

Cangene Corporation 2008 Second Quarter Report



## MESSAGE TO SHAREHOLDERS

We have a number of positive events to talk about this quarter. Revenues and earnings have increased over the second quarter of last year, even though we made no deliveries of products for the U.S. government Botulism Antitoxin and Anthrax Immune Globulin contracts during this quarter. This bodes well for the remainder of the year as we anticipate further deliveries on both contracts in the next two quarters. And we have significant, positive regulatory events to report. But first, I have the pleasure of telling you about a special situation where one of our products was used because no approved products addressed the particular medical need.

In January, physicians at the U.S. Centers for Disease Control and Prevention and the U.S. Food and Drug Administration, along with attending physicians, decided to use Cangene's heptavalent Botulism Antitoxin under an emergency investigational use. It was used to treat a newborn infant who had been hospitalized due to a case of botulism as a result of intestinal colonization by the organism that produces botulinum toxin. The infant was paralyzed and required a ventilator to breathe, and had been diagnosed as having the rare Type F botulism; Cangene's heptavalent product was chosen because it has antibodies to seven botulism toxin types, including type F. The baby subsequently recovered and has been discharged from hospital. This is the third of our biodefence-focused products to be used in a clinical, non-biodefence situation—both our Vaccinia Immune Globulin and Anthrax Immune Globulin have been used previously when medical emergencies arose.

The first of our regulatory approvals came in November when Health Canada approved the liquid formulation of WinRho<sup>®</sup> SDF [Rho(D) Immune Globulin (Human)] for the Canadian market. This liquid formulation, which does not need to be reconstituted prior to administration, has been available since 2006 in the United States and we are pleased to offer this convenient formulation to Canadian physicians as well. WinRho<sup>®</sup> SDF is distributed in Canada by Canadian Blood Services and Héma-Québec.

In January, the U.S. Food and Drug Administration approved Accretropin<sup>™</sup> (somatotropin [rDNA origin]) Injection, our recombinant human growth hormone. It is indicated for treatment of pediatric patients who have growth failure due to an inadequate secretion of normal endogenous growth hormone, or treatment of short stature associated with Turner Syndrome in certain pediatric patients. This is our first recombinant product to receive approval and represents a significant milestone—we have demonstrated significant expertise over the last several years in developing hyperimmunes; this approval shows that we can also develop other types of products. Accretropin<sup>™</sup> was developed under a research and development agreement with the Apotex Group, our majority shareholder, and Apotex retains its marketing rights. The market conditions for this type of product are constantly changing, and Apotex and Cangene are assessing the current situation and related patent issues to determine the most effective overall strategy going forward.

Strategically, we are focused on a number of areas, particularly on continuing delivery and working towards licensure for the products under U.S. government biodefence contracts that I mentioned earlier, and on expanding our in-house plasma collection capabilities. A key element in our production of hyperimmune products is the availability of appropriate plasma, and the commercial plasma market is becoming increasingly competitive. In order to increase our control over supply, we are expanding our U.S. plasma collection centres with the ultimate goal of doubling our internal capacity. For our commercial products, we are concentrating on expanding the markets for both WinRho<sup>®</sup> SDF and HepaGam B<sup>™</sup>. For WinRho<sup>®</sup> SDF, we and our marketing partner, Baxter International, are working toward additional European Union approvals and also enhancing our regulatory and marketing presence in the European countries where the product is already approved. For HepaGam B<sup>™</sup>, the Apotex Corp. marketing team is targeting the largest liver transplant centres in the U.S., while also addressing the long-term post-transplant therapy segment.

As always, I encourage you to read the following MD&A for a full discussion of our business and our financials.

Lastly, during the quarter we established our new office space in Toronto. The sales, regulatory, administrative and investor relations staff who were in the Mississauga office are now located at Suite 360, 180 Attwell Drive, in Toronto. The main telephone number there is 416-675-8300.

Thank you for your continued interest in Cangene—I look forward to updating you in the coming quarters.

(signed)  
Dr. John Langstaff  
President and Chief Executive Officer  
March 11, 2008

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

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

March 11, 2008

*This review contains management's discussion of the Corporation's operating results and financial condition for the three and six-month periods ended January 31, 2008, 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](http://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](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. 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**

*This report 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<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). Cangene's first licensed recombinant product is Accretropin™, Cangene's human growth hormone, which was approved by the U.S. Food and Drug Administration ("FDA") in the second quarter of 2008. 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 March 11, 2008.

Revenues from the biopharmaceutical operations segment result largely from sales of WinRho® SDF, which are primarily through Baxter International, our distributor in the U.S. and Europe. Sales of other approved products are, however, 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 (see OUTLOOK).

Cangene continues to seek additional geographic markets for WinRho® SDF (see OUTLOOK) and the Company's other licensed hyperimmune products. And it 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 biodefense 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 \$31.1 million in the first half 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 at the Chesapeake operation.

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

## OUTLOOK

Cangene's current focus is on meeting delivery commitments on the U.S. government BAT and AIG contracts. Management currently anticipates delivering a small number of doses of AIG in the third and fourth quarters of 2008. Following those deliveries, management does not anticipate further AIG deliveries until the second quarter of 2009 as the company undertakes an extended summer shutdown for maintenance and upgrades. During this period, Cangene will focus on building up an inventory of AIG plasma. Management also anticipates delivering a larger number of doses of BAT in the fourth quarter of 2008. Apart from the product deliveries, the Company continues to work on licensing elements of the contracts for both products.

Strategically, management is also focused on expanding Cangene's plasma collection capabilities through expansion of three existing plasma centres. The expansions are currently underway and will result in more than doubling the current capacity. These efforts are aimed at bringing more of Cangene's plasma supply in-house with respect to WinRho<sup>®</sup> SDF, HepaGam B<sup>™</sup>, VariZIG<sup>™</sup> and AIG products. Competition for plasma supplies is a significant risk to Cangene with respect to most of its hyperimmune products (see RISKS AND UNCERTAINTIES) and management is seeking to mitigate this risk more effectively by becoming increasingly self-sufficient in plasma supply.

