



Cangene Corporation 2008 First Quarter Report



MESSAGE TO SHAREHOLDERS

This has been an extremely productive quarter with a number of important product developments, particularly in our biodefence contract business.

Early in this quarter, we met all the regulatory and manufacturing requirements for the “Usable Product” milestone on contracts with the U.S. government for products intended to treat botulism and inhalational anthrax. Meeting this milestone allowed us to deliver shipments of both products to the U.S. Strategic National Stockpile (“SNS”). The first product, Anthrax Immune Globulin (“AIG”), was delivered and accepted into the SNS in August and the second product, Botulism Antitoxin (“BAT”), was delivered and accepted in September. Delivery and acceptance into the SNS allowed us to invoice and record revenues for these contracts for the first time, and added \$27.0 million in revenue to this quarter. Meeting this milestone and beginning this substantial revenue stream allows us to concentrate on achieving licensure for these products and on developing new products for our pipeline. With these deliveries we have now supplied three products to the SNS and have become the 29th largest civilian contractor to the United States government.

At the same time as those contract deliveries, the U.S. government extended our contract for Vaccinia Immune Globulin (“VIG”) for a further five years. VIG was the first product we supplied to the SNS and was also the first of our biodefence products to be licensed by the United States Food and Drug Administration. The contract extension supports licensing requirements, ongoing stability studies, further clinical testing and development projects, and could provide for future orders. It also demonstrates that there is longevity associated with these stockpiling contracts and that there is an interest in continuing to support development and expansion of our understanding of the product beyond the initial stockpile requirement.

Subsequent to the end of the first quarter, we were pleased to receive approval from Health Canada for the liquid formulation of WinRho[®] SDF [Rho(D) Immune Globulin (Human)]. WinRho[®] SDF Liquid provides a convenient alternative to the freeze-dried version because it does not need to be reconstituted before administration. Increased convenience for healthcare providers is an important feature for a drug. WinRho[®] SDF is used to treat hemolytic disease of the newborn and a bleeding disorder called immune thrombocytopenic purpura (“ITP”), and is distributed in Canada by Canadian Blood Services and Héma-Québec. This liquid formulation has been available since 2006 in the U.S. and we are pleased to be able to provide it to Canadian physicians as well.

We made an operational change during the quarter—we consolidated our R&D operations by closing down the small laboratory operation in Mississauga so that all R&D activities would be more closely aligned with clinical and commercial activities in Winnipeg. This modification will streamline our R&D efforts.

While I touched briefly on revenues related to the stockpiling contracts, I encourage you to read the MD&A that follows for an in-depth discussion of our business and our financials.

Lastly, as usual, I’d like to wish you an enjoyable holiday season and a safe and happy New Year.

(signed)

Dr. John Langstaff
President and Chief Executive Officer
December 10, 2007

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

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

December 5, 2007

This review contains management's discussion of the Corporation's operating results and financial condition for the three months ended October 31, 2007, and should be read in conjunction with the accompanying unaudited financial statements and associated notes. It is intended to provide the reader with an update to the more extensive disclosure in the management's discussion and analysis ("MD&A") and audited financial statements included with Cangene's 2007 annual report, which is available on request from the Company or from Cangene's website at www.cangene.com.

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.

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. Management has evaluated the effectiveness of the Corporation's disclosure controls and procedures as at the date of the Corporation's 2007 annual report and is not aware of any material changes to these controls and procedures; it 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 of the end of the period covered by the annual filings, and believes the design to be sufficient to provide such reasonable assurance. As of the date of this report, management is not aware of any change in the Corporation's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Corporation's 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 and the more detailed MD&A in the Company's 2007 annual report mentioned above. 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. The Company manages its business and evaluates performance based on two operating segments: biopharmaceutical operations and contract services. Revenues are generated from product sales, contract-manufacturing and contract-R&D services, and royalties. 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[®], and its development established a core competency in developing and manufacturing hyperimmunes. Three additional hyperimmune products, VariZIG[™] (Varicella Zoster Immune Globulin), VIG (Vaccinia Immune Globulin) and HepaGam B[™] (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[®], a protein also known as granulocyte-macrophage colony-stimulating factor ("GM-CSF"). A regulatory application for a second recombinant product, Accretropin[™], 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 December 5, 2007.

Revenues from the biopharmaceutical operations segment result largely from sales of WinRho[®] SDF, although sales of other approved products are beginning to grow. Research revenues from developing recombinant biopharmaceutical products in conjunction with Apotex also contribute to total revenues. The Company is making efforts to increase penetration in existing markets through new distribution relationships, such as the agreement Cangene's U.S. HepaGam[™] B distributor, Apotex Corp., signed with the group purchasing organization, Novation, LLC.

Cangene continues to seek additional geographic markets for WinRho[®] SDF and the Company's other licensed hyperimmune products. It also seeks to expand the market for WinRho[®] SDF by investigating its use in new patient populations and by developing potential enhancements such as the convenient liquid version. 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. Early in fiscal 2008, 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 revenue recognized on these contracts included product costs and reimbursable development costs incurred to date, and amounted to \$27.0 million in the first quarter of 2008.

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.

NEW DEVELOPMENTS

In the first quarter of 2008, Cangene achieved its most influential contract milestones to date. 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 intended for treating botulism and inhalational anthrax. Meeting Usable Product requirements meant the Company was allowed to deliver the products to the SNS and begin invoicing once delivery was accepted. The initial payments included 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.

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 into close proximity. This re-organization resulted in a reduction in staff of approximately 4% and an expected ongoing net operating savings of approximately \$1.5 million annually. Severance and outplacement-services costs, and other costs associated with the staff reduction, amounting to approximately \$1.2 million, have been recorded in the first quarter of 2008.

Biopharmaceutical operations

Product-sales revenues in the biopharmaceutical operations segment consist of sales of licensed products. These sales are recorded net of estimated trade discounts and allowances such as rebates, chargebacks, and promotional and other credits. R&D-services revenues in this segment include revenue from joint development agreements with Apotex. Royalty revenues are received from Apotex based on its sales of Ferriprox™ (deferiprone), a drug manufactured and marketed by Apotex, for which Cangene receives 50% of net profits (see note 12 to the first quarter consolidated financial statements).

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 in the first quarter of 2008. The Apotex project that was concluded contributed \$3.5 million in gross profit in fiscal 2007.

Subsequent to the quarter-end, on November 28, 2007, the Company announced that Health Canada has approved the liquid formulation of WinRho® SDF. This formulation provides a convenient alternative to the lyophilized (freeze-dried) version of the therapeutic. This convenient formulation has been available since 2006 in the U.S. and will be available to physicians in Canada in the next several months. WinRho® SDF is distributed in Canada by Canadian Blood Services and Héma-Québec.

