000 (2007 - \$94,000).

6. Repositioning expenses

The Company has incurred a number of expenses associated with operational improvements, cost reduction initiatives and in connection with changes in executive management. During the first half of fiscal 2007, the Company also incurred professional fees and other costs in connection with its review of strategic and financial alternatives.

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

	Three months ended April 30,		Six months ended April 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
Employee-related expenses	8,075	404	9,968	1,548
Consulting, professional and project management costs	220	883	679	2,140
Strategic alternatives review	-	2,344	-	3,254
	8,295	3,631	10,647	6,942

As at April 30, 2008, \$5,919,000 of the repositioning expenses are unpaid and are recorded in accounts payable and accrued liabilities. Repositioning expenses paid during the three and six months ended April 30, 2008 amounted to \$6,155,000 and \$10,846,000 respectively.

7. Other information

Foreign exchange

During the three months ended April 30, 2008, the foreign exchange gain on operating exposures, (including benefits from cash flow hedges and the revaluation of all foreign currency denominated working capital) recorded in operating expenses was \$1,210,000 (2007 loss - \$2,793,000). During the three months ended April 30, 2008, the Company recorded a foreign exchange loss on the revaluation of certain U.S. dollar denominated debt, net of hedging activities, in its Canadian legal entity of \$820,000 (2007 gain - \$1,156,000). During the six months ended April 30, 2008, the foreign exchange gain on operating exposures recorded in operating expenses was \$3,788,000 (2007 loss - \$1,386,000) and, the foreign exchange loss on the revaluation of certain U.S. dollar denominated debt was \$2,824,000 (2007 gain -\$1,156,000).

Employee future benefits

The employee future benefit expense in connection with defined benefit pension plans and other post retirement benefit plans for the three months ended April 30, 2008 was \$1,343,000 (2007 – \$1,414,000). For the six months ended April 30, 2008, the employee future benefit expense was \$2,812,000 (2007 – \$2,981,000)

8. Financial instruments and risk management

Categories of financial assets and liabilities

Under Canadian generally accepted accounting principles 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 sheet are classified into the following categories:

	As at April 30,	As at October 31,
	2008	2007
	\$	\$
Held for trading ⁽¹⁾	30,764	30,557
Loans and receivables ⁽²⁾	132,213	127,691
Loans and receivables - held for sale ⁽²⁾	3,683	7,486
Other financial liabilities ⁽³⁾	540,827	527,493
Other financial liabilities - held for sale ⁽³⁾	3,793	7,956
Derivatives designated as effective hedges ⁽⁴⁾ - gain/(loss)	(5,738)	1,459
Derivatives designated as held for trading ⁽⁵⁾ - gain/(loss)	368	(2,699)

⁽¹⁾ Includes cash and cash equivalents.

⁽²⁾ Includes accounts receivable.

⁽³⁾ Includes bank indebtedness, accounts payable and accrued liabilities, income taxes payable, long-term debt, and the debt component of the convertible preferred shares.

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

⁽⁵⁾ Includes the Company’s foreign exchange forward contracts that are not considered to be an effective hedge for accounting purposes.

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. The fair values of the Company’s financial instruments are not materially different from their carrying value, with the exception of the Company’s senior secured term loan of \$148,500,000 (October 31, 2007 - \$149,250,000). Based on current interest rates for debt with similar terms and maturities, the fair market value is estimated to be \$103,978,000 (October 31, 2007 - \$142,582,000).

As at April 30, 2008, the carrying amount of the financial assets that the Company has pledged as collateral for its long-term debt facilities was \$90,941,000 (October 31, 2007 – \$103,376,000).

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 at April 30, 2008, the Company’s Canadian operations had entered into foreign exchange forward contracts to sell an aggregate amount of US\$56,649,000. These contracts hedge the Canadian operations’ expected exposure to U.S. dollar denominated cash flows and mature at the latest on April 14, 2009, at an average exchange rate of \$1.0238

Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2008
(Dollar information in tabular form is expressed in thousands of U.S. dollars)

Canadian. The mark-to-market value on these financial instruments as at April 30, 2008 was an unrealized gain of \$954,000, which has been recorded in accumulated other comprehensive income in shareholders' equity. Also as at April 30, 2008, the Company's Canadian operations had entered into a foreign exchange contract to purchase US\$45,000,000. The contract matures on January 28, 2010, at an exchange rate of \$1.0015 Canadian. The contract is classified as held-for-trading and hedges the Canadian operations net U.S. dollar balance sheet exposure. The mark-to-market value of this contract was a gain of \$368,000, which has been recorded in the loss from continuing operations.

As at April 30, 2008, the Company's U.K. operations had entered into foreign exchange forward contracts to sell an aggregate amount of US\$4,200,000 and €6,000,000. These contracts hedge the Swindon, U.K. operation's expected exposure to U.S. dollar and euro denominated cash flows and mature at the latest on November 10, 2008, at an average exchange rate of £0.5036 and £0.7859 respectively. The mark-to-market value on these financial instruments as at April 30, 2008 was an unrealized loss of \$65,000, which has been recorded in accumulated other comprehensive income in shareholders' equity.

As at April 30, 2008, the Company has designated \$149.7 million of U.S. dollar denominated debt as a hedge against its net investment in its subsidiaries in the U.S.A. and Puerto Rico. The exchange gains and losses arising from this debt, from the date so designated, are recorded in accumulated other comprehensive income in shareholders' equity.

The Company has entered into interest rate swap contracts to convert all of the interest costs on its senior secured term loan from a floating to a fixed rate of interest until June 30, 2010. The mark-to-market value of these financial instruments at April 30, 2008 was an unrealized loss of \$6,627,000 which has been recorded in accumulated other comprehensive income 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.A, Puerto Rico, Italy, France and the U.K. The functional currency of the parent company is Canadian dollars and the reporting currency is U.S. dollars. 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 Canadian dollars and the subsequent revaluation 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, including the debt component of the convertible preferred shares. The Canadian operations are required to revalue the Canadian dollar equivalent of the U.S. dollar denominated debt at each period end. Part of this debt is designated as an effective hedge against the Company's investments in subsidiaries in the U.S.A. and Puerto Rico and the related foreign exchange gains and losses are recorded in other comprehensive income. Foreign exchange gains and losses from the remaining debt are recorded in earnings. As of April 30, 2008, fluctuations of +/-5% would, everything else being equal, have an effect on loss from continuing operations before taxes of approximately +/- \$4.3 million, prior to hedging activities.

In addition, approximately 70% of revenues of the Canadian operations and approximately 10% of its operating expenses are transacted in U.S. dollars. As a result, the Company may experience transaction exposures because of

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

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

volatility in the exchange rate between the Canadian and U.S. dollar. Based on the Company's current U.S. denominated net inflows, as of April 30, 2008, fluctuations of +/-5% would, everything else being equal, have an effect on loss from continuing operations before taxes for the three and six months ended April 30, 2008 of approximately +/- \$1.5 million and +/- \$3.0 million, respectively, 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 also partially hedged by U.S. denominated cash and accounts receivable in the Canadian operations. As at April 30, 2008, approximately 78% of the U.S. dollar debt exposure is hedged and the Company has entered into forward foreign exchange contracts to cover approximately 77% of its Canadian-U.S. dollar cash flow exposures for its 2008 fiscal year and 10% for its fiscal year 2009. With the exception of the hedges against the Company's investments in the U.S.A. and Puerto Rico noted above, the Company does not currently hedge translation exposures.

Interest rate risk

The Company's interest rate risk primarily arises from its floating rate debt, in particular its senior secured term loan in North America and its Italian mortgages. At April 30, 2008, \$235.0 million of the Company's total debt portfolio, is subject to movements in floating interest rates. A +/-100 basis points change in interest rates would, everything else being equal, have an effect on the loss from continuing operations before income taxes for the three and six month ended April 30, 2008 of approximately +/- \$0.6 million and +/- \$1.2 million, respectively, 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 March 2010, from a floating interest rate to a fixed interest rate. As at April 30, 2008, taking the interest rate swap into account, \$86.5 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 counter party credit risk is to prevent losses in financial assets. The Company assesses the credit quality of the counter parties, taking into account their financial position, past experience and other factors. Management also monitors the utilization of credit limits regularly. In cases where the credit quality of a client does not meet the Company's requirements, a cash deposit is received before any services are provided. As at April 30, 2008 the Company held deposits of \$16,963,000.

