

(Unless stated otherwise, dollar amounts are in Canadian dollars)

October 15, 2007

*This review contains management's discussion of the Corporation's operating results and financial condition for the year ended July 31, 2007, and should be read in conjunction with the 2007 audited annual consolidated financial statements and associated notes.*

The discussion of products in this report is intended as an information summary for investment purposes and does not contain all relevant safety information. Healthcare professionals and patients should refer to the appropriate prescribing information or product monographs, available on Cangene's website at [www.cangene.com](http://www.cangene.com).

#### **Disclosure and internal controls**

*Management has established and maintained disclosure controls and procedures for the Corporation in order to provide reasonable assurance that material information relating to the Corporation is made known to it in a timely manner, particularly during the period in which the annual filings are being prepared. Management has evaluated the effectiveness of the Corporation's disclosure controls and procedures as of the date of this report, and believes them to be effective in providing such reasonable assurance.*

*Management is also responsible for the design of internal controls over financial reporting within the Corporation in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles ("GAAP"). Management has evaluated the design of the Corporation's internal controls and procedures over financial reporting as at the end of the period covered by the annual filings, and believes the design to be sufficient to provide such reasonable assurance.*

*During fiscal 2007, the Corporation made changes to its system of internal controls that did not materially affect internal control over financial reporting.*

#### **Forward-looking statements**

*Management's discussion and analysis contains certain forward-looking statements that are subject to risks and uncertainties that may cause actual results or events to differ materially from the results or events predicted in this discussion. These risks and uncertainties include, but are not limited to, those discussed in the Risks and Uncertainties section within this MD&A. Forward-looking*

*statements can be identified by the use of words such as "expects", "plans", "will", "believes", "estimates", "intends", "may", "bodes" and other words of similar meaning (including negative and grammatical variations). Should known or unknown risks or uncertainties materialize, or should management's assumptions prove inaccurate, actual results could vary materially from those anticipated. Management is under no obligation to update any forward-looking statements, except as required by applicable law.*

#### **Overview**

Cangene Corporation ("the Company", "the Corporation" or "Cangene") is a biopharmaceutical company in the business of developing, manufacturing, and commercializing products and technologies for global markets. Revenues are generated from product sales, contract manufacturing, contract research and development, and royalties. The Company manages its business and evaluates performance based on two operating segments: biopharmaceutical operations and contract services. International sales are transacted mainly in U.S. dollars, as is customary in the industry.

Cangene develops two main categories of products: hyperimmunes, which are concentrated specialty antibody preparations made from plasma, and recombinant biopharmaceuticals, which are therapeutic proteins made by introducing a particular gene into a host organism, which in turn produces the protein of interest. The Company has particular expertise in manufacturing technologically complex and sterile injectable products, and also offers contract R&D and manufacturing services to other biopharmaceutical companies and government organizations. In addition, Cangene has an ongoing innovative R&D program, providing further opportunities for long-term growth.

Cangene's first licensed product was WinRho<sup>®</sup>, and its development established a core competency in developing and manufacturing hyperimmunes. Three additional hyperimmune products, VariZIG<sup>™</sup> (varicella zoster immune globulin), VIG (vaccinia immune globulin) and HepaGam B<sup>™</sup> (hepatitis B immune globulin) have also been licensed.

Cangene is also developing certain recombinant biopharmaceutical products as follow-on biologics (a similar strategy to that of traditional generic drugs). The Company has filed in Canada for regulatory approval of Leucotropin<sup>®</sup>, a protein also known as granulocyte-macrophage colony-stimulating factor ("GM-CSF"). A regulatory application for a second recombinant product, Accretropin<sup>™</sup>, Cangene's human growth hormone, has been designated as

“approvable” by the U.S. Food and Drug Administration (“FDA”) once certain action items have been addressed. Much of the work in this area is supported by an R&D agreement with the Apotex Group (“Apotex”), which includes Apotex Holdings Inc., Apotex Inc. (the leader in the Canadian generic drug industry), Apotex Research Inc., Apotex Corp. and other subsidiaries. The Apotex Group and the related charitable foundation, Sherman Foundation, are indirectly controlled by Bernard Sherman and together hold 61% of Cangene’s common stock as at October 15, 2007.

Revenues from the biopharmaceutical operations segment result largely from sales of WinRho® SDF, and also include sales of other approved products and research revenues from the development of recombinant biopharmaceutical products in conjunction with Apotex. The Company is making efforts to increase penetration in existing markets through new distribution relationships. In 2006, the Company entered into distributor relationships for the U.S. market with FFF Enterprises Inc. and Apotex Corp., to distribute VariZIG™ and HepaGam B™, respectively. During 2007, Apotex Corp. signed an agreement with Novation, LLC that added HepaGam B™ to that company’s product listing (see **New Developments**).

Cangene continues to seek additional geographic markets for WinRho® SDF and the Company’s other licensed hyperimmune products, as well as seeking to expand its market by investigating WinRho’s use in new patient populations and by developing potential enhancements such as the liquid version that was licensed in the U.S. during 2005. The Company will employ similar strategies aimed at expanding markets for its other hyperimmunes into new indications or patient populations.

Cangene has leveraged its capability to develop and manufacture hyperimmunes into a contract-services business. The Company has been awarded several contracts to develop and manufacture certain biodefence products for the U.S. government. The first of these was a contract with the U.S. Centers for Disease Control and Prevention (“CDC”) to develop and manufacture VIG, a product used to treat certain complications associated with smallpox vaccination.

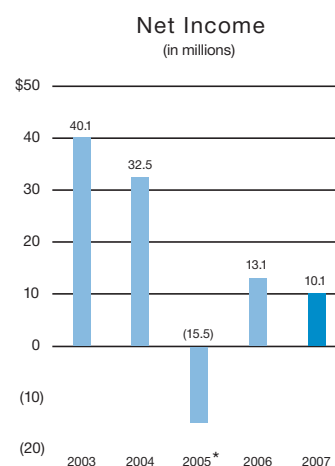
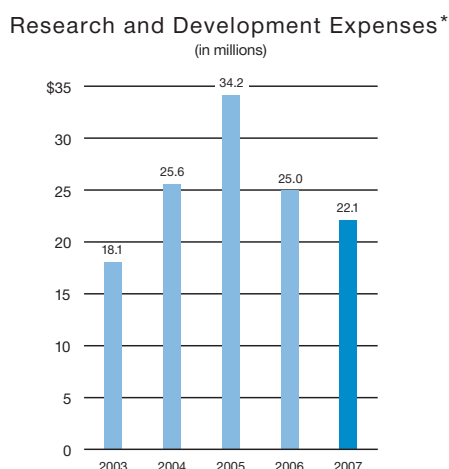
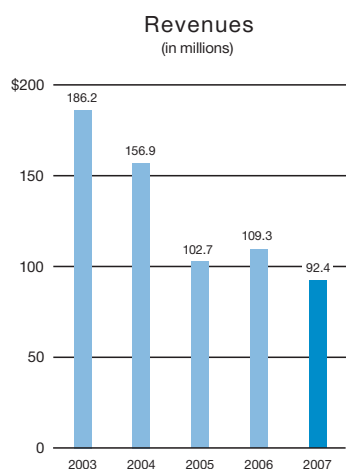
Revenue from this contract peaked in fiscal 2003 and the product was subsequently approved by the FDA in May 2005. During fiscal 2006, Cangene was awarded significant stockpiling contracts by the U.S. Department of Health and Human Services (“HHS”) to develop and supply immune globulins aimed at botulism toxins (botulism antitoxin, “BAT”) and inhalational anthrax (anthrax immune globulin, “AIG”) under the U.S. Project Bioshield initiative. The base contracts’ combined value is approximately US\$505 million. Just after the end of fiscal 2007, Cangene achieved the “Usable Product” milestone as defined by both the BAT and AIG contracts. Subsequent delivery and acceptance into the U.S. Strategic National Stockpile (“SNS”) of both products triggered the Company’s ability to invoice for these initial shipments. Initial payment on these contracts will include product costs and reimbursable development costs incurred to date; the total for the two contracts will be in the range of US\$18–22 million.