RESULTS OF OPERATIONS

Consolidated revenues

Total revenues for the three months ended October 31, 2007 were \$49.8 million, compared with \$24.8 million in the same period of the prior year, an increase of 101%. Revenues are significantly higher in the current quarter because Cangene has achieved milestones and delivered product into the SNS for both the AIG and BAT stockpiling contracts awarded in 2006 by HHS. Revenue recognized on these contracts in the first quarter amounted to \$27.0 million, composed of \$17.3 million from BAT and \$9.7 million from AIG. Partially offsetting this increase in contract-services revenues was a decline in royalty revenues of \$1.4 million and a \$1.0-million reduction in licensed product sales.

	<i>in thousands of Canadian dollars</i> Quarter ended October 31, 2007				Quarter ended October 31, 2006			
	Product sales	R&D services	Royalties	Total	Product sales	R&D services	Royalties	Total
Revenues	\$ 10,296	\$ 3,939	\$ 1,062	\$ 15,297	\$ 11,299	\$ 3,638	\$ 2,483	\$ 17,420
Gross profit	7,598	1,611	1,062	10,271	8,884	1,171	2,483	12,538
Gross margin	% 73.8	% 40.9	% 100.0	% 67.1	% 78.6	% 32.2	% 100.0	% 72.0

Product-sales revenues in this segment are lower during the current quarter than in the comparable quarter last year as the year-earlier period included significantly higher sales of WinRho[®] SDF in the U.S. market. However, WinRho[®] SDF sales in the first quarter of 2008 are comparable to levels achieved throughout the rest of fiscal 2007. Partially offsetting the relatively lower U.S. WinRho[®] SDF sales is an increase in HepaGam B[™] revenues, primarily due to U.S. sales. HepaGam B[™] sales are anticipated to continue to grow due to the relationship that has been established between Apotex and Novation, LLC.

The decrease in licensed product sales relative to the first quarter last year has resulted in a reduced gross profit and gross margin versus the comparative period. This is due primarily to lower sales of WinRho[®] SDF in the U.S. market. The reduction in

sales has partially been offset by higher sales of HepaGam B[™]; however, it is a lower margin product than WinRho[®] SDF.

R&D-services revenues are slightly higher in the current quarter due to increased revenue from the joint development agreement with Apotex. 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 decrease in royalty revenue in the current quarter is due to lower sales of Ferriprox[™]; in recent quarters there has been significant variability in its sales.

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.

	Quarter ended October 31, 2007			Quarter ended October 31, 2006		
	Product services	R&D services	Total	Product services	R&D services	Total
Revenues	\$ 13,652	\$ 20,876	\$ 34,528	\$ 4,587	\$ 2,777	\$ 7,364
Gross profit	2,251	6,259	8,510	127	1,438	1,565
Gross margin	% 16.5	% 30.0	% 24.6	% 2.8	% 51.8	% 21.3

The significantly higher product-services revenue in the first quarter of 2008 resulted primarily from delivery of product on the BAT stockpiling contract, which accounted for \$8.5 million of this revenue in the quarter. The revenues were further enhanced by an increased volume of contract fill/finishing at the Company's Chesapeake subsidiary, which had approximately 30% more revenue in the first quarter of 2008 versus the comparative period in 2007.

The gross profit on product-services revenues in this segment was driven primarily by increased fill/finishing volume at Chesapeake and the delivery and acceptance of BAT product into the SNS.

In R&D services, the BAT and AIG stockpiling contracts contributed \$18.5 million in revenue in the first quarter of 2008. Similar contracts contributed only \$0.4 million in revenue in the comparative period in 2007. Contract R&D-services revenues related to a product for which Apotex holds the licence decreased by almost 20% as activity on this contract was concluded during the quarter (see NEW DEVELOPMENTS).

For contract services, foreign exchange had an adverse effect on the gross profit as many of the costs incurred on the BAT and AIG stockpiling contracts were incurred when the U.S. dollar was significantly stronger in comparison to the Canadian dollar, while the revenues were recorded following a relative decline in the value of the U.S. dollar. The BAT and AIG contracts are not anticipated to generate margins comparable to the previous VIG contract.

For BAT and AIG, Cangene met all regulatory and manufacturing Usable Product requirements, and delivered both products to the SNS in the first quarter of 2008, permitting Cangene to begin invoicing and recording revenue for AIG and BAT. However, significant costs related to these contracts remain on the balance sheet. At October 31, 2007, the Company had recorded costs of \$28.3 million related to these two contracts as follows:

- Raw materials of \$15.2 million, Work in process – product costs of \$1.7 million, Work in process – manufacturing process development costs of \$7.3

million and Work in process – development costs of \$0.6 million recorded in Inventory,

- Insurance of \$0.9 million recorded in Prepaid expenses, and
- Insurance of \$2.6 million recorded in Other assets

The Company anticipates that contract-services revenues will continue to fluctuate in the future, depending on varying levels and timing 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 \$2.6 million in the first quarter of fiscal 2008, compared with \$1.9 million in the same quarter of the prior year. Independent R&D expenditures consist principally of fees paid to outside parties that Cangene uses to conduct clinical studies. Salaries and benefits paid to Cangene personnel involved in research and development projects are also included. Expenditures on independent R&D increased due to activity related to HepaGam B™ studies and hyperimmune process improvements. Severance costs related to the staff reductions at Mississauga (see **NEW DEVELOPMENTS**) also contributed to the higher independent R&D costs. 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, further HepaGam B™ studies, PEG-Leucotropin® development and the peptide project known as PEP 35.

Selling, general and administrative (“SG&A”) expense

Total SG&A expense in the first quarter of 2008 increased to \$3.8 million from \$2.6 million in the same quarter of the prior year. SG&A expense consists principally of salaries and benefits for administrative departments such as human resources, accounting, marketing and business development. Other significant components of SG&A include consulting, legal and accounting fees, directors’ fees, travel and training, and an allocation of facility overhead expenses. Increased SG&A expense in the first quarter of 2008 includes higher compensation costs, largely as a result of increased staffing to support work on the BAT and AIG stockpiling contracts but also due to general wage increases that took effect at the beginning of the fiscal year. Other factors contributing to the increased SG&A expenses are the phantom-stock incentive plan expense and a higher allocation of R&D costs to SG&A due to R&D employees working on SG&A projects, such as preparing proposals, and marketing and regulatory activities.

Amortization

For the quarter ended October 31, 2007, amortization increased to \$3.0 million from \$2.2 million in the same quarter of the prior year because the Company began amortizing the fractionation-plant expansion effective January 15, 2007 and therefore did not have any related amortization expense in the first quarter of 2007.