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 income statement 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:

Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2008
(Dollar information in tabular form is expressed in thousands of U.S. dollars)

	As at April 30,
	2008
	\$
Total accounts receivable	133,247
Less: Allowance for doubtful accounts	(1,034)
Total accounts receivable, net	132,213
Of which:	
Not overdue	116,053
Past due for more than one day but for not more than three months	15,567
Past due more for than three months but for not more than six months	407
Past due for more than six months but not for more than one year	712
Past due for more than one year	508
Less: Allowance for doubtful accounts	(1,034)
Total accounts receivable, net	132,213

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 at April 30, 2008 the Company was holding cash and cash equivalents of \$30,764,000 and had undrawn lines of credit available to it of \$69,682,000.

The contractual maturities of the Company's financial liabilities were presented in the Company's consolidated financial statements for the year ended October 31, 2007.

9. Management of Capital

The Company defines capital that it manages as the aggregate of its shareholders' equity and interest bearing debt, including the debt and equity components of the convertible preferred shares. The Company's objectives when managing capital are to ensure that the company will continue as a going concern, so that it can provide products and services to its customers and returns to its shareholders.

As at April 30, 2008, total managed capital was \$549,957,000 (October 31, 2007 - \$560,659,000), comprised of shareholders' equity of \$164,652,000 (October 31, 2007 - \$197,185,000), the debt component of the convertible preferred shares of \$147,344,000 (October 31, 2007 - \$139,916,000), where the associated accreted interest expense is a non-cash charge and cash interest-bearing debt of \$237,961,000 (October 31, 2007 - \$223,558,000). The Company has no obligation to pay cash dividends on the convertible preferred shares until after October 31, 2009, at which time the Company can elect to pay a cash dividend or increase the liquidation preference and conversion rate of the convertible preferred shares.

The Company manages its capital structure in a manner to ensure that the total of interest bearing debt that requires a cash interest payment is not greater than four times the Company's cash earnings from continuing operations for the previous twelve months. For purposes of measuring the Company's success in meeting the above stated criteria, cash earnings from continuing operations is defined as the net earnings (loss) from continuing operations before any deduction for repositioning expenses, depreciation and amortization, amortization of intangible assets, asset impairment charges, foreign exchange loss on foreign operations, interest, refinancing expenses and income taxes.

As at April 30, 2008 and October 31, 2007 the above capital management criteria can be illustrated as follows:

Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2008
(Dollar information in tabular form is expressed in thousands of U.S. dollars)

	April 30, 2008	October 31, 2007
	\$	\$
Interest bearing debt requiring a cash interest payment	237,961	223,558
Cash earnings from continuing operations for the previous twelve months	77,490	84,147
Ratio	3.07	2.66

10. Related party transactions

Revenues from companies controlled by a director and significant shareholder of the Company were in the amount of \$48,000 and \$109,000 for the three and six months ended April 30, 2008, respectively. The revenues were \$624,000 and \$683,000 for the three and six months ended April 30, 2007, respectively. These transactions were conducted in the normal course of business and are recorded at the exchanged amount. Accounts receivable at April 30, 2008 include a balance of \$79,000 (October 31, 2007 - \$392,000) resulting from these transactions.

At April 30, 2008 the Company has an investment of \$1,208,000 (October 31, 2007 - \$739,000) 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 will specialize in the manufacturing of cytotoxic pharmaceutical products.

The Company has recorded management fees under a management services agreement with BSP Pharmaceuticals of \$441,000 and \$787,000 for the three and six months ended April 30, 2008, respectively. The management fees were \$400,000 and \$686,000 for the three and six months ended April 30, 2007, respectively. Accounts receivable at April 30, 2008 include a balance of \$3,193,000 (October 31, 2007 - \$1,593,000) in connection with the management services agreement. The receivable includes amounts owing for services rendered in fiscal 2007. 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.

11. 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.

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-month and six-month periods ended April 30, 2008 and 2007 should be read in conjunction with the Company's consolidated financial statements and related notes contained in this interim report. All amounts are in US dollars unless otherwise indicated. This MD&A is dated as of June 6, 2008.

The purpose of this 2008 second quarter report is to provide an update to the information contained in the Company's Management's Discussion and Analysis section of the Company's 2007 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 2007 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

Except as otherwise indicated, references in this MD&A to "EBITDA before repositioning expenses" are to earnings from continuing operations before repositioning expenses, asset impairment charges, depreciation and amortization, foreign exchange losses reclassified from other comprehensive income, interest, refinancing expenses, and income taxes. "EBITDA margin before repositioning expenses" is EBITDA before repositioning expenses divided by revenues. EBITDA before repositioning expenses and EBITDA margin before repositioning expenses are measures of earnings or earnings margin not recognized by generally accepted accounting principles in Canada ("Canadian GAAP"). Since each of these measures 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, and other non-GAAP measures should not be construed as alternatives to net earnings determined in accordance with Canadian GAAP as indicators of performance. The Company has included these measures because it believes that this information is used by certain investors to assess the financial performance of the Company, in particular the operating earnings before non-cash charges and large and non-recurring costs.

Overview of Patheon

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

Patheon commercially manufactures prescription ("Rx") and over-the-counter ("OTC") 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 ("API") 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 April 30, 2008, there were a total of 333 ongoing projects being carried out by Patheon's pharmaceutical development services ("PDS"). This total includes stability and process optimization work on some products that have already been launched. The Company is working on seven drug candidates at the New Drug Application ("NDA") stage. During the second quarter of 2008, one product developed on behalf of a client was launched into commercial production.-

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 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 Six Sigma program called "Patheon Advantage". Patheon Advantage has already been introduced at the Toronto site during the second quarter of 2008. This program will be launched at the other Canadian and foreign sites over the second half of fiscal 2008.

Within the overall market, pharmaceutical companies are increasingly adopting outsourcing as a strategic approach as they focus on restructuring their own networks and reassess their structures. Pharmaceutical companies are also increasingly forming strategic outsourcing arrangements with service providers. There is also an emergence of specialty pharmaceutical and biotech companies which require both development and manufacturing services, but are not investing in their own facilities. The Company is using its position as a comprehensive provider of commercial manufacturing and development services to take advantage of these market trends and to establish and maintain long-term, strategic relationships with customers on a global basis.

Key Performance Drivers

Several key performance drivers for the Company were identified in Patheon's 2007 Annual Report:

- (i) Generating higher-quality revenues

The Company's strategy is to focus resources and capital by increasing the percentage of revenues generated by higher margin Rx manufacturing and pharmaceutical development services.

- (ii) Improving capacity utilization and operating efficiency

The Company's operating sites' cost structures are largely fixed in the short term, with the result that fluctuations in manufacturing activity can have a significant impact on profit margins. The Company continues to focus on improving capacity utilization at all of its sites by entering into new commercial manufacturing agreements with new and existing clients. The Company also continues to evaluate how best to utilize the amount of available capacity in its network.

The Company continues to improve operating efficiencies through an operational excellence program with initiatives focused on a global procurement program, a workforce reduction program and a manufacturing efficiency review process. As part of this initiative, in 2008 the Company has also launched Patheon Advantage, a Lean Six Sigma program. The program works by empowering site professionals and employees to analyze their own processes, and identify the root causes of waste, variation and errors. The result is expected to be a reduction in cycle times and waste from variable processes.

(iii) Mitigating the impact of foreign exchange fluctuations

Because the Company's client service contracts in North America are primarily denominated in U.S. dollars, the profitability of the Company's Canadian operations can be impacted by significant changes in the foreign exchange trading relationship between the Canadian and U.S. dollar. Approximately 70% of revenues and approximately 10% of operating expenses of the Canadian operations are transacted in U.S. dollars.

