

Cangene Corporation 2008 Third Quarter Report



MESSAGE TO SHAREHOLDERS

This has been another solid quarter, with strong financials, a positive regulatory event, a number of changes to our Board of Directors and a major contract renewal. We also made a major delivery on a U.S. government contract shortly after the end of the quarter. The fundamentals of the Company are strong and we continue to achieve our business goals.

We posted strong financials this quarter and we continue to see a positive impact from U.S. government stockpiling contracts. Revenues were up 30% to \$29.7 million, compared with \$22.7 million in the same quarter last year and up 51% to \$102.9 million, compared with \$68.2 million for the nine months. Net income for the current quarter increased 79% to \$3.1 million or \$0.04 per share, compared with \$1.8 million or \$0.03 per share last year, and for the nine months, net income increased by 35% to \$11.0 million or \$0.16 per share, compared with \$8.1 million or \$0.12 per share last year. As always, I encourage you to read the MD&A that follows this message for an in-depth discussion of our financials

The earliest event in the quarter was the resignation of one of our independent board members, Jerry Treppel. Jerry resigned in order to devote more time pursuing other business interests, and we thank him for his contributions to our Board over the years. To fill the gap and to further enhance our Board, we quickly added three new, independent directors. Drs. Bruce Burlington, Philip Johnson and Scott Lillibridge joined our Board at the end of March. This brings our Board to 11 members, six of whom are independent of the Apotex Group, our majority shareholder. Collectively, the new directors bring extensive experience in the U.S. regulatory environment, government biodefence and infectious disease programs, and the medical aspects of infectious diseases worldwide. Dr. Burlington's background includes work at a major pharmaceutical company as well as the U.S. Food and Drug Administration ("FDA"). Dr. Johnson is an infectious disease and vaccine specialist, and Dr. Lillibridge has worked at the U.S. Centers for Disease Control and Prevention, and the U.S. Department of Health and Human Services. We welcome each of them to our Board.

Possibly the most significant event of the quarter was the granting of orphan drug exclusive approval by the FDA for our HepaGam B™ (Hepatitis B Immune Globulin Intravenous (Human)) for its use in preventing hepatitis B recurrence following liver transplantation in hepatitis B surface-antigen-positive liver transplant recipients. This approval gives HepaGam B™ seven years of market exclusivity in the United States and could facilitate the recovery of certain regulatory filing fees. The exclusivity further solidifies the drug's position in the U.S. market as the only hepatitis B immune globulin approved for this indication.

I'm also extremely pleased to report that we will continue as a supplier of hyperimmune products to Canadian Blood Services and Héma-Québec. Both organizations have signed five-year agreements under which they will continue to purchase WinRho® SDF [Rho D Immune Globulin (human) for Injection] and VariZIG™ [Varicella Zoster Immune Globulin (Human)], and will now also purchase HepaGam B™ for preventing recurrence of hepatitis B virus infection following liver transplantation. We have been a long-time supplier of WinRho® and as our approved product portfolio has grown, so has our relationship with these two organizations. As a footnote to this news, I'm also pleased to report that we have received a formal certificate of recognition from Héma-Québec for our achievement of 100% compliance under its annual evaluation of suppliers. The evaluation looks at a variety of performance criteria such as delivery, product conformance, inventory level and customer service. The fact that achievement of 100% compliance merits a formal certificate confirms how difficult this standard is to attain, and I congratulate all the departments whose efforts went into receiving this honour.

We instituted a voluntary withdrawal of one lot of our Vaccinia Immune Globulin (“VIG”) during the quarter on the basis that a number of vials stored at Cangene no longer met the appearance specification that requires the product to be a clear solution. This lot met all the appearance and other specifications prior to its earlier release. The affected lot was not one that had been shipped to the U.S. Strategic National Stockpile.

Subsequent to the end of the quarter, we made a substantial delivery of heptavalent botulism antitoxin (“BAT”) under the contract with the Biomedical Advanced Research and Development Authority (“BARDA”) within the U.S. Department of Health and Human Services. This is the first significant delivery of product under the stockpiling contracts and it triggers invoicing. Corresponding revenues of approximately \$20 million will be recorded in our fourth fiscal quarter of 2008. We expect to make a further, smaller delivery later in the fourth quarter as well. Once delivery has been accepted, the BAT will be added to the inventory we have already delivered to the U.S. Strategic National Stockpile.

On the financial side, during the quarter we instituted a normal course issuer bid (the “Bid”). Our Board of Directors believes that the proposed purchase of common shares is in the best interest of the Corporation and constitutes a desirable use of funds on the basis that recent market prices for our common shares do not fully reflect the value of our business and future business prospects. The Bid was approved by the Toronto Stock Exchange and commenced on April 25, 2008 and will expire one year later or earlier if the maximum number of shares has been purchased. Under the terms of the Bid, Cangene may acquire for cancellation up to 1,000,000 common shares of the Company, which at the date the Bid commenced represented approximately 1.4% of Cangene’s total issued and outstanding common shares. All purchases under the Bid will be made through the facilities of the Toronto Stock Exchange (the “TSX”) and in accordance with the TSX requirements. The price paid will be the market price on the TSX at the time of the purchase and, other than block purchases allowable under the TSX rules, purchases will be subject to a daily restriction of 8,844 common shares, which is 25% of the average daily trading volume for the six months preceding the start of the Bid. A copy of the Notice of Intention to Make a Normal Course issuer Bid that was filed with the TSX is available on request from Cangene Corporation.

Strategically, our plans remain consistent. Focus on licensure and delivery of products under U.S. government biodefence contracts; continue activities aimed at increasing our control over supply of the key raw material, plasma; work with our partners to expand and strengthen sales of our licensed products; and develop or acquire new products. In order to maximize our abilities to respond to the growth in our business, we are planning to undertake a re-organization of certain departments going forward. And with respect to the government contract activities, we recently responded to a U.S. government request for proposal (“RFP”) relating to treatments for Acute Radiation Syndrome. Based on information provided with the RFP we expect that a decision relating to the submitted proposals could be made in our first fiscal quarter of 2009. If we are successful in this bid process, this would be a significant contract for the Company.

Thank you for your continued interest in Cangene—I hope you all have a wonderful summer.

(signed)

Dr. John Langstaff
President and Chief Executive Officer
June 11, 2008

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

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

June 11, 2008

This review contains management's discussion of the Corporation's operating results and financial condition for the three and nine-month periods ended April 30, 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.

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

Disclosure and internal controls

Management has established and maintains 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[®], and its development established a core competency in developing and manufacturing hyperimmunes. Three additional hyperimmune products, VariZIG[™] (Varicella Zoster Immune Globulin), VIG (Vaccinia Immune Globulin) and HepaGam B[™] (Hepatitis B Immune Globulin) have also been licensed.

