

2



CANGENE CORPORATION
2009
SECOND QUARTER REPORT

MESSAGE TO SHAREHOLDERS

During the second quarter of 2009 we posted solid operating results. Net income for the current quarter was up nearly 60% over the comparative year-earlier quarter. Commercial biopharmaceutical sales for the current quarter were strong, showing an increase of nearly 30% over the comparative quarter last year. And revenues at our Chesapeake Biological Laboratories, Inc. subsidiary were up significantly in the current quarter as well. No deliveries on U.S. government contracts were made during the quarter; however, a significant shipment of contracted product was shipped in February and will contribute approximately US\$13.6 million to revenue in the third quarter.

Also during the second quarter, we amended our Normal Course Issuer Bid (“Bid”) to include the purchase of a further 250,000 shares. We had already purchased more than 900,000 common shares under the Bid, which originally specified a maximum of 1,000,000 shares. Our Board of Directors continues to believe that recent market prices of our common shares have not fully reflected the value of our business and future business prospects, and therefore believe that the proposed purchase of up to a total of 1,250,000 common shares is in the best interest of the Corporation and that such purchases constitute a desirable use of our funds.

In January, we announced that we had been informed by the U.S. government that its original request for proposal (“RFP”) related to a planned contract for the development and supply of therapeutics to treat acute radiation syndrome (“ARS”) had been withdrawn and replaced with a new RFP. We had previously submitted a proposal for developing a treatment for ARS in response to the first RFP during 2008. The new RFP is similar to the original but is focused on a five-year program of research and development activities that will support the progression of new therapies for treating ARS down the path towards product licensure, without a product-supply component. We will modify our original proposal and expect to submit the revised version in response to this RFP.

One of our objectives for this fiscal year is to double our in-house plasma collection capacity. To this end, renovations are already underway at our Florida centre and plans are being finalized to move into larger facilities or expand our existing centres for both our Maryland and California locations. In addition, our plasma centre in Winnipeg will be relocating from downtown to a larger facility on the University of Manitoba campus later this year. In line with its strategic importance, we will be unifying our centres under the name Cangene Plasma Resources over the next few months. Donors at all locations will know that they can rely on Cangene’s commitment to quality when they walk through the doors.

Finally, I would like to thank the two departing Board members who decided not to stand for re-election at our annual meeting on December 12, 2008: Brenda Drinkwalter, who had been a member of our Board since December 2006 and Dr. Michael Spino, who had been on our Board since November 1995. Both contributed a great deal to our Board over the years, and we wish them well in their future endeavours.

Winter has been too long this year—I hope where you live you are beginning to see signs of spring arriving. I also hope you will continue to follow Cangene’s progress with interest.

(signed)

Dr. John Langstaff
President and Chief Executive Officer
March 9, 2009

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

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

March 9, 2009

This review contains management's discussion of Cangene Corporation's operating results and financial condition for the three and six-month periods ended January 31, 2009, and should be read in conjunction with the accompanying unaudited interim 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 2008 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, drug identification or product monographs, available on our website at www.cangene.com. Product names may differ in various countries.

Disclosure and internal controls

We have established and maintain disclosure controls and procedures in order to provide reasonable assurance that material information relating to Cangene Corporation is made known to us in a timely manner. We have evaluated the effectiveness of our disclosure controls and procedures as at the date of our 2008 annual report and are not aware of any material changes to these controls and procedures; we believe them to be effective in providing such reasonable assurance.

We are also responsible for the design of our internal controls over financial reporting 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"). We have evaluated the design of our internal controls and procedures over financial reporting as at the end of the period covered by the annual filings, and believe the design to be sufficient to provide such reasonable assurance. As of the date of this report, we are 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, our internal control over financial reporting.

Forward-looking statements

Management's discussion and analysis contains certain forward-looking statements that are predictive in nature and 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 our 2008 annual report mentioned above. Forward-looking statements may include words such as "expects", "plans", "will", "believes", "estimates", "intends", "may", "bodes" and other words of similar meaning (including negative and grammatical variations) and may relate to future financial performance, business strategies or safety and efficacy of unapproved products. Should known or unknown risks or uncertainties materialize, or should our assumptions prove inaccurate, actual results could vary materially from those anticipated. We are under no obligation to update any forward-looking statements, except as required by applicable law.

Non-GAAP financial measures

Management's discussion and analysis may contain non-GAAP financial measures. Terms by which non-GAAP financial measures are identified include but are not limited to "net cash", "total assets", "sales", "EBITDA" and other similar expressions. Non-GAAP financial measures are used to provide management and investors with additional measures of performance. However, non-GAAP financial measures do not have standard meanings prescribed by GAAP and are not directly comparable to similar measures used by other companies.

OVERVIEW

Cangene Corporation ("Cangene", "the Company", "the Corporation", "we" or "our") is a biopharmaceutical company in the business of developing, manufacturing, and commercializing products and technologies for global markets. We manage our business and evaluate 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.

Strategically, we are focused primarily on therapeutics for infectious diseases and biodefence applications. We have particular development and manufacturing expertise with two main types 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. We have expertise in

manufacturing technologically complex and sterile injectable products, and also offer contract R&D and manufacturing services to other biopharmaceutical companies and government organizations. In addition, we have an ongoing innovative R&D program, providing further opportunities for long-term growth.

Our 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.