To help mitigate these exposures, the Company enters into forward foreign exchange contracts.

An update on the Company's interim performance relating to these key issues is provided in the sections below entitled "Recent Developments" and "Results of Operations".

Recent Developments

Restructuring the Canadian Site Network

On April 17, 2007 the Company announced that as part of its strategy to focus on developing and manufacturing R_x pharmaceutical products and to improve the Company's profitability, it planned to restructure its network of pharmaceutical manufacturing facilities in Canada.

In connection with this initiative, on January 31, 2008 the Company sold its Niagara-Burlington commercial OTC manufacturing business to Pharmetics Inc. Pharmetics acquired the assets, including equipment, facilities and land at the Company's facilities in Fort Erie and Burlington (Gateway Drive). Pharmetics provided employment to all of the commercial manufacturing employees at the two sites and will continue to manufacture and supply all of the products that were manufactured at these sites. Proceeds from the divestiture received on closing, net of transaction costs and including post closing adjustments, were \$10.5 million.

The Company also plans to close its York Mills, Toronto facility and is currently in the process of transferring all commercial production and development services undertaken at its York Mills facility to, primarily, its Whitby facility. 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.

Restructuring the Puerto Rico Operations

On December 14, 2007 the Company announced that as a result of its comprehensive review of the Puerto Rico operations, with a focus on eliminating operating losses and developing a long-term plan for the business, it has decided to retain and continue to streamline its facilities in Caguas and Manati, and divest its facility in Carolina, Puerto Rico. The decision follows the genericization of Omnicel[®] in May 2007 and the resulting significant drop in revenues at the Carolina facility.

The Carolina site is a 230,000-square-foot facility, with approximately 160 employees, that specializes in the manufacture of oral cephalosporin solid dosage forms, including tablets, capsules and powders for suspension.

Subject to acceptable terms and future negotiation, a disposition of the Company's interest in Carolina would address responsibility for the staff at the facility and contracts with third parties, subject to their approval. Patheon has retained an advisor to manage the sale of the Carolina site.

The assets and related liabilities of the Carolina operations have been classified as held for sale and the results of operations have been classified as discontinued operations in the consolidated financial statements.

New Leadership

Under the leadership of Wes Wheeler, the new Chief Executive Officer, the Company has made changes to its executive management team and is undertaking a series of operational initiatives to reduce operating expenses and increase manufacturing efficiency, including launching the Patheon Advantage program. These programs are expected to make the Company more competitive, reduce operating costs and improve long-term profitability. As part of these initiatives and based on current planning and timelines, the Company anticipates that it will incur costs in the range of \$4 to \$5 million in the third quarter of 2008 in connection with an early retirement program in Cincinnati. Costs associated with this program will be charged to operating expenses.

Results of Operations

The results of operations of the Niagara-Burlington and Carolina Operations have been segregated and presented separately as discontinued operations. All comparative amounts have been reclassified to conform to the current period presentation.

Results of Consolidated Operations

	Three months ended April 30,			Six months ended April 30,		
	2008	2007	%	2008	2007	%
(in thousands of U.S. dollars)	\$	\$	Change	\$	\$	Change
Revenues	185,997	160,218	16.1%	350,169	307,588	13.8%
Operating expenses	162,063	140,234	15.6%	314,188	268,930	16.8%
Foreign exchange loss (gain) on debt	820	(1,156)	-170.9%	2,824	(1,156)	-344.3%
EBITDA before repositioning expenses:	23,114	21,140	9.3%	33,157	39,814	-16.7%
<i>(as a percentage of revenues)</i>	<i>12.4%</i>	<i>13.2%</i>		<i>9.5%</i>	<i>12.9%</i>	
Repositioning expenses	8,295	3,631	128.4%	10,647	6,942	53.4%
Depreciation and amortization	10,718	9,917	8.1%	21,856	19,545	11.8%
Amortization of intangible assets	471	490	-3.9%	942	943	-0.1%
Foreign exchange loss on foreign operations	-	858		-	858	
Interest	7,817	7,204	8.5%	15,775	14,303	10.3%
Refinancing expenses	-	13,471		-	13,471	
Loss from continuing operations before income taxes	(4,187)	(14,431)	71.0%	(16,063)	(16,248)	1.1%
Provision for income taxes	2,284	7,519	-69.6%	2,623	9,278	-71.7%
Loss from continuing operations	(6,471)	(21,950)	70.5%	(18,686)	(25,526)	26.8%
<i>(as a percentage of revenues)</i>	<i>-3.5%</i>	<i>-13.7%</i>		<i>-5.3%</i>	<i>-8.3%</i>	
Earnings (loss) from discontinued operations	(2,004)	(36)	-5466.7%	(4,977)	1,516	-428.3%
Net loss for the period	(8,475)	(21,986)	61.5%	(23,663)	(24,010)	1.4%

Revenues by Geographic Region and Service Activity

(in thousands of U.S. dollars)	Three months ended April 30,			Six months ended April 30,		
	2008	2007	%	2008	2007	%
	\$	\$	Change	\$	\$	Change
North America						
Commercial Manufacturing						
Prescription	56,750	60,004	-5%	108,325	121,922	-11%
Over-the-counter	15,492	9,695	60%	29,376	18,456	59%
	<u>72,242</u>	<u>69,699</u>	<u>4%</u>	<u>137,701</u>	<u>140,378</u>	<u>-2%</u>
Development Services						
	<u>25,724</u>	<u>20,499</u>	<u>25%</u>	<u>47,979</u>	<u>40,669</u>	<u>18%</u>
	<u>97,966</u>	<u>90,198</u>	<u>9%</u>	<u>185,680</u>	<u>181,047</u>	<u>3%</u>
Europe						
Commercial Manufacturing						
Prescription	76,223	61,574	24%	143,383	110,624	30%
Over-the-counter	2,743	737	272%	4,042	2,011	101%
	<u>78,966</u>	<u>62,311</u>	<u>27%</u>	<u>147,425</u>	<u>112,635</u>	<u>31%</u>
Development Services						
	<u>9,065</u>	<u>7,709</u>	<u>18%</u>	<u>17,064</u>	<u>13,906</u>	<u>23%</u>
	<u>88,031</u>	<u>70,020</u>	<u>26%</u>	<u>164,489</u>	<u>126,541</u>	<u>30%</u>
TOTAL						
Commercial Manufacturing						
Prescription	132,973	121,578	9%	251,708	232,546	8%
Over-the-counter	18,235	10,432	75%	33,418	20,467	63%
	<u>151,208</u>	<u>132,010</u>	<u>15%</u>	<u>285,126</u>	<u>253,013</u>	<u>13%</u>
Development Services						
	<u>34,789</u>	<u>28,208</u>	<u>23%</u>	<u>65,043</u>	<u>54,575</u>	<u>19%</u>
CONSOLIDATED REVENUES	<u>185,997</u>	<u>160,218</u>	<u>16%</u>	<u>350,169</u>	<u>307,588</u>	<u>14%</u>

Three Months Ended April 30, 2008 Compared with Three Months Ended April 30, 2007

Revenues

Consolidated revenues from continuing operations for the three-month period ended April 30, 2008 increased 16%, or \$25.8 million, to \$186.0 million from \$160.2 million in the same period in 2007. On a consolidated basis, compared with the second quarter of 2007, R_x revenues increased by 9%, OTC revenues increased by 75% and PDS revenues increased by 23%.

For the three-month period ended April 30, 2008, revenues excluding the Puerto Rico operations were \$173.3 million, compared with \$143.8 million in the same period last year, representing an increase of 21%.

Prescription manufacturing and development services represented 90% of revenues, compared with 93% for the comparable period in 2007. The change reflects an increase in OTC revenues at the Whitby and Cincinnati operations.

Production volumes for the three-months ended April 30, 2008 were 7.6% higher than for the three months ended January 31, 2008 based on standard pack size.

Geographically, in North America, revenues increased in the second quarter by \$7.8 million or 9% over the same period a year ago. This reflects improvements in the level of PDS and manufacturing revenues in all locations with the exception of the Caguas, Puerto Rico and Toronto Region Operations, where revenues were lower as a result of reduced volume requirements from a broad range of clients.