Senior management is also concentrating on ongoing marketing efforts related to WinRho<sup>®</sup> SDF and HepaGam B<sup>™</sup>. For WinRho<sup>®</sup> SDF, the Company is working to obtain approval in additional European Union countries through the Mutual Recognition Procedure. Cangene, with its marketing partner Baxter International, is establishing an enhanced marketing and regulatory presence in the countries where approval has already been obtained to help grow sales, build relationships and finalize country-specific details such as pricing and labelling. For HepaGam B<sup>™</sup>, Cangene is primarily focused on the U.S. market, and the Apotex Corp. marketing team is targeting the largest liver transplant centres in the country as well as the long-term post-transplant therapy market to introduce them to the product. The FDA has approved HepaGam B<sup>™</sup> to prevent hepatitis B recurrence following liver transplantation and it is the only hepatitis B immune globulin licensed by the FDA for this indication.

Management anticipates that European WinRho<sup>®</sup> SDF sales may grow marginally through the remainder of the year as the launch in European countries continues. Sales in these countries are beginning to show improvement, while competition is intensifying in the U.S. Management also anticipates that HepaGam B<sup>™</sup> sales will become more significant as the Company continues to penetrate the U.S. market.

## NEW DEVELOPMENTS

In the first quarter of 2008, on August 13, 2007, the Company reported that it had met all regulatory and manufacturing requirements for the "Usable Product" milestone on the BAT and AIG contracts with the U.S. government. 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, were recorded in the first quarter of 2008.

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.

On November 28, 2007, the Company announced that Health Canada had approved the liquid formulation of WinRho<sup>®</sup> 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 is expected to be available to physicians in Canada in the fourth quarter of 2008. WinRho<sup>®</sup> SDF is distributed in Canada by Canadian Blood Services and Héma-Québec.

On January 24, 2008, the Company announced that the FDA had approved Accretropin<sup>™</sup>, Cangene's recombinant human growth hormone. The drug is indicated for treatment of pediatric patients who have growth failure due to an inadequate secretion of normal endogenous growth hormone, or treatment of short stature associated with Turner Syndrome in certain pediatric patients. The Apotex Group funded the development of this product under terms of a joint development agreement, and also retains marketing rights for the product. Apotex and Cangene are currently assessing the market situation and related patent issues to determine the most effective strategy for this product going forward.

On February 7, 2008, the Company announced that Jerry Treppel will resign from its Board of Directors, effective March 1, 2008. Cangene intends to replace

Mr. Treppel with another independent director in the near future.

## RESULTS OF OPERATIONS

### Consolidated revenues

Total revenues for the quarter ended January 31, 2008 were \$23.5 million, compared with \$20.6 million in the same quarter of the prior year, an increase of 14%.

Total revenues for the six months ended January 31, 2008 were \$73.3 million compared with \$45.4 million in the same period of the prior year, an increase of 61%.

Revenues are higher in the current quarter and significantly higher in the year-to-date 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 second quarter amounted to \$4.1 million, composed of \$2.7 million from BAT and \$1.4 million from AIG. Revenue recognized on these contracts in the first half of 2008 amounted to \$31.1 million, composed of \$20.0 million from BAT and \$11.1 million from AIG. In the current quarter, because there were no deliveries on the BAT and AIG stockpiling contracts, the majority of the revenue increase stems from royalties and sales of HepaGam B™ and WinRho® SDF. Although revenues on the development aspects of the stockpiling contracts increased substantially in the quarter, the rise has been partially offset by lower contract-services revenues from other sources. Year-to-date, the significant contract-services revenues from BAT and AIG account for the majority of the revenue increase.

### 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 11 to the second quarter consolidated financial statements).

<i>in thousands of Canadian dollars</i> Three months ended January 31, 2008					Three months ended January 31, 2007				
	Product sales	R&D services	Royalties	Total	Product sales	R&D services	Royalties	Total	
Revenues	\$ 9,160	\$ 2,625	\$ 1,680	\$ 13,465	\$ 8,067	\$ 2,784	\$ 957	\$ 11,808	
Gross profit	6,652	947	1,680	9,279	4,759	823	957	6,539	
Gross margin	% 72.6	% 36.1	% 100.0	% 68.9	% 59.0	% 29.6	% 100.0	% 55.4	

<i>in thousands of Canadian dollars</i> Six months ended January 31, 2008					Six months ended January 31, 2007				
	Product sales	R&D services	Royalties	Total	Product sales	R&D services	Royalties	Total	
Revenues	\$ 19,456	\$ 6,564	\$ 2,742	\$ 28,762	\$ 19,367	\$ 6,422	\$ 3,440	\$ 29,229	
Gross profit	14,250	2,558	2,742	19,550	13,644	1,994	3,440	19,078	
Gross margin	% 73.2	% 39.0	% 100.0	% 68.0	% 70.4	% 31.0	% 100.0	% 65.3	

Product-sales revenues in this segment are higher during the current quarter than in the comparable quarter last year as the current quarter includes higher sales of HepaGam B™ in Canada and the U.S. HepaGam B™ sales accounted for more than 11% of the product sales revenues during the quarter compared with less than 3% in the comparable quarter of the prior year. Sales of WinRho® SDF have also increased in comparison to the second quarter of 2007 due to improved sales in the European Union. Gross margin has improved during the current quarter on the strength of the improved margins on higher HepaGam B™ sales.

On a year-to-date basis, product-sales revenues have increased marginally as the higher sales of HepaGam B™ have been partially offset by lower sales of WinRho® SDF. Sales of WinRho® SDF have declined in the U.S. year-to-date, largely due to the first quarter of 2007 having significantly above normal sales levels. Sales of WinRho® SDF in the European Union have improved over the prior period on a year-to-date basis. Product-sales gross margin has remained relatively consistent with the prior year on a year-to-date basis.

R&D-services revenues are slightly lower in the current quarter compared with the same period of the prior year and slightly higher on a year-to-date basis. These revenues are directly related to the level of activity on 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 increase in royalty revenue in the current quarter is due to higher sales of Ferriprox™, while the decrease on a year-to-date basis is due to lower sales of Ferriprox™ in the first quarter of this year. In recent quarters there has been significant variability in sales of this product.