Cangene’s specialized facilities in Winnipeg, Manitoba, Canada and its manufacturing experience allow it to offer contract services for a broad range of technologically complex, process-sensitive compounds in addition to hyperimmunes. The Company’s Chesapeake Biological Laboratories, Inc. (“Chesapeake”) subsidiary in Baltimore, Maryland, offers facilities for filling and finishing process-sensitive biologics.

The contract-services segment continues to contribute significant revenues to the overall business; however, this segment is subject to large fluctuations in activity and revenue due to timing of contracts. Cangene is pursuing new contract R&D and manufacturing opportunities, including further contract opportunities with the U.S. and other governments. Cangene also seeks contract R&D and manufacturing agreements with biopharmaceutical industry partners, particularly for the Chesapeake operation.

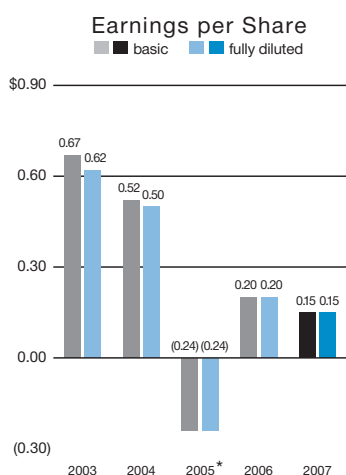
Cangene anticipates using revenue from the U.S. government stockpiling contracts to increase spending on independent research and development, ranging from expanding applications of hyperimmunes to innovative research into entirely new therapies.

## Selected Annual Information

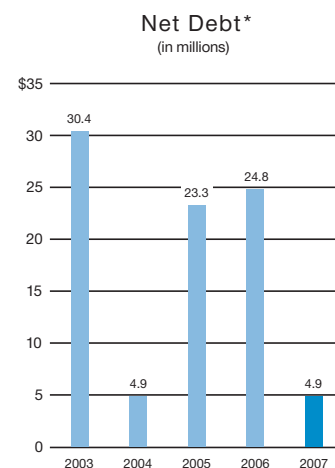
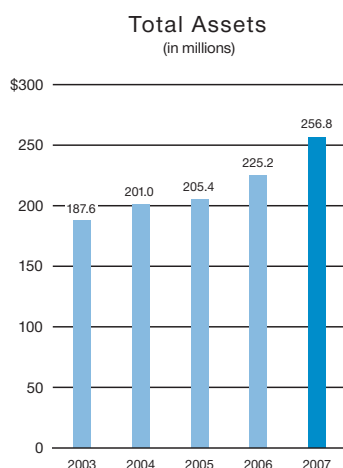


\* After applying investment tax credits

\* Includes an \$18.0-million non-cash impairment loss related to the Chesapeake facility



\* Reflects an \$18.0-million non-cash impairment loss related to the Chesapeake facility



\* Net debt = debt - cash

The selected annual information presented above is derived from the Company's consolidated financial statements, which are prepared in accordance with Canadian GAAP and reported in Canadian dollars. A significant portion of the Company's revenues are denominated in U.S. dollars and the Company has significant operations in the U.S., requiring translation of these revenues and operations to the reporting currency.

Revenue fluctuations within the contract-services segment, as discussed above, coupled with increased research and development activities aimed at expanding the Company's product pipeline have contributed to fluctuations in profitability over the last five years. The dramatically higher revenue and earnings in 2003 resulted directly from the VIG contract in the Canadian operations and a smallpox-vaccine-fill/finish subcontract at Chesapeake. In fiscal 2004, the

Company completed supplying the initial order for the VIG contract midway through the year. At the same time, the volume of fill/finish activity for smallpox vaccine at Chesapeake was diminishing as that contract neared completion. Consequently, contract-manufacturing volume declined in 2004. However, the number and magnitude of contract-R&D projects along with Cangene's own new product R&D efforts increased, causing a rising trend in R&D expenditures and related contract revenues. These trends continued in fiscal 2005, with a continued decline in contract-manufacturing activity coupled with increasing investment in research and development, especially focused on biodefence-related research contracts. In 2006, contract-research activities in the biodefence product pipeline declined as CDC research agreements were completed and the Company prepared to embark on the recent supply contracts with HHS. Commercial product sales in 2006 increased as a result of a significant international sale of VIG and improved WinRho<sup>®</sup> SDF sales. In 2007, earnings decreased due to the absence of a significant VIG sale and reduced revenues on earlier BAT and AIG R&D contracts, compounded by the fact that the BAT and AIG stockpiling contracts awarded in 2006 were not yet generating revenue. These factors were partially mitigated by improvement in WinRho<sup>®</sup> SDF sales, and improved margins and prices on the liquid formulation in the U.S. Earnings per share over the period primarily reflect the fluctuations in earnings. To a lesser extent, the increased number of shares outstanding that resulted from the share offering in fiscal 2007 (see **New Developments**) and the exercise of stock options over the last five years also resulted in lower earnings per share.

### New Developments

Fiscal 2007 was a year of significant regulatory milestones, product and technology developments, and changes to the Board and capital structure. And subsequent to the year-end, Cangene achieved its most influential contract milestones to date.

The earliest development was on the R&D side. On October 27, 2006, Cangene reported publication of results from a collaborative research project (the "PEP 35 project") that assessed the ability of certain peptides (small portions of proteins) identified at Cangene to inhibit surgical wound infections by *Staphylococcus aureus* bacteria. Often referred to as "staph" infections, these bacteria have become a serious problem in healthcare settings where increasing resistance to the antibiotic methicillin has made these infections intractable. Cangene and Channing Laboratories will continue studies to identify the mechanism of action and to develop preclinical, clinical and manufacturing plans for this potential new therapy.

Also on October 27, 2006, Cangene announced that Dr. Bernard (Barry) Sherman had retired from its board after serving as Chair for 11 years. Jack Kay, another 11-year member of Cangene's board, was nominated to take his place as Chair. In addition, Brenda Drinkwalter and Jeremy Desai were nominated to Cangene's board. Ms. Drinkwalter is a senior consultant in the areas of business strategy, communications, and community, government and regulatory relations. As well as being a new independent director, she adds extensive strategic and industry experience to Cangene's board. Dr. Desai is Executive Vice President, R&D at Apotex Inc. His background provides an in-depth understanding of pharmaceutical products as well as knowledge of international markets. Shareholders voted to approve these changes on December 6, 2006 at Cangene's annual meeting of shareholders. As a result, Cangene's board of directors grew to nine members and the number of independent directors increased from three to four.

On November 10, 2006, Cangene announced that its varicella zoster immune globulin (VarizIG<sup>™</sup>) had received Orphan Drug designation from the FDA for passive immunization for the treatment of exposed, susceptible individuals who are at risk of complications from Varicella zoster (the virus that causes chickenpox). This designation builds on the expanded-access investigational new drug protocol that was approved in January 2006 by the FDA. After marketing approval is obtained, Orphan Drug status gives a drug seven years of market exclusivity and allows for the waiving of certain regulatory fees.