In Europe, revenues for the second quarter of 2008 increased by \$18.0 million or 26% over the same period in 2007. The increase reflects higher manufacturing revenues from the existing business base in all locations, in particular Bourgoin-Jallieu, France. PDS volumes were also higher for lyophilized development services in the Ferentino, Italy facility. Reported revenues increased as a result of the strengthening of the European currencies, in particular the euro, which strengthened approximately 16%

against the U.S. dollar relative to the same period last year, increasing reported revenues by approximately \$8.9 million. Had European currencies remained constant to the rates of the prior year, European revenues would have been 13% higher than the same period in 2007.

Operating Expenses

Operating expenses comprise processing costs (principally materials, employee and other site-related costs), marketing, sales, service, corporate support, administrative expenses and foreign exchange gains and losses relating to operating activities. In the second quarter of 2008, operating expenses were \$162.1 million, being \$21.8 million higher than the same period a year ago. Operating expenses were impacted by increased volumes, additional costs of utilities and the continued strengthening of European and Canadian currencies relative to the U.S. dollar. Operating expenses as a percentage of revenues were 87.1%, compared with 87.5% in the same period a year ago.

Foreign Exchange Loss on Debt

The net foreign exchange loss of \$0.8 million recorded in the quarter ended April 30, 2008 related to the revaluation of U.S. dollar denominated debt in the Canadian legal entity. This compares with a gain of \$1.2 million reported in the comparable period in 2007. The reported loss in 2008 is net of foreign exchange gains from a forward foreign exchange contract put in place to reduce the impact of this exposure. This foreign exchange exposure arose as a result of the new financing that the Company put in place in April 2007.

EBITDA Before Repositioning Expenses and EBITDA Margin Before Repositioning Expenses

On a consolidated basis in the second quarter of 2008, EBITDA before repositioning expenses, representing earnings from continuing operations before repositioning expenses, asset impairment charges, depreciation and amortization, foreign exchange losses reclassified from other comprehensive income, interest, refinancing expenses, and income taxes was \$23.1 million, compared with \$21.1 million in the same period a year ago. EBITDA margin before repositioning expenses was 12.4% in the three-month period ending April 30, 2008, compared with 13.2% in the same period a year ago.

For the three-month period ended April 30, 2008 EBITDA before repositioning expenses excluding the Puerto Rico operations was \$27.7 million, compared with \$25.4 million in the same period last year. This represents an EBITDA margin before repositioning expenses of 16.0% in the three month period, compared with 17.7% in the same period last year.

On a year-over-year basis the decline in the value of the U.S. dollar relative to the Canadian dollar has had a significant negative impact on the profitability of the Canadian operations, where approximately 70% of the revenues are denominated in U.S. dollars. The U.S. dollar also declined in value relative to the European currencies; this has had the impact of increasing the value of earnings in the European operations once translated into U.S. dollars. However, after taking into account all foreign exchange related factors, including the benefits of the Company's cash flow hedging program and the change in foreign exchange gains and losses on the revaluation of monetary assets and liabilities, the impact on EBITDA before repositioning expenses in the second quarter of 2008 was not material

In Canada, EBITDA before repositioning expenses from the commercial operations was \$9.5 million in the second quarter of 2008, being \$2.0 million higher than the same period last year. The improvement reflects increased volumes in particular at the Whitby operations. The negative impact on EBITDA before repositioning expenses of a 15% decline in the value of the U.S. dollar, relative to the Canadian dollar in the same period last year, was entirely offset by benefits from the Company's cash flow hedging program and foreign exchange gains on the revaluation of U.S. dollar denominated monetary assets and liabilities.

In the U.S.A. (including Puerto Rico), EBITDA before repositioning expenses for the commercial operations was a loss of \$3.2 million in the second quarter of 2008, compared with a loss of \$4.9 million in

the same period last year. The improvement arose from cost-savings from workforce reductions in the Puerto Rico operations.

In Europe, EBITDA before repositioning expenses from the commercial operations was \$14.8 million in the second quarter of 2008, being \$1.8 million higher than the same period a year ago. The benefits of volume gains in all operations were offset by lower profitability in Italy, due to a change in mix to lower margin products. The strengthening European currencies relative to the U.S. dollar compared with the same period last year, plus the benefits of foreign exchange gains on the revaluation of foreign currency denominated assets and liabilities, had the impact of increasing EBITDA before repositioning expenses by approximately \$3.3million.

EBITDA before repositioning expenses from the global PDS operations was \$9.6 million in the second quarter of 2008, being \$2.3 million higher than the same period in 2007. The global PDS operations benefited from strong growth in Canada, Ferentino, Italy and Cincinnati. In Canada, the benefits of increased volume were offset in part by the strengthening Canadian dollar, which reduced profitability in the Canadian operations by approximately \$0.9 million.

Corporate costs in the second quarter of 2008 were \$7.5 million, compared with \$1.7 million in the same period last year. Additional costs relative to the prior year were incurred in connection with recruiting for senior and executive management positions, stock-based compensation expenses and consulting fees related to new operational and strategic initiatives. Costs also include a net foreign exchange loss of \$0.8 million arising from the revaluation of U.S. dollar denominated debt held in the Canadian legal entity. This compares with a gain of \$1.2 million recorded in the same period last year. The strengthening Canadian dollar had the impact of increasing the U.S. dollar translated values of Canadian costs by approximately \$0.6 million.

Repositioning Expenses

During the second quarter of 2008 the Company incurred \$8.3 million of expenses in connection with changes in senior and executive management, a workforce reduction initiative in Swindon, U.K. and the continuing restructuring of the Puerto Rico and Canadian networks. Based on progress to date, the Company expects that it will incur further repositioning expenses in the third quarter of 2008 in connection with the consolidation of the York Mills and Whitby operations.

Depreciation and Amortization Expense

Depreciation and amortization expense was \$10.7 million in the second quarter of 2008, compared with \$9.9 million in the second quarter of 2007. The increase reflects additional depreciation expenses in Swindon, U.K. in connection with the recently completed lyophilized cephalosporin capacity and from the impact of the strengthening European and Canadian currencies relative to the U.S. dollar.

Amortization of Intangible Assets

Amortization of intangible assets was \$0.5 million in the second quarter of 2008, being comparable with the charge in the second quarter of 2007. The amortization of intangible assets relates to the Caguas operations in Puerto Rico.

Foreign Exchange Loss on Foreign Operations

In the second quarter of 2007, the Company recorded a net foreign exchange loss on foreign operations of \$0.9 million. This reflected the recognition of net foreign exchange translation losses previously recorded in accumulated other comprehensive income, arising from a change in the Company's internal capital structure.

Interest Expense

Interest expense for the second quarter of 2008 was \$7.8 million, compared with \$7.2 million in the second quarter of 2007. The increase in interest costs principally reflects the impact of the financing arrangements that were put in place on April 27, 2007 and includes a non-cash accretive interest charge of \$3.8 million in respect of the debt component of the convertible preferred shares.

Refinancing Expenses

In the second quarter of 2007, refinancing expenses of \$13.5 million were incurred. The expenses were made up of transaction costs for new credit facilities, transaction costs allocated to the debt portion of the convertible preferred shares and repayment charges in connection with the cancellation of certain of the Company's U.K. debt facilities. No refinancing expenses were incurred in the second quarter of 2008.

Loss Before Income Taxes from Continuing Operations

The Company reported a loss before income taxes from continuing operations of \$4.2 million in the second quarter of 2008, compared with a loss of \$14.4 million in the same period a year ago.

Income Taxes

The Company recorded an income tax charge of \$2.3 million in the second quarter of 2008, compared with a charge of \$7.5 million in the same period last year. The income tax expense in 2008 principally reflects high tax rates in Italy where the Company reported significant profits compounded by tax losses in Puerto Rico, where the tax benefit after valuation reserve has not been recognized. In addition, the accreted interest expense on the convertible preferred shares of \$3.8 million is not deductible for tax purposes.