### 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.

<i>in thousands of Canadian dollars</i> <b>Three months ended January 31, 2008</b>					Three months ended January 31, 2007					
	<b>Product services</b>		<b>R&amp;D services</b>	<b>Total</b>		<b>Product services</b>		<b>R&amp;D services</b>	<b>Total</b>	
Revenues	\$	<b>5,634</b>	\$	<b>4,368</b>	\$	<b>10,002</b>	\$	4,719	\$	8,833
Gross profit		<b>1,300</b>		<b>657</b>		<b>1,957</b>		1,751		3,217
Gross margin	%	<b>23.1</b>	%	<b>15.0</b>	%	<b>19.6</b>	%	37.1	%	35.6

<i>in thousands of Canadian dollars</i> <b>Six months ended January 31, 2008</b>					Six months ended January 31, 2007					
	<b>Product services</b>		<b>R&amp;D services</b>	<b>Total</b>		<b>Product services</b>		<b>R&amp;D services</b>	<b>Total</b>	
Revenues	\$	<b>19,286</b>	\$	<b>25,244</b>	\$	<b>44,530</b>	\$	9,305	\$	16,196
Gross profit		<b>3,551</b>		<b>6,916</b>		<b>10,467</b>		1,876		4,780
Gross margin	%	<b>18.4</b>	%	<b>27.4</b>	%	<b>23.5</b>	%	20.2	%	42.1

The higher product-services revenue in the second quarter of 2008 compared with the same quarter of the prior year resulted primarily from the BAT stockpiling contract, which accounted for \$1.6 million of revenue in the current quarter. This increased BAT revenue was partially offset by reduced revenues at the Company's Chesapeake subsidiary as well as lower contract-manufacturing revenues from other contracts in Canada. The gross margin was lower in the current quarter, as the comparative period in 2007 contained higher margin post-licensure work conducted on the CDC VIG contract.

On a year-to-date basis, product-services revenues are significantly higher, resulting primarily from delivery of product on the BAT stockpiling contract, which accounted for \$10.1 million of revenue in the first half of 2008. The revenues were further enhanced by slightly increased contract-fill/finishing revenue at the Company's Chesapeake subsidiary, although other contract-manufacturing revenues in Canada were lower by comparison to the prior year, particularly on the CDC VIG contract. On a year-to-date basis, gross margin has remained relatively consistent between 2008 and 2007.

In R&D services, the BAT and AIG stockpiling contracts contributed \$2.5 million in revenue in the second quarter

of 2008. Similar contracts contributed \$1.3 million in revenue in the comparative period in 2007. However, contract R&D-services revenues related to a product for which Apotex holds the licence decreased by almost 73% as activity on this contract was concluded during the first quarter of 2008 (see NEW DEVELOPMENTS). Gross margin on R&D services in the current quarter was adversely affected by an inventory provision taken against an early production run of AIG. The outcome with respect to this product lot is uncertain; however, the firm-fixed price product component of the contract was designed to include the possibility of one failed batch. Therefore, in the event the batch is not usable, the costs may be recovered through the fixed price to be received upon delivery of product.

On a year-to-date basis in R&D services, the BAT and AIG stockpiling contracts contributed \$21.0 million in revenue. Similar contracts contributed only \$1.8 million in revenue in the comparative period in 2007. However, contract R&D-services revenues related to a product for which Apotex holds the licence decreased by approximately 45% as activity on this contract was concluded during the first quarter of 2008 (see NEW DEVELOPMENTS). Gross margin on contract-R&D services has declined on a year-to-date basis due principally to the inventory provision related to the AIG

production run that is discussed in the preceding paragraph.

Overall for contract services, foreign exchange had an adverse effect on the gross profit year-to-date 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 do not 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. However, significant costs related to these contracts remain on the balance sheet. At January 31, 2008, the Company had recorded costs of \$34.4 million related to these two contracts as follows:

- Raw materials of \$16.3 million, Work in process – product costs of \$3.9 million, Work in process – manufacturing process development costs of \$8.0 million, Work in process – development costs of \$1.4 and Finished goods of \$1.6 million recorded in Inventory,
- Insurance of \$0.9 million recorded in Prepaid expenses, and
- Insurance of \$2.3 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 \$0.8 million in the second quarter of fiscal 2008, compared with \$1.5 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. The prior-year quarter contained more significant expenditures related to the development of HepaGam B™, while the second quarter of 2008 includes increased expenditures on the development of Cangene's peptide project known as PEP 35.

On a year-to-date basis, independent R&D expense remained consistent at \$3.4 million. Lower expenditures related to HepaGam B™ have been offset by higher costs associated with hyperimmune process improvements and development of PEP 35. Severance costs related to the staff reductions at Mississauga (see

NEW DEVELOPMENTS) also contributed to independent R&D costs in the first half of 2008.

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-GM-CSF development and the PEP 35 project.

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

Total SG&A expense in the second quarter of 2008 increased to \$4.0 million from \$3.4 million in the same quarter of the prior year. Total SG&A expense in the first half of 2008 increased to \$7.7 million from \$6.0 million in the same period 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 second quarter and first half 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 expense in the second quarter and year-to-date compared with 2007 are increased consulting and legal fees, primarily related to WinRho® SDF licensure in new markets and HepaGam B™ licensure in the U.S. However, SG&A expense in the quarter reflects a reduced phantom-stock incentive plan expense. On a year-to-date basis, 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, also contributed to the increased SG&A expense.

#### **Amortization**

For the quarter ended January 31, 2008, amortization increased to \$3.2 million from \$2.2 million in the same quarter of the prior year because the Company only began amortizing the \$36.9 million fractionation-plant expansion effective January 15, 2007 and therefore had very minimal related amortization expense in the second quarter of 2007. On a year-to-date basis, the increase in amortization expense to \$6.2 million from \$4.4 million is also due to the amortization of the fractionation-plant expansion.

### **Income taxes**

Income tax expense of \$0.4 million for the quarter ended January 31, 2008 decreased from \$1.4 million in the same quarter of the prior year primarily due to a lower effective tax rate resulting from foreign exchange impacts. The translation gain on the U.S.-dollar-denominated assets of the Canadian parent Company, net of the foreign exchange loss on translation of the integrated foreign subsidiaries, resulted in a net foreign exchange gain. This net foreign exchange gain resulted in a lower effective tax rate as the unrealized gain is deducted in the determination of taxable income.

Income tax expense of \$4.4 million for the six months ended January 31, 2008 is marginally lower than in the same period of the prior year. In both periods, translation losses on 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. The net foreign exchange loss is lower in the current year-to-date in comparison to the same period of the prior year. Because this lower net unrealized foreign exchange loss is added back in the determination of taxable income, the result is a comparatively lower effective tax rate in the current period.

The future tax recovery both in quarter and year-to-date 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 and year-to-date.