Income taxes

Income tax expense of \$3.9 million for the quarter ended October 31, 2007 increased from \$3.1 million in the same quarter of the prior year primarily due to a combination of higher income and a higher effective tax rate. Translation of the U.S.-dollar-denominated assets of the Canadian parent Company, net of the foreign exchange gain on translation of the integrated foreign subsidiaries, resulted in a net foreign exchange loss. This net foreign exchange loss resulted in a higher effective tax rate, as the unrealized loss is added back in the determination of taxable income.

The future tax recovery is a result of the recognition of previously deferred development costs in inventory related to the U.S. government stockpiling contracts. Previously deferred for financial statement purposes, these costs were deductible for tax purposes in prior periods, resulting in a large timing difference, which has now partially reversed upon recognition of a portion of the expenses in the first quarter of 2008.

Net income

Net income for the current quarter was \$4.3 million or \$0.06 per share, compared with net income of \$4.4 million or \$0.07 per share, for the same quarter last year. However, the net income reported in the first quarter of the prior year is abnormally high, making the year-over-year comparison unrealistic. When the results in the current quarter are viewed in comparison to recent, more typical quarters, such as the second through fourth quarters of 2007, and considering the unusual items in the current quarter, net income met expectations, as both revenue and net income approximately doubled compared to those periods. Gross profit in this first quarter increased by \$4.7 million over the same period in the prior year due to R&D-services and product revenues from the AIG and BAT contracts (see **Contract services**), although the increase was offset somewhat by a reduction in royalty revenue of \$1.4 million. The increase in gross profit in the current quarter was largely neutralized by higher investment in independent research and development activities, approximately \$1.2 million of severance and related costs for the discontinuation of R&D activities at the Mississauga location, increases in selling, general and administrative costs, higher amortization as the new fractionation facility is put into service, and a \$1.1-million foreign exchange loss resulting from the weaker U.S. dollar. Net income was further affected by an increase in tax expense for the period, due partly to the impact of foreign exchange.

Conversely, the first quarter last year included a \$0.6-million reversal of incentive plan expense, a \$1.7-million adjustment to cost of sales that related to rebates and discounts on previous WinRho[®] SDF sales in the U.S., and higher royalty revenue—all of which had favourably impacted earnings.

Comprehensive income

Comprehensive income for the quarters ended October 31, 2007 and 2006 is equal to the net income for the respective periods. Upon adoption of the new accounting standards, the previously recorded cumulative translation adjustment account related to

foreign operations that were previously classified as self-sustaining, has been included in accumulated other comprehensive loss.

Basic and diluted earnings per share

For the current quarter, lower basic and diluted earnings per share reflect the effect of lower net earnings compounded by the increased weighted-average number of outstanding shares. The increase in the number of outstanding shares was largely as a result of the closing of a share offering in December 2006. Diluted earnings per share is calculated under the treasury stock method.

SUMMARY OF QUARTERLY RESULTS

Quarters ended

<i>in thousands of Canadian dollars except per-share data</i>	October 31, 2007 (Q1 2008)	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)
Revenues	\$ 49,825	\$ 24,241	\$ 22,730	\$ 20,641	\$ 24,784	\$ 26,767	\$ 28,675	\$ 29,767
R&D expense ¹	19,571	4,589	5,710	6,110	5,670	7,365	4,963	6,007
Net income	4,286	1,948	1,761	1,927	4,448	4,191	4,762	3,599
Earnings per share								
Basic	\$ 0.06	\$ 0.03	\$ 0.03	\$ 0.03	\$ 0.07	\$ 0.06	\$ 0.07	\$ 0.06
Diluted	\$ 0.06	\$ 0.03	\$ 0.02	\$ 0.03	\$ 0.07	\$ 0.06	\$ 0.07	\$ 0.05

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, largely in response to the timing and number of manufacturing and R&D contracts. Revenue and earnings were generally higher in fiscal 2006 primarily due to delivery of a VIG order to the U.K. Fiscal 2007 saw decreased revenues and net income due to the absence of a significant VIG sale and the fact that Cangene was not yet recognizing revenue on the BAT and AIG stockpiling contracts awarded in 2006. The lack of a significant VIG sale during 2007 was partially offset by improved WinRho[®] SDF sales in the U.S., driven by the introduction of the more profitable liquid formulation. Net income for the first quarter of 2007 was higher than the subsequent three quarters due to the inclusion of a reversal of incentive plan expense and an adjustment to cost of sales that related to rebates and discounts on previous WinRho[®] SDF sales. 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. The significant increase in revenues in the first quarter of 2008 was due to the achievement of significant milestones on the BAT and AIG stockpiling contracts, which permitted Cangene to both invoice and recognize revenue. R&D expense has fluctuated over the last two years with varying levels of activity on independent R&D, and Apotex and other third-party R&D contracts. Certain manufacturing process development costs incurred in 2007 and 2008 on the BAT and AIG contracts are capitalized in inventory and will be expensed as product is delivered. As discussed earlier, acceptance into the SNS occurred in the first quarter of 2008, triggering significant recognition of licensure R&D costs that had previously been recorded in inventory. Fluctuations in net income over the previous eight quarters have largely been due to variability in revenue from contract manufacturing and research activities. EPS over the two-year period reflects the fluctuations in net income as well as an increase in the number of outstanding shares due to the exercise of stock options and the more significant increase due to the share offering in December 2006.

LIQUIDITY & CAPITAL RESOURCES

Operating activities

Cash at October 31, 2007 and July 31, 2007 was \$nil. Cash of \$3.6 million was provided by operating activities during the first quarter of 2008, compared with \$4.7 million during the same period of the prior year. The change was due primarily to an increase in net non-cash working capital from operations. Net non-cash working capital from operations excluding bank debt has increased by \$4.5 million since July 31, 2007.

Higher working capital levels at October 31, 2007 primarily resulted from an increase in accounts receivable of \$17.4 million reflecting billing activities on the BAT and AIG stockpiling contracts and higher amounts due from Apotex. This impact was partially offset by a decrease in inventory of \$10.1 million that reflects the associated cost of sales for revenues generated in the first quarter on the U.S. government stockpiling contracts.

Financing activities

Cash used in financing activities totalled \$1.9 million in the first quarter of fiscal 2008, compared with \$0.4 million in the same period of the prior year. The increased net use of cash was due to the repayment of long-term debt and bank indebtedness in the first quarter of 2008.

Equity

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, 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
Stock options exercised	93,700	438
Share capital as at October 31, 2007	70,503,170	\$ 67,332

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

Debt

The Corporation has available a \$20-million operating line of credit with a bank. As at October 31, 2007, there was \$1.1 million [July 31, 2007 – \$2.1 million] outstanding on the operating line.

During the first quarter of 2008 the Company made the final repayment on the non-revolving term loan used to fund the plant expansion.