The 2007 expense included a charge of \$2.1 million in connection with an inter-company dividend payment and a charge of \$1.9 million in connection with the transfer of net foreign exchange losses from accumulated other comprehensive income.

Loss and Loss Per Share from Continuing Operations

The Company recorded a loss from continuing operations in the second quarter of 2008 of \$6.5 million, compared with a loss of \$22.0 million in the same period last year. The loss per share was 7.1¢, compared with a loss of 23.5¢ per share a year earlier. The loss in 2008 included after tax repositioning expenses of \$7.4 million or 8.1¢ per share. The loss in 2007 included after tax repositioning expenses of \$3.4 million or 3.7¢ per share and after tax refinancing expenses of \$12.6 million, or 13.5¢ per share.

Loss and Loss Per Share from Discontinued Operations

Discontinued operations in the second quarter of 2008 consist of the results of the Carolina operations. The comparable results for 2007 include both the Carolina and Niagara-Burlington operations. Financial details of the operating activities are disclosed in note 2 in the interim consolidated financial statements. The loss from discontinued operations in the second quarter of 2008 was \$2.0 million, or 2.2¢ compared with a virtual break even position in the same period last year. The decline principally reflects the impact of lower production in Carolina, Puerto Rico following the genericization of Omnicel[®] in May 2007.

Net Loss and Loss Per Share

The Company recorded a net loss in the second quarter of 2008 of \$8.5 million, or 9.3¢ per share, compared with a loss of \$22.0 million or 23.6¢ per share in the same period last year.

Because the Company reported a loss in the three and six month periods ended April 30, 2008 and 2007, there is no impact of dilution.

Six Months Ended April 30, 2008 Compared with Six Months Ended April 30, 2007

Revenues

Consolidated revenues from continuing operations for the six-month period ended April 30, 2008 increased 14%, or \$42.6 million, to \$350.2 million from \$307.6 million in the same period in 2007. R_x revenues increased by 8%, OTC revenues increased by 63% and PDS revenues increased by 19%.

For the six-month period ended April 30, 2008 revenues excluding the Puerto Rico operations were \$325.5 million, compared with \$271.8 million in the same period last year, representing an increase of 20%.

Prescription manufacturing and development services represented 90% of revenues, compared with 93% for the comparable period in 2007. The decline reflects the impact of increased OTC revenues in the Whitby and Cincinnati operations.

Geographically, in North America, revenues in the first half of 2008 increased by \$4.6 million or 3% over the same period a year ago. This reflects an increase in commercial manufacturing and PDS revenues in the Canadian and Cincinnati operations, offset in part by lower manufacturing revenues in Caguas, Puerto Rico.

In Europe, revenues for the first half of 2008 increased by \$37.9 million or 30% over the same period in 2007. The year-over-year increase reflects higher manufacturing revenues from all operations, with the most significant gains being achieved in Ferentino, Italy and Bourgoin-Jallieu, France, as a result of additional volume requirements from the existing client base. Reported revenues increased as a result of the strengthening of the European currencies, in particular the euro, which strengthened approximately 14% against the U.S. dollar relative to the same period last year, increasing reported revenues by approximately \$15.8 million. Had European currencies remained constant to the rates of the prior year, European revenues would have been 18% higher than the same period in 2007.

Operating Expenses

Operating expenses comprise processing costs (principally materials, employee and other site-related costs), marketing, sales, service, corporate support, administrative expenses and foreign exchange gains and losses relating to operating activities. In the first half of 2008, operating expenses were \$314.2 million, being \$45.3 million higher than the same period a year ago. Operating expenses were impacted by increased volumes, additional costs of utilities and the strengthening of European and Canadian currencies relative to the U.S. dollar. Operating expenses as a percentage of revenues were 89.7%, compared with 87.4% in the same period a year ago.

Foreign Exchange Loss on Debt

The net foreign exchange loss of \$2.8 million recorded in the six-months ended April 30, 2008 related to the revaluation of U.S. dollar denominated debt in the Canadian legal entity. This compares with a gain of \$1.2 million reported in the comparable period in 2007. The reported loss in 2008 is net of foreign exchange gains from a forward foreign exchange contract put in place to reduce the impact of this exposure. This foreign exchange exposure arose as a result of the new financing that the Company put in place in April 2007.

EBITDA Before Repositioning Expenses and EBITDA Margin Before Repositioning Expenses

On a consolidated basis in the first half of 2008, EBITDA before repositioning expenses, representing earnings from continuing operations before repositioning expenses, asset impairment charges, depreciation and amortization, foreign exchange losses reclassified from other comprehensive income, interest, refinancing expenses, and income taxes was \$33.2 million, compared with \$39.8 million in the same period a year ago. EBITDA margin before repositioning expenses was 9.5% in the six-month period ending April 30, 2008, compared with 12.9% in the same period a year ago.

For the six-month period ended April 30, 2008 EBITDA before repositioning expenses excluding the Puerto Rico operations was \$43.1 million, compared with \$46.0 million in the same period last year. This represents an EBITDA margin before repositioning expenses of 13.2%, compared with 16.9% in the same period last year.

On a year-over-year basis the decline in the value of the U.S. dollar relative to the Canadian dollar has had a significant negative impact on the profitability of the Canadian operations, where approximately 70% of the revenues are denominated in U.S. dollars. The U.S. dollar also declined in value relative to the European currencies; this has had the impact of increasing the value of earnings in the European operations once translated into U.S. dollars. Had foreign exchange rates remained the same as those in the same period last year, EBITDA before repositioning expenses for the six-months ended April 30, 2008 would have been approximately \$4 million higher than was reported. This takes into account all foreign exchange related factors, including the benefits of the Company's cash flow hedging program and the change in foreign exchange gains and losses on the revaluation of monetary assets and liabilities.

In Canada, EBITDA before repositioning expenses from the commercial operations was \$16.3 million in the first half of 2008, being \$0.7 million higher than the same period last year. Steady growth in commercial revenues was offset by a 16% decline in the value of the U.S. dollar, relative to the Canadian dollar in the same period last year, which reduced EBITDA before repositioning expenses by approximately \$1.7 million, net of the benefits from the Company's cash flow hedging program and foreign exchange gains on the revaluation of U.S. dollar denominated monetary assets and liabilities.

In the U.S.A. (including Puerto Rico), EBITDA before repositioning expenses for the commercial operations was a loss of \$6.7 million in the first half of 2008, compared with a loss of \$4.3 million in the same period last year. The deterioration in earnings principally reflects a reduction in R_x manufacturing volumes in Caguas, Puerto Rico, especially in the first quarter of 2008, partially offset by cost savings from headcount reductions.

In Europe, EBITDA before repositioning expenses from the commercial operations was \$22.1 million in the first half of 2008, being \$3.7 million higher than the same period a year ago. The improvement reflects increased manufacturing revenues in all operations. In Italy this has been offset by a change in mix to lower margin products. In the first quarter the Swindon, U.K. operations were also affected by additional operating costs in anticipation of the launch of Ceftobiprole[®]. The strengthening European currencies relative to the U.S. dollar compared with the same period last year, plus the benefits of foreign exchange gains on the revaluation of foreign currency denominated assets and liabilities, had the impact of increasing EBITDA before repositioning expenses by approximately \$4.7 million.

EBITDA before repositioning expenses from the global PDS operations was \$15.5 million in the first half of 2008, being \$0.8 million higher than the same period in 2007. This reflected volume gains offset by the negative impact of the strengthening Canadian dollar, which reduced profitability in the Canadian operations by approximately \$1.8million. The Swindon, U.K. operations were also impacted by one time charges arising from raw material losses which occurred during the first quarter of 2008.

Corporate costs in the first half of 2008 were \$14.1 million, compared with \$4.4 million in the same period last year. Additional costs relative to prior year were incurred in connection with recruiting for senior and executive management positions, stock-based compensation expenses and consulting fees related to new operational and strategic initiatives. The costs also include net foreign exchange losses of \$2.8 million, compared to a gain of \$1.2 million in the prior period, arising from the revaluation of U.S. dollar denominated debt held in the Canadian legal entity. The strengthening Canadian dollar had the impact of increasing the U.S. dollar translated values of Canadian costs by approximately \$1.4 million.