Cangene is also developing certain recombinant biopharmaceutical products as follow-on biologics (a similar strategy to that of traditional generic drugs).

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 June 11, 2008.

Revenues from the biopharmaceutical operations segment result largely from sales of WinRho® SDF, which are primarily through Baxter International, the Company's 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 biodefence products for the U.S. government. The first of these was a contract with the U.S. Centers for Disease Control and Prevention ("CDC") to develop and manufacture VIG, a product used to treat certain complications associated with smallpox vaccination. Revenue from this contract peaked in fiscal 2003 and the product was subsequently approved by the FDA in May 2005. During fiscal 2006, Cangene was awarded significant stockpiling contracts by the U.S. Department of Health and Human Services ("HHS") to develop and supply immune globulins aimed at botulism toxins (Botulism Antitoxin, "BAT") and inhalational anthrax (Anthrax Immune Globulin, "AIG") under the U.S. Project BioShield initiative. The base contracts' combined value is approximately US\$505 million. Early in fiscal 2008, Cangene achieved the "Usable Product" milestone as defined

by both the BAT and AIG contracts. Subsequent delivery and acceptance into the U.S. Strategic National Stockpile ("SNS") of both products triggered the Company's ability to invoice for these initial shipments. Initial revenue recognized on these contracts included product costs and reimbursable development costs incurred to date, and amounted to \$39.2 million in the first nine months 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 fourth quarter of 2008. Following the delivery, 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 continuing to build up an inventory of AIG plasma; current inventory levels are ahead of schedule.

Subsequent to the end of the third quarter, Cangene delivered a significant number of doses of BAT and will recognize revenue for the shipment of approximately \$20 million in the fourth quarter of 2008. Apart from the product deliveries, the Company continues to work on the licensing elements of the contracts for both products.

Strategically, management is also focused on expanding Cangene's plasma collection capabilities through expansion of four existing plasma centres. The expansions are currently underway and will result in

more than doubling the current capacity. Current activities include design, construction and finalizing lease amendments. These efforts are aimed at bringing more of Cangene's human plasma supply in-house. 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. In addition, in-house supply of plasma is more cost effective than the alternative.

Senior management is also concentrating on ongoing marketing efforts related to WinRho[®] SDF and HepaGam B[™]. For WinRho[®] 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. Management anticipates that European WinRho[®] 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.

For HepaGam B[™], 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 (home therapy) market to introduce them to the product. The FDA granted HepaGam B[™] orphan drug market exclusivity for seven years for the licensed indication to prevent hepatitis B recurrence following liver transplantation. With this market exclusivity as the only hepatitis B immune globulin licensed by the FDA for this indication, management believes that HepaGam B[™] will provide strong sales in the years to come as the Company continues to penetrate the U.S. market.

Recently, Cangene responded to a U.S. government request for proposal (the "RFP") with respect to Acute Radiation Syndrome. The RFP calls for 100,000 treatment courses and includes an option for a further 100,000. Information issued with the RFP indicates that a decision is likely in the first quarter of Cangene's fiscal 2009. If successful in the bid process, this would be a very significant contract for the Company.

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 R&D 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[®] 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[®] 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[™], 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. Any profits that may arise will be shared between the two companies. 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 had resigned from its Board of Directors, effective March 1, 2008.

Then, on March 26, 2008, the Company announced the appointment of three new, independent directors to its Board of Directors. The addition of Drs. Bruce Burlington, Philip Johnson and Scott Lillibridge brings Cangene's board to 11 members, six of whom are independent. The three new board members reside in the United States and have considerable experience in the fields of infectious disease, biodefence, vaccines, epidemiology and public health. For the first time, the majority of Cangene's directors are independent of the Apotex Group, Cangene's majority shareholder.

Also, on March 26, 2008, the Company announced that its HepaGam B™ product has received orphan drug exclusive approval from the FDA for the prevention of hepatitis B recurrence following liver transplantation in hepatitis B surface antigen-positive liver transplant patients. This approval gives the product seven years of market exclusivity.

On April 10, 2008, the Company announced that Canadian Blood Services and Héma-Québec have signed five-year agreements to purchase three of Cangene's hyperimmune products, WinRho® SDF, HepaGam B™ and VariZIG™. Under these agreements, Cangene will continue supplying WinRho® SDF and VariZIG™, and will now supply HepaGam B™ as well.

On April 17, 2008, the Company announced that it had initiated a voluntary product withdrawal for one lot of VIG on the basis that a number of vials stored at Cangene now fail an appearance specification that requires the product to be a clear solution. The lot had previously met appearance and all other established requirements. The affected lot is not one that had been shipped to the SNS.

On April 22 and 23, 2008, the Company announced application for and approval of a normal course issuer bid (the "Bid") to acquire for cancellation up to 1,000,000 common shares of the Company, representing approximately 1.4% of Cangene's total issued and outstanding common shares. The Bid commenced on April 25, 2008 and will expire on April 24, 2009, or earlier if the maximum number of shares has been repurchased. Other than block purchases allowable under the Toronto Stock Exchange rules, purchases will be subject to a daily restriction of

8,844 common shares, which is 25% of the average daily trading volume for the six months preceding the start of the Bid.

Subsequent to the end of the quarter, on May 29, 2008, the Company announced completion of a significant delivery of BAT under the contract with the Biomedical Advanced Research and Development Authority ("BARDA") within the U.S. Department of Health and Human Services. The delivery triggered invoicing, and related revenues of approximately \$20 million will be recorded in Cangene's fourth fiscal quarter of 2008. This is the first significant product delivery under the stockpiling contracts as the majority of the revenue recorded in the first quarter related to development costs.

RESULTS OF OPERATIONS

Consolidated revenues

Total revenues for the quarter ended April 30, 2008 were \$29.7 million, compared with \$22.7 million in the same quarter of the prior year, an increase of 30%. Total revenues for the nine months ended April 30, 2008 were \$102.9 million compared with \$68.2 million in the same period of the prior year, an increase of \$34.8 million or 51%. Revenues are significantly higher in the current quarter and 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 third quarter of 2008 amounted to \$8.1 million, composed of \$3.9 million from BAT and \$4.2 million from AIG. Revenue recognized on these contracts in the first nine months of 2008 amounted to \$39.2 million, composed of \$23.9 million from BAT and \$15.3 million from AIG. In the current quarter, while there was only a small delivery of AIG with respect to the stockpiling contracts, other components of the contracts continued to generate significant revenue.