We are also developing certain recombinant biopharmaceutical products. Our first licensed recombinant product is Accretropin[™], our human growth hormone, which has been approved by the U.S. Food and Drug Administration ("FDA"). Much of the work in this area was supported by an R&D agreement with Apotex Inc., a company controlled by the Apotex Group. As of March 10, 2009, to the knowledge of the directors of Cangene, the Apotex Group ("Apotex") controlled, directly or indirectly, 42,875,787 common shares, representing 62% of the outstanding common shares of Cangene. The Apotex Group includes Apotex Holdings Inc., Apotex Inc. (a leader in the Canadian generic drug industry), Apotex Research Inc., Apotex Corp., as well as charitable foundations, Sherman Foundation and Apotex Foundation. The Apotex Group is controlled, directly or indirectly, by Bernard Sherman and the Bernard and Honey Sherman Family Trust, of which he is the trustee. Dr. Sherman is also Chairman, Chief Executive Officer and a director of Apotex Inc., and is a director and President of Sherman Foundation and Apotex Foundation.

Revenues from the biopharmaceutical operations segment result largely from sales of WinRho[®] SDF, which are primarily through Baxter Healthcare Corporation, our distributor in the U.S. and Europe. Sales of other approved products are, however, beginning to grow. We are making efforts to increase penetration in existing markets through distribution relationships, such as the agreement that our U.S. HepaGam B[®] distributor, Apotex Corp., signed with the group purchasing organization, Novation, LLC.

We are seeking additional geographic markets for WinRho[®] SDF (see OUTLOOK) and our other licensed hyperimmune products. We also seek to expand the market for WinRho[®] SDF by investigating its use in new patient populations and by developing potential enhancements such as the liquid version. We will employ similar strategies aimed at expanding markets for our other hyperimmunes into new geographic markets, indications or patient populations.

We have leveraged our capability to develop and manufacture hyperimmunes into a contract-services business. We have 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, we were 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 (heptavalent Botulism Antitoxin, "BAT") and inhalational anthrax (Anthrax Immune Globulin, "AIG") under the U.S. Project BioShield initiative. These contracts are managed by the Biomedical Advanced Research and Development Authority ("BARDA") within HHS. The base contracts for BAT and AIG have a combined value of approximately US\$505 million. Early in fiscal 2008, we met the product requirements as defined by both the BAT and AIG contracts that permitted us to begin invoicing. Subsequent delivery and acceptance into the U.S. Strategic National Stockpile ("SNS") of both products allowed us to invoice for these initial shipments. Revenue recognized on these contracts, including product costs and reimbursable development costs, amounted to \$32.9 million in the first half of fiscal 2009.

Our specialized facilities in Winnipeg, Manitoba, Canada and our manufacturing experience allow us to offer contract services for a broad range of technologically complex, process-sensitive compounds in addition to hyperimmunes. Our Chesapeake Biological Laboratories, Inc. ("Chesapeake") subsidiary in Baltimore, Maryland, United States, offers facilities for filling and finishing process-sensitive biologics.

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

We anticipate 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 with a primary focus on infectious disease.

OUTLOOK

Our primary focus continues to be meeting delivery commitments on the U.S. government BAT and AIG contracts. We anticipate further AIG deliveries in the third quarter of 2009. We are also focused on continuing to build up an inventory of AIG plasma. Our plasma inventory levels are now ahead of schedule and we anticipate that we will be successful in meeting our current delivery requirements. With AIG, we expect to complete delivery of one third of the contract doses by the end of 2009, with the remaining two thirds to be delivered fairly evenly over the course of 2010 and 2011. With BAT, we expect to deliver approximately one third of the remaining contract doses in 2009; we already delivered a portion of these during the first quarter and made another delivery early in the third quarter. We expect to deliver the remaining two thirds evenly over the course of 2010 and 2011. We are also continuing to work on the licensing elements of the contracts for both products and those efforts are expected to continue, with the majority of the effort occurring in the next two years.

Strategically, we are also focused on expanding our plasma collection capabilities through expansion of four existing plasma centres. The expansions are currently underway and will result in more than double the current capacity. Current activities include design and construction. These efforts are aimed at bringing more of our plasma supply in-house. Competition for plasma supplies is a significant risk for us with respect to most of our hyperimmune products (see RISKS AND UNCERTAINTIES) and we are looking to reduce this risk by becoming increasingly self-sufficient in plasma supply. In addition, an in-house supply of plasma can be more cost-effective than commercial purchases. We anticipate that the majority of the expanded sites will be operational late in fiscal 2009 or early in 2010. We are also considering adding new sites in the United States.

For our commercial products, we are concentrating on ongoing regulatory and marketing efforts related to WinRho[®] SDF and HepaGam B[®]. For WinRho[®] SDF, we are working to obtain approval in additional European Union countries through their Mutual Recognition Procedure. Along with our marketing partner, Baxter Healthcare Corporation, we are 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. Sales in European countries are beginning to show growth and sales in the U.S. have recently strengthened.

In addition, during the first quarter we increased our pricing for WinRho[®] SDF in Middle Eastern and South American markets to bring them more in line with our pricing in other markets. A result of the increase is that we may no longer ship to some markets and distributors.

For HepaGam B[®], we are 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 status, which confers seven years of market exclusivity for the licensed indication of preventing hepatitis B recurrence following liver transplantation. With this market exclusivity and as the first hepatitis B immune globulin licensed by the FDA for this indication, we believe that HepaGam B[®] will provide strong sales in the years to come as we continue to penetrate the U.S. market.