Investing activities

Cash used in investing activities decreased to \$1.7 million in the first quarter of 2008 compared with \$3.5 million in the same period of the prior year. The prior year period contained \$2.3 million in spending 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 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 retained proprietary rights was concluded in the first quarter of 2008 (see NEW DEVELOPMENTS). In addition, Cangene receives royalties on sales of Ferriprox™ (see **Biopharmaceutical operations**) 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 manufactures and continues to hold the licence for the product.

Pursuant to the above agreements, in the quarter ended October 31, 2007, Cangene earned revenues from Apotex of \$6.3 million, a decrease from the \$7.9 million earned during the same quarter in the prior year. The decrease is primarily due to lower royalty revenues. At October 31, 2007, \$7.7 million was included in accounts receivable from these related-party transactions, compared with \$5.0 million at July 31, 2007. Related-party transactions are recorded at the exchange amount.

For further details please see *note 12* to the first quarter 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 October 31, 2007, after utilizing tax-loss carryforwards to offset current period taxable income and revaluing the tax asset at current exchange rates, the Corporation has recorded a future tax asset of \$7.9 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 \$19.5 million and have a potential future tax value of approximately \$7.8 million. Existing accumulated operating losses can be carried forward to offset future taxable income for periods of 13–18 years.

Goodwill valuation and impairment

No significant changes to assumptions or estimates used to evaluate goodwill occurred during the current quarter and, based on the annual evaluation of goodwill as described in the MD&A section of Cangene's 2007 annual report, no impairment was recorded in the current quarter.

Impairment of long-lived assets

No significant changes to assumptions or estimates used to evaluate impairment of long-lived assets occurred during the current quarter and, based on the evaluation as described in the MD&A section of Cangene's 2007 annual report, no impairment was recorded in the current quarter.

Revenue recognition – biopharmaceutical product sales

There has been no change to Cangene's revenue recognition policy with respect to biopharmaceutical

product sales during the current quarter. The policy is described in detail in the MD&A section of Cangene's 2007 annual report.

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.

Initial Adoption of Accounting Policies

During the first quarter of fiscal 2008 Cangene initially adopted the following new CICA accounting standards:

CICA 1506 – Accounting Changes:

This revised Section adopts relevant parts of International Financial Reporting Standards 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 (net assets) 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 – Disclosure 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.

Recent Accounting Pronouncements

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 are carried at amortized cost using the effective interest rate method. The Corporation is 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. These derivatives are marked to market at each balance sheet date, with any resulting gain or loss recognized in income for the period.

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 collars to limit exposure on certain anticipated U.S. dollar sales and cash flows. The Corporation has not applied hedge accounting to these derivative instruments. The forward foreign exchange collars 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. At October 31, 2007, the Corporation has outstanding forward foreign exchange collars with a combined face value of US\$10.0 million and a combined unrealized gain of \$1.0 million.

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. The balance of long-term debt and short-term borrowing decreased in the first quarter of 2008, thus decreasing exposure to fluctuations in interest rates. The Company does not currently use any derivative financial instruments to manage interest rate risk.

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. These risks and uncertainties have not changed since the preparation of the Company's 2007 annual report and are discussed there in greater detail.

Statements made in this report may pertain to information that is not historical; these statements are essentially forward-looking. Future results may differ materially from past results and those that may have been expressed or implied by any forward-looking statements. Factors that could cause or contribute to risks and uncertainties with respect to forward-looking statements may be identified elsewhere in this report or in the MD&A section of the Company's 2007 annual report. They include, but are not limited to:

- the loss of any significant customer could have a material effect on the Company's results of operations or financial condition;
- availability and cost of raw materials, especially the availability, cost and antibody concentration of plasma necessary for manufacturing hyperimmune products;

- a significant decrease in the sales of WinRho[®] SDF could significantly reduce revenue and earnings;
- some of the Company's competitors are larger, better-financed and more mature pharmaceutical and biotechnology companies, which are capable of developing new treatments or vaccines that could make the Company's products obsolete, or legal, regulatory or legislative strategies by these competitors could cause additional costs or product introduction delays;
- the difficulty of predicting the timing of regulatory approvals or outcomes of regulatory actions, and the Company's ability to obtain required regulatory approvals on a timely basis or as predicted, or the failure of the Company to continue delivery of "Usable Product" as defined by certain contracts may result in the loss of revenue or expected revenue;
- the regulatory process governing follow-on biotechnology products is evolving and uncertain;
- changes in the value of the Canadian dollar relative to foreign currencies;
- the number and size of new contract manufacturing activities;
- the effects of consolidation of the Company's customer base;
- customer and market acceptance, and demand for new pharmaceutical products;
- the impact of competitive products, services and pricing;
- the changing regulatory environment including the high cost and uncertainty associated with maintaining compliance with the extensive regulation in the pharmaceutical industry;
- progress, cost and success of clinical trials;
- dependence on relationship with majority shareholder;
- the Company relies on key strategic relationships and its business could suffer as a result of actions by third parties who have marketing and/or distribution rights to its products;
- the Company is subject to extensive government regulation and changes in policies or actions could affect its business;
- uncertainties regarding patent, intellectual and other proprietary property protections, including costs and resources to obtain protection or defend against litigation; many of the Company's technologies rely on competitively sensitive know-how and other information maintained as trade secrets, which may not sufficiently protect this information and disclosure of this information could impair the Company's competitive position;
- exposure to litigation and contingencies with respect to use of the Company's products;
- the Company depends on key personnel, and if it does not attract and retain key personnel, its business could be adversely affected;
- the Company uses hazardous materials, chemicals and bacteria that require it to comply with regulatory requirements and expose it to significant potential liabilities;
- other matters beyond the control of management and the subjectivity inherent in any analysis underlying the Company's assumptions and estimates regarding the future.

The cautionary statements above, along with the more extensive discussion in the MD&A in the Company's 2007 annual report, 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.

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 or on SEDAR at www.sedar.com.