Although revenues on the development aspects of the stockpiling contracts increased substantially in the quarter, the rise has been partially offset by lower sales of WinRho® SDF in the U.S. and reduced revenues from research and development activities funded by Apotex. R&D activity supported by Apotex has declined as one product, Leucotropin™, has been filed and is awaiting a regulatory response, and while Cangene is also awaiting a decision from Apotex with respect to a marketing strategy for Accretropin™, Cangene's human growth hormone.

Year-to-date, the significant contract-services revenues from BAT and AIG account for the majority of the revenue increase, while improved sales of HepaGam B™ have also contributed. A reduction in U.S. sales of WinRho® SDF and lower revenues from joint research projects with Apotex have partially offset these positive trends in revenue.

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 from sales of the drug worldwide.

in thousands of Canadian dollars

	Three months ended April 30, 2008				Three months ended April 30, 2007			
	Product sales	R&D services	Royalties	Total	Product sales	R&D services	Royalties	Total
Revenues	\$ 10,147	\$ 3,148	\$ 1,784	\$ 15,079	\$ 11,217	\$ 2,763	\$ 2,503	\$ 16,483
Gross profit	3,622	1,160	1,784	6,566	7,844	1,027	2,503	11,374
Gross margin	% 36	% 37	% 100	% 44	% 70	% 37	% 100	% 69

in thousands of Canadian dollars

	Nine months ended April 30, 2008				Nine months ended April 30, 2007			
	Product sales	R&D services	Royalties	Total	Product sales	R&D services	Royalties	Total
Revenues	\$ 29,603	\$ 9,712	\$ 4,526	\$ 43,841	\$ 30,584	\$ 9,185	\$ 5,943	\$ 45,712
Gross profit	17,872	3,718	4,526	26,116	21,488	3,021	5,943	30,452
Gross margin	% 60	% 38	% 100	% 60	% 70	% 33	% 100	% 67

Product-sales revenues in this segment are lower during the current quarter than in the comparable quarter last year as the current quarter includes reduced sales of WinRho® SDF in the U.S. The lower WinRho® SDF sales in the U.S. were partially offset by higher sales in the European Union and increased sales of HepaGam B™ in North American markets. HepaGam B™ sales accounted for more than 11% of the product sales revenues during the quarter compared with less than 5% in the comparable quarter of the prior year. Gross margin is greatly reduced in the current quarter, as the Corporation has recorded costs of \$2.8 million with respect to the withdrawal of one lot of VIG (see NEW DEVELOPMENTS). Without this, gross margin would have been approximately 63%. Higher plasma costs resulting from lower concentration plasma have also adversely impacted the gross margin on HepaGam B™, further contributing to the lower than historical margins.

On a year-to-date basis, product-sales revenues have decreased marginally as the lower sales of WinRho® SDF have been largely offset by higher sales of HepaGam B™. 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 is lower than the prior year for the same reasons discussed in the previous paragraph with respect to the current quarter.

R&D-services revenues are slightly higher in the current quarter and year-to-date compared with the same periods of the prior year. 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 decrease in royalty revenue in the current quarter and year-to-date is due to lower sales of Ferriprox™. 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.

in thousands of Canadian dollars

	Three months ended April 30, 2008			Three months ended April 30, 2007		
	Product services	R&D services	Total	Product services	R&D services	Total
Revenues	\$ 8,232	\$ 6,339	\$ 14,571	\$ 3,065	\$ 3,182	\$ 6,247
Gross profit	2,773	2,258	5,031	195	1,413	1,608
Gross margin	% 34	% 36	% 35	% 6	% 44	% 26

in thousands of Canadian dollars

	Nine months ended April 30, 2008			Nine months ended April 30, 2007		
	Product services	R&D services	Total	Product services	R&D services	Total
Revenues	\$ 27,518	\$ 31,583	\$ 59,101	\$ 12,370	\$ 10,073	\$ 22,443
Gross profit	6,324	9,174	15,498	2,071	4,317	6,388
Gross margin	% 23	% 29	% 26	% 17	% 43	% 28

The higher product-services revenue in the third quarter of 2008 compared with the same quarter of the prior year resulted primarily from the AIG and BAT stockpiling contracts, which accounted for \$2.7 and \$1.4 million of revenue in the current quarter respectively. This increased contract revenue was compounded by higher revenues at the Company's Chesapeake subsidiary and produced a significant increase in revenues in the quarter. The gross margin was higher in the current quarter, principally due to improved results at Chesapeake, while the product component of the BAT and AIG stockpiling contracts also contributed to the higher margin.

On a year-to-date basis, product-services revenues are significantly higher, resulting primarily from delivery of product on the BAT and AIG stockpiling contracts, which accounted for a combined \$14.2 million of revenue in the first nine months of 2008. These revenues were further enhanced by increased contract-fill/finishing revenue at the Company's Chesapeake subsidiary. On a year-to-date basis, gross margin has increased over the prior year due to the significantly improved results at Chesapeake combined with the contributions from product components of the BAT and AIG stockpiling contracts.

In R&D services, the BAT and AIG stockpiling contracts contributed \$4.0 million in revenue in the third quarter of 2008. Similar contracts contributed only \$0.4 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 68% 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 lower than the prior year due to a different mix of projects in process.

On a year-to-date basis in R&D services, the BAT and AIG stockpiling contracts contributed \$25.0 million in revenue. Similar contracts contributed only \$2.2 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 52% 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 partially to 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 will be recovered through the fixed price to be received upon delivery of product. Other contributors to the lower gross margin year-to-date are the lower margin BAT and AIG stockpiling contracts, and certain R&D contracts.

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.

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, primarily in inventory. At April 30, 2008, the Company had recorded costs of \$38.6 million related to these two contracts as follows:

- Raw materials of \$15.4 million, Work in process – product costs of \$1.9 million, Work in process – manufacturing process development costs of \$8.1 million, Work in process – development costs of \$1.3 and Finished goods of \$8.9 million recorded in Inventory,
- Insurance of \$0.9 million recorded in Prepaid expenses, and
- Insurance of \$2.1 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 \$0.9 million in the third quarter of fiscal 2008, compared with \$2.2 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 third quarter of 2008 includes increased expenditures on the development of Cangene's peptide project known as PEP 35 as well as hyperimmune process improvements. PEP 35 is a novel peptide with immune modulating activity and anti-infective properties, and it is being developed as a potential inhibitor of certain post-surgical infections.

On a year-to-date basis, independent R&D expense was \$4.4 million compared with \$5.6 million in the same period of the prior year. 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 nine months 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 is focused on a number of initiatives including hyperimmune process improvements, further HepaGam B™ studies, GM-CSF development and the PEP 35 project.