On January 16, 2009, we announced that we had been informed by the U.S. government that the original request for proposal ("RFP") related to a planned contract for the development and supply of therapeutics to treat neutropenia resulting from acute exposure to ionizing radiation (also known as acute radiation syndrome or "ARS") had been withdrawn and replaced with a new RFP. The new RFP is focused on a five-year program of research and development activities and does not include a product supply component. We will modify our original proposal and expect to submit the revised version in response to this RFP.

Throughout 2009, we are focusing our efforts on a number of independent research and development initiatives that we feel have great potential, including hyperimmune process improvements, HepaGam B[®] studies, and development of monoclonal antibody technology and innovative anti-infectives such as PEP 35. We also continue to evaluate a number of acquisition opportunities both with respect to companies and specific products.

NEW DEVELOPMENTS

On September 19, 2008, we announced that we had submitted a centralized Marketing Authorization Application for HepaGam B[®] to the European Medicines Agency. Under the centralized procedure, the marketing authorization application applies to the 30 European Economic Area countries.

On September 30, 2008, we received a contractual milestone payment of US\$3.0 million from Baxter, in recognition of Baxter achieving US\$150.0 million in cumulative worldwide net sales of WinRho[®] SDF under our distribution agreement. This revenue was recorded in the first quarter of fiscal 2009.

On January 23, 2009, we announced that an amendment to our Normal Course Issuer Bid (the "Bid") had been approved by the Toronto Stock Exchange. The amendment increases the maximum number of our common shares available for purchase under the Bid from 1,000,000 to 1,250,000, representing 1.8% of our outstanding common shares on April 22, 2008, that being the date of the Notice of Intention to Make a Normal Course Issuer Bid. The Bid will expire on April 24, 2009.

RESULTS OF OPERATIONS

Consolidated revenues

Total revenues for the quarter ended January 31, 2009 were \$34.5 million, compared with \$23.5 million in the same quarter of the prior year, an increase of 47%.

Total revenues for the six months ended January 31, 2009 were \$86.8 million compared with \$73.3 million in the same period of the prior year, an increase of 18%.

During the current quarter there were no product deliveries on the BAT and AIG contracts, although ongoing licensure and development activities continued. Revenue recognized on these contracts in the second quarter of 2009 amounted to \$7.3 million, composed of \$4.8 million from BAT and \$2.5 million from AIG. The second quarter of fiscal 2008 included \$4.1 million in revenue from these contracts. Revenue recognized on these contracts in

the first half of 2009 amounted to \$32.9 million, composed of \$25.6 million from BAT and \$7.3 million from AIG. This compares with a total of \$31.1 million in the first half of 2008.

Biopharmaceutical product sales have increased by 40% over the prior-year second quarter and by 39% for the first six months of the fiscal year. U.S. and Canadian sales of WinRho[®] SDF have increased both in quarter and year-to-date relative to the comparative periods in the prior year. The year-to-date increase in WinRho[®] SDF revenues from U.S. sales has been aided by the US\$3.0-million milestone payment that was received in the first quarter. Sales of HepaGam B[®] have also increased significantly over the prior year, both in quarter and year-to-date.

Biopharmaceutical operations

Product-sales revenues in the biopharmaceutical operations segment consist of sales of approved products. 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 a drug called Ferriprox[®] (deferiprone) that it manufactures and markets.

<i>in thousands of Canadian dollars</i>	Quarter ended January 31, 2009				Quarter ended January 31, 2008			
	Product sales	R&D services	Royalties	Total	Product sales	R&D services	Royalties	Total
Revenues	\$ 12,833	\$ 2,621	\$ 1,920	\$ 17,374	\$ 9,160	\$ 2,625	\$ 1,680	\$ 13,465
Gross profit	10,406	908	1,920	13,234	6,652	947	1,680	9,279
Gross margin	% 81	% 35	% 100	% 76	% 73	% 36	% 100	% 69

<i>in thousands of Canadian dollars</i>	Six months ended January 31, 2009				Six months ended January 31, 2008			
	Product sales	R&D services	Royalties	Total	Product sales	R&D services	Royalties	Total
Revenues	\$ 26,955	\$ 5,154	\$ 4,082	\$ 36,191	\$ 19,456	\$ 6,564	\$ 2,742	\$ 28,762
Gross profit	21,849	1,914	4,082	27,845	14,250	2,558	2,742	19,550
Gross margin	% 81	% 37	% 100	% 77	% 73	% 39	% 100	% 68

Product sales

Product-sales revenues in this segment are higher during the current quarter than in the comparable quarter last year due largely to increases in WinRho[®] SDF and HepaGam B[®] sales in the United States. HepaGam B[®] sales accounted for approximately 15% of the product sales revenues during the quarter compared with 11% in the comparable quarter of the prior year.

Gross margin on product sales in the current quarter has increased versus the comparable quarter last year due to improvements in our hyperimmune

manufacturing process and the impact of the stronger U.S. dollar.

On a year-to-date basis, product-sales revenues have increased, partly as a result of a contractual milestone payment of US\$3.0 million received from Baxter during the first quarter. Without that payment, sales of Win Rho[®] SDF would have declined slightly on a year-to-date basis from 2008. However, HepaGam B[®] sales have increased and accounted for approximately 12% of the product sales revenues during the first six months of both 2009 and 2008.

Gross margin on product sales in the first six months of 2009 increased versus the comparable period last year. This is attributable to the US\$3.0-million milestone payment combined with manufacturing process improvements. Without the milestone payment, gross margin on product sales would have been approximately 79% on a year-to-date basis.