### **Net income**

Net income for the current quarter was \$3.5 million compared with \$1.9 million for the same quarter last year, an increase of 84%. Net income in the current quarter was higher due to increased gross profit on biopharmaceutical product sales and higher royalty revenues, combined with the impact of lower independent R&D expenses. However, higher SG&A expenses, primarily consisting of wages and benefits, and increased amortization expense on the new fractionation-plant expansion,

combined to offset some of the positive impacts on net income.

Net income for the six months ended January 31, 2008 was \$7.8 million compared with \$6.4 million for the same period last year. Net income grew at a slower rate than revenue due to several factors. These factors include lower-margin contract-research revenues, a \$1.7-million increase in amortization expense that was largely due to the fractionation-plant expansion, higher SG&A expenses including wages, benefits, and legal and consulting costs, a \$1.1-million increase in foreign exchange loss and approximately \$1.2 million in severance and related costs for the discontinuation of R&D activities at the Mississauga location.

Conversely, the first half of last year included a \$1.7-million adjustment to cost of sales that related to rebates and discounts on previous WinRho<sup>®</sup> SDF sales in the U.S., and higher royalty revenue, both of which had favourably impacted earnings.

### **Comprehensive income**

Comprehensive income for the quarters and year-to-date periods ended January 31, 2008 and 2007 is equal to the net income for the respective periods. Upon adoption of the new accounting standards in the first quarter of 2008, 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, higher basic and diluted earnings per share of \$0.05 compared with \$0.03 in the same quarter last year reflect the effect of higher net income, although the increase is partially offset by the increased weighted-average number of outstanding shares.

Similarly, for the first half of 2008, basic and diluted earnings per share of \$0.11 increased over the same period of the prior year when basic earnings per share was \$0.10 and diluted earnings per share was \$0.09. In the current period fewer options are dilutive than in the year-earlier period. 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>	January 31, 2008 (Q2 2008)	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)
Revenues	\$ 23,467	\$ 49,825	\$ 24,241	\$ 22,730	\$ 20,641	\$ 24,784	\$ 26,767	\$ 28,675
R&D expense <sup>1</sup>	6,184	19,571	4,589	5,710	6,110	5,670	7,365	4,963
Net income	3,537	4,286	1,948	1,761	1,927	4,448	4,191	4,762
Earnings per share								
Basic	\$ 0.05	\$ 0.06	\$ 0.03	\$ 0.03	\$ 0.03	\$ 0.07	\$ 0.06	\$ 0.07
Diluted	\$ 0.05	\$ 0.06	\$ 0.03	\$ 0.02	\$ 0.03	\$ 0.07	\$ 0.06	\$ 0.07

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 the second half of 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<sup>®</sup> 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<sup>®</sup> 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 milestones on the BAT and AIG stockpiling contracts, which permitted Cangene to both invoice and recognize revenue. By comparison, lower revenues in the second quarter of 2008 reflect the fact that there were no product deliveries made on the BAT and AIG stockpiling contracts.

R&D expense has fluctuated over the last two years with varying levels of activity on independent R&D, Apotex joint-development agreements 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 of these products 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. Earnings per share 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 the first quarter of 2007.

## LIQUIDITY & CAPITAL RESOURCES

### Operating activities

Cash at January 31, 2008 was \$1.2 million and at July 31, 2007 was \$nil. Cash of \$4.2 million was provided by operating activities during the second quarter of 2008, compared with \$0.8 million during the same quarter of the prior year. The improved cash-flow from operations was primarily due to increased net income and a decrease in net non-cash working capital used in operations. Net non-cash working capital from operations excluding bank debt has decreased by \$1.1 million in the quarter due primarily to a reduction in accounts receivable of \$13.9 million, offset by an increase in inventories of \$10.1 million as Cangene continues to build inventories related to the U.S. government stockpiling contracts.

On a year-to-date basis, cash provided by operating activities totalled \$7.7 million on the strength of improved net income and an increase in deferred income. These

positive impacts were partially offset by higher net non-cash working capital levels at January 31, 2008 that primarily results from an increase in accounts receivable of \$3.6 million, which reflects billing activities on the BAT and AIG stockpiling contracts and a decrease in accounts payable of \$2.7 million.

### Financing activities

Cash used in financing activities totalled \$1.1 million in the second quarter of fiscal 2008, compared with \$8.0 million provided by financing activities in the same period of the prior year. Similarly, for the six months ended January 31, 2008, cash used in financing activities totalled \$3.1 million, while the same period in the prior year included cash provided by financing activities of \$7.6 million.

The prior year periods showed cash provided by financing activities due to the issuance of common

shares in the second quarter of 2007 for net proceeds of \$33.5 million, offset by significant repayments of long-term debt during the same period.

### 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
Stock options exercised	2,000	12
Share capital at January 31, 2008	70,505,170	\$ 67,344

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

At January 31, 2008, 1.3 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 or cancelled.

### Debt

The Corporation has available a \$20-million operating line of credit with a bank. As at January 31, 2008, there was \$nil [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 fractionation-plant expansion.

On February 1, 2008, subsequent to the end of the second quarter, the Company repaid the remaining \$1.3-million outstanding balance of its U.S. bond which had a maturity date of August 1, 2018.

### Investing activities

Cash used in investing activities decreased to \$1.9 million in the second quarter of 2008 from \$3.0 million in the same quarter of the prior year. Similarly, cash used in investing activities in the first half of 2008 decreased to \$3.5 million from \$6.5 million in the same period of the prior year. In 2007, the second quarter included \$1.5 million and the first half of the year included \$3.8 million in spending on the fractionation-

plant expansion, excluding the impact of investment tax credits. The completion of this significant capital project accounts for the decline in capital investment in 2008.

### 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 contracts, 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 January 31, 2008, Cangene earned revenues from Apotex of \$5.4 million, down slightly from \$5.6 million in the same quarter in the prior year. For the current quarter, lower contract-R&D-services revenues have been offset by improved royalty revenues and sales of HepaGam B™. For the six months ended January 31, 2008, Cangene earned revenues from Apotex of \$12.9 million compared with \$13.5 million in the same period of the prior year. For the year-to-date, lower contract-R&D-services and royalty revenues have been nearly offset by higher revenues from sales of HepaGam B™.