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

Total SG&A expense in the third quarter of 2008 increased to \$4.5 million from \$3.3 million in the same quarter of the prior year. Total SG&A expense in the first nine months of 2008 increased to \$12.2 million from \$9.3 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, and an allocation of facility overhead expenses. Increased SG&A expense in the third quarter and first nine months 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 current third 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., as well as 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. SG&A also includes reduced corporate capital taxes in both the current quarter and year-to-date. Corporate capital tax will be eliminated for Manitoba manufacturing and processing companies effective July 1, 2008.

Amortization

For the quarter ended April 30, 2008, amortization remained level with the same quarter of the prior year at \$3.0 million. On a year-to-date basis, the increase in amortization expense to \$9.2 million from \$7.4 million is due to the amortization of the \$36.9-million fractionation-plant expansion that began effective January 15, 2007.

Income taxes

Income tax expense of less than \$0.1 million for the quarter ended April 30, 2008 decreased from \$2.0 million in the same quarter of the prior year, while income tax expense of \$4.4 million for the nine months ended April 30, 2008 is lower than the \$6.5 million in the same period of the prior year. Both in the quarter and year-to-date, the primary reason for the decrease in taxes, despite higher income, is the management decision to record the tax effect of an additional \$6.0 million of tax loss carryforwards related to U.S. subsidiaries and to adjust the effective tax rate at which the tax losses are recognized. In addition, the comparative periods had higher than normal effective tax rates due to two items. First, the elimination of intercompany profits from U.S. subsidiary operations resulted in a net loss in the U.S. operations, and the potential future tax benefit of that loss was not recognized. Second, unrealized foreign exchange losses, primarily on the investment in U.S. subsidiaries, were not deductible for tax purposes.

These two factors increased taxable income in the comparative quarter and year-to-date, resulting in a higher effective tax rate as a percentage of income before income taxes.

Subsequent to the end of the quarter, on May 12, 2008, the Corporation received an income tax refund from the Canada Revenue Agency of \$8.9 million that is recorded in the current quarter's income and other taxes recoverable. This was a partial refund of taxes paid in prior years and is attributed to the carry-back of scientific research and experimental development tax credits.

Net income

Net income of \$3.1 million for the third quarter is 79% higher than the \$1.8 million in the same quarter of the prior year. The current quarter generated significantly higher revenues, however, gross profit was adversely affected by the recording of a \$2.8-million expense associated with the withdrawal of one lot of VIG (see NEW DEVELOPMENTS), which resulted in lower margins on product sales and services. The impact of reduced independent R&D expenses was offset by increased SG&A expenses, primarily consisting of wages and benefits. The current

quarter benefited from a significantly lower tax expense due to the recognition of benefits associated with additional tax losses relating to U.S. operations.

Net income for the nine months ended April 30, 2008 was \$11.0 million, 35% higher than the \$8.1 million in the same period last year. Year-to-date net income grew at a slower rate than revenue due to several factors. These factors include lower margin contract-research revenues; the \$2.8-million expense associated with the VIG-lot withdrawal; a \$1.8-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; and approximately \$1.2 million in severance and related costs for the discontinuation of R&D activities at the Mississauga location. A reduction in income taxes due to the recognition of benefits associated with additional tax losses relating to U.S. operations and lower independent R&D expenses helped to offset some of the negative impacts on net income.

Comprehensive income

Comprehensive income for the quarters and year-to-date periods ended April 30, 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, basic and diluted earnings per share of \$0.04 compare with \$0.03 and \$0.02, respectively, in the same quarter last year and reflects the increased net income and similar weighted-average number of shares outstanding.

For the first nine months of 2008, basic and diluted earnings per share of \$0.16 increased over the same period of the prior year when basic and diluted earnings per share were \$0.12. This reflects the \$2.8-million increase in net income, offset slightly by an increased weighted-average number of shares outstanding.

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>	April 30, 2008 (Q3 2008)	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)
Revenues	\$ 29,650	\$ 23,467	\$ 49,825	\$ 24,241	\$ 22,730	\$ 20,641	\$ 24,784	\$ 26,767
R&D expense ¹	7,002	6,184	19,571	4,589	5,710	6,110	5,670	7,365
Net income	3,144	3,537	4,286	1,948	1,761	1,927	4,448	4,191
Earnings per share								
Basic	\$ 0.04	\$ 0.05	\$ 0.06	\$ 0.03	\$ 0.03	\$ 0.03	\$ 0.07	\$ 0.06
Diluted	\$ 0.04	\$ 0.05	\$ 0.06	\$ 0.03	\$ 0.02	\$ 0.03	\$ 0.07	\$ 0.06

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 in the fourth quarter of fiscal 2006 were positively impacted by a delivery of a VIG order to the U.K. Fiscal 2007 generally saw decreased revenues and net income due to the absence of a significant VIG sale and the fact that Cangene was not yet recognizing revenue on the BAT and AIG stockpiling contracts awarded in 2006. The lack of a significant VIG sale during 2007 was partially offset by improved WinRho[®] SDF sales in the U.S., driven by the introduction of the more profitable liquid formulation. Net income for the first quarter of 2007 was higher than the subsequent three quarters due to the inclusion of a reversal of incentive plan expense and a revised estimate of rebates and discounts on previous WinRho[®] SDF sales. The increase in revenue and net income from the third to fourth quarter in 2007 was primarily due to revenue earned 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. Higher revenues in the third quarter of 2008 reflect a small AIG delivery and further development-related revenues on the BAT and AIG stockpiling contracts, although these were partially offset by lower WinRho[®] SDF sales in the U.S. Net income in the third quarter of 2008 was adversely affected by a \$2.8-million expense associated with the withdrawal of one lot of VIG (see NEW DEVELOPMENTS).

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.

Earnings per share over the two-year period reflects the fluctuations in net income as well as an increase in the number of shares outstanding due to the exercise of stock options and the more significant increase due to the share offering in the second quarter of 2007.

LIQUIDITY & CAPITAL RESOURCES

Operating activities

Cash at April 30, 2008 and July 31, 2007 was \$nil. Cash of less than \$0.1 million was provided by operating activities during the third quarter of 2008, compared with \$6.7 million used during the same quarter of the prior year. The improved cash-flow from operations was primarily due to managing working capital by reducing accounts receivable and increasing accounts payable. These two positive cash-flow items were partially offset by a \$6.8-million increase in inventory related to the U.S. government stockpiling contracts.

On a year-to-date basis, cash provided by operating activities totalled \$7.8 million on the strength of improved net income and an increase in deferred income. On a year-to-date basis, accounts receivable increased by \$4.7 million, reflecting billing activities on the BAT and AIG

stockpiling contracts, while accounts payable decreased. The largest single difference from the prior year is that, while inventory balances have increased by \$6.8 million, this is a much smaller increase than the \$20.3 million seen in the prior year when shipment of product and invoicing had not yet begun on the stockpiling contracts.