CANGENE CORPORATION
CONSOLIDATED BALANCE SHEETS *(unaudited)*

Incorporated under the laws of Ontario

in thousands of Canadian dollars

At October 31, 2007

At July 31, 2007

ASSETS [note 5]			
Current			
Accounts receivable [note 12]	\$	37,914	\$ 20,475
Income and other taxes recoverable		12,222	16,144
Inventories [note 3]		50,697	60,753
Prepaid expenses and deposits		3,002	3,105
Total current assets		103,835	100,477
Property, plant and equipment, net [note 4]		102,175	103,571
Future income taxes		7,889	9,373
Goodwill		40,514	40,514
Other assets		2,582	2,815
	\$	256,995	\$ 256,750
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness [note 5]	\$	1,076	\$ 2,136
Accounts payable and accrued liabilities		21,384	23,140
Income and other taxes payable		47	450
Current portion of deferred income		4,641	3,623
Current portion of long-term debt [note 5]		572	1,636
Total current liabilities		27,720	30,985
Long-term debt [note 5]		857	1,112
Incentive plan liability [note 11[b]]		353	226
Deferred income		5,875	2,931
Future income taxes		6,801	10,831
Total liabilities		41,606	46,085
Commitments [notes 12 and 13]			
Shareholders' equity			
Share capital [note 11[a]]		67,332	66,894
Contributed surplus		3,239	3,239
Accumulated other comprehensive loss [note 2]		(4,467)	(4,467)
Retained earnings		149,285	144,999
Total shareholders' equity		215,389	210,665
	\$	256,995	\$ 256,750

See accompanying notes

CANGENE CORPORATION
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS *(unaudited)*

<i>in thousands of Canadian dollars except share-related data</i>	Three months ended October 31, 2007	Three months ended October 31, 2006
Revenues <i>[note 12]</i>		
Product sales and services	\$ 23,948	\$ 15,886
R&D services <i>[note 7]</i>	24,815	6,415
Royalties	1,062	2,483
	49,825	24,784
Cost of sales		
Product sales and services	14,099	6,875
R&D services <i>[note 7]</i>	16,945	3,806
	31,044	10,681
Gross profit	18,781	14,103
Expenses		
Independent R&D <i>[note 7]</i>	2,626	1,864
Selling, general and administrative	3,760	2,595
Amortization	2,974	2,210
Interest		
Short-term	46	(128)
Long-term	55	33
Foreign exchange loss (gain)	1,098	(36)
	10,559	6,538
Income before income taxes	8,222	7,565
Income tax expense (recovery)		
Current	6,924	2,458
Future	(2,988)	659
	3,936	3,117
Net income and comprehensive income for the period <i>[note 2]</i>	4,286	4,448
Retained earnings, beginning of period	144,999	134,915
Retained earnings, end of period	\$ 149,285	\$ 139,363
Earnings per share <i>[note 6]</i>		
Basic and diluted	\$ 0.06	\$ 0.07
Weighted-average number of outstanding shares	# 70,496,353	# 65,845,753

See accompanying notes

CANGENE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS *(unaudited)*

<i>in thousands of Canadian dollars</i>	Three months ended October 31, 2007	Three months ended October 31, 2006
OPERATING ACTIVITIES		
Net income for the period	\$ 4,286	\$ 4,448
Add (deduct) items not involving cash:		
Amortization	2,974	2,210
Deferred income	3,962	(698)
Net investment tax credits <i>[note 8[b]]</i>	3,470	(77)
Incentive plan liability <i>[note 11[b]]</i>	127	(638)
Future income tax expense (recovery)	(2,988)	659
Unrealized foreign exchange loss (gain) on future income tax asset	442	(133)
	12,273	5,771
Net change in non-cash working capital balances related to operations <i>[note 8[a]]</i>	(8,650)	(599)
Cash provided by operating activities	3,623	5,172
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,682)	(3,914)
Cash used in investing activities	(1,682)	(3,914)
FINANCING ACTIVITIES		
Decrease in bank indebtedness, net	(1,060)	—
Repayment of long-term debt	(1,319)	(659)
Proceeds on exercise of stock options <i>[note 11[a]]</i>	438	266
Cash used in financing activities	(1,941)	(393)
Net increase in cash during the period	—	865
Cash, beginning of period	—	7,691
Cash, end of period	\$ —	\$ 8,556
Interest paid	\$ 118	\$ 148
Income taxes paid	\$ 476	\$ 38

See accompanying notes

CANGENE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three-month periods ended October 31, 2007 and October 31, 2006 (unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles and all significant accounting policies have been applied on a basis consistent with those followed in the most recent audited annual financial statements except for the accounting changes described in *note 2*. These unaudited consolidated financial statements do not include all the information and notes required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the audited annual consolidated financial statements and notes included in the Company's annual report for the year ended July 31, 2007.

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Actual results could differ from the estimates.

2. CHANGES IN ACCOUNTING POLICIES

Effective August 1, 2007, the Corporation adopted the following new Canadian Institute of Chartered Accountants ("CICA") accounting standards:

CICA 3855 – Financial Instruments – Recognition and Measurement

Section 3855 establishes standards for recognizing and measuring financial instruments and embedded derivatives in the balance sheet, and reporting gains and losses in the financial statements. Under the new standards, all financial assets are classified as one of four categories: held to maturity, loans and receivables, held for trading, or available for sale. All financial liabilities are classified as held for trading or other liabilities. Initially, all financial assets and liabilities must be recorded on the consolidated balance sheet at fair value. Subsequent measurement is determined by the classification of each financial asset and liability. Financial assets held to maturity, loans and receivables, and financial liabilities other than those held for trading, are measured at amortized cost based on the effective interest method. Financial assets and liabilities held for trading, and derivative financial instruments, whether part of a hedging relationship or not, have to be measured at fair value with gains and losses recognized in earnings. Available for sale instruments are measured at fair value with gains and losses, net of tax, recognized in other comprehensive income.

Effective August 1, 2007, The Corporation has made the following classifications:

Cash is classified as "held for trading" and measured at fair value.

Accounts receivable are classified as "loans and receivables" and are recorded at cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Bank indebtedness, and accounts payable and accrued liabilities are classified as "other financial liabilities" and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Long-term debt is classified as an "other financial liability" and is initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Derivative financial instruments, including forward foreign exchange contracts and forward foreign exchange collars, are classified as "held for trading" and measured at fair value.

All derivatives, including embedded derivatives that must be separately accounted for, are recorded at fair value in the consolidated balance sheets. The Corporation has reviewed all significant contractual arrangements and determined that there are no material embedded derivatives that must be separated from the host contract and accounted for separately.

CICA 3861 – Financial Instruments – Disclosure and Presentation

Section 3861 replaces Section 3860 and establishes standards for presentation of financial instruments and non-financial derivatives, and identifies information that should be disclosed.

CICA 1530 – Comprehensive Income

Section 1530 establishes the standards for reporting and disclosure of comprehensive income and its components. Comprehensive income is the change in equity (net assets) of an enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners.

On transition to these new standards, the previously recorded cumulative translation adjustment amount of \$4.5 million, which included cumulative foreign currency translation losses on a U.S. subsidiary previously classified as self-sustaining, has been eliminated and the balance has been recorded in accumulated other comprehensive loss as summarized below:

Accumulated other comprehensive loss at July 31, 2007	\$	—
Transition adjustment – unrealized loss on translation of foreign operations previously classified as self-sustaining		(4,467)
Accumulated other comprehensive loss at August 1, 2007	\$	(4,467)

CICA 3251 – Equity

Section 3251 replaces Section 3250 and establishes standards for the presentation of equity and changes in equity during the reporting period. The main feature of this Section is a requirement for an enterprise to present separately each of the changes in equity during the period, including comprehensive income, as well as components of equity at the end of the period.