On December 14, 2006, a syndicate of underwriters, led by GMP Securities L.P. and including TD Securities Inc., Scotia Capital Inc. and Sprott Securities Limited, purchased, on a bought-deal basis, a total of 10,000,000 common shares of the Company. The syndicate purchased 4,375,000 common shares from the Company and 5,625,000 common shares in the capital of Cangene from Sherman Foundation (the "Selling Shareholder") at a purchase price of \$8.10 per common share, for aggregate gross proceeds of \$81.0 million, of which approximately \$35.4 million went to the Company and \$45.6 million went to the Selling Shareholder. The Company received from the sale net proceeds of approximately \$33.5 million after deducting the underwriters' fees of \$1.6 million and paying the additional offering expenses of \$0.3 million. The Company used a portion of the net proceeds to repay \$24.0 million of its outstanding non-revolving facility-expansion loan in December of 2006 and the remainder was used for general corporate purposes, including working capital.

On January 19, 2007, Cangene announced that it had received a Notice of Compliance with conditions ("NOC/c") for its HepaGam B™ hyperimmune product from the Biologics and Genetic Therapies Directorate of Health Canada. The approved indication is for the prevention of hepatitis B recurrence following liver transplantation in adult patients with hepatitis B who have no or low levels of hepatitis B virus replication. It is the only intravenous hepatitis B hyperimmune product licensed in Canada for this indication. This NOC/c confers marketing approval to the drug in Canada while requiring Cangene to continue with a confirmatory clinical study.

On January 25, 2007, Cangene announced that it had hired Dr. Grant McClarty as Vice President of Research and Development to fill the position vacated by Dr. Wendy Johnson who is on a long-term medical leave of absence. Prior to joining Cangene, Dr. McClarty was Director of Biomedical Research at the National Microbiology Laboratory ("NML"), a division of the Public Health Agency of Canada, for six years. The NML is located in Winnipeg, Manitoba and is Canada's leading public health infectious-disease laboratory.

On March 12, 2007, Cangene announced that it had received an "approvable letter" from the FDA regarding Accretropin™, Cangene's recombinant human growth hormone. The letter asks for certain additional supporting data related to manufacturing but no further clinical data. It is a significant positive step in the regulatory process for this drug and essentially means that the Corporation's submission for Accretropin™ is approvable once certain action items have been addressed. Cangene provided additional data to the FDA in July 2007.

On March 13, 2007, Cangene announced that its U.S. distributor for HepaGam B™, Apotex Corp., had signed a five-year agreement with Novation, LLC to distribute HepaGam B™ under Novation's NOVAPLUS® private-label program. Novation supplies nearly 2,500 healthcare organizations in the United States; its inclusion of HepaGam B™ in its product line-up confers substantial market presence to the drug.

On April 6, 2007, Cangene announced that the FDA had approved HepaGam B™ for use to prevent hepatitis B recurrence following liver transplantation in patients who are positive for hepatitis B surface antigen. HepaGam B™ is the first intravenous hepatitis B immune globulin product approved for this use in the United States. This approval provides a substantial market opportunity and addresses a medical need with a product licensed for that indication.

On May 24, 2007 Cangene announced that it had received a Notice of Compliance ("NOC") for its VIG hyperimmune product from the Biologics and Genetic Therapies

Directorate of Health Canada. The approved indication is for treating certain complications associated with smallpox vaccination. The NOC confers marketing approval to the drug in Canada. Cangene has already delivered a supply of this drug under a \$3.2-million agreement in 2005 with Health Canada. A condition of this agreement had been that Cangene continue along the regulatory pathway and attain marketing approval for the drug.

Subsequent to year-end, on August 13, 2007, the Company reported that it had met all regulatory and manufacturing requirements for the "Usable Product" milestone on contracts with the U.S. government for products to treat botulism and inhalational anthrax. Meeting Usable Product requirements means the Company is allowed to deliver the products to the SNS and begin invoicing once delivery is accepted. The initial payments will include reimbursable development costs incurred to date as well as payment for the initial product delivery. Subsequently, on August 29, 2007, Cangene announced that it had completed delivery of the initial order for AIG and that the drug had been formally received into the SNS. And, on September 27, 2007, Cangene announced that it had completed delivery of the initial order for BAT and that drug had also been formally received into the SNS. Acceptance of these deliveries confirmed that Cangene could proceed to invoice for both products. Initial payment is expected to be in the range US\$18–22 million, with approximately one third coming from the AIG delivery and the remaining two thirds coming from BAT.

On August 16, 2007 the Company announced that its contract with the CDC for the supply of VIG had been extended for five more years. The original contract was signed in 2002 and under that contract Cangene developed and delivered VIG product to the SNS. The extended contract supports licensing requirements, ongoing stability studies, further clinical testing and development projects, and could provide for future orders.

On October 2, 2007, the Company announced it was closing its R&D operation in Mississauga, Ontario and consolidating all its research and development within the Winnipeg, Manitoba head office location. The change was made to strengthen the links between research, product development and manufacturing, and to improve operational effectiveness by bringing all activities in close proximity. In addition, certain R&D activities have been wound down because they related to two products that have been submitted for regulatory review and to a contract research project with the Apotex Group that was concluded subsequent to the year-end. The Apotex project that was concluded contributed \$3.5 million in gross profit in fiscal 2007. This re-organization resulted in a reduction in staff of approximately 4% and an expected net operating savings of approximately \$1.5 million annually.

## Results of Operations

### Consolidated revenues

Total revenues for the year ended July 31, 2007 were \$92.4 million, compared with \$109.3 million in the prior year. Revenues are lower in the current year because the prior-year contained a \$16.0-million sale of VIG to the U.K. government. In addition, Cangene had lower R&D-services revenues due to reduced revenue from the joint development agreement with Apotex and earlier AIG and BAT contracts, combined with the fact that revenue was not yet recognized on the BAT and AIG stockpiling contracts awarded in 2006 by HHS. Partially offsetting these reduced revenues were higher sales of WinRho<sup>®</sup> SDF, particularly in the U.S. where sales were up 24% over 2006 levels.

### Biopharmaceutical operations

Product-sales revenues in the biopharmaceutical operations segment consist of sales of licensed products. R&D-services revenues in this segment include revenue from joint development agreements with Apotex, and royalty revenues are received from Apotex based on their sales of a drug called Ferriprox<sup>™</sup> (see *note 18* to the 2007 annual consolidated financial statements).

	2007				2006			
	Product sales	R&D services	Royalties	Total	Product sales	R&D services	Royalties	Total
Revenues	\$ 41,749	\$ 11,594	\$ 8,271	\$ 61,614	\$ 52,236	\$ 15,645	\$ 6,512	\$ 74,393
Gross profit	27,131	4,196	8,271	39,598	30,883	5,567	6,512	42,962
Gross profit %	% 65.0	% 36.2	% 100.0	% 64.3	% 59.1	% 35.6	% 100.0	% 57.8

The significantly lower sales revenue in this segment in the current year is primarily due to a sale of VIG to the U.K. government that accounted for \$16.0 million of revenue in the prior year. In the current year, sales of WinRho<sup>®</sup> SDF in the U.S. are significantly stronger than in the prior year, and HepaGam B<sup>™</sup> sales have commenced. The increased WinRho<sup>®</sup> SDF sales in the U.S. result from both higher prices on the liquid formulation and higher sales volumes. In the prior year, the majority of WinRho<sup>®</sup> SDF sales were of the freeze-dried product. These factors have helped to partially offset the effect of the absence of a large VIG sale in 2007.