Financing activities

Cash provided by financing activities totalled \$0.8 million in the third quarter of fiscal 2008, compared with \$1.7 million used in financing activities in the same period of the prior year. The increase in cash provided is due to increased bank indebtedness in the quarter.

For the nine months ended April 30, 2008, cash used in financing activities totalled \$2.3 million, while the same period in the prior year included cash provided by

financing activities of \$5.9 million. The current year-to-date shows a use of cash due to the repayment of long-term debt. The prior year showed cash provided by financing activities due to the issuance of common shares in the second quarter of 2007 with 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, 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
Shares cancelled pursuant to normal course issuer bid	—	—
Stock options exercised	—	—
Share capital at April 30, 2008	70,505,170	\$ 67,344

At April 30, 2008, 1.4 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.

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.

Debt

The Corporation has available a \$20-million operating line of credit with a bank. As at April 30, 2008, there was \$2.2 million [July 31, 2007 – \$2.1 million] outstanding on the operating line.

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

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

Investing activities

Cash used in investing activities increased to \$2.0 million in the third quarter of 2008 from \$1.5 million in the same quarter of the prior year, due primarily to an upgrade of manufacturing control systems.

Cash used in investing activities in the first nine months of 2008 decreased to \$5.5 million from \$8.0 million in the same period of the prior year. In 2007, the first nine months 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.

Cangene has 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 April 30, 2008, Cangene earned revenues from Apotex of \$6.6 million, down from \$7.5 million in the same quarter in the prior year. For the nine months ended April 30, 2008, Cangene earned revenues from Apotex of \$19.5 million compared with \$21.0 million in the same period of the prior year. For the current quarter and year-to-date, lower contract-R&D-services revenues and royalties have been offset by improved biopharmaceutical-R&D-services revenues and sales of HepaGam B™.

At April 30, 2008, \$6.8 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.

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 (the "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 April 30, 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 \$8.4 million to recognize the future benefit of tax-loss carryforwards and deductible temporary differences arising from its U.S. operations, principally the Chesapeake subsidiary. In the third quarter, the Company has recognized a future tax benefit of \$6.0 million in additional tax losses originating from U.S. operations. However, offsetting this recognition of losses, is the Company's revaluation of all recognized tax losses at a lower rate, which reflects the rate that is now expected to be recovered. The Company believes that tax losses currently recorded will be utilized. Unrecognized temporary differences total \$15.4 million and have a potential future tax value of approximately \$5.4 million. Existing accumulated operating losses can be carried forward to offset future taxable income for periods of 12–17 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 third 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:

This section 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:

This section replaces *CICA 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 *CICA 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 or later.

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 *CICA 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)

CICA 3064 – Goodwill and Intangible Assets:

This section provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than the initial recognition of goodwill or intangible assets acquired in a business combination. (October 1, 2008)

The Corporation has not yet fully evaluated the impact of these standards on Cangene's financial statements.

CICA 3031 will impact the Corporation's standard costing and valuation of inventory, most significantly through the

determination of normal capacity in the creation of standards. The precise financial statement impact is yet to be determined.

CICA 1400, 1535, 3064, 3862 and 3863 are anticipated to have minimal impact on the Corporation aside from increased disclosures in the financial statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

On February 22, 2008, Canada's Accounting Standards Board confirmed the date that will result in Canadian GAAP, as used by public companies, being converged with International Financial Reporting Standards. The change will be applicable to fiscal years beginning on or after January 1, 2011, which for the Corporation will be the fiscal year beginning August 1, 2011. The Corporation has prepared a draft changeover timeline and has begun assessing the impact of the transition.

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.

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.

Subsequent to the end of the quarter, on May 1, 2008, the Corporation entered into a U.S.-Canadian dollar currency swap for purposes of lowering interest expense associated with the Canadian dollar utilization of its operating line of credit. The principle amount of the swap is \$10 million and it expires on November 3, 2008.

Interest rate risk

The Corporation is exposed to interest rate risk on borrowings under its revolving operating line of credit, and non-revolving term loans, each of which is subject to variable interest rates. The Company does not currently use any derivative financial instruments to manage interest rate risk.

RISKS AND UNCERTAINTIES

The Corporation is subject to certain risks and uncertainties inherent in the operation of the business. It attempts to mitigate these risks through a combination of sound risk-management practices, insurance and systems of internal control. These risks and uncertainties have not changed since the preparation of the Company's 2007 annual report and are discussed there in greater detail.

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

- the loss of any significant customer could have a material effect on the Company's results of operations or financial condition;
- availability and cost of raw materials, especially the availability, cost and antibody concentration of plasma necessary for manufacturing hyperimmune products;
- a significant decrease in the sales of WinRho[®] SDF could significantly reduce revenue and earnings;
- some of the Company's competitors are larger, better-financed and more mature pharmaceutical and biotechnology companies, which are capable of developing new treatments or vaccines that could make the Company's products obsolete, or legal, regulatory or legislative strategies by these competitors could cause additional costs or product introduction delays;
- the difficulty of predicting the timing of regulatory approvals or outcomes of regulatory actions, and the Company's ability to obtain required regulatory approvals on a timely basis or as predicted, or the failure of the Company to continue delivery of "Usable Product" as defined by certain contracts may result in the loss of revenue or expected revenue;
- the regulatory process governing follow-on biotechnology products is evolving and uncertain;
- changes in the value of the Canadian dollar relative to foreign currencies;
- the number and size of new contract manufacturing activities;
- the effects of consolidation of the Company's customer base;
- customer and market acceptance, and demand for new pharmaceutical products;
- the impact of competitive products, services and pricing;
- the changing regulatory environment including the high cost and uncertainty associated with maintaining compliance with the extensive regulation in the pharmaceutical industry;

- the progress, cost and success of clinical trials;
- the relationship with the 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 and annual report, can be found on the Company's website at www.cangene.com or on SEDAR at www.sedar.com.