At January 31, 2008, \$4.8 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 11* to the second 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 GAAP 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 January 31, 2008, 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 \$8.3 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 GAAP 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 second quarter of fiscal 2008 Cangene did not change or initially adopt any new 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 January 31, 2008, the Corporation has no outstanding forward foreign exchange collars.

**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 second quarter of 2008, thus decreasing exposure to fluctuations in interest rates. The non-revolving industrial development bond was repaid in full on February 1, 2008, subsequent to the end of the quarter. 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<sup>®</sup> 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](http://www.cangene.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).

CANGENE CORPORATION  
CONSOLIDATED BALANCE SHEETS *(unaudited)*

*Incorporated under the laws of Ontario*

*in thousands of Canadian dollars*

**At January 31, 2008**

**At July 31, 2007**

<b>ASSETS</b> <i>[note 4]</i>			
<b>Current</b>			
Cash	\$	1,173	\$ —
Accounts receivable <i>[note 11]</i>		24,056	20,475
Income and other taxes recoverable		16,618	16,144
Inventories <i>[note 3]</i>		60,747	60,753
Prepaid expenses and deposits		2,854	3,105
<b>Total current assets</b>		<b>105,448</b>	<b>100,477</b>
Property, plant and equipment, net <i>[note 4]</i>		100,845	103,571
Future income taxes		8,322	9,373
Goodwill		40,514	40,514
Other assets		2,348	2,815
	\$	<b>257,477</b>	\$ 256,750
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current</b>			
Bank indebtedness <i>[note 4]</i>	\$	—	\$ 2,136
Accounts payable and accrued liabilities		20,453	23,140
Income and other taxes payable		108	450
Current portion of deferred income		4,837	3,623
Current portion of long-term debt <i>[notes 4 and 13]</i>		474	1,636
<b>Total current liabilities</b>		<b>25,872</b>	<b>30,985</b>
Long-term debt <i>[notes 4 and 13]</i>		872	1,112
Incentive plan liability <i>[note 10[b]]</i>		87	226
Deferred income		5,275	2,931
Future income taxes		6,433	10,831
<b>Total liabilities</b>		<b>38,539</b>	<b>46,085</b>
Commitments <i>[notes 11 and 12]</i>			
<b>Shareholders' equity</b>			
Share capital <i>[note 10[a]]</i>		67,344	66,894
Contributed surplus		3,239	3,239
Accumulated other comprehensive loss <i>[note 2]</i>		(4,467)	(4,467)
Retained earnings		152,822	144,999
<b>Total shareholders' equity</b>		<b>218,938</b>	<b>210,665</b>
	\$	<b>257,477</b>	\$ 256,750

*See accompanying notes*

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

<i>in thousands of Canadian dollars except share-related data</i>	<b>Three months ended January 31, 2008</b>		Three months ended January 31, 2007		<b>Six months ended January 31, 2008</b>		Six months ended January 31, 2007	
<b>Revenues [note 11]</b>								
Product sales and services	\$	14,794	\$	12,786	\$	38,742	\$	28,672
R&D services [note 6]		6,993		6,898		31,808		13,313
Royalties		1,680		957		2,742		3,440
		<b>23,467</b>		20,641		<b>73,292</b>		45,425
<b>Cost of sales</b>								
Product sales and services		6,842		6,276		20,941		13,152
R&D services [note 6]		5,389		4,609		22,334		8,415
		<b>12,231</b>		10,885		<b>43,275</b>		21,567
<b>Gross profit</b>		<b>11,236</b>		9,756		<b>30,017</b>		23,858
<b>Expenses</b>								
Independent R&D [note 6]		795		1,501		3,421		3,365
Selling, general and administrative		3,959		3,417		7,719		6,012
Amortization		3,213		2,231		6,187		4,441
Interest expense (income)								
Short-term		(3)		(156)		43		(284)
Long-term		17		50		72		83
Foreign exchange loss (gain)		(706)		(625)		392		(661)
		<b>7,275</b>		6,418		<b>17,834</b>		12,956
Income before income taxes		<b>3,961</b>		3,338		<b>12,183</b>		10,902
Income tax expense (recovery)								
Current		745		(264)		7,669		2,194
Future		(321)		1,675		(3,309)		2,333
		<b>424</b>		1,411		<b>4,360</b>		4,527
<b>Net income and comprehensive income for the period [note 2]</b>		<b>3,537</b>		1,927		<b>7,823</b>		6,375
Retained earnings, beginning of period		149,285		139,363		144,999		134,915
<b>Retained earnings, end of period</b>	\$	<b>152,822</b>	\$	141,290	\$	<b>152,822</b>	\$	141,290
<b>Earnings per share [note 5]</b>								
Basic	\$	0.05	\$	0.03	\$	0.11	\$	0.10
Diluted	\$	0.05	\$	0.03	\$	0.11	\$	0.09
Weighted-average number of outstanding shares	#	<b>70,504,670</b>	#	68,038,870	#	<b>70,500,512</b>	#	66,942,312

See accompanying notes

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

<i>in thousands of Canadian dollars</i>	<b>Three months ended January 31, 2008</b>		Three months ended January 31, 2007		<b>Six months ended January 31, 2008</b>		Six months ended January 31, 2007	
<b>OPERATING ACTIVITIES</b>								
Net income for the period	\$	3,537	\$	1,927	\$	7,823	\$	6,375
Add (deduct) items not involving cash:								
Amortization		3,213		2,231		6,187		4,441
Deferred income		(404)		(522)		3,558		(1,220)
Incentive plan liability <i>[note 10[b]]</i>		(266)		(8)		(139)		(646)
Future income tax expense (recovery)		(321)		1,675		(3,309)		2,333
Unrealized foreign exchange loss (gain) on future income tax asset		(480)		164		(37)		718
		<b>5,279</b>		<b>5,467</b>		<b>14,083</b>		<b>12,001</b>
Net change in non-cash working capital balances related to operations <i>[note 7]</i>		<b>(1,076)</b>		<b>(4,665)</b>		<b>(6,361)</b>		<b>(6,469)</b>
<b>Cash provided by operating activities</b>		<b>4,203</b>		<b>802</b>		<b>7,722</b>		<b>5,532</b>
<b>INVESTING ACTIVITIES</b>								
Purchase of property, plant and equipment, net		<b>(1,883)</b>		<b>(2,984)</b>		<b>(3,461)</b>		<b>(6,456)</b>
<b>Cash used in investing activities</b>		<b>(1,883)</b>		<b>(2,984)</b>		<b>(3,461)</b>		<b>(6,456)</b>
<b>FINANCING ACTIVITIES</b>								
Decrease in bank indebtedness, net		<b>(1,076)</b>		—		<b>(2,136)</b>		—
Repayment of long-term debt		<b>(83)</b>		<b>(25,565)</b>		<b>(1,402)</b>		<b>(26,224)</b>
Issuance of common shares, net of share issuance costs		—		33,501		—		33,501
Proceeds on exercise of stock options <i>[note 10[a]]</i>		<b>12</b>		<b>55</b>		<b>450</b>		<b>321</b>
<b>Cash provided by (used in) financing activities</b>		<b>(1,147)</b>		<b>7,991</b>		<b>(3,088)</b>		<b>7,598</b>
<b>Net increase in cash during the period</b>		<b>1,173</b>		<b>5,809</b>		<b>1,173</b>		<b>6,674</b>
Cash, beginning of period	\$	—	\$	8,556	\$	—	\$	7,691
<b>Cash, end of period</b>	<b>\$</b>	<b>1,173</b>	<b>\$</b>	<b>14,365</b>	<b>\$</b>	<b>1,173</b>	<b>\$</b>	<b>14,365</b>
Interest paid	\$	<b>91</b>	\$	161	\$	<b>209</b>	\$	437
Income taxes paid	\$	<b>1,370</b>	\$	2,128	\$	<b>1,846</b>	\$	2,166