R&D services

R&D-services revenues are consistent in the current quarter compared with the same quarter of the prior year. On a year-to-date basis, the R&D-services revenues have declined. These revenues are directly related to the level of activity on the joint development agreement with Apotex. Activity on

R&D projects supported by Apotex has slowed as development work on these products has largely been completed.

Gross margin on R&D-services activities in the segment, for the second quarter and year-to-date, has remained consistent, although it will vary with the level of development activities on joint research projects with Apotex and with the eligibility of research expenditures to generate investment tax credits.

Royalties

The increase in royalty revenue in the current quarter and year-to-date is due to higher sales of Ferriprox®.

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. Contract-services revenues will fluctuate depending on timing and varying levels of activity related to existing contracts, and whether significant new R&D or manufacturing contracts with the U.S. government or other parties are awarded.

<i>in thousands of Canadian dollars</i>	Quarter ended January 31, 2009			Quarter ended January 31, 2008		
	Product services	R&D services	Total	Product services	R&D services	Total
Revenues	\$ 8,755	\$ 8,414	\$ 17,169	\$ 5,634	\$ 4,368	\$ 10,002
Gross profit	2,162	2,547	4,709	1,300	657	1,957
Gross margin	% 25	% 30	% 27	% 23	% 15	% 20

<i>in thousands of Canadian dollars</i>	Six months ended January 31, 2009			Six months ended January 31, 2008		
	Product services	R&D services	Total	Product services	R&D services	Total
Revenues	\$ 29,143	\$ 21,433	\$ 50,576	\$ 19,286	\$ 25,244	\$ 44,530
Gross profit	12,234	6,238	18,472	3,551	6,916	10,467
Gross margin	% 42	% 29	% 37	% 18	% 27	% 24

Product services

The higher product-services revenues in the second quarter of 2009 compared with the same quarter of the prior year resulted primarily from higher revenues at our Chesapeake subsidiary, where revenues increased by 77% over the second quarter of 2008.

On a year-to-date basis, the higher product-services revenues in 2009 compared with the same period of the prior year resulted from a delivery on the BAT stockpiling contract in the first quarter, which accounted for \$16.9 million of revenue in the current year. The prior year-to-date contained revenues of only \$10.1 million from product delivery on the BAT contract. This increase in BAT-contract revenue, combined with the higher revenues at our Chesapeake subsidiary, produced a significant increase in product-services revenues in the first half of 2009.

The gross margin was higher year-to-date due to improved manufacturing efficiencies related to the product component of the BAT stockpiling contract, as well as the positive impact of higher U.S.-dollar foreign exchange rates on the revenues.

R&D services

In R&D services, the BAT and AIG stockpiling contracts contributed \$5.6 million in revenue in the second quarter of 2009. Similar contracts contributed only \$2.5 million in revenue in the second quarter of 2008.

On a year-to-date basis in R&D services, the BAT and AIG contracts contributed \$16.2 million compared with \$21.0 million in the same period of the prior year. The prior year-to-date had higher revenues because the first quarter of 2008 was the first point in time at which we

were eligible to recognize revenue on the contracts following acceptance of the products into the SNS and it reflected costs accumulated up to that time.

Contract R&D-services revenues related to a product for which Apotex holds the licence decreased by 49% year-to-date, as activity on this contract was concluded during the first quarter of 2008. We have continued to receive revenue related to the overhead costs of the facility; however, that arrangement has terminated effective January 31, 2009.

Gross margin on R&D-services in the current second quarter was significantly higher than the second quarter of 2008, as the prior year quarter contained an inventory provision related to an early production run of AIG.

Gross margin on R&D-services in the current year-to-date was relatively consistent with the prior year.

In addition to revenues and expenses recognized to date, we have also recorded costs in raw materials and work in process inventories related to the BAT and AIG stockpiling contracts. These costs can be expensed and the related revenue recognized when revenue recognition criteria are met. At January 31, 2009, we had recorded costs of \$71.1 million related to these two contracts as follows:

- Raw materials of \$27.1 million, Work in process – product costs of \$21.7 million, Work in process – manufacturing process development costs of \$6.7 million, Work in process – development costs of \$1.6 million and Finished goods of \$11.7 million recorded in Inventory and contracts in progress,
- Insurance of \$0.9 million recorded in Prepaid expenses, and
- Insurance of \$1.4 million recorded in Other assets.

Independent R&D

Independent R&D expenditures, from which no related revenue is derived, were \$2.5 million in the second quarter of 2009, compared with \$0.8 million in the same quarter of the prior year. On a year-to-date basis, independent R&D increased to \$4.0 million from \$3.4 million in the first half of 2008. Independent R&D expenditures consist principally of fees paid to outside parties that we use to conduct clinical studies. Independent R&D expense also includes salaries and benefits paid to Cangene personnel involved in research and development projects. During the second quarter and first six months of 2009, these projects included development of Cangene's peptide product known as PEP 35, as well as an undisclosed anti-infective product and an anti-Ebola/Marburg product. The second quarter of 2009 also included increased costs for HepaGam B[®] that were recorded in independent R&D. The prior-year second quarter and first six months contained more significant expenditures related to 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.

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

Total SG&A expense in the second quarter of 2009 increased to \$5.6 million from \$4.0 million in the same quarter of the prior year, a 42% increase. On a year-to-date basis, total SG&A expense increased to \$10.8 million from \$7.7 million in the prior year, a 40% increase.