CICA 1506 – Accounting Changes

Section 1506 allows an entity to change an accounting policy only if the change is required by a primary source of GAAP or results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance, or cash flows.

CICA 3865 – Hedges

Optional Section 3865 of the CICA accounting standards establishes standards for when and how hedge accounting may be applied. The purpose of hedge accounting is to ensure that counterbalancing gains, losses, revenues and expenses (including the effects of counterbalancing changes in cash flows) are recognized in net income in the same period or periods. Hedge accounting is applied only when gains, losses, revenues and expenses on a hedging item would otherwise be recognized in net income in a different period than gains, losses, revenues and expenses on a hedged item and the hedging relationship has been properly documented and its effectiveness measured. The Corporation does not currently use hedge accounting.

3. INVENTORIES

<i>in thousands of Canadian dollars</i>	At October 31, 2007	At July 31, 2007
Raw materials	\$ 16,259	\$ 16,885
Raw materials – long-term contracts	15,193	16,126
Work in process – product costs	1,977	1,450
Work in process – product costs, long-term contracts	1,691	1,878
Work in process – manufacturing process development costs, long-term contracts	7,334	9,654
Work in process – development costs, long-term contracts	539	6,658
Finished goods	7,704	8,102
	\$ 50,697	\$ 60,753

As at October 31, 2007, the Corporation has included in its inventory \$24.8 million [July 31, 2007 – \$34.3 million] that consists of raw materials and work-in-process costs under long-term U.S. government contracts. The invoicing of these costs to the U.S. government under long-term contracts commenced in the current quarter once “Usable Product” requirements were achieved and “Usable Product” was delivered (see *Note 13*).

4. PROPERTY, PLANT AND EQUIPMENT

The Corporation completed, during the second quarter of fiscal 2007, a capital expansion project for the purpose of expanding its plasma fractionation and production capacity to meet future demand for hyperimmune development and production. At October 31, 2007, \$36.9 million [July 31, 2007 – \$36.9 million] excluding the impact of provincial investment tax credits that reduced these expenditures, was capitalized to property, plant and equipment. Amortization expense is now being recognized on this capital-expansion project.

5. BANK INDEBTEDNESS AND LONG-TERM DEBT

<i>in thousands of Canadian dollars</i>	October 31, 2007	July 31, 2007
Canadian non-revolving facility-expansion loan, available up to a maximum of \$30 million, bearing interest at bankers acceptance rates plus 1.5%, repayable in monthly instalments of \$500,000, collateralized by a general security agreement over all assets	\$ —	\$ 1,000
U.S. bond maturing August 1, 2018, bearing interest at LIBOR, quarterly principal repayments of US\$150,000 ¹ , collateralized by a subsidiary's real property	1,429	1,748
	1,429	2,748
Less current portion	572	1,636
	\$ 857	\$ 1,112

¹ Beginning November 2008, principal repayments will become US\$25,000 quarterly and beginning November 2013, they will become US\$20,000 quarterly.

Scheduled future repayment of long-term debt for fiscal years ending July 31 is as follows:

<i>in thousands of Canadian dollars</i>	
2008 [November 1–July 31]	\$ 429
2009	214
2010	95
2011	95
2012	95
Thereafter	501
	\$ 1,429

At December 31, 2006, the Corporation's \$20.0-million revolving operating line of credit converted to an operating line of credit, repayable on demand with no fixed expiry date. As at October 31, 2007, the Corporation had \$1.1 million [July 31, 2006 – \$2.1 million] outstanding under the operating facility.

6. EARNINGS PER SHARE

The following is a reconciliation between basic and diluted earnings per share:

<i>in thousands of Canadian dollars except share-related data</i>	Three months ended October 31, 2007	Three months ended October 31, 2006
Net income	\$ 4,286	\$ 4,448
Weighted-average number of common shares outstanding	# 70,496,353	# 65,845,753
Dilutive effect of stock options	111,343	265,439
Diluted weighted-average number of common shares outstanding	# 70,607,696	# 66,111,192
Earnings per share:		
Basic	\$ 0.06	\$ 0.07
Diluted	\$ 0.06	\$ 0.07

For the quarter ended October 31, 2007, 1,282,800 options [quarter ended October 31, 2006 – 1,002,650] were excluded from the calculation of diluted earnings per share based upon the treasury stock method, under which options are excluded from the calculation when their exercise price exceeds the average market price of the Corporation's common shares for the period.

7. RESEARCH AND DEVELOPMENT

Research and development revenues are earned under terms of agreements with the Apotex Group ("Apotex"), which includes Apotex Holdings Inc., Apotex Inc., Apotex Research Inc., Apotex Corp. and other subsidiaries, and through R&D agreements with third parties, including government institutions.

Research and development expenses, net of applicable investment tax credits and government assistance, consist of:

- a) expenditures under R&D agreements funded by Apotex, where Cangene will hold product licences and will pay Apotex certain royalties and profit sharing,
- b) expenditures under R&D contracts with Apotex, where Apotex will hold product licences and Cangene will provide contract R&D services, and may ultimately provide contract manufacturing,
- c) expenditures under third-party contract-R&D agreements funded by the third party, where Cangene retains primary intellectual property rights (e.g., U.S. government R&D contracts for Vaccinia Immune Globulin ("VIG"), Anthrax Immune Globulin ("AIG") and Botulism Antitoxin ("BAT")),
- d) expenditures under third-party contract-R&D agreements funded by the third party, where the third party holds the intellectual property rights, and
- e) expenditures on independent R&D funded entirely by Cangene and for which Cangene holds all intellectual property rights.