CANGENE CORPORATION
CONSOLIDATED BALANCE SHEETS *(unaudited)*

Incorporated under the laws of Ontario

in thousands of Canadian dollars

At April 30, 2008

At July 31, 2007

	At April 30, 2008	At July 31, 2007
ASSETS [note 4]		
Current		
Accounts receivable [note 12]	\$ 25,130	\$ 20,475
Income and other taxes recoverable	17,871	16,144
Inventories [note 3]	67,564	60,753
Prepaid expenses and deposits	2,841	3,105
Total current assets	113,406	100,477
Property, plant and equipment, net	99,888	103,571
Future income taxes	8,412	9,373
Goodwill	40,514	40,514
Other assets	2,114	2,815
	\$ 264,334	\$ 256,750
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness [note 4]	\$ 2,178	\$ 2,136
Accounts payable and accrued liabilities	22,866	23,140
Income and other taxes payable	257	450
Current portion of deferred income	5,593	3,623
Current portion of long-term debt [note 4]	—	1,636
Total current liabilities	30,894	30,985
Long-term debt [note 4]	—	1,112
Incentive plan liability [note 10[b]]	—	226
Deferred income	4,858	2,931
Future income taxes	6,500	10,831
Total liabilities	42,252	46,085
Commitments [notes 12 and 13]		
Shareholders' equity		
Share capital [note 10[a]]	67,344	66,894
Contributed surplus	3,239	3,239
Accumulated other comprehensive loss [note 2]	(4,467)	(4,467)
Retained earnings	155,966	144,999
Total shareholders' equity	222,082	210,665
	\$ 264,334	\$ 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>	Three months ended April 30, 2008	Three months ended April 30, 2007	Nine months ended April 30, 2008	Nine months ended April 30, 2007
Revenues [note 12]				
Product sales and services	\$ 18,379	\$ 14,282	\$ 57,121	\$ 42,954
R&D services [note 6]	9,487	5,945	41,295	19,258
Royalties	1,784	2,503	4,526	5,943
	29,650	22,730	102,942	68,155
Cost of sales				
Product sales and services	11,984	6,243	32,925	19,395
R&D services [note 6]	6,069	3,505	28,403	11,920
	18,053	9,748	61,328	31,315
Gross profit	11,597	12,982	41,614	36,840
Expenses				
Independent R&D [note 6]	933	2,205	4,354	5,570
Selling, general and administrative	4,485	3,287	12,204	9,299
Amortization	3,006	2,950	9,193	7,391
Interest expense (income)				
Short-term	83	(127)	126	(411)
Long-term	—	100	72	183
Foreign exchange loss (gain)	(78)	848	314	187
	8,429	9,263	26,263	22,219
Income before income taxes	3,168	3,719	15,351	14,621
Income tax expense (recovery)				
Current	555	512	8,224	2,706
Future	(531)	1,446	(3,840)	3,779
	24	1,958	4,384	6,485
Net income and comprehensive income for the period [note 2]	3,144	1,761	10,967	8,136
Retained earnings, beginning of period	152,822	141,290	144,999	134,915
Retained earnings, end of period	\$ 155,966	\$ 143,051	\$ 155,966	\$ 143,051
Earnings per share [note 5]				
Basic	\$ 0.04	\$ 0.03	\$ 0.16	\$ 0.12
Diluted	\$ 0.04	\$ 0.02	\$ 0.16	\$ 0.12
Weighted-average number of shares outstanding	# 70,505,170	# 70,243,153	# 70,502,064	# 68,042,592

See accompanying notes

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

<i>in thousands of Canadian dollars</i>	Three months ended April 30, 2008	Three months ended April 30, 2007	Nine months ended April 30, 2008	Nine months ended April 30, 2007
OPERATING ACTIVITIES				
Net income for the period	\$ 3,144	\$ 1,761	\$ 10,967	\$ 8,136
Add (deduct) items not involving cash:				
Amortization	3,006	2,950	9,193	7,391
Deferred income	339	(140)	3,897	(1,360)
Incentive plan liability <i>[note 10[b]]</i>	(87)	12	(226)	(634)
Future income tax expense (recovery)	(531)	1,446	(3,840)	3,779
Unrealized foreign exchange loss (gain) on future income tax asset	(188)	576	(226)	66
	5,683	6,605	19,765	17,378
Net change in non-cash working capital balances related to operations <i>[note 7]</i>	(5,639)	(13,273)	(11,999)	(18,514)
Cash provided by (used in) operating activities	44	(6,668)	7,766	(1,136)
INVESTING ACTIVITIES				
Purchase of property, plant and equipment, net	(2,049)	(1,536)	(5,510)	(7,992)
Cash used in investing activities	(2,049)	(1,536)	(5,510)	(7,992)
FINANCING ACTIVITIES				
Increase in bank indebtedness, net	2,178	—	42	—
Repayment of long-term debt	(1,346)	(1,795)	(2,748)	(28,019)
Issuance of common shares, net of share issuance costs	—	—	—	33,501
Proceeds on exercise of stock options <i>[note 10[a]]</i>	—	107	450	428
Cash provided by (used in) financing activities	832	(1,688)	(2,256)	5,910
Net decrease in cash during the period	(1,173)	(9,892)	—	(3,218)
Cash, beginning of period	\$ 1,173	\$ 14,365	\$ —	\$ 7,691
Cash, end of period	\$ —	\$ 4,473	\$ —	\$ 4,473
Interest paid	\$ 107	\$ 73	\$ 316	\$ 509
Income taxes paid (received)	\$ (1,205)	\$ (2,490)	\$ 641	\$ (324)

See accompanying notes

CANGENE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine-month periods ended April 30, 2008 and April 30, 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, forward foreign exchange collars and currency swaps 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 sheet. 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:

in thousands of Canadian dollars

Accumulated other comprehensive income 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 April 30, 2008	At July 31, 2007
Raw materials	\$ 18,295	\$ 16,885
Work in process – product costs	9,966	1,450
Finished goods	3,751	8,102
	32,012	26,437
Raw materials – long-term contracts	15,368	16,126
Work in process – product costs, long-term contracts	1,886	1,878
Work in process – manufacturing process development costs, long-term contracts	8,101	9,654
Work in process – development costs, long-term contracts	1,303	6,658
Finished goods – long-term contracts	8,894	—
	35,552	34,316
	\$ 67,564	\$ 60,753

As at April 30, 2008, the Corporation has included in its inventory \$35.6 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 13*).

On April 17, 2008, the Corporation announced that it had initiated a voluntary product withdrawal for one lot of Vaccinia Immune Globulin Intravenous (Human) (“VIG”) on the basis that a number of vials stored at Cangene now fail an appearance specification that requires the product to be a clear solution. The Corporation will replace product or reimburse customers as appropriate. An allowance for inventory obsolescence in the amount of \$2.8 million has been recorded for this purpose.