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 second quarter and first six months of 2009 includes:

- higher compensation costs, largely as a result of increased staffing to support work on the BAT and AIG stockpiling contracts,
- general wage increases that took effect at the beginning of the fiscal year,
- increased expense related to the phantom stock incentive plan,
- increased costs of personnel temporarily re-assigned from other departments to work on SG&A projects such as preparing proposals, and marketing and regulatory activities,
- higher Board of Directors' fees.

Partially offsetting some of the higher SG&A costs in the current quarter and year-to-date were:

- reduced legal expenses,
- reduced capital taxes as Corporation Capital Tax was eliminated for Manitoba manufacturing and processing companies effective July 1, 2008.

In addition to the above, consulting fees have increased on a year-to-date basis, primarily related to quality systems, record-keeping and European regulatory applications.

Amortization

For the quarters ended January 31, 2009 and January 31, 2008, amortization expense was \$3.2 million.

On a year-to-date basis, current amortization expense was \$6.3 million, compared with \$6.2 million in the first half of 2008.

Foreign exchange

For the quarter ended January 31, 2009, we recorded a foreign exchange gain of \$0.8 million, compared with \$0.7 million in the second quarter of the previous year.

On a year-to-date basis we have recorded a foreign exchange gain of \$10.9 million in the first half of 2009, in comparison to a loss of \$0.4 million in the first half of 2008. The foreign exchange gain in the first six months of 2009 results from the significant swing in exchange rates over the course of the period and arises from a combination of components. Approximately \$2.3 million results from the unrealized gain on outstanding U.S.–Canadian-dollar swap positions at January 31, 2009. The remainder results from translation of net U.S.-dollar working capital balances outstanding as at January 31, 2009, net foreign exchange gains realized on operating activities during the period and the net investment in U.S. subsidiaries.

Income taxes

Income tax expense of \$1.8 million for the quarter ended January 31, 2009 increased from \$0.4 million in the same quarter of the prior year. The primary reason for the increase in taxes is higher taxable income, although the effective tax rate has also increased. Our effective tax rate is lower than our marginal tax rate due to a significant foreign exchange gain on the net investment in our U.S. subsidiaries that is not taxable. The comparative quarter from the prior year contained the same effect to an even more significant extent, as well as an adjustment for reduced future enacted tax rates, and therefore had a lower effective tax rate.

On a year-to-date basis, an income tax expense of \$9.4 million is increased over the prior year's expense of \$4.4 million, primarily due to the increase in taxable income. Our effective tax rate is lower than our marginal tax rate due to the same impact of foreign exchange gains on the net investment in our U.S. subsidiaries that are not taxable.

Net income

Net income of \$5.6 million for the second quarter of 2009 is 58% higher than the \$3.5 million in the same quarter of the prior year. The current quarter generated significantly higher revenues and higher gross profit. The gross margin achieved in the second quarter of 2009 was 4% higher than the same period of 2008. Partially offsetting the

increased gross profits, the current quarter included an increase of \$1.7 million in expenditures on independent R&D, which is consistent with our strategy of investing operating profits in the development of our pipeline of new and innovative products. SG&A expenses have increased as well, primarily due to increased wages and benefits. A higher effective tax rate also adversely impacted the current quarter's results.

Net income for the six months ended January 31, 2009 was \$26.7 million compared with \$7.8 million for the same period last year, an increase of 242%. The first six months of 2009 generated significantly higher revenues and gross margin. The improved gross margin was largely driven by improved manufacturing efficiencies on the U.S. government stockpiling contracts and the positive impact of the strengthening U.S. dollar on revenues. Net income also benefitted from the US\$3.0-million payment received in the first quarter from Baxter for a sales milestone achieved (see NEW DEVELOPMENTS) and a pre-tax, \$10.9-million foreign exchange gain, which resulted from the strengthening of the U.S. dollar. This significant foreign exchange gain offset our total SG&A expenses of \$10.8 million.

Comprehensive income

Comprehensive income for the quarters and six month periods ended January 31, 2009 and 2008 is equal to the net income for the respective periods. Upon adoption of 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 ("EPS") of \$0.08 compares with \$0.05 in the same quarter last year and reflects the increased net income and a slightly lower weighted-average number of shares outstanding due to the Normal Course Issuer Bid.

For the first half of 2009, basic and diluted EPS of \$0.38 increased over the same period of the prior year when basic and diluted EPS were \$0.11. The increase reflects the much higher net income and a slightly lower weighted-average number of shares outstanding due to the Normal Course Issue Bid.

SUMMARY OF QUARTERLY RESULTS

Quarters ended

<i>in thousands of Canadian dollars except per-share data</i>	January 31, 2009 (Q2 2009)	October 31, 2008 (Q1 2009)	July 31, 2008 (Q4 2008)	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)
Revenues	\$ 34,543	\$ 52,224	\$ 63,114	\$ 29,650	\$ 23,467	\$ 49,825	\$ 24,241	\$ 22,730
R&D expense ¹	10,064	12,402	15,943	7,002	6,184	19,571	4,589	5,710
Net income	5,588	21,135	18,658	3,144	3,537	4,286	1,948	1,761
Earnings per share								
Basic	\$ 0.08	\$ 0.30	\$ 0.27	\$ 0.04	\$ 0.05	\$ 0.06	\$ 0.03	\$ 0.03
Diluted	\$ 0.08	\$ 0.30	\$ 0.27	\$ 0.04	\$ 0.05	\$ 0.06	\$ 0.03	\$ 0.02

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

Revenues over the past eight quarters have fluctuated in response to the timing of deliveries under manufacturing and R&D contracts. The last half of fiscal 2007 saw lower revenues and net income due to the fact that we were not yet recognizing revenue on the BAT and AIG stockpiling contracts awarded in 2006. We had recorded \$38.0 million in inventories and contracts in progress, prepaid expenses and other assets related to these contracts in 2007. The lack of revenues associated with the stockpiling contracts was partially offset by improved WinRho[®] SDF sales in the U.S. and the introduction of the more profitable liquid formulation. The increase in revenues and net income from the third to fourth quarter in fiscal 2007 was primarily due to revenue received in the fourth quarter under the U.S. VIG contract as product in the stockpile was re-labelled to reflect its licensure.