The following table provides details of R&D revenues and expenses:

<i>in thousands of Canadian dollars</i>	Three months ended October 31, 2007	Three months ended October 31, 2006
R&D revenues		
Apotex agreements – Cangene holds licence	\$ 3,939	\$ 3,637
Apotex agreements – Apotex holds licence	1,384	1,708
Third-party contracts – Cangene holds licence	19,384	825
Third-party contracts – third party holds licence	108	245
	\$ 24,815	\$ 6,415
R&D expenses		
Apotex agreements – Cangene holds licence	\$ 2,578	\$ 2,467
Apotex agreements – Apotex holds licence	646	727
Third-party contracts – Cangene holds licence	13,514	461
Third-party contracts – third party holds licence	207	151
Total costs of sales – R&D	\$ 16,945	\$ 3,806
Cangene independent R&D	2,626	1,864
	\$ 19,571	\$ 5,670

8. SUPPLEMENTARY INFORMATION FOR CONSOLIDATED STATEMENTS OF CASH FLOWS

[a] Effect on cash flow of net change in non-cash working capital balances related to operations:

<i>in thousands of Canadian dollars</i>	Three months ended October 31, 2007	Three months ended October 31, 2006
Accounts receivable	\$ (17,439)	\$ 3,546
Inventories	10,056	(5,320)
Income and other taxes recoverable	556	(26)
Prepaid expenses and deposits	336	(3,052)
Income and other taxes payable	(403)	—
Accounts payable and accrued liabilities	(1,756)	4,253
	\$ (8,650)	\$ (599)

[b] Net investment tax credits utilized associated with research activities:

<i>in thousands of Canadian dollars</i>	Three months ended October 31, 2007	Three months ended October 31, 2006
Investment tax credits recorded as a reduction of R&D expenditures	\$ (3,528)	\$ (2,535)
Income tax expense not requiring a current cash payment due to the utilization of investment tax credits	6,998	2,458
Prior period investment tax credits utilized to reduce current cash income tax expense	3,470	—
Excess current period investment tax credits carried forward to future periods	\$ —	\$ (77)

9. FINANCIAL INSTRUMENTS

At October 31, 2007, the Corporation has the following financial instruments: cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, long-term debt, and forward foreign exchange collars. It is management's opinion that the Corporation is not exposed to significant credit risks arising from these financial instruments.

Risk management policies

The Corporation manages risk and risk exposures through a combination of insurance, derivative financial instruments, a system of internal and disclosure controls and sound business practices. The Corporation is exposed to significant currency risk and uses derivative financial instruments to manage the risk of fluctuation in foreign exchange rates. The Corporation enters into forward foreign exchange collars to limit exposure on certain anticipated future U.S. dollar sales and cash flows. The maximum length

of time over which the Corporation hedges its exposure to the variability in future cash flows is no more than one year. The Corporation is not exposed to significant interest rate risk and therefore does not currently employ interest rate hedging.

Currency exposures

Foreign exchange risk arises primarily as a result of variations in exchange rates between Canadian and U.S. dollars. The Corporation has entered into forward foreign exchange collars to mitigate its foreign exchange exposure on anticipated U.S. dollar sales transactions and the collection of the related accounts receivable.

At October 31, 2007, the Corporation had outstanding forward foreign exchange collars as follows:

Settlement dates	Face value in US dollars	Call in Canadian dollars	Put in Canadian dollars
November 30, 2007	\$ 5,000,000	\$ 1.04	\$ 1.07
December 31, 2007	\$ 5,000,000	\$ 1.04	\$ 1.07

Fair value

At October 31, 2007, the carrying value of cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and long-term debt approximates their fair value. At October 31, 2007, the fair value and carrying value of the forward exchange collars was an unrealized gain of \$1.0 million. The following summarizes the methods and assumptions used in estimating the fair value of the Corporation's financial instruments:

[a] Short-term financial instruments approximate their carrying amount due to the relatively short period to maturity. These include cash, accounts receivable, bank indebtedness, and accounts payable and accrued liabilities.

[b] Long-term debt with a variable interest rate is carried at amortized cost, which closely reflects fair value as the interest rate is the current market rate available to the Corporation.

[c] Derivatives are valued based on market quotations.

10. SEGMENT INFORMATION

The Corporation manages its business and evaluates performance based on two operating segments: biopharmaceutical operations and contract services. The products and services provided by biopharmaceutical operations include product sales and royalties as well as related-party research and development on follow-on products. Contract services provides products and services to related and unrelated parties. There are no significant inter-segment transactions. The following presents segment operating results for the three-month periods ended October 31, 2007 and October 31, 2006, and identifiable assets as at October 31, 2007 and October 31, 2006:

<i>in thousands of Canadian dollars</i>	Three months ended October 31, 2007			Three months ended October 31, 2006		
	Biopharma- ceutical operations	Contract services	Total	Biopharma- ceutical operations	Contract services	Total
Revenues						
Product sales and services	\$ 10,296	\$ 13,652	\$ 23,948	\$ 11,299	\$ 4,587	\$ 15,886
R&D services	3,939	20,876	24,815	3,638	2,777	6,415
Royalties	1,062	—	1,062	2,483	—	2,483
	15,297	34,528	49,825	17,420	7,364	24,784
Cost of sales						
Product sales and services	2,698	11,401	14,099	2,415	4,460	6,875
R&D services	2,328	14,617	16,945	2,467	1,339	3,806
	5,026	26,018	31,044	4,882	5,799	10,681
Gross profit	10,271	8,510	18,781	12,538	1,565	14,103
Income (loss) before income taxes	5,414	2,808	8,222	8,219	(654)	7,565
Income tax expense	1,870	2,066	3,936	2,862	255	3,117
Net income (loss) for the period	\$ 3,544	\$ 742	\$ 4,286	\$ 5,357	\$ (909)	\$ 4,448
Total assets	\$ 80,472	\$ 176,523	\$ 256,995	\$ 118,684	\$ 114,692	\$ 233,376
Additions to property, plant and equipment, and goodwill	\$ 293	\$ 1,389	\$ 1,682	\$ 2,152	\$ 1,320	\$ 3,472

Geographic information about the Corporation's revenue is based on the product shipment destination or the location of the contracting organization. Assets are based on their physical location as at October 31, 2007 and October 31, 2006.

<i>in thousands of Canadian dollars</i>	Three months ended October 31, 2007		Three months ended October 31, 2006	
	Revenue	Property, plant and equipment, and goodwill	Revenue	Property, plant and equipment, and goodwill
Canada	\$ 8,890	\$ 83,736	\$ 9,927	\$ 87,431
United States	38,822	58,953	12,538	59,737
Eurasia and other	2,113	—	2,319	—
	\$ 49,825	\$ 142,689	\$ 24,784	\$ 147,168

For the current quarter, sales to two customers represent 77% [quarter ended October 31, 2006 – two customers; 82%] of the revenue of the biopharmaceutical-operations segment, and sales to two customers represent 87% [quarter ended October 31, 2006 – one customer; 23%] of the revenue of the contract-services segment.

11. INCENTIVE PLANS

[a] Stock option plan

There were no new stock options granted during the quarters ended October 31, 2007 and October 31, 2006. During the quarter, 93,700 stock options were exercised at a weighted-average price of \$4.67 [quarter ended October 31, 2006 – 75,700 options; \$3.50] resulting in an increase to share capital of \$0.4 million [quarter ended October 31, 2006 – \$0.3 million]. No stock options were cancelled during the quarter [quarter ended October 31, 2006 – 500 options].

[b] Phantom-stock incentive plan

During the quarter ended October 31, 2007, the Board approved a grant of approximately 0.9 million units, effective August 1, 2007, at a grant price of \$7.09 per unit, which is 90% of the weighted-average market price for the 90-day period prior to the effective date of the grant.