4. BANK INDEBTEDNESS AND LONG-TERM DEBT

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

The Corporation has a \$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 April 30, 2008, the Corporation had \$2.2 million [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>	Three months ended April 30, 2008		Three months ended April 30, 2007		Nine months ended April 30, 2008		Nine months ended April 30, 2007	
Net income	\$	3,144	\$	1,761	\$	10,967	\$	8,136
Weighted-average number of common shares outstanding	#	70,505,170	#	70,243,153	#	70,502,064	#	68,042,592
Dilutive effect of stock options		—		242,437		47,502		241,107
Diluted weighted-average number of common shares outstanding	#	70,505,170	#	70,485,590	#	70,549,566	#	68,283,699
Earnings per share:								
Basic	\$	0.04	\$	0.03	\$	0.16	\$	0.12
Diluted	\$	0.04	\$	0.02	\$	0.16	\$	0.12

For the quarter ended April 30, 2008, 1,656,600 options [quarter ended April 30, 2007 – 894,600 options] and for the nine months ended April 30, 2008, 1,171,300 options [nine months ended April 30, 2007 – 894,600 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:

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

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

<i>in thousands of Canadian dollars</i>	Three months ended April 30, 2008	Three months ended April 30, 2007	Nine months ended April 30, 2008	Nine months ended April 30, 2007
R&D revenues				
Apotex agreements – Cangene holds licence	\$ 3,149	\$ 2,763	\$ 9,713	\$ 9,185
Apotex agreements – Apotex holds licence	500	1,543	2,331	4,901
Third-party contracts – Cangene holds licence	5,172	588	27,698	2,974
Third-party contracts – third party holds licence	666	1,051	1,553	2,198
	\$ 9,487	\$ 5,945	\$ 41,295	\$ 19,258
R&D expenses				
Apotex agreements – Cangene holds licence	\$ 1,988	\$ 1,736	\$ 6,244	\$ 6,163
Apotex agreements – Apotex holds licence	128	728	928	2,213
Third-party contracts – Cangene holds licence	3,542	354	20,228	2,132
Third-party contracts – third party holds licence	411	687	1,003	1,412
Total costs of sales – R&D services	\$ 6,069	\$ 3,505	\$ 28,403	\$ 11,920
Cangene independent R&D	933	2,205	4,354	5,570
	\$ 7,002	\$ 5,710	\$ 32,757	\$ 17,490

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 April 30, 2008	Three months ended April 30, 2007	Nine months ended April 30, 2008	Nine months ended April 30, 2007
Accounts receivable	\$ (1,074)	\$ (4,918)	\$ (4,655)	\$ 4,208
Income and other taxes recoverable	(557)	632	(1,031)	(4,716)
Inventories	(6,817)	(7,674)	(6,811)	(20,293)
Prepaid expenses and deposits	247	193	965	(1,699)
Income and other taxes payable	149	—	(193)	—
Accounts payable and accrued liabilities	2,413	(1,506)	(274)	3,986
	\$ (5,639)	\$ (13,273)	\$ (11,999)	\$ (18,514)

8. FINANCIAL INSTRUMENTS

At April 30, 2008, the Corporation has the following financial instruments: cash, accounts receivable, bank indebtedness, and accounts payable and accrued liabilities. 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 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 April 30, 2008, the Corporation had no forward foreign exchange collars outstanding.

Fair value

At April 30, 2008, the carrying value of accounts receivable, bank indebtedness, and accounts payable and accrued liabilities approximates their fair value. These short-term financial instruments approximate their carrying amount due to the relatively short period to maturity.

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 nine-month periods ended April 30, 2008 and April 30, 2007, and identifiable assets as at April 30, 2008 and April 30, 2007:

<i>in thousands of Canadian dollars</i>	Three months ended April 30, 2008			Three months ended April 30, 2007		
	Biopharmaceutical operations	Contract services	Total	Biopharmaceutical operations	Contract services	Total
Revenues						
Product sales and services	\$ 10,147	\$ 8,232	\$ 18,379	\$ 11,217	\$ 3,065	\$ 14,282
R&D services	3,148	6,339	9,487	2,763	3,182	5,945
Royalties	1,784	—	1,784	2,503	—	2,503
	15,079	14,571	29,650	16,483	6,247	22,730
Cost of sales						
Product sales and services	6,525	5,459	11,984	3,373	2,870	6,243
R&D services	1,988	4,081	6,069	1,736	1,769	3,505
	8,513	9,540	18,053	5,109	4,639	9,748
Gross profit	6,566	5,031	11,597	11,374	1,608	12,982
Income (loss) before income taxes	2,065	1,103	3,168	4,992	(1,273)	3,719
Income tax expense (recovery)	128	(104)	24	1,946	12	1,958
Net income (loss) for the period	\$ 1,937	\$ 1,207	\$ 3,144	\$ 3,046	\$ (1,285)	\$ 1,761
Total assets	\$ 103,629	\$ 160,705	\$ 264,334	\$ 118,045	\$ 128,766	\$ 246,811
Additions to property, plant and equipment, and goodwill	\$ 974	\$ 1,075	\$ 2,049	\$ 653	\$ 883	\$ 1,536

	Nine months ended April 30, 2008			Nine months ended April 30, 2007		
<i>in thousands of Canadian dollars</i>	Biopharma- ceutical operations	Contract services	Total	Biopharma- ceutical operations	Contract services	Total
Revenues						
Product sales and services	\$ 29,603	\$ 27,518	\$ 57,121	\$ 30,584	\$ 12,370	\$ 42,954
R&D services	9,712	31,583	41,295	9,185	10,073	19,258
Royalties	4,526	—	4,526	5,943	—	5,943
	43,841	59,101	102,942	45,712	22,443	68,155
Cost of sales						
Product sales and services	11,731	21,194	32,925	9,096	10,299	19,395
R&D services	5,994	22,409	28,403	6,164	5,756	11,920
	17,725	43,603	61,328	15,260	16,055	31,315
Gross profit	26,116	15,498	41,614	30,452	6,388	36,840
Income (loss) before income taxes	12,487	2,864	15,351	15,906	(1,285)	14,621
Income tax expense	2,543	1,841	4,384	6,203	282	6,485
Net income (loss) for the period	\$ 9,944	\$ 1,023	\$ 10,967	\$ 9,703	\$ (1,567)	\$ 8,136
Total assets	\$ 103,629	\$ 160,705	\$ 264,334	\$ 118,045	\$ 128,766	\$ 246,811
Additions to property, plant and equipment, and goodwill	\$ 2,167	\$ 3,343	\$ 5,510	\$ 4,365	\$ 3,627	\$ 7,992

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 April 30, 2008 and April 30, 2007.