The significant increase in revenues in the first quarter of fiscal 2008 was due to the achievement of milestones on the BAT and AIG stockpiling contracts, which permitted Cangene to both invoice and recognize revenue. In comparison, lower revenues in the following quarter reflected the fact that there were no product deliveries made on the stockpiling contracts. Higher revenues in the third quarter of 2008 compared with the second quarter reflect a small AIG delivery and further development-related revenues on these 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. Our revenues increased dramatically in the fourth quarter of 2008 compared with the first three quarters due to delivery of a significant number of doses of BAT, a smaller AIG delivery, and ongoing licensure and development activities on the stockpiling contracts. Revenues remained high in the first quarter of 2009 due to continued activity and further deliveries on these stockpiling contracts. Revenues declined in the second quarter of 2009 because there were no product deliveries under the BAT and AIG contracts during the quarter.

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, were capitalized in inventories and contracts in progress, and are expensed as product is delivered. As discussed earlier, acceptance of these products into the SNS occurred in the first quarter of fiscal 2008, triggering significant recognition of licensure and development costs that had previously been recorded in inventories and contracts in progress. And, similar to the first quarter, the fourth quarter of fiscal 2008 included significant R&D expenses associated with the stockpiling contracts. The second quarter of fiscal 2009 saw somewhat lower R&D expenses overall; however, it included a larger percentage of independent R&D expenses on Cangene products as compared to other recent quarters.

Earnings per share over the two-year period reflects the fluctuations in net income as well as the recent decrease in number of shares outstanding due to the Normal Course Issuer Bid which has resulted in purchase for cancellation of 953,800 of our common shares to January 31, 2009.

LIQUIDITY & CAPITAL RESOURCES

Operating activities

Cash at January 31, 2009 was \$10.3 million compared with \$14.7 million at July 31, 2008. Cash of \$2.8 million was used in operating activities during the second quarter of 2009, compared with \$3.9 million provided by operating activities during the same quarter of the prior year. The reduction in cash-flow from operations was primarily due to the decrease in accounts payable and accrued liabilities, and the increase in inventories and contracts in progress of \$15.3 million, offset by a reduction in accounts receivable of \$15.5 million, largely due to activity on the U.S. government stockpiling contracts.

On a year-to-date basis, cash of \$1.9 million was provided by operations, in comparison with \$7.9 million in the first six months of the prior year. The cash impact of the significant increase in net income was offset by a \$26.3-million increase in inventories and contracts in progress, primarily attributable to activities on the U.S. government stockpiling contracts.

Financing activities

Cash used in financing activities totalled \$0.8 million in the second quarter of 2009, compared with \$1.1 million in the same period of the prior year. The use of cash in the current quarter is due to the purchase and cancellation of shares under our Normal Course Issuer Bid, while in the prior year it was due to repayment of bank indebtedness in the quarter.

On a year-to-date basis, cash used in financing activities totalled \$2.5 million, entirely related to the purchase and cancellation of shares under our Normal Course Issuer Bid. The prior-year-to-date cash used in financing activities of \$3.1 million resulted primarily from the repayment of bank indebtedness and long-term debt.

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
As at July 31, 2008	70,090,570	\$ 66,948
Repurchase of shares for cancellation	(383,600)	(366)
As at October 31, 2008	69,706,970	\$ 66,582
Repurchase of shares for cancellation	(155,600)	(149)
As at January 31, 2009	69,551,370	66,433

At January 31, 2009, 1.8 million [July 31, 2008 – 1.8 million] options remained available to be granted under a stock option plan. Although we have not recently granted any stock options under the plan, it remains in effect until all outstanding options expire, or are exercised, forfeited or cancelled.

We anticipate that employees and directors will continue to exercise options in the future if exercise prices are less than the market price of the common shares.

Debt

We have available a \$20-million operating line of credit with a bank. As at January 31, 2009 and July 31, 2008, there was \$Nil outstanding on the operating line.

Investing activities

Cash used in investing activities increased to \$2.4 million in the second quarter of 2009 from \$1.9 million in the same quarter of the prior year. Cash used in investing activities for the first six months of 2009 increased to \$5.9 million from \$3.5 million in the same period of the prior year. The increased expenditures both in the quarter and year-to-date are primarily due to investments in software, equipment and manufacturing process control systems, expansion of plasma centre operations, and the addition of filling capacity at our Chesapeake subsidiary.

Liquidity & capital resources summary

Our ability to generate cash from operating activities, including product sales and contract services, as well as our ability to obtain debt financing from our bank, are expected to provide sufficient liquidity to meet anticipated needs of existing projects including the U.S. government stockpiling contracts for BAT and AIG, absent the occurrence of any unforeseen events. We also anticipate that we 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

We have agreements with Apotex to support the development of certain biopharmaceutical products. In addition, we receive royalties from Apotex on its sales of Ferriprox®.