See accompanying notes

CANGENE CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*For the three and six-month periods ended January 31, 2008 and January 31, 2007 (unaudited)*

**1. SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements have been prepared by the Corporation in accordance with Canadian generally accepted accounting principles ("GAAP") and all significant accounting policies have been applied on a basis consistent with those followed in the most recent audited annual consolidated 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 GAAP for annual financial statements and therefore should be read in conjunction with the audited annual consolidated financial statements and notes included in the Corporation'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:

<i>in thousands of Canadian dollars</i>	
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 <b>January 31, 2008</b>	At July 31, 2007
Raw materials	\$ 20,346	\$ 16,885
Raw materials – long-term contracts	16,351	16,126
Work in process – product costs	1,646	1,450
Work in process – product costs, long-term contracts	3,895	1,878
Work in process – manufacturing process development costs, long-term contracts	7,953	9,654
Work in process – development costs, long-term contracts	1,358	6,658
Finished goods	7,575	8,102
Finished goods – long-term contracts	1,623	—
	<b>\$ 60,747</b>	<b>\$ 60,753</b>

As at January 31, 2008, the Corporation has included in its inventory \$31.2 million [July 31, 2007 – \$34.3 million] that consists of raw materials, work-in-process and finished goods under long-term U.S. government contracts. The invoicing of these costs to the U.S. government under long-term contracts commenced in the first quarter of 2008 once “Usable Product” requirements were achieved and “Usable Product” was delivered (see *note 12*).

#### 4. BANK INDEBTEDNESS AND LONG-TERM DEBT

<i>in thousands of Canadian dollars</i>	<b>At January 31, 2008</b>	At 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 <sup>1</sup> , collateralized by a subsidiary's real property	<b>1,346</b>	1,748
	<b>1,346</b>	2,748
Less current portion	<b>474</b>	1,636
	<b>\$ 872</b>	\$ 1,112

Scheduled future repayment of long-term debt for fiscal years ending July 31 is as follows<sup>1</sup>:

<i>in thousands of Canadian dollars</i>		
2008 [February 1–July 31]	\$	299
2009		224
2010		100
2011		100
2012		100
Thereafter		523
	<b>\$</b>	<b>1,346</b>

<sup>1</sup> Beginning November 2008, principal repayments were scheduled to be US\$25,000 quarterly and beginning November 2013, they were scheduled to be US\$20,000 quarterly. This bond was repaid in full on February 1, 2008 [note 13].

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 January 31, 2008, the Corporation had no balance [July 31, 2007 – \$2.1 million] outstanding under the operating facility.

#### 5. 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>	<b>Three months ended January 31, 2008</b>	Three months ended January 31, 2007	<b>Six months ended January 31, 2008</b>	Six months ended January 31, 2007
Net income	\$ 3,537	\$ 1,927	\$ 7,823	\$ 6,375
Weighted-average number of common shares outstanding	# 70,504,670	# 68,038,870	# 70,500,512	# 66,942,312
Dilutive effect of stock options	71,524	241,166	95,536	244,506
Diluted weighted-average number of common shares outstanding	# 70,576,194	# 68,280,036	# 70,596,048	# 67,186,818
Earnings per share:				
Basic	\$ 0.05	\$ 0.03	\$ 0.11	\$ 0.10
Diluted	\$ 0.05	\$ 0.03	\$ 0.11	\$ 0.09

For the quarter and six months ended January 31, 2008, 1,212,800 options [quarter and six months ended January 31, 2007 – 989,450 options] 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.

## 6. 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:

- expenditures under R&D agreements funded by Apotex, where Cangene will hold product licences and will pay Apotex certain royalties and profit sharing,
- 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,
- 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")),
- expenditures under third-party contract-R&D agreements funded by the third party, where the third party holds the intellectual property rights, and
- 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>	<b>Three months ended January 31, 2008</b>	Three months ended January 31, 2007	<b>Six months ended January 31, 2008</b>	Six months ended January 31, 2007
<b>R&amp;D revenues</b>				
Apotex agreements – Cangene holds licence	\$ 2,625	\$ 2,785	\$ 6,564	\$ 6,422
Apotex agreements – Apotex holds licence	447	1,650	1,831	3,358
Third-party contracts – Cangene holds licence	3,142	1,561	22,526	2,386
Third-party contracts – third party holds licence	779	902	887	1,147
	<b>\$ 6,993</b>	<b>\$ 6,898</b>	<b>\$ 31,808</b>	<b>\$ 13,313</b>
<b>R&amp;D expenses</b>				
Apotex agreements – Cangene holds licence	\$ 1,678	\$ 1,961	\$ 4,256	\$ 4,427
Apotex agreements – Apotex holds licence	154	758	800	1,486
Third-party contracts – Cangene holds licence	3,172	1,317	16,685	1,778
Third-party contracts – third party holds licence	385	573	593	724
Total costs of sales – R&D services	\$ 5,389	\$ 4,609	\$ 22,334	\$ 8,415
Cangene independent R&D	795	1,501	3,421	3,365
	<b>\$ 6,184</b>	<b>\$ 6,110</b>	<b>\$ 25,755</b>	<b>\$ 11,780</b>