Repositioning Expenses

During the first half of 2008, the Company incurred \$10.6 million of expenses in connection with changes in senior and executive management, a workforce reduction initiative in Swindon, U.K. and the continuing restructuring of the Puerto Rico and Canadian networks. In the first half of 2007 the Company incurred \$6.9 million in repositioning expenses, which included consulting fees associated with a manufacturing efficiency review, work force reductions in particular in Puerto Rico, and costs incurred in connection with the Company's strategic alternatives review.

Based on progress to date, the Company expects that it will incur further repositioning expenses in the third quarter of 2008 in connection with the consolidation of the York Mills and Whitby operations.

Depreciation and Amortization Expense

Depreciation and amortization expense was \$21.9 million in the first half of 2008, compared with \$19.5 million in the first half of 2007. The increase reflects additional depreciation expenses in Swindon, U.K. in connection with the recently completed lyophilized cephalosporin capacity and from the impact of the strengthening European and Canadian currencies relative to the U.S. dollar.

Amortization of Intangible Assets

Amortization of intangible assets was \$0.9 million in the first half of 2008, being comparable with the charge in 2007. The amortization of intangible assets relates to the Caguas operations in Puerto Rico.

Interest Expense

Interest expense for the first half of 2008 was \$15.8 million, compared with \$14.3 million in the first half of 2007. The increase in interest costs principally reflects the impact of the financing arrangements that were put in place on April 27, 2007 and includes a non-cash accretive interest charge of \$7.4 million in respect of the debt component of the convertible preferred shares.

Loss Before Income Taxes from Continuing Operations

The Company reported a loss before income taxes from continuing operations of \$16.1 million in the first half of 2008, compared with a loss of \$16.2 million in the same period a year ago.

Income Taxes

The Company recorded an income tax charge of \$2.6 million in the first half of 2008, compared with a charge of \$9.3 million in the same period last year. The income tax expense in 2008 principally reflects high tax rates in Italy where the Company reported significant profits, compounded by tax losses in Puerto Rico, where the tax benefit after valuation reserve has not been recognized. In addition, the accreted interest expense on the convertible preferred shares of \$7.4 million is not deductible for tax purposes. During the first quarter of 2008, the Company booked a future income tax recovery of \$2.0 million relating to a reduction in tax rates in Italy that the Company will benefit from commencing in fiscal 2009.

The 2007 expense included a charge of \$2.1 million in connection with an inter-company dividend payment and a charge of \$1.9 million in connection with the transfer of net foreign exchange losses from accumulated other comprehensive income.

Loss and Loss Per Share from Continuing Operations

The Company recorded a loss from continuing operations in the first half of 2008 of \$18.7 million, compared with a loss of \$25.5 million in the same period last year. The loss per share was 20.6¢, compared with a loss of 27.4¢ per share a year earlier. The loss in 2008 included after tax repositioning expenses of \$9.7 million or 10.7¢ per share. The loss in 2007 included after tax repositioning expenses of \$5.9 million or 6.4¢ per share and after tax refinancing expenses of \$12.6 million, or 13.5¢ per share.

Earnings (Loss) and Earnings (Loss) Per Share from Discontinued Operations

Discontinued operations in the first half of 2008 and the comparable results for 2007 include the Carolina and operations and the Niagara-Burlington operations for the first quarter. Financial details of the operating activities are disclosed in note 2 in the interim consolidated financial statements. The loss from discontinued operations in the first half of 2008 was \$5.0 million, or a loss per share of 5.5¢, compared with earnings of \$1.5 million and earnings per share of 1.6¢ in the same period last year. The decline principally reflects the impact of lower production in Carolina, Puerto Rico following the genericization of Omnicef® in May 2007. The loss in 2008 also includes a charge of \$0.6 million in connection with the final divestiture of the Niagara-Burlington operations.

Net Loss and Loss Per Share

The Company recorded a net loss in the first half of 2008 of \$23.7 million, or 26.1¢ per share, compared with a loss of \$24.0 million or 25.8¢ per share in the same period last year.

Because the Company reported a loss in the six months ended April 30, 2008 and 2007, there is no impact of dilution.

Liquidity and Capital Resources

Summary of Cash Flows

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

Summary of Cash flows

	Three months ended April 30,		Six months ended April 30,	
	2008	2007	2008	2007
(in thousands of U.S. dollars)	\$	\$	\$	\$
Net loss from continuing operations	(6,471)	(21,950)	(18,686)	(25,526)
Depreciation and amortization	11,189	10,407	22,798	20,488
Foreign exchange loss (gain) on debt	820	(1,156)	2,824	(1,156)
Foreign exchange loss on foreign operations	-	858	-	858
Accreted interest on convertible preferred shares	3,762	-	7,428	-
Other non-cash interest	130	1,311	260	1,380
Employee future benefits, net of contributions	(957)	29	(1,565)	388
Future income taxes	(2,061)	295	(5,554)	166
Amortization of deferred revenues	(532)	(483)	(1,009)	(969)
Other	733	231	1,345	507
Working capital	(13,849)	567	(14,105)	(7,443)
Increase in deferred revenues	1,478	-	1,478	-
Cash used in operating activities of continuing operations	(5,758)	(9,891)	(4,786)	(11,307)
Cash provided by (used in) investing activities of continuing operations	1,422	(5,054)	(7,146)	(14,009)
Cash provided by financing activities of continuing operations	2,316	18,570	8,462	10,748
Net increase in cash and cash equivalents from discontinued operations	402	3,727	4,070	9,230
Other	228	2,360	(393)	1,153
Net increase (decrease) in cash and cash equivalents during the period	(1,390)	9,712	207	(4,185)

Cash Used in Operating Activities

Cash used in operating activities from continuing operations was \$5.8 million in the second quarter of 2008 compared with \$9.9 million in the comparable period in 2007. On a year-to-date basis cash used in operating activities from continuing operations was \$4.8 million, compared with \$11.3 million in the same period last year. The cash flows reflect a reduction in losses before non-cash charges, offset in part by an increase in investments in working capital in the second quarter. Working capital increases were caused by the payment of bonuses and repositioning expenses that had been accrued for in prior periods, combined with the impact of an overall increase in revenues. Cash flows in 2008 also benefited from \$1.5 million received from clients to assist in the funding of capital expenditure projects that are tied to specific

manufacturing and supply agreements. These amounts have been recorded in deferred revenues and will be recognized as income over the life of the commercial manufacturing contract.

Cash used in operating activities from discontinued operations was \$1.8 million and \$6.2 million in the second quarter and first half of 2008, respectively. During the comparable periods in 2007, the Company reported cash inflows of \$4.2 million and \$10.0 million, respectively. The deterioration reflects reduced earnings in the Carolina operations. In addition, the amount reported for the second quarter of 2007 included \$3.1 million of cash inflows from the operations of the Niagara-Burlington OTC manufacturing business, which was sold on January 31, 2008.

Cash Provided by (Used in) Investing Activities

Cash provided by investing activities from continuing operations in the second quarter of 2008 was \$1.4 million, compared with cash usage of \$5.1 million in the same period a year ago. On a year-to-date basis cash used in investing activities from continuing operations was \$7.2 million compared with \$14.0 million in the same period last year. Cash inflows in the second quarter of 2008 include net proceeds received on sale of the Company's York Mills property of \$11.9 million. Capital expenditures were \$10.7 million and \$18.9 million for the three months and six months ended April 30, 2008, respectively. The increase in expenditures relative to the prior year principally relates to facility expansions at the Toronto Region and Whitby operations.

Cash provided by investing activities from discontinued operations in the second quarter of 2008 was \$2.2 million, compared with a cash usage of \$0.4 million in the same period last year. Cash provided by investing activities from discontinued operations in the first half of 2008 was \$10.4 million, compared with a cash usage of \$0.5 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. This includes \$2.2 million in post closing adjustments received in the second quarter.