We also have a distribution agreement with Apotex Corp. for it to market and distribute HepaGam B® in the U.S.; we will manufacture and continue to hold the licence for the product.

Pursuant to the above agreements, in the quarter ended January 31, 2009, we earned revenues from Apotex of \$6.7 million, an increase from the \$5.4 million earned during the same quarter in the prior year. For the current quarter, the primary reason for the increase in Apotex revenues is growth in sales of HepaGam B® in the U.S.

For the six months ended January 31, 2009, we earned \$13.2 million in revenues from the agreements with Apotex, compared with \$12.9 million in the same period of the prior year. Increased royalty and HepaGam B® revenues were largely offset by lower R&D-services revenues during the period.

At January 31, 2009, \$8.2 million was included in accounts receivable from these related-party transactions, compared with \$6.7 million at July 31, 2008. Related-party transactions are recorded at their 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 generally accepted accounting principles requires that we 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 we believe could materially impact our reported financial position, financial condition or results of operations.

Future benefit of tax-loss carryforwards

In accordance with *Canadian Institute of Chartered Accountants* ("CICA") *Handbook Section 3465 – Income Taxes*, we 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. We are required to make significant estimates and assumptions regarding future revenues and earnings, and our 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 our 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 we, based on revised estimates and assumptions, determined that it was no longer more likely than not that those future tax assets would be fully realized.

As at January 31, 2009, we have recorded \$9.2 million in other assets representing losses and timing differences utilized from a tax perspective, but not yet realized on a consolidated basis. Unrecognized temporary differences relating to the impairment of the viral facility at our Chesapeake subsidiary, which was recorded in 2005, total \$16.0 million and have a potential future tax value of approximately \$5.5 million.

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 our 2008 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 our 2008 annual report, no impairment was recorded in the current quarter.

Revenue recognition – biopharmaceutical product sales

There has been no change to our 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 our 2008 annual report.

ACCOUNTING CHANGES, INCLUDING INITIAL ADOPTION OF ACCOUNTING POLICIES

The preparation of financial statements that are fairly presented in accordance with Canadian generally accepted accounting principles requires that we adopt, select and apply appropriate accounting policies and principles, particularly where alternatives exist within GAAP.

Initial Adoption of Accounting Policies

During the first quarter of fiscal 2009 we initially adopted the following new *CICA Handbook* standards:

CICA 1535 – Capital Disclosures:

This Section addresses disclosure of a company's capital and how it is managed. The purpose is to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

CICA 3031 – Inventories:

This Section replaces *CICA 3030* and prescribes the accounting treatment for inventory. Section 3031 provides more extensive guidance on measurement, and expands disclosure requirements to increase transparency. This Section impacted our standard costing and valuation of inventory through the determination of normal capacity in the creation of standards. The adoption of this standard has had no material impact on our financial position or results of operations.

CICA 3862 – Financial Instruments – Disclosures:

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

CICA 3863 – Financial Instruments – Presentation:

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

Sections 3862 and 3863 replaced *CICA 3861 – Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

During the second quarter of fiscal 2009 we initially adopted the new *CICA EIC 173 Credit Risk and the Fair Value of Financial Assets and Liabilities*, which became effective for our interim period ended January 31, 2009 with retrospective application without restatement of prior periods. The guidance requires that an entity's own credit risk and the credit risk of a counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. We have reviewed the guidance and applied it to derivatives recognized at fair values in the consolidated financial statements and determined that there was no impact.

Recent Accounting Pronouncements

The following new Handbook section is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008, and will be adopted by Cangene in fiscal 2010.

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. It revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. We will evaluate the impact of this new standard prior to adopting it in fiscal 2010.

The following new Handbook sections are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, and will be adopted by Cangene in fiscal 2012.

CICA 1582 – Business Combinations:

This Section further aligns Canadian GAAP with U.S. GAAP and International Financial Reporting Standards ("IFRS"), and changes the accounting for business combinations in a number of areas. It establishes principles and requirements governing how an acquiring company recognizes and measures in its financial statements identifiable assets acquired, liabilities assumed, any non-controlling interest in the acquiree, and goodwill acquired. The Section also establishes disclosure requirements. We are considering the impact of the adoption of this pronouncement on our consolidated financial statements, although the impact will be limited to any future acquisitions beginning in fiscal 2012.

CICA 1601 – Consolidated Financial Statements and CICA 1602 – Non-Controlling Interests:

These Sections further align Canadian GAAP with U.S. GAAP and IFRS. Sections 1601 and 1602 change the accounting and reporting of ownership interests in subsidiaries held by parties other than the parent. Non-controlling interests are to be presented in the consolidated statement of financial position within equity but separate from the parent's equity. The amount of consolidated net income attributable to the parent and to the non-controlling interest is to be clearly identified and presented on the face of the consolidated statement of income. In addition, these pronouncements establish standards for a change in a parent's ownership interest in a subsidiary and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. They also establish reporting requirements for providing sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. We do not believe there will be any impact on the adoption of these pronouncements in our consolidated financial statements in fiscal 2012 unless our circumstances change.

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 us will be fiscal 2012, beginning August 1, 2011. We have prepared a draft changeover timeline and have begun assessing the impact of the transition. We are currently considering early adoption as an alternative.