The gross profit on product sales decreased in absolute dollar terms, but increased on a percentage basis during the current year compared to the prior year. This change resulted primarily from the inclusion of the relatively low margin U.K. VIG sale in the prior year. Increased WinRho<sup>®</sup> SDF sales volumes in the U.S. as well as the introduction of the higher-margin liquid formulation in the U.S. also contributed to the increase in gross profit percentage over the prior year.

R&D-services revenues are lower in the current year due to reduced revenue from the joint development agreement with Apotex, reflecting reduced activity as two of these products, Accretropin<sup>™</sup> and Leucotropin<sup>®</sup>, have been submitted for regulatory review. Gross profit on R&D-services activities in the segment varies with the level of development activities on joint research projects with Apotex and with the eligibility of research expenditures to generate investment tax credits.

The increase in royalty revenue in the current year is due to higher sales of Ferriprox<sup>™</sup> (deferiprone), a drug manufactured and marketed by Apotex, for which Cangene receives 50% of net profits.

### Contract services

Product-services revenue in the contract-services segment comprises third-party contract-manufacturing revenues at Cangene's Winnipeg facilities as well as at Chesapeake. R&D-services revenues in this segment are derived from contract research and development activities for third parties including government contracts and non-government third-party customers.

	2007			2006		
	Product services	R&D services	Total	Product services	R&D services	Total
Revenues	\$ 17,095	\$ 13,687	\$ 30,782	\$ 16,663	\$ 18,280	\$ 34,943
Gross profit (loss)	4,692	5,715	10,407	(2,621)	8,080	5,459
Gross profit (loss) %	% 27.4	% 41.8	% 33.8	% (15.7)	% 44.2	% 15.6

The higher contract-manufacturing revenue in 2007 resulted from an increased volume of contract fill/finishing at the Company's Chesapeake subsidiary combined with some new third-party contract work in Canada. These increases were partially offset by reduced VIG revenues as the prior year included additional contract-manufacturing revenue under the VIG contract with the U.S. government relating to work performed prior to licensure.

The gross profit on contract-manufacturing revenues in this segment was positive in 2007, in comparison to the prior year when negative gross profits were recorded. The improved gross profit is due to increased fill/finishing volume at Chesapeake, combined with a growing level of contract-manufacturing activity at the Canadian operation.

In R&D services, a U.S. government AIG R&D contract contributed to both revenues and costs in the current year, while the comparative year included significant revenues related to both AIG and BAT R&D contracts that were awarded in 2003. The decrease in AIG and BAT contract revenues was partially offset by new third-party contract R&D work in the Canadian operations. Contract R&D-services revenues, related to a product for which Apotex holds the licence, remained consistent with the prior year. This contract has been concluded subsequent to the year-end (see **New Developments**).

In the current year, significant development work occurred on the BAT and AIG stockpiling contracts awarded in 2006 by HHS. Costs were recorded in raw materials and work in process inventories. These costs can be expensed and the related revenue recognized following delivery of "Usable Product" as defined by the contracts. For BAT and AIG, subsequent to year-end, Cangene met all regulatory and manufacturing Usable Product requirements, and delivered both products to the SNS, permitting Cangene to begin invoicing and recording revenue for AIG and BAT in the first quarter of 2008. At July 31, 2007, the Company had recorded costs of \$38.0 million related to these two contracts as follows:

- Raw materials of \$16.1 million, Work in process – product costs of \$1.9 million and Work in process – development costs of \$16.3 million recorded in Inventory,
- Insurance of \$0.9 million recorded in Prepaid expenses, and
- Insurance of \$2.8 million recorded in Other assets

The above amount includes \$12.3 million of costs recorded in the fourth quarter of 2007. Acceptance of the products into the SNS subsequent to the year-end allows Cangene to invoice for certain components of the \$38.0 million in costs that have been recorded to date. Revenue will be recorded in fiscal 2008.

The Company anticipates that contract-services revenues will continue to fluctuate in the future, depending on varying levels of activity related to existing contracts and whether significant new R&D or manufacturing contracts with the U.S. government or other parties are awarded.

#### **Independent R&D**

Independent R&D expenditures, from which no related revenue is derived, were \$6.7 million in fiscal 2007, compared with \$4.7 million in the prior year. Expenditures increased significantly due to activity related to HepaGam B™ approvals in 2007. Other significant independent R&D expenditures in 2007 were related to development of VariZIG™, PEG-Leucotropin® and the PEP 35 project. Cangene continues to conduct independent research in several related biopharmaceutical fields, ranging from expanding applications of hyperimmunes to innovative research into entirely new therapies. In 2008, Cangene intends to focus efforts on a number of initiatives including hyperimmune process improvements, HepaGam B™ studies, PEG-Leucotropin® development and the PEP 35 project.

#### **Selling, general and administrative expense ("SG&A")**

Total SG&A expense in 2007 increased marginally to \$13.0 million from \$12.8 million in the prior year. Increased SG&A expense includes higher compensation costs as well as increased directors' fees. Increased compensation costs are largely a result of increased staffing to support work on the BAT and AIG stockpiling contracts. These increases were partially offset by decreases in the phantom-stock incentive plan liability, bad-debt expense and legal fees.

#### **Amortization**

For the year ended July 31, 2007, amortization increased to \$10.3 million from \$9.2 million in the prior year primarily because the Company began amortizing the fractionation-plant expansion effective January 15, 2007.

#### **Income taxes**

Income tax expense of \$8.7 million for the year ended July 31, 2007 decreased from \$9.5 million in the prior year primarily due to lower income. The foreign exchange loss on translation of the integrated U.S. subsidiaries' operations resulted in a higher effective tax rate.

In 2007, Cangene's future tax expense is much larger than its current tax expense. The principal reason for this is the significant deferral of development costs in inventory related to the U.S. government stockpiling contracts. Although deferred for financial statement purposes, these costs are deductible for tax purposes, resulting in a large timing difference and future tax liability.

### Net income

Net income for the year ended July 31, 2007 was \$10.1 million, compared with \$13.1 million for the prior year. Net income for the current year was lower than the prior year, primarily due to the significant sale of VIG to the U.K. that occurred in the prior year and reduced revenues on U.S. government contracts in the current year, as earlier R&D contracts are complete. The Company is not yet invoicing or recognizing revenue for the stockpiling contracts awarded in 2006 as discussed earlier in **Contract services**. These factors were partially offset by improved sales of WinRho<sup>®</sup> SDF, primarily in the U.S., and the introduction of the higher-margin liquid WinRho<sup>®</sup> SDF.

### Basic and diluted earnings per share

For the current year, lower basic and diluted earnings per share reflect the effect of decreased net earnings combined with an increase in the number of common shares outstanding, which was primarily due to the closing of the treasury component of the share offering in December 2006 (see **New Developments**). Diluted earnings per share is calculated under the treasury stock method.

## Summary of Quarterly Results

Quarters ended in thousands of Canadian dollars except per-share data	July 31, 2007 (Q4 2007)	April 30, 2007 (Q3 2007)	January 31, 2007 (Q2 2007)	October 31, 2006 (Q1 2007)	July 31, 2006 (Q4 2006)	April 30, 2006 (Q3 2006)	January 31, 2006 (Q2 2006)	October 31, 2005 (Q1 2006)
Revenues	\$ 24,241	\$ 22,730	\$ 20,641	\$ 24,784	\$ 26,767	\$ 28,675	\$ 29,767	\$ 24,127
R&D expense <sup>1</sup>	4,589	5,710	6,110	5,670	7,365	4,963	6,007	6,617
Net income	1,948	1,761	1,927	4,448	4,191	4,762	3,599	591
Earnings per share								
Basic	\$ 0.03	\$ 0.03	\$ 0.03	\$ 0.07	\$ 0.06	\$ 0.07	\$ 0.06	\$ 0.01
Diluted	\$ 0.03	\$ 0.02	\$ 0.03	\$ 0.07	\$ 0.06	\$ 0.07	\$ 0.05	\$ 0.01

1. Includes R&D expenditures, net of investment tax credits, classified as either Cost of sales – R&D services or Independent R&D.