## 7. SUPPLEMENTARY INFORMATION FOR CONSOLIDATED STATEMENTS OF CASH FLOWS

### 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 January 31, 2008	Three months ended January 31, 2007	Six months ended January 31, 2008	Six months ended January 31, 2007
Accounts receivable	\$ 13,858	\$ 5,675	\$ (3,581)	\$ 9,126
Inventories	(10,050)	(7,299)	6	(12,619)
Income and other taxes recoverable	(4,396)	(5,440)	(474)	(6,576)
Prepaid expenses and deposits	382	1,160	718	(1,892)
Income and other taxes payable	61	—	(342)	—
Accounts payable and accrued liabilities	(931)	1,239	(2,688)	5,492
	\$ (1,076)	\$ (4,665)	\$ (6,361)	\$ (6,469)

## 8. FINANCIAL INSTRUMENTS

At January 31, 2008, the Corporation has the following financial instruments: cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and long-term debt. 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. On occasion, 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 January 31, 2008, the Corporation has no forward foreign exchange collars outstanding.

### Fair value

At January 31, 2008, the carrying value of cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and long-term debt approximates their fair value. 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 standard pricing models with market-based inputs.

## 9. 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 and six-month periods ended January 31, 2008 and January 31, 2007, and identifiable assets as at January 31, 2008 and January 31, 2007:

<i>in thousands of Canadian dollars</i>	Three months ended January 31, 2008			Three months ended January 31, 2007		
	Biopharma- ceutical operations	Contract services	Total	Biopharma- ceutical operations	Contract services	Total
<b>Revenues</b>						
Product sales and services	\$ 9,160	\$ 5,634	\$ 14,794	\$ 8,067	\$ 4,719	\$ 12,786
R&D services	2,625	4,368	6,993	2,784	4,114	6,898
Royalties	1,680	—	1,680	957	—	957
	<b>13,465</b>	<b>10,002</b>	<b>23,467</b>	<b>11,808</b>	<b>8,833</b>	<b>20,641</b>
<b>Cost of sales</b>						
Product sales and services	2,508	4,334	6,842	3,308	2,968	6,276
R&D services	1,678	3,711	5,389	1,961	2,648	4,609
	<b>4,186</b>	<b>8,045</b>	<b>12,231</b>	<b>5,269</b>	<b>5,616</b>	<b>10,885</b>
<b>Gross profit</b>	<b>9,279</b>	<b>1,957</b>	<b>11,236</b>	<b>6,539</b>	<b>3,217</b>	<b>9,756</b>
<b>Income (loss) before income taxes</b>	<b>5,008</b>	<b>(1,047)</b>	<b>3,961</b>	<b>2,697</b>	<b>641</b>	<b>3,338</b>
<b>Income tax expense (recovery)</b>	<b>545</b>	<b>(121)</b>	<b>424</b>	<b>1,397</b>	<b>14</b>	<b>1,411</b>
<b>Net income (loss) for the period</b>	<b>\$ 4,463</b>	<b>\$ (926)</b>	<b>\$ 3,537</b>	<b>\$ 1,300</b>	<b>\$ 627</b>	<b>\$ 1,927</b>
Total assets	\$ 107,732	\$ 149,745	\$ 257,477	\$ 105,181	\$ 141,133	\$ 246,314
Additions to property, plant and equipment, and goodwill	\$ 900	\$ 983	\$ 1,883	\$ 1,560	\$ 1,424	\$ 2,984

	Six months ended January 31, 2008			Six months ended January 31, 2007		
<i>in thousands of Canadian dollars</i>	Biopharma- ceutical operations	Contract services	Total	Biopharma- ceutical operations	Contract services	Total
<b>Revenues</b>						
Product sales and services	\$ 19,456	\$ 19,286	\$ 38,742	\$ 19,367	\$ 9,305	\$ 28,672
R&D services	6,564	25,244	31,808	6,422	6,891	13,313
Royalties	2,742	—	2,742	3,440	—	3,440
	<b>28,762</b>	<b>44,530</b>	<b>73,292</b>	<b>29,229</b>	<b>16,196</b>	<b>45,425</b>
<b>Cost of sales</b>						
Product sales and services	5,206	15,735	20,941	5,723	7,429	13,152
R&D services	4,006	18,328	22,334	4,428	3,987	8,415
	<b>9,212</b>	<b>34,063</b>	<b>43,275</b>	<b>10,151</b>	<b>11,416</b>	<b>21,567</b>
<b>Gross profit</b>	<b>19,550</b>	<b>10,467</b>	<b>30,017</b>	<b>19,078</b>	<b>4,780</b>	<b>23,858</b>
<b>Income (loss) before income taxes</b>	<b>10,422</b>	<b>1,761</b>	<b>12,183</b>	<b>10,914</b>	<b>(12)</b>	<b>10,902</b>
<b>Income tax expense</b>	<b>2,415</b>	<b>1,945</b>	<b>4,360</b>	<b>4,257</b>	<b>270</b>	<b>4,527</b>
<b>Net income (loss) for the period</b>	<b>\$ 8,007</b>	<b>\$ (184)</b>	<b>\$ 7,823</b>	<b>\$ 6,657</b>	<b>\$ (282)</b>	<b>\$ 6,375</b>
Total assets	\$ 107,732	\$ 149,745	\$ 257,477	\$ 105,181	\$ 141,133	\$ 246,314
Additions to property, plant and equipment, and goodwill	\$ 1,193	\$ 2,268	\$ 3,461	\$ 3,712	\$ 2,744	\$ 6,456

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 January 31, 2008 and January 31, 2007.