As at October 31, 2007, the Corporation recorded a liability of \$0.4 million [July 31, 2007 – \$0.2 million] with respect to phantom-stock units previously granted that are still outstanding.

During the quarter, 950,679 units matured with no redemption value [three months ended October 31, 2006 – nil]. No units were cancelled during the three months ended October 31, 2007 [three months ended October 31, 2006 – 16,781 units].

12. RELATED-PARTY TRANSACTIONS

The Corporation has an agreement whereby Apotex funds Cangene's development of certain biopharmaceutical products up to and including post-licensure research and development. Research revenue received pursuant to this contract is based on the direct research costs plus a contribution to overhead. The Corporation is recognizing the investment tax credits associated with these costs as a reduction of R&D services expense. Under this agreement, Apotex will be entitled to receive a 12% royalty on net sales of certain biopharmaceutical products developed by the Corporation and a right to distribute the products. Apotex and the Corporation will share profits equally after deducting royalty payments. No sales of biopharmaceutical products developed pursuant to this agreement have been made to October 31, 2007.

The Corporation had a separate agreement with Apotex to conduct contract R&D and contract manufacturing of a biopharmaceutical product (see also *note 7*). That agreement concluded during the quarter.

On November 5, 1996, the Corporation acquired royalty rights on the drug Ferriprox™ (deferiprone) from Apotex. The Corporation receives 50% of any net profits from sales of the drug worldwide.

On May 1, 2006, the Corporation entered into a distribution agreement with Apotex to market and distribute HepaGam B™ in the U.S. Under the terms of the agreement, the Corporation will manufacture and hold licence to the product. Profits will be shared between the two parties.

During the quarter ended October 31, 2007, Cangene recorded revenues of \$6.3 million [quarter ended October 31, 2006 – \$7.9 million] from Apotex and at October 31, 2007, \$7.7 million [July 31, 2007 – \$5.0 million] was included in accounts receivable. These transactions occurred in the normal course of operations and were recorded at their exchange amount.

13. SIGNIFICANT AGREEMENTS

On May 31, 2006, Cangene was awarded a five-year development and supply contract by the U.S. Department of Health and Human Services ("HHS") for the supply of 200,000 doses of BAT that are intended for treating individuals who have been exposed to the toxins that cause botulism. In addition to the base contract, optional task orders may be awarded at HHS's discretion.

The base contract provides for revenue of US\$362 million, which includes a potential supplementary payment based upon achieving U.S. Food and Drug Administration ("FDA") approval for the product.

The optional task orders are worth up to an additional US\$234 million in revenue. These tasks include ongoing testing to support long-term product shelf life, maintaining product manufacturing and additional clinical testing in special populations.

On July 28, 2006, HHS exercised its option to purchase 10,000 doses of AIG under a modification to an earlier development and supply contract, which was originally signed in 2005. In addition to the base contract, there is a possibility of optional task orders, which could include maintaining product manufacturing and additional clinical testing in special populations, and which could increase the final value of the contract.

The AIG is to be made available if necessary for treating inhalational anthrax. This modification to the contract will provide approximately US\$143 million, which includes a potential supplementary payment based upon achieving FDA licensure.

Under both contracts, the price per dose is a discounted fixed price and Cangene began to receive payment in the current quarter once it produced and delivered an initial quantity of "Usable Product". The base contracts also stipulate that the Corporation continue its research and development efforts towards licensure from the FDA for the use of the products; if FDA licensure is received during the term of the contract, the Corporation will receive the supplementary payment.

On August 29, 2007, the Corporation announced that it had completed delivery of the initial order for AIG and that the drug had been formally received into the U.S. Strategic National Stockpile ("SNS"). This final step in the Usable Product process enabled the Corporation to commence invoicing HHS in the first quarter for both incurred-to-date development costs and product delivery. Revenue recorded from this contract in the quarter ended October 31, 2007 was \$9.7 million [quarter ended October 31, 2006 – nil].

On September 27, 2007, the Corporation announced that it had completed delivery of the initial order for BAT and that the drug had been formally received into the SNS. This final step in the Usable Product process

enabled the Corporation to commence invoicing HHS in the first quarter for both incurred-to-date development costs and product delivery. Revenue recorded from this contract in the quarter ended October 31, 2007 was \$17.3 million [quarter ended October 31, 2006 – nil].

14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

"Accretropin", "Cangene", "HepaGam B", "Leucotropin", "VariZIG", "WinRho", and "WinRho SDF" are trademarks belonging to Cangene Corporation. The term "WinRho" may be used in this document to refer to any of the WinRho family of products. "Ferriprox" is a trademark belonging to the Apotex Group. Unless stated otherwise, dollar amounts are in Canadian dollars.

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. Space does not permit a full discussion of medical information related to approved or experimental drugs. Where applicable, patients and healthcare professionals are directed to refer to approved labeling for products, product monographs or prescribing information and not rely on information discussed in this report.

HEAD OFFICE AND MANUFACTURING FACILITY155

Innovation Drive
Winnipeg, Manitoba
R3T 5Y3
Telephone (204) 275-4200
Facsimile (204) 269-7003

REGISTERED OFFICE AND INVESTOR RELATIONS

3403 American Drive
Mississauga, Ontario
L4V 1T4
Telephone (905) 673-0200
Facsimile (905) 673-5123

Investor Relations direct telephone
(905) 405-2900

NOTE: Cangene's Mississauga office is moving in December. The move will change telephone and fax numbers. Please check the website or e-mail ir@cangene.com for further information

Investor Relations e-mail
ir@cangene.com

BIOTECHNOLOGY MANUFACTURING FACILITY

26 Henlow Bay
Winnipeg, Manitoba
R3Y 1G4
Telephone (204) 275-4200

CHESAPEAKE BIOLOGICAL LABORATORIES, INC.

1111 South Paca Street
Baltimore, MD, USA
21230
Telephone (410) 843-5000
Facsimile (410) 843-4414

CORPORATE WEBSITE

www.cangene.com

CHESAPEAKE WEBSITE

www.cbilinc.com

FISCAL YEAR-END

July 31st

TRADING SYMBOL

CNJ (Toronto Stock Exchange)

52-WEEK TRADING RANGE

\$7.01-\$9.25 (at October 31, 2007)

SHARE REGISTRAR AND TRANSFER AGENT

Computershare Investor Services Inc.
100 University Avenue
9th Floor
Toronto, Ontario
M5J 2Y1

INVESTOR RELATIONS AND SHAREHOLDER INQUIRIES

For further information about Cangene and its activities, please contact Ms. Jean Compton, Manager of Investor Relations by e-mail at jcompton@cangene.com.

CANGENE