Revenues over the past eight quarters have fluctuated in response to the timing and number of manufacturing and research contracts, and the effects of the transition in distributors for WinRho<sup>®</sup> SDF. Early in fiscal 2006, reduced revenues reflected both the impact of reduced contract-manufacturing activity and the effect of the weakened U.S. dollar on foreign currency translation. Revenue and earnings generally trended upward in fiscal 2006 due to improving WinRho<sup>®</sup> SDF sales in the U.S., delivery of a VIG order to the U.K. and improved margins on research activities. Fiscal 2007 saw decreased revenues and net income due to the absence of a significant VIG sale and the fact that Cangene is not yet recognizing revenue on the BAT and AIG stockpiling contracts awarded in 2006. Cangene has recorded \$38.0 million in inventory, prepaid expenses and other assets related to these contracts in 2007, including \$12.3 million in the fourth quarter. The decreased VIG sales throughout 2007 were partially offset by improved WinRho<sup>®</sup> SDF sales in the U.S. and the

introduction of the more profitable liquid formulation. The increase in revenue and net income from the third to fourth quarter in 2007 was primarily due to revenue received in the fourth quarter under the U.S. VIG contract as product in the stockpile was re-labelled to reflect its licensure. EPS over the two-year period reflects the fluctuations in net income as well as a gradual increase in the number of outstanding shares due to the exercise of stock options and the more significant increase due to the offering in the second quarter of 2007 (see **New Developments**). R&D expense has fluctuated over the last two years with varying levels of activity on both independent R&D, and Apotex and other third-party R&D contracts. Certain development costs incurred in 2007 on the BAT and AIG contracts were being capitalized in inventory until Usable Product requirements were achieved and product was delivered into the SNS, which did not occur until after the fiscal 2007 year-end (see earlier discussion in **Contract services**).

## Liquidity and Capital Resources

### Operating activities

Cash at July 31, 2007 was \$Nil, compared with \$7.7 million at the end of the 2006 fiscal year. Cash was used in operating activities during 2007, compared with cash provided by operating activities during the prior year. The change was primarily due to an increase in net non-cash working capital from operations. Net non-cash working capital from operations, excluding bank debt, has increased by \$21.6 million since July 31, 2006. Higher working capital levels at July 31, 2007 primarily resulted from an increase in inventory that reflects plasma collection activities and capitalized development costs for U.S. government stockpiling contracts. Offsetting the impact of the increase in inventory, accounts receivable is down due to lower amounts due from Apotex and from U.S. government contracts, while accounts payable has increased due to the costs associated with the ongoing U.S. government stockpiling contracts for BAT and AIG.

### Financing activities

In 2007, cash was provided by financing activities as the proceeds on issuance of common shares exceeded the repayment of long-term debt associated with the fractionation-facility expansion. In the prior year, financing cash flow was also positive as the issuance of long-term debt for the plant expansion exceeded the repayment of bank indebtedness and long-term debt.

### Equity

During the second quarter of fiscal 2007, Cangene and Sherman Foundation entered into an agreement with a syndicate of underwriters that purchased, on a bought-deal basis, a total of 10,000,000 common shares of the Company (see **New Developments**).

The following table provides a continuity of the common shares issued and outstanding:

<i>in thousands of Canadian dollars except share-related data</i>	Number of shares		Share capital
Share capital as at July 31, 2005	65,020,970	\$	29,037
Stock options exercised	754,700		3,104
Transfer from contributed surplus	—		109
Share capital as at July 31, 2006	65,775,670		32,250
Stock options exercised	258,800		1,143
Shares issued from treasury	4,375,000		33,501
Share capital as at July 31, 2007	70,409,470	\$	66,894

The Company anticipates that employees and directors will continue to exercise options in the future to the extent that exercise prices are less than the market price of the common shares.

At July 31, 2007, 1.2 million [July 31, 2006 – 1.1 million] options remained available to be granted under the existing plan. Although the Company does not plan to grant any new stock options under the stock option plan, the plan remains in effect until all outstanding options expire, or are exercised, forfeited or cancelled.

A summary of the status of the Corporation's stock option plan as at July 31, 2007 and 2006, and changes during the years ended on those dates is presented below:

	2007		2006	
	Number of shares	Weighted-average exercise price	Number of shares	Weighted-average exercise price
Stock options				
Outstanding at beginning of year	2,307,750	\$ 7.91	3,108,850	\$ 7.02
Granted	—	—	2,500	8.68
Exercised	(258,800)	4.42	(754,700)	4.11
Forfeited, expired and cancelled	(109,650)	9.62	(48,900)	9.54
Outstanding at end of year	1,939,300	\$ 8.28	2,307,750	\$ 7.91
Exercisable at end of year	1,937,425	\$ 8.28	2,303,375	\$ 7.91

The following table illustrates the number of common shares that would be outstanding, as at October 15, 2007, if all outstanding stock options were exercised and if all vested stock options were exercised.

	Exercise price	Number of securities outstanding	Weighted-average remaining contractual life	Number of securities outstanding and exercisable	Number of common shares upon conversion or exercise <sup>1</sup>
Common shares		70,500,170			70,500,170
Stock options	\$ 4.65	2,000	0.1 years	2,000	2,000
	8.03	389,000	0.7	389,000	389,000
	6.25	515,700	1.5	515,700	515,700
	7.04	48,100	1.6	48,100	48,100
	9.31	397,800	2.5	397,800	397,800
	10.60	486,000	2.9	486,000	486,000
	9.33	5,000	4.8	5,000	5,000
	9.33	2,500	4.8	2,500	2,500
	\$ 8.68	2,500	5.8	1,875	1,875
Subtotal – Stock options		1,848,600	1.9 years	1,847,975	1,847,975
<b>Total</b>		<b>72,348,770</b>			<b>72,348,145</b>

1. Assuming exercise of all exercisable options whether in the money or not. Closing price for Cangene's common shares on the Toronto Stock Exchange on October 15, 2007 was \$8.29.

#### Debt

The Corporation has available a \$20-million operating line of credit with a bank. As at July 31, 2007, there was \$2.1 million [2006 – \$Nil] outstanding on the operating line.

On December 15, 2006, the Company repaid \$24.0 million of the non-revolving term loan used to fund plant expansion (see **New Developments**).

The following table summarizes the Corporation's long-term debt and other contractual obligations:

in thousands of Canadian dollars	Payments due by period				
	Total at July 31, 2007	Less than 1 year	1–3 years	4–5 years	After 5 years
Long-term debt	\$ 2,748	\$ 1,636	\$ 344	\$ 212	\$ 556
Operating leases	3,458	902	1,130	592	834
Purchase obligations <sup>1</sup>	14,848	12,569	2,279	—	—
<b>Total contractual obligations</b>	<b>\$ 21,054</b>	<b>\$ 15,107</b>	<b>\$ 3,753</b>	<b>\$ 804</b>	<b>\$ 1,390</b>

1. "Purchase obligation" means an agreement to purchase goods or services that is enforceable and legally binding on the Company and that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction.

#### Investing activities

Cash used in investing activities decreased in 2007, reflecting the slowdown in expenditures on plant and equipment as the new plasma-fractionation plant is complete and ready for use. At July 31, 2007, \$36.9 million [July 31, 2006 – \$33.1 million] had been spent on the fractionation-plant expansion, excluding the impact of investment tax credits.