	Three months ended April 30, 2008		Three months ended April 30, 2007	
<i>in thousands of Canadian dollars</i>	Revenue	Property, plant and equipment, and goodwill	Revenue	Property, plant and equipment, and goodwill
Canada	\$ 7,215	\$ 82,169	\$ 8,069	\$ 87,028
United States	19,397	58,233	11,390	59,479
Eurasia and other	3,038	—	3,271	—
	\$ 29,650	\$ 140,402	\$ 22,730	\$ 146,507

	Nine months ended April 30, 2008		Nine months ended April 30, 2007	
<i>in thousands of Canadian dollars</i>	Revenue	Property, plant and equipment, and goodwill	Revenue	Property, plant and equipment, and goodwill
Canada	\$ 22,971	\$ 82,169	\$ 25,587	\$ 87,028
United States	72,276	58,233	34,853	59,479
Eurasia and other	7,695	—	7,715	—
	\$ 102,942	\$ 140,402	\$ 68,155	\$ 146,507

For the current quarter, sales to two customers represent 76% [quarter ended April 30, 2007 – two customers; 76%] of the revenue of the biopharmaceutical-operations segment, and sales to two customers represent 67% [quarter ended April 30, 2007 – one customer; 25%] of the revenue of the contract-services segment.

For the first nine months of fiscal 2008, sales to two customers represent 76% [nine months ended April 30, 2007 – two customers; 78%] of the revenue of the biopharmaceutical-operations segment, and sales to two customers represent 75% [nine months ended April 30, 2007 – one customer; 22%] 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 April 30, 2008 and April 30, 2007. No stock options were exercised during the current quarter [quarter ended April 30, 2007 – 17,400 options; weighted average price of \$6.18] resulting in no increase in share capital [quarter ended April 30, 2007 – \$0.1 million]. A total of 116,900 stock options expired or were cancelled during the quarter [quarter ended April 30, 2007 – 94,850 stock options].

There were no new stock options granted during the nine-month periods ended April 30, 2008 and April 30, 2007. During the nine months ended April 30, 2008, 95,700 stock options were exercised at a weighted-average price of \$4.70 [nine months ended April 30, 2007 – 105,000 options; \$4.07] resulting in an increase to share capital of \$0.3 million [nine months ended April 30, 2007 – \$0.4 million]. A total of 187,000 stock options expired or were cancelled during the nine months ended April 30, 2008 [nine months ended April 30, 2007 – 108,550 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 April 30, 2008, the Corporation had no liability [July 31, 2007 – \$0.2 million] with respect to phantom-stock units previously granted that are still outstanding.

A total of 17,500 units were redeemed for a nominal value during the three months ended April 30, 2008 [three months ended April 30, 2007 – \$nil]. No units matured during the three-month periods ended April 30, 2008 and April 30, 2007. A total of 89,206 units were cancelled during the three months ended April 30, 2008 [three months ended April 30, 2007 – nil units].

A total of 33,241 units were redeemed for a nominal value during the nine months ended April 30, 2008 [nine months ended April 30, 2007 – \$nil]. During the

nine months ended April 30, 2008, 950,679 units matured with no redemption value [nine months ended April 30, 2007 – nil units]. A total of 173,242 units were cancelled during the nine months ended April 30, 2008 [nine months ended April 30, 2007 – 30,303 units].

11. NORMAL COURSE ISSUER BID

On April 22, 2008, the Corporation announced that it had applied to the Toronto Stock Exchange (“TSX”) for approval to commence a normal course issuer bid (“Bid”). Under the Bid, Cangene may acquire for cancellation up to one million common shares of the Corporation. The Bid was to commence two days after acceptance of the Corporation’s Notice of Intention to Make a Normal Course Issuer Bid by the TSX and expires one year later or earlier if the maximum number of shares has been purchased. Purchases pursuant to the Bid will be made solely through the facilities of the TSX and in accordance with TSX requirements. The price that Cangene will pay for the common shares acquired under the Bid will be the market price on the TSX for the common shares at the time of acquisition. Other than block purchases allowable under TSX rules, purchases will be subject to a daily restriction of 8,844 common shares, that being 25% of the average daily trading volume for the preceding six months. All common shares purchased under the Bid will be cancelled.

On April 23, 2008, the Corporation announced that its normal course issuer bid had been approved by the TSX.

As of April 30, 2008, the Corporation purchased 4,500 of its shares which as of that date had not yet been cancelled.

12. RELATED-PARTY TRANSACTIONS

The Corporation has an agreement whereby Apotex funds Cangene’s development of certain biopharmaceutical products up to and including post-licensure research and development. Research revenue received pursuant to this contract is based on the direct research costs plus a contribution to overhead. The Corporation is recognizing the investment tax credits associated with these costs as a reduction of R&D-services expense. Under this agreement, Apotex will be entitled to receive a 12% royalty on net sales of certain biopharmaceutical products developed by the Corporation and a right to distribute the products. Apotex and the Corporation will share profits equally after deducting royalty payments. No sales of biopharmaceutical products developed pursuant to this agreement have been made to April 30, 2008.

The Corporation was conducting contract R&D and contract manufacturing of a biopharmaceutical product under a separate agreement with Apotex (see *note 6*); however that agreement concluded during the first quarter of 2008.

On November 5, 1996, the Corporation acquired royalty rights on the drug Feriprox™ (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 April 30, 2008, Cangene recorded revenues of \$6.6 million [quarter ended April 30, 2007 – \$7.5 million] from Apotex and at April 30, 2008, \$6.8 million [July 31, 2007 – \$5.0 million] was included in accounts receivable.

During the nine months ended April 30, 2008, Cangene recorded revenues of \$19.5 million [nine months ended April 30, 2007 – \$21.0 million] from Apotex.

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

13. SIGNIFICANT AGREEMENTS

On May 31, 2006, Cangene was awarded a five-year development and supply contract by the U.S. Department of Health and Human Services (“HHS”) for the supply of 200,000 doses of Heptavalent Botulism Antitoxin (“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 Anthrax Immune Globulin (“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 April 30, 2008 was \$4.2 million [quarter ended April 30, 2007 – \$nil]. For the nine months ended April 30, 2008, revenue recorded from this contract was \$15.3 million [nine months ended April 30, 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 April 30, 2008 was \$3.9 million [quarter ended April 30, 2007 – \$nil]. For the nine months ended April 30, 2008, revenue recorded from this contract was \$23.9 million [nine months ended April 30, 2007 – \$nil].

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 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

CHESAPEAKE WEBSITE

www.cbinc.com

FISCAL YEAR-END

July 31st

TRADING SYMBOL

CNJ (Toronto Stock Exchange)

52-WEEK TRADING RANGE

\$5.00–\$8.51 (at April 30, 2008)

SHARE REGISTRAR AND TRANSFER AGENT

Computershare Investor Services Inc.
 100 University Avenue
 9th 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™ (somatotropin [rDNA origin]) Injection; recombinant human growth hormone
 HepaGam B™ [Hepatitis B Immune Globulin (Human) Injection]; antibody specific for hepatitis B virus
 VariZIG™ [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® SDF [Rho (D) Immune Globulin (Human) for injection]; antibody specific for a certain type of red blood cell