	Three months ended January 31, 2008		Three months ended January 31, 2007	
<i>in thousands of Canadian dollars</i>	Revenue	Property, plant and equipment, and goodwill	Revenue	Property, plant and equipment, and goodwill
Canada	\$ 6,866	\$ 82,635	\$ 7,138	\$ 88,475
United States	14,057	58,724	11,378	59,446
Eurasia and other	2,544	—	2,125	—
	<b>\$ 23,467</b>	<b>\$ 141,359</b>	<b>\$ 20,641</b>	<b>\$ 147,921</b>

	Six months ended January 31, 2008		Six months ended January 31, 2007	
<i>in thousands of Canadian dollars</i>	Revenue	Property, plant and equipment, and goodwill	Revenue	Property, plant and equipment, and goodwill
Canada	\$ 15,756	\$ 82,635	\$ 17,065	\$ 88,475
United States	52,879	58,724	23,916	59,446
Eurasia and other	4,657	—	4,444	—
	<b>\$ 73,292</b>	<b>\$ 141,359</b>	<b>\$ 45,425</b>	<b>\$ 147,921</b>

For the current quarter, sales to two customers represent 74% [quarter ended January 31, 2007 – two customers; 75%] of the revenue of the biopharmaceutical-operations segment, and sales to two customers represent 52% [quarter ended January 31, 2007 – two customers; 42%] of the revenue of the contract-services segment.

For the first six months of fiscal 2008, sales to two customers represent 76% [six months ended January 31, 2007 – two customers; 79%] of the revenue of the biopharmaceutical-operations segment, and sales to two customers represent 77% [six months ended January 31, 2007 – one customer; 21%] of the revenue of the contract-services segment.

## 10. INCENTIVE PLANS

### [a] Stock option plan

There were no new stock options granted during the quarters ended January 31, 2008 and January 31, 2007. During the quarter, 2,000 stock options were exercised at a weighted-average price of \$6.25 [quarter ended January 31, 2007 – 11,900 options; \$4.65] resulting in a negligible increase in share capital [quarter ended January 31, 2007 – \$0.1 million]. A total of 70,100 stock options expired or were cancelled during the quarter [quarter ended January 31, 2007 – 13,200 stock options].

There were no new stock options granted during the six-month periods ended January 31, 2008 and January 31, 2007. During the six months ended January 31, 2008, 95,700 stock options were exercised at a weighted-average price of \$4.70 [six months ended January 31, 2007 – 87,600 options; \$3.66] resulting in an increase to share capital of \$0.3 million [six months ended January 31, 2007 – \$0.1 million]. A total of 70,100 stock options expired or were cancelled during the six months ended January 31, 2008 [six months ended January 31, 2007 – 13,700 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 was 90% of the weighted-average market price for the 90-day period prior to the effective date of the grant.

As at January 31, 2008, the Corporation recorded a liability of \$0.1 million [July 31, 2007 – \$0.2 million] with respect to phantom-stock units previously granted that are still outstanding.

A total of 15,741 units were redeemed for a nominal value during the three months ended January 31, 2008 [three months ended January 31, 2007 – \$nil]. No units matured during the three-month periods ended January 31, 2008 and January 31, 2007. A total of 84,036 units were cancelled during the three months ended January 31, 2008 [three months ended January 31, 2007 – 13,522 units].

A total of 15,741 units were redeemed for a nominal value during the six months ended January 31, 2008 [six months ended January 31, 2007 – \$nil]. During the six months ended January 31, 2008, 950,679 units matured with no redemption value [six months ended January 31, 2007 – nil units]. A total of 84,036 units were cancelled during the six months ended January 31, 2008 [six months ended January 31, 2007 – 30,303 units].

## 11. 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 January 31, 2008.

The Corporation had a separate agreement with Apotex to conduct contract R&D and contract manufacturing of a biopharmaceutical product (see also *note 6*). That agreement concluded during the first quarter of 2008.

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 for it 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 January 31, 2008, Cangene recorded revenues of \$5.4 million [quarter ended January 31, 2007 – \$5.6 million] from Apotex and at January 31, 2008, \$4.8 million [July 31, 2007 – \$5.0 million] was included in accounts receivable.

During the six months ended January 31, 2008, Cangene recorded revenues of \$12.9 million [six months ended January 31, 2008 – \$13.5 million] from Apotex.

These transactions occurred in the normal course of operations and were recorded at their exchange amount.

## 12. 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. 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 of 2008 for both incurred-to-date development costs and product delivery. Revenue recorded from this contract in the quarter ended January 31, 2008 was \$1.4 million [quarter ended January 31, 2007 – \$nil]. For the six months ended January 31, 2008 revenue recorded from this contract was \$11.1 million [six months ended January 31, 2007 – \$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 of 2008 for both incurred-to-date development costs and product delivery. Revenue recorded from this contract in the quarter ended January 31, 2008 was \$2.7 million [quarter ended January 31, 2007 – \$nil]. For the six months ended January 31, 2008, revenue recorded from this contract was \$20.0 million [six months ended January 31, 2007 – \$nil].

## 13. SUBSEQUENT EVENT

On February 1, 2008, the Corporation paid off the remaining \$1.3-million balance of its current and long-term debt which consisted of a U.S. bond with a maturity date of August 1, 2018.

## 14. COMPARATIVE FIGURES

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

**HEAD OFFICE AND MANUFACTURING FACILITY**

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

**REGISTERED OFFICE AND INVESTOR RELATIONS**

180 Attwell Drive  
Suite 360  
Toronto, Ontario  
M9W 6A9  
Telephone (416) 675-8300  
Facsimile (416) 675-8301

**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](mailto:jcompton@cangene.com) or by telephone at (416) 675-8280.

**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](http://www.cangene.com)

**CHESAPEAKE WEBSITE**

[www.cblinc.com](http://www.cblinc.com)

**FISCAL YEAR-END**

July 31st

**TRADING SYMBOL**

CNJ (Toronto Stock Exchange)

**52-WEEK TRADING RANGE**

\$5.57–\$9.25 (at January 31, 2008)

**SHARE REGISTRAR AND TRANSFER AGENT**

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



"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 labelling for products, product monographs or prescribing information and not rely on information discussed in this report. Prescribing information or drug names may differ in various countries**

**Approved Drugs**

Accretropin<sup>™</sup> (somatotropin [rDNA origin] Injection; recombinant human growth hormone  
HepaGam B<sup>™</sup> [Hepatitis B Immune Globulin (Human) Injection]; antibody specific for hepatitis B virus  
VariZIG<sup>™</sup> [Varicella Zoster Immune Globulin (Human)]; antibody specific for chickenpox virus  
VIG [Vaccinia Immune Globulin Intravenous (Human)]; antibody specific for the virus used to make smallpox vaccine  
WinRho<sup>®</sup> SDF [Rho (D) Immune Globulin (Human) for injection]; antibody specific for a certain type of red blood cell