### **Liquidity & capital resources summary**

The Company's ability to generate funds from operating activities, including product sales and contract services, as well as its ability to obtain debt financing from its bank and Apotex, are expected to provide sufficient liquidity to meet anticipated needs of existing projects including the U.S. government stockpiling contracts for BAT and AIG, absent the occurrence of any unforeseen events. The Company also anticipates that it could raise further new equity or obtain debt financing if and when new capital is required to fund growth and when a market opportunity exists.

### **Related-party Transactions**

The Corporation has agreements with Apotex to support the development of certain biopharmaceutical products. An agreement to conduct contract research and contract manufacturing of a biopharmaceutical product for which Apotex retains proprietary rights was concluded subsequent to the year-end (see **New Developments**). In addition, Cangene receives royalties on sales of a drug called Ferriprox™ (deferiprone) from Apotex.

During fiscal 2006, Cangene entered into a distribution agreement with Apotex Corp. for it to market and distribute HepaGam B™ in the U.S.; Cangene will manufacture and continue to hold the licence for the product.

Pursuant to the above agreements, in the year ended July 31, 2007, Cangene earned revenues from Apotex of \$27.5 million, a decrease from the \$29.7 million earned during the prior year. At July 31, 2007, \$5.0 million was included in accounts receivable from these related-party transactions, compared with \$9.3 million at July 31, 2006. Related-party transactions are recorded at the exchange amount.

For further details please see *note 18* to the 2007 annual consolidated financial statements.

### **Critical Accounting Estimates**

The preparation of financial statements that present fairly the financial position, financial condition and results of operations in accordance with Canadian generally accepted accounting principles requires that the Corporation make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet date, and reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from these estimates. The following is a summary of critical accounting estimates and assumptions that the Corporation believes could materially impact its reported financial position, financial condition or results of operations.

### **Future benefit of tax-loss carryforwards**

In accordance with the *Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3465 – Income Taxes*, the Corporation should only recognize the future benefit of tax-loss carryforwards where it is more likely than not that sufficient future taxable income can be generated in order to fully utilize such losses and deductions. The Corporation is required to make significant estimates and assumptions regarding future revenues and earnings, and its ability to implement certain tax planning strategies in order to assess the likelihood of utilizing such losses and deductions. These estimates and assumptions are subject to significant uncertainty and if changed could materially affect the Corporation's assessment of the ability to fully realize the benefit of the future income tax assets. Future tax asset balances would be reduced and additional income tax expense recorded in the applicable accounting period in the event that circumstances change and the Corporation, based on revised estimates and assumptions, determined that it was no longer more likely than not that those future tax assets would be fully realized.

As at July 31, 2007, after utilizing tax-loss carryforwards to offset current year taxable income and revaluing the tax asset at current exchange rates, the Corporation has recorded a future tax asset of \$9.4 million to recognize the future benefit of tax-loss carryforwards and deductible temporary differences arising from its U.S. operations, principally the Chesapeake subsidiary. The Company has not recognized the future tax benefit of additional tax losses originating from U.S. operations and does not expect to record the future benefit of any additional tax losses that may originate in future quarters, unless circumstances change to suggest that additional future taxable income can be generated to utilize such losses. The Company believes that tax losses currently recorded will be utilized. Unrecognized tax losses and temporary differences total \$21.3 million and have a potential future tax value of approximately \$8.5 million. Existing accumulated operating losses can be carried forward to offset future taxable income for periods of 13–18 years.

### **Goodwill valuation and impairment**

The Corporation, in accordance with *CICA Handbook Section 3062 – Goodwill and Other Intangible Assets* ("Section 3062"), has established a process for testing the valuation of goodwill on an annual basis for the purposes of determining any potential impairment. In order to establish that the carrying value of net assets, including goodwill, for a particular business reporting unit exceeds the fair value, the Corporation is required to make significant estimates and assumptions regarding the timing and magnitude of future cash flows.

The Corporation acquired Chesapeake Biological Laboratories, Inc., a U.S.-based contract-manufacturing business, on January 31, 2001. At July 31, 2007, the book value of goodwill related to this acquisition was \$37.3 million. Chesapeake is an integral part of the Corporation's contract-services segment.

The Corporation had also acquired Biotherapeutic Laboratories, Inc. and Mid-Florida Biologics, Inc., two U.S.-based plasma collection centres. At July 31, 2007, the book value of goodwill related to these acquisitions was \$3.2 million. The plasma centres are an integral part of the Corporation's biopharmaceutical operations segment. Early in fiscal 2007, the Biotherapeutic Laboratories, Inc. plasma collection centre was temporarily de-activated; however, it has since re-commenced operations and management anticipates that the centre will continue to operate.

When evaluating goodwill, the Corporation uses estimates or forecasts of future cash flows for the next five years, plus estimates of residual cash flows beyond that time that are discounted using an estimated discount rate that reflects assumptions regarding its weighted-average cost of capital. Qualitative factors, including market presence and trends, strength of customer relationships, strength of local management, strength of debt and capital markets, and degree of variability in cash flows, as well as other factors, are considered when making assumptions with regard to future cash flows and the appropriate discount rate. The Corporation has not changed its approach or method of evaluating goodwill since it adopted this methodology. When evaluating the goodwill relating to the Chesapeake acquisition, the Corporation believes that its contract-manufacturing operations in Canada and the U.S. are essentially identical and will work closely in tandem on certain current contracts and future contract opportunities; consequently, the goodwill is evaluated in the context of an aggregated contract-services segment. Similarly, the goodwill relating to the U.S. plasma centres is evaluated in the context of the aggregated biopharmaceuticals segment since these centres are integral to the supply of high-quality plasma for the manufacture and sale of commercial hyperimmunes, which is currently the main source of revenue in this segment.

Goodwill impairment reduces the carrying value of goodwill on the balance sheet and is recorded as a separate charge to income. Goodwill impairment would typically be a non-cash charge since the valuation is performed on assets acquired and related cash outflows from prior investments. No goodwill impairment was recorded in 2006, and based upon the recent evaluation, no goodwill impairment was recorded for the year ended July 31, 2007. A change in any

of the significant assumptions or estimates used to evaluate goodwill could result in a material change to the results of operations.

#### ***Impairment of long-lived assets***

The Corporation, in accordance with *Section 3063* of the *CICA Handbook*, evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of a long-lived asset may not be recoverable.

The Corporation has considered whether or not any events or changes in circumstances have occurred in fiscal 2007 that would indicate that the carrying value of any of its remaining long-lived assets may not be recoverable, and has concluded that there is no indication of potential impairment to such assets.

Impairment relating to long-lived assets reduces the carrying value of the asset recorded on the balance sheet and results in a separate charge to income. A further change in any of the critical assumptions or estimates used to value the remaining long-lived assets could result in a further material change to the results of operations.

#### ***Revenue recognition – biopharmaceutical product sales***

In accordance with Cangene's revenue recognition policy, revenue from biopharmaceutical product sales, net of trade discounts and allowances, is recognized upon shipment, when all significant contractual obligations have been satisfied and collection is reasonably assured.

Cangene has agreements with distributors for marketing and distributing its WinRho® SDF, HepaGam B™ and VariZIG™ products. The Corporation's share of the revenue from sales of these products by distributors is recognized by the Corporation upon shipment by the distributors from their warehouses to wholesalers or customers.