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

Cash Provided by (Used in) Investing Activities	Three months ended April 30,		Six months ended April 30,	
	2008	2007	2008	2007
(in thousands of U.S. dollars)	\$	\$	\$	\$
Additions to capital assets				
Sustaining	(2,774)	(2,142)	(7,131)	(5,205)
Project-related	(7,893)	(2,266)	(11,719)	(7,209)
Total additions to capital assets	(10,667)	(4,408)	(18,850)	(12,414)
Proceeds on sale of capital assets	12,089	-	12,089	-
Net increase in investments	-	-	(385)	116
Increase in deferred pre-operating costs	-	(646)	-	(1,711)
Cash provided by (used in) investing activities of continuing operations	1,422	(5,054)	(7,146)	(14,009)
Cash provided (used in) investing activities of discontinued operations	2,237	(395)	10,439	(453)
Cash provided by (used in) investing activities	3,659	(5,449)	3,293	(14,462)

Cash Provided by Financing Activities

Cash provided by financing activities was \$2.2 million and \$8.3 million, for the three and six months ended April 30, 2008, respectively. The amounts for the comparable periods a year ago were \$18.5 million and \$10.4 million, respectively. The cash flows in 2008 reflect drawings and repayments on existing credit facilities.

In the second quarter of 2007, the Company completed, through private placement, the issuance of \$150 million of convertible preferred shares of the Company to JLL Partners and entered into new credit facilities in the aggregate amount of \$225 million, comprising a seven-year \$150 million term loan and a five-year \$75 million revolving facility. The net proceeds from the JLL Partners investment and term loan were used to repay the Company's obligations under its North American and U.K. credit facilities.

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

Cash Provided by Financing Activities

(in thousands of U.S. dollars)	Three months ended April 30,		Six months ended April 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
Increase (decrease) in bank indebtedness	6,715	(8,258)	8,073	(1,316)
Increase in long-term debt	4,161	166,470	15,940	175,840
Repayment of long-term debt	(8,585)	(288,453)	(15,576)	(312,587)
Issue of convertible preferred shares	-	150,000	-	150,000
Convertible preferred share issue cost-equity component	-	(1,213)	-	(1,213)
Issue of restricted voting shares	25	24	25	24
Cash provided by financing activities of continuing operations	2,316	18,570	8,462	10,748
Cash used in financing activities of discontinued operations	(70)	(30)	(173)	(366)
Cash provided by financing activities	2,246	18,540	8,289	10,382

Financing Arrangements and Ratios

There have been no changes to the Company's financing arrangements during the first half of fiscal of 2008.

Total cash interest bearing debt, at April 30, 2008 was \$238.0 million, being \$14.4 million higher than at October 31, 2007. Total interest bearing debt at April 30, 2008, including the debt component of convertible preferred shares of \$147.3 million, was \$385.3 million. At April 30, 2008, the Company's consolidated ratio of interest-bearing debt to shareholders' equity was 234%, compared with 184% at October 31, 2007. The increase reflects a combination of increased debt and a reduction in shareholders' equity, arising from the losses and a reduction in accumulated other comprehensive income.

Adequacy of Financial Resources

As at April 30, 2008, the Company had cash balances of \$30.8 million and \$69.7 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 2007 Annual Report that are outside the normal course.

Critical Accounting Policies and Estimates

Changes in and Significant New Accounting Policies

Effective November 1, 2007 the Company adopted the Canadian Institute of Chartered Accountants Handbook Section 1535 "Capital Disclosures", Section 3862 "Financial Instruments – Disclosures", Section 3863 "Financial Instruments – Presentation" and Section 1506 "Accounting Changes". The

adoption of the new standards resulted in additional disclosures in the notes to the interim consolidated financial statements only.

General

Patheon's significant accounting policies are described in note 2 to the 2007 audited consolidated financial statements. The most critical of these policies are those related to revenue recognition, deferred revenues, impairment of long-lived depreciable assets, convertible preferred shares, employee future benefits, and income taxes, (notes 2, 4, 13, 15, 16 and 18 of the 2007 audited consolidated financial statements).

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles 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.

The Company's accounting policies have been reviewed and discussed with the Company's Audit Committee.

Revenue Recognition

The Company recognizes revenue for its commercial manufacturing and pharmaceutical development services when services are completed in accordance with specific agreements with its clients and when all costs connected with providing these services have been incurred, the price is fixed or determinable and collectability is reasonably assured. Client deposits on pharmaceutical development services in progress are included in accounts payable and accrued liabilities.

The Company does not receive any fees on signing of contracts. In the case of pharmaceutical development services, revenue is recognized on the achievement of specific milestones in accordance with the respective development service contracts. In the case of commercial manufacturing services, revenue is recognized when services are complete and the product has met rigorous quality assurance testing.

Deferred Revenues

The costs of certain capital assets are reimbursed to the Company by the pharmaceutical companies that are to benefit from the improvements in connection with the manufacturing and packaging agreements in force. These reimbursements are recorded as deferred revenues and are recognized as income over the remaining minimum term of the agreements. \$0.5 million and \$1.0 million were recognized as earnings in the three months and six months ended April 30, 2008, respectively. The Company received \$1.5 million in capital reimbursements in the three months and six months ended April 30, 2008.

Impairment of Long-Lived Depreciable Assets

On an ongoing basis, the Company reviews whether there are any indicators of impairment of its capital assets and identifiable intangible assets ("long-lived depreciable assets"). If such indicators are present, the Company assesses the recoverability of the assets or group of assets by determining whether the carrying value of such assets can be recovered through undiscounted future cash flows. If the sum of undiscounted future cash flows is less than the carrying amount, the excess of the carrying amount over the estimated fair value, based on discounted future cash flows, is recorded as a charge to net earnings. No impairment charges were recorded in the first half of 2008.

Convertible Preferred Shares

On April 27, 2007 the Company issued \$150.0 million of convertible preferred shares. The shares are considered to be a compound financial instrument that contains both a debt component and an equity component.

On issuance of the convertible preferred shares, the fair value of the debt component is determined by discounting the expected future cash flows using a market interest rate for a non-convertible debt instrument with similar terms. The resulting value is carried as debt on an amortized cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated as a separate component of shareholders' equity, net of transaction costs. Transaction costs are apportioned between the debt and equity components based on their respective carrying amounts when the instrument was issued.

On conversion, the carrying amount of the debt component and the equity component are transferred to share capital and no gain or loss is recognized.

The interest cost recognized in respect of the debt component represents the accretion of the liability, over its expected life using the effective interest method, to the amount that would be payable if redeemed. The accretive interest expense for the three months and six months ended April 30, 2008 was \$3.8 million and \$7.4 million, respectively.

Income Taxes

In accordance with Canadian GAAP, the Company uses the liability method of accounting for future income taxes and provides for future income taxes for significant temporary timing differences.

Preparation of the consolidated financial statements requires an estimate of income taxes in each of the jurisdictions in which the Company operates. The process involves an estimate of the Company's current tax exposure and an assessment of temporary differences resulting from differing treatment of items such as depreciation and amortization for tax and accounting purposes. These differences result in future tax assets and liabilities and are reflected in the consolidated balance sheet.

Future tax assets of \$34.8 million have been recorded at April 30, 2008. The future tax assets are primarily composed of accounting provisions related to pension and post-retirement benefits not currently deductible for tax purposes, the tax benefit of net operating loss carry forwards related to the U.K., unclaimed R&D expenditures and deferred financing and share issue costs. The Company evaluates quarterly the ability to realize its future tax assets. The factors used to assess the likelihood of realization are the Company's forecast of future taxable income and available tax planning strategies that could be implemented to realize the future tax assets.

Future tax liabilities of \$46.9 million have been recorded at April 30, 2008. This liability has arisen primarily on tax depreciation in excess of book depreciation.

The Company's tax filings are subject to audit by taxation authorities. Although management believes that it has adequately provided for income taxes based on the information available, the outcome of audits cannot be known with certainty and the potential impact on the financial statements is not determinable.