Cangene's distributors estimate allowances for revenue dilution items using a combination of information received from third parties, including market data, inventory reports from major wholesalers, historical information and analyses that they perform. Their estimates are subject to the inherent limitations of estimates that rely on third-party data, as certain third-party information may itself rely on estimates and reflect other limitations. Provisions for estimated rebates, and other allowances such as discounts, and promotional and other credits are estimated based on historical payment experience, historical relationship to revenues, estimated customer inventory levels and contract terms, and actual discounts offered. Management believes that such provisions are determinable due to the limited

number of assumptions involved and the consistency of historical experience. Provisions for chargebacks involve more subjective judgments and are more complex in nature.

The provision for chargebacks is a significant and complex estimate used in the recognition of revenue and is calculated by the distributors. Cangene's distributors market products directly to wholesalers and indirectly to group purchasing organizations, physician practice management groups and hospitals, collectively referred to as "indirect customers." The distributors enter into agreements with indirect customers to establish contract pricing for products. The indirect customers then purchase the products from wholesalers at these contracted prices. Under this arrangement, Cangene's distributors provide credit to the wholesaler for any difference between the contracted price with the indirect party and the wholesaler's invoice price. Such credit is called a chargeback. The distributors estimate the provision for chargebacks based upon historical chargeback experience and estimated wholesaler inventory levels, as well as expected sell-through levels by their wholesale customers to indirect customers. Their estimates of inventory at wholesale customers and in the distribution channels are subject to the inherent limitations of estimates that rely on third-party data. Cangene receives regular reports from distributors and continually assesses the reasonability of chargebacks and evaluates the estimates as new information becomes available. Adjustments to these provisions are made periodically to reflect new facts and circumstances that may indicate that historical experience may not be indicative of current and/or future results. In consultation with its distributors, Cangene makes subjective judgments based primarily on its evaluation of current market conditions and trade inventory levels related to the products. This evaluation may result in an increase or decrease in the experience rate that is applied to current and future sales, or as an adjustment to past sales or both.

### **Accounting Changes, Including Initial Adoption of Accounting Policies**

The preparation of financial statements that present fairly the financial position, financial condition and results of operations in accordance with Canadian generally accepted accounting principles requires that the Corporation adopt, select and apply the appropriate accounting policies and principles, particularly where alternatives exist within GAAP.

During fiscal 2007 the Company did not change or initially adopt any new accounting policies.

#### ***Recent accounting pronouncements***

The following new handbook sections are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006 and will be

adopted by Cangene in fiscal 2008. The Corporation has evaluated the impact and believes that adoption of these standards will not have a material effect on the results of operations and financial position.

#### ***CICA 1506 – Accounting Changes:***

This revised Section adopts relevant parts of International Financial Reporting Standard IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors".

#### ***CICA 1530 – Comprehensive Income:***

This Section provides a new requirement that certain gains and losses are to be temporarily presented outside of Net earnings and recognized as "Other comprehensive income." Comprehensive income is the change in equity of an enterprise, during a period, from transactions and other events, and circumstances from non-owner sources.

#### ***CICA 3051 – Investments:***

Section 3051 continues to establish standards for accounting for investments subject to significant influence and for measuring and disclosing certain other non-financial instrument investments.

#### ***CICA 3251 – Equity:***

Section 3251 replaces Section 3250 and establishes new standards for the presentation of equity and changes in equity during the period.

#### ***CICA 3855 – Financial Instruments – Recognition and Measurement:***

This Section prescribes when a financial instrument is to be recognized on the balance sheet and at what amount, either fair-value or a cost-based measure. The section also provides standards for reporting gains and losses on financial instruments.

#### ***CICA 3861 – Financial Instruments – Disclosures and Presentation:***

This Section prescribes the required disclosure and presentation of financial instruments in financial statements.

#### ***CICA 3865 – Hedges:***

This is an optional application that provides alternative treatments to Section 3855 (discussed above) for entities that choose to designate qualifying transactions as hedges for accounting purposes.

The following new handbook sections are effective for interim and annual financial statements relating to fiscal years beginning on or after the dates noted below and will be adopted by Cangene in fiscal 2009. The Corporation has not yet fully evaluated the impact of these standards on Cangene's financial statements.

#### ***CICA 1535 – Capital Disclosures:***

This Section addresses disclosure of a company's capital and how it is managed. (October 1, 2007)

*CICA 3031 – Inventories:*

This Section replaces the current section 3030 and prescribes the accounting treatment for inventory. (January 1, 2008)

*CICA 3862 – Financial Instruments – Disclosures:*

This Section prescribes the required disclosure of financial instruments in financial statements. (October 1, 2007)

*CICA 3863 – Financial Instruments – Presentation:*

This Section prescribes the required presentation of financial instruments in financial statements. (October 1, 2007)

*CICA 1400 – General Standards of Financial Statement Presentation:*

This Section has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. (January 1, 2008)

## Financial Instruments

The current assets and liabilities of the Corporation, which are subject to normal trade terms, are financial instruments for which the recorded carrying values approximate the fair value. The long-term debt obligations of the Corporation, for which no ready market exists, have been evaluated on the basis of discounted cash flows and it is believed that the fair value of these obligations is approximately equal to the current carrying value. The Corporation is, however, exposed to financial market risks, including foreign currency exchange rates and interest rates on long-term debt obligations. The Corporation currently uses derivative financial instruments to manage exposure to changes in foreign currency exchange rates. Effective August 1, 2007, Cangene adopted applicable new CICA financial instruments accounting standards.

### *Foreign currency risk*

Cangene operates internationally, and the majority of its revenue and a significant amount of its expenditures are denominated in U.S. dollars. The Corporation has entered into forward foreign exchange contracts to sell U.S. dollars and purchase Canadian dollars at fixed rates of exchange as a means of mitigating its exposure to fluctuations in exchange rates. The Corporation has not applied hedge accounting to these derivative instruments. The forward foreign exchange contracts are marked to market at each reporting date, and both realized and unrealized gains and losses resulting from settlement of these contracts, and changes in exchange rates, are recorded in income in the current period. Assets or liabilities arising from the unrealized gains or losses on these contracts are recorded on the balance sheet as current amounts receivable or payable. The Corporation uses these derivative instruments as a risk-management tool and not for trading or speculative

purposes. There were no outstanding forward foreign exchange contracts at July 31, 2007. Subsequent to the year-end, on August 28, 2007, Cangene entered into foreign exchange collars in anticipation of U.S. dollar cash flows from the stockpiling contracts for BAT and AIG with the U.S. government.

### *Interest rate risk*

The Corporation is exposed to interest rate risk on borrowings under its revolving operating line of credit, non-revolving term loans and a non-revolving industrial development bond, each of which is subject to variable interest rates. A portion of the outstanding balance of the industrial development bond is subject to a fixed interest rate. The balance of long-term debt has decreased during the 2007 fiscal year while short-term borrowing has increased, thus decreasing exposure to longer term fluctuations in interest rates.

## Risks and Uncertainties

The Corporation is subject to certain risks and uncertainties inherent in the operation of the business. It attempts to mitigate these risks through a combination of sound risk-management practices, insurance and systems of internal control. Some of the principal risks and uncertainties, although not all inclusive, are:

### *Risks associated with new product development*

One of the core competencies of the Corporation is research and development of new biopharmaceutical products. Many of the Corporation's products are still under development. Considerable costs are incurred at every stage of identifying, developing, manufacturing and marketing new products.

There can be no assurance during any given research or development stage that any viable new products will be developed for which a market demand exists. The costs of conducting basic and clinical research to identify potential new product opportunities can be significant. There can be no assurance during any development stage that any new products developed will receive regulatory approval. If approved, some of these products will compete with established products of proven safety and efficacy, the manufacturers of which can be expected to employ intellectual property challenges against commercialization of these products by Cangene. There can be no assurance that the Corporation's products will be commercialized or, if commercialized, that medical centres, hospitals, physicians or patients will accept them in lieu of established treatments. Accordingly, there can be no assurance that these products can be manufactured successfully and/or marketed profitably.

***Impact of regulatory delays on follow-on product strategy***

The Corporation plans a follow-on product approach to the licensing of certain biopharmaceutical products, by which it hopes to receive regulatory approval to sell and distribute these products with reduced clinical studies and within shorter time frames than for first-to-market products. There can be no assurance that regulatory agencies in any markets will accept this approach for all or any of the products. If this strategy cannot be successfully employed to obtain simplified product approval from the regulatory agencies, the Corporation would have to follow a full clinical-trial program for certain biopharmaceutical drugs, which could materially slow the commercialization and increase the cost of approval. Longer approval times leading to a delay in time-to-market could materially affect the competitiveness of a particular product in terms of market penetration and price.

***Dependence on availability and quality of raw materials***

Cangene's profitable manufacture of WinRho<sup>®</sup> SDF and other hyperimmune products is dependent on a supply of specialty plasma. Plasma is collected from donors through both company-owned and third-party collection centres, and accordingly is subject to donor participation. Furthermore, the level of antibodies in the plasma of donors is variable and unless concentrations are sufficient, the cost of processing plasma to the end product may not be economically viable. Cangene believes that it currently has sufficient relationships with third-party plasma collection centres to provide an adequate supply of plasma for the foreseeable future. However, competition for plasma, in terms of quality, volume and price, is increasing and there can be no assurances that shortages will not develop.

***Compliance with regulatory requirements***

Cangene's ability to manufacture and ship its products is subject to numerous regulatory requirements and conditions, which are complex and evolving. The supply of product, and hence revenue generation, could be interrupted should compliance become an issue. There can be no assurance that the Corporation will remain in compliance at all times, although it undertakes continuous and stringent quality assurance, quality control and regulatory review processes internally to minimize this risk.

***Reliance on distribution relationships***

A significant portion of Cangene's revenues from product sales is derived from sales through exclusive distributors in the U.S. and international markets. During 2005, the Corporation changed its U.S. distributor so that a sole distributor has the right to distribute WinRho<sup>®</sup> SDF throughout the U.S. and Europe. In 2006, Cangene entered

into an exclusive distribution arrangement with a second distributor to market its HepaGam B<sup>™</sup> product in the U.S. As a result, Cangene is relying on the sales and marketing strength, and distribution channels through which these distributors operate for a significant portion of its revenues. There can be no assurance that the Corporation will be able to retain these distribution relationships indefinitely and that it will be able to rely upon the sales, marketing and distribution efforts of these distributors to support sales of these products in these significant markets.

***Potential liabilities associated with intellectual property claims***

With Cangene's strategy to manufacture and attain regulatory approval for certain biopharmaceutical products as follow-on alternatives to existing products in the marketplace, and due to the nature of the products being developed and the complexity of the law governing intellectual property rights, the Corporation may face increasing exposure to intellectual property claims. Defending intellectual property claims, whether or not such claims have merit, can result in the Corporation incurring significant legal costs. An inability to defend such claims could lead to loss of rights to manufacture and sell a product, even after significant costs have been incurred for development and licensing. There can be no assurances that the Corporation will not become subject to intellectual property claims, nor can there be any assurance that the Corporation would be able to successfully defend such claims.

***Customer concentration and reliance on contracts***

Cangene is party to contracts with Canadian and U.S. government agencies, a small number of other third parties, and Apotex, a related party. A significant portion of Cangene's revenue comes from a small number of contract customers; there can be no assurance that these customers will continue to purchase products or services from the Corporation at current levels or at all.

***Fluctuations in demand***

The Corporation has entered into contracts and submits proposals to develop and manufacture products for use in biodefence programs. By their nature, these contracts call for Cangene to supply such products to a national stockpile to be used in the event of an actual incident or attack. Accordingly, demand for these products should be expected to fluctuate significantly, both at the time of establishing initial stockpiles and in the event of their use or replacement in the stockpile. There is no way to precisely predict the level of future demand for such products. In the event of a crisis, Cangene may be called upon by governments to dedicate

capacity to the manufacture of certain biodefence products, which would impact the Corporation's ability to meet customer demand for other products.

#### **Expansion into foreign markets**

Cangene's WinRho<sup>®</sup> SDF is licensed and/or sold in nearly 50 countries. The Company views international markets as having significant potential for market expansion of several of its products. Although the Corporation believes that the international political and regulatory environment has not presented a sustained barrier to its ability to ship product in the past, each country has its own regulatory requirements and introduction of products into new markets can take substantial time. There can also be no assurance that future political or regulatory events will not impede distribution of products to international markets in the future. In addition, Cangene may incur significant up-front costs in efforts to gain entry to these international markets. There can be no assurance that these markets will yield sufficient revenues to recover the costs of entry.

#### **Competition**

Cangene competes in a number of segments within the biopharmaceutical industry, some of which are subject to significant competition. Traditional pharmaceutical companies are increasingly entering biologics markets. And competition in the contract-services segment in North America appears to be intensifying, with a small number of well-positioned organizations attempting to provide a complete suite of services. Cangene anticipates it will compete with a number of larger manufacturers for the production of certain biopharmaceutical products. In addition, the Corporation anticipates facing increasing competition as it attempts to further penetrate existing markets and expand its products into new markets. Given these industry characteristics, existing or new competitors may be significantly larger and have greater financial, research, manufacturing or marketing resources than Cangene. These competitors may compete with Cangene in providing both products and services in markets in which Cangene currently operates, as well as competing to enter new markets where Cangene desires to expand. Further, competitors may employ tactics such as intellectual property challenges to prevent or impede Cangene's progress in expanding its markets. There can be no assurances that the

Corporation will be able to achieve or maintain its desired market share in any particular industry segment or market.

#### **Foreign currency risk**

As noted previously, the majority of Cangene's revenues are generated from non-Canadian customers and accordingly are typically transacted in foreign currencies, primarily in U.S. dollars. Although the Corporation also incurs significant U.S.-dollar-denominated expenses, there has historically been a net inflow of U.S. dollars. In addition, the Corporation's net earnings can be materially affected directly by exchange rate fluctuations as net earnings from U.S. operations are translated into Canadian dollars for reporting purposes. The Corporation has used forward foreign exchange contracts and foreign exchange collars in an effort to mitigate the impact of fluctuations in exchange rates on U.S.-dollar cash flows, though no contracts or collars were outstanding at July 31, 2007.

*The preceding cautionary statements should be considered in connection with all written or oral statements, especially forward-looking statements, that are made by the Company or by persons acting on its behalf and in conjunction with its periodic disclosure and related filings with the securities commissions. The Company undertakes no obligation to publicly make or update any forward-looking statements, except as required by applicable law.*

*Scientific information that relates to unapproved products or unapproved uses of products is preliminary and investigative. No conclusions can or should be drawn regarding the safety or efficacy of such products. Only regulatory authorities can determine whether products are safe and effective for the uses being investigated. The discussion in this document is intended as an investor summary and does not contain all relevant safety information; healthcare professionals are directed to refer to approved labelling and appropriate prescribing information for products and not to rely on information discussed in investor documents. Prescribing information or drug names may differ in various countries.*

#### **Additional Information**

Additional information relating to Cangene Corporation, including the most recently filed Annual Information Form, can be found on the Company's website at [www.cangene.com](http://www.cangene.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).