Employee Future Benefits

The Company provides to certain retired employees pensions and post-employment benefits, including medical benefits and dental care. The determination of the obligation and expense for defined benefit pensions and post-employment benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are disclosed in note 15 to the Company's 2007 audited consolidated financial statements.

Risk Management

The following are updates to certain risks and uncertainties described in the Company's Management's Discussion and Analysis for the year ended October 31, 2007, 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 US 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 70% of revenues of the Canadian operations and approximately 10% of its operating expenses are transacted in U.S. dollars. As a result, the Company may experience 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-cent change in the Canadian-U.S. rate, the impact on annual pre-tax earnings, excluding any hedging activities, is approximately \$1.2million.

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 April 30, 2008 the Company's Canadian operations had outstanding foreign exchange forward contracts to sell US\$56.6 million at an average exchange rate of \$1.0238 Canadian. The contracts mature at the latest on April 14, 2009 and cover approximately 77% of the Company's expected foreign exchange exposure for the 2008 fiscal year and 10% for fiscal 2009. The mark-to-market value at April 30, 2008 that is recorded in accumulated other comprehensive income is an unrealized gain of \$1.0 million. At April 30, 2008 the Company also had an outstanding foreign exchange forward contract to buy US\$45.0 million at an exchange rate of \$1.0015 Canadian. The contract matures on January 28, 2010 and hedges the Canadian operations U.S. dollar balance sheet exposure. The mark-to-market value at April, 30, 2008 that was recorded in earnings is an unrealized gain of \$0.4 million.

As at April 30, 2008, the Company's U.K operations had entered into foreign exchange forward contracts to sell an aggregate amount of US\$4.2 million and €6.0 million. These contracts hedge the Swindon, U.K operation's expected exposure to U.S. dollar and euro denominated cash flows and mature at the latest on November 10, 2008, at an average exchange rate of £0.5036 and £0.7859, respectively. The mark-to-market value on these financial instruments as at April 30, 2008 was an unrealized loss of \$0.1 million, which has been recorded in accumulated other comprehensive income in shareholders' equity.

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 in shareholders' equity. At April 30, 2008, the Company had designated \$149.7 million of U.S. dollar denominated debt as a hedge against its investment in its U.S.A. 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. Taking this interest rate swap into account, at April, 30, 2008, 78% of the Company's total debt portfolio, including the debt component of the convertible preferred shares, was not 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 earnings of approximately \$0.9 million.

Effectiveness of Disclosure Controls and Internal Controls

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”), on a timely basis so that appropriate decisions can be made regarding public disclosure. An evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted as of October 31, 2007 by and under the supervision of the Company's management, including the CEO and the CFO. Based on this evaluation, the CEO and the CFO have concluded that the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings of the Canadian Securities Administrators) are effective to ensure that the information required to be disclosed in reports that the Company files or submits under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in such legislation. There have been no changes, since this last formal assessment, that have materially affected, or are reasonably likely to materially affect the Company's disclosure controls and procedures.

Under the supervision of the CEO and CFO, the Company has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. This design evaluation included documentation activities, management inquiries and other reviews as deemed appropriate by management in consideration of the size and nature of the Company's business. There were no changes in the Company's internal controls over financial reporting during the most recent interim period that have materially affected, or are reasonably likely to materially affect, its internal control 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; (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 thousands of U.S. dollars, except per share amounts)	REVENUES	EBITDA	NET LOSS	BASIC AND	NET LOSS	BASIC AND
		BEFORE REPOSITIONING EXPENSES	FROM CONTINUING OPERATIONS	DILUTED LOSS PER SHARE FROM CONTINUING OPERATIONS		DILUTED LOSS PER SHARE
	\$	\$	\$	\$	\$	\$
2008						
April 30	185,997	23,114	(6,471)	(\$0.07)	(8,475)	(\$0.09)
January 31	164,172	10,043	(12,215)	(\$0.14)	(15,188)	(\$0.17)
2007						
October 31	161,821	23,684	(5,877)	(\$0.06)	(7,522)	(\$0.08)
July 31	164,737	20,649	(3,365)	(\$0.04)	(63,069)	(\$0.68)
April 30	160,218	21,140	(21,950)	(\$0.23)	(21,986)	(\$0.24)
January 31	147,370	18,674	(3,576)	(\$0.04)	(2,024)	(\$0.02)
2006						
October 31	150,521	14,667	(23,324)	(\$0.25)	(22,416)	(\$0.24)
July 31	165,598	13,427	(218,820)	(\$2.36)	(257,213)	(\$2.77)

Additional Information

Share Capital

As of April 30, 2008, the Company had 90,634,388 restricted voting shares outstanding and 150,000 each of Class I Preferred Shares, Series C (convertible preferred shares) and Series D (special voting preferred shares). Each Class I Preferred Shares, Series C was convertible into 228.1096 Patheon restricted voting shares. As at April 30, 2008 the Company had 7,007,986 stock options outstanding, of which 4,358,416 were exercisable.

Related Party Transactions

Revenues from companies controlled by a director and significant shareholder of the Company were in the amount of \$48,000 and \$0.1 million for the three and six months ended April 30, 2008, respectively. The revenues were \$0.6 million and \$0.7 million for the three and six months ended April 30, 2007, respectively. These transactions were conducted in the normal course of business and are recorded at the exchanged amount. Accounts receivable at April 30, 2008 include a balance of \$0.1 million (October 31, 2007 - \$0.4 million) resulting from these transactions.

At April 30, 2008 the Company has an investment of \$1.2 million (October 31, 2007 - \$0.8 million) 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 will specialize in the manufacturing of cytotoxic pharmaceutical products.

The Company has recorded management fees under a management services agreement with BSP Pharmaceuticals of \$0.4 million and \$0.8 million for the three and six months ended April 30, 2008, respectively. The management fees were \$0.4 million and \$0.7 million for the three and six months ended April 30, 2007, respectively. Accounts receivable at April 30, 2008 include a balance of \$3.2 million (October 31, 2007 - \$1.6 million) in connection with the management services agreement. The receivable includes amounts owing for services rendered in fiscal 2007. 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 is filed with Canadian securities regulatory authorities can be accessed through SEDAR at www.sedar.com.

Outlook

Revenues in the third quarter of 2008 are expected to be slightly higher than the second quarter of 2008. Revenues in the second half of 2008 are also expected to be slightly higher than the first half of 2008. The Company anticipates that it will incur costs in the \$4 to \$5 million range in the third quarter of 2008 in connection with an early retirement program in Cincinnati. These costs will impact the reported amount of EBITDA before repositioning expenses. Based on projected participation in the program, cost savings are expected to benefit the Company in future quarters.

These expectations are based on internal management forecasts, which in the case of the revenue forecasts, are based on client purchase orders and forecasts of anticipated demand and other factors. These internal management forecasts were prepared for internal planning purposes and may not be appropriate for forecasting future financial results or for other purposes.

The Company indicated in its MD&A for the three months ended January 31, 2008 that it anticipated that revenues for the second quarter of 2008 would be higher than the first quarter, due to a recovery from lower volumes that the Company traditionally experiences in its first quarter due to plant shut downs. Revenues reported in the second quarter of 2008 exceeded first quarter revenues by \$21.8 million, representing an increase of 13%.

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. 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; 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; proposed divestiture of the Carolina site; initiatives to reduce operating expenses; use of non-GAAP financial measures, significant shareholders; ability to redeem Convertible Preferred Shares when due; risks associated with information systems; and supply arrangements. 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.

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Share Information

As at April 30, 2008, except recent price
Listing: Toronto Stock Exchange (TSX)
Symbol: PTI
Shares Outstanding: 90,634,388
Public Float: 79,380,000
52-Week High/Low/Close: \$4.99/\$2.72/\$3.65
Recent Price: June 5, 2008 \$3.98

Audio Webcast

Patheon hosted an audio webcast of its quarterly call with analysts at 10.00 a.m. (EST) on Friday, June 6, 2008. An archived version of the webcast is available on Patheon's website at www.patheon.com.