FINANCIAL INSTRUMENTS

Certain of our current assets and liabilities, which are subject to normal trade terms, are financial instruments for which the recorded carrying values approximate the fair value. We are, however, exposed to financial market risks, including foreign currency exchange rates and interest rates on operating line of credit obligations.

Foreign currency risk

We operate internationally, and the majority of our revenue and a significant amount of our expenditures are denominated in U.S. dollars. At January 31, 2009, we have entered into four forward foreign exchange contracts to manage foreign exchange exposure on anticipated U.S.-dollar sales transactions and the collection of the related accounts receivable as follows:

in thousands; Canadian dollars unless noted

Settlement date	Forward rate		Face value		Fair value at January 31, 2009
April 29, 2009	1.2200	US\$	2,500	\$	(8)
April 29, 2009	1.2307		2,500		18
July 29, 2009	1.2296		5,000		32
October 29, 2009	1.2291		5,000		29
		US\$	15,000	\$	71

Interest rate risk

We are exposed to interest rate risk on borrowings under our revolving operating line of credit, which is subject to a variable interest rate. During the current quarter, we had Canadian-dollar balances outstanding under our operating line of credit while also carrying U.S.-dollar cash balances, which resulted in a net cash balance.

We have outstanding, two U.S.–Canadian dollar currency swaps for purposes of lowering the interest expense associated with the Canadian dollar utilization of our operating line of credit. We entered into one U.S.–Canadian dollar currency swap of US\$7.0 million on July 25, 2008. This swap expires on July 30, 2009. And we entered into an additional U.S.–Canadian dollar currency swap for US\$7.0 million on September 18, 2008; it matures September 18, 2009.

The swaps are marked to market at January 31, 2009. If the two swaps are held to maturity we will pay fixed-fee swap costs of \$0.1 million and \$0.2 million respectively.

RISKS AND UNCERTAINTIES

We are subject to certain risks and uncertainties inherent in the operation of our business. We attempt 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 our 2008 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 our 2008 annual report.

They include, but are not limited to:

- the loss of any significant customer could have a material effect on our results of operations or financial condition;
- availability, quality 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 our competitors are larger, better-financed and more mature pharmaceutical and biotechnology companies, which are capable of developing new treatments or vaccines that could make our 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 our ability to obtain required regulatory approvals on a timely basis or as predicted, or the failure to continue delivery of product as defined by certain contracts may result in the loss of revenue or expected revenue;
- changes in the value of the Canadian dollar relative to foreign currencies, and in particular the U.S. dollar;
- the number and size of new contract manufacturing activities;
- the effects of consolidation of our 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;
- our relationship with the majority shareholder;
- we rely on key strategic relationships and our business could suffer as a result of actions by third parties who have marketing and/or distribution rights to our products;
- we are subject to extensive government regulation and changes in policies or actions could affect our business;
- uncertainties regarding patent, intellectual and other proprietary property protections, including costs and resources to obtain protection or defend against litigation; many of our 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 our competitive position;
- exposure to litigation and contingencies with respect to use of our products;
- we depend on key personnel, and if we do not attract and retain key personnel, our business could be adversely affected;
- we use hazardous materials, chemicals and bacteria that require us to comply with regulatory requirements and expose us to significant potential liabilities;

- other matters beyond the control of management and the subjectivity inherent in any analysis underlying our assumptions and estimates regarding the future.

The preceding cautionary statements, along with the more extensive discussion in the MD&A in our 2008 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 our behalf and in conjunction with our periodic disclosure and related filings with the securities commissions. We undertake no obligation to publicly make or update any forward-looking statements, except as required by applicable law.

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

ADDITIONAL INFORMATION

Additional information relating to Cangene Corporation, including the most recently filed annual information form and annual report, can be found on our 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 January 31, 2009

At July 31, 2008

ASSETS [note 5]

Current

Cash	\$	10,339	\$	14,675
Accounts receivable [notes 10[d] and 14]		37,189		38,383
Inventories and contracts in progress [note 4]		98,349		72,087
Income and other taxes recoverable		6,020		4,755
Prepaid expenses and deposits		2,785		2,589
Total current assets		154,682		132,489
Property, plant and equipment, net		98,293		98,648
Future income taxes		—		2,212
Goodwill		40,514		40,514
Other assets		12,070		8,956
	\$	305,559	\$	282,819

LIABILITIES AND SHAREHOLDERS' EQUITY

Current

Accounts payable and accrued liabilities	\$	24,982	\$	26,738
Income and other taxes payable		1,734		654
Current portion of deferred income		5,303		5,337
Total current liabilities		32,019		32,729
Deferred income		4,449		5,765
Incentive plan liability [note 12[b]]		488		—
Future income taxes		5,755		5,705
Total liabilities		42,711		44,199
Commitments [notes 10[e], 10[f], 10[h], 14, 15 and 16]				
Shareholders' equity				
Share capital [notes 12[a] and 13]		66,433		66,948
Contributed surplus		3,239		3,239
Accumulated other comprehensive loss		(4,467)		(4,467)
Retained earnings		197,643		172,900
Total shareholders' equity		262,848		238,620
	\$	305,559	\$	282,819

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 January 31, 2009	Three months ended January 31, 2008	Six months ended January 31, 2009	Six months ended January 31, 2008
Revenues [note 14]				
Product sales and services [note 15]	\$ 21,587	\$ 14,794	\$ 56,097	\$ 38,742
R&D services [notes 7 and 15]	11,036	6,993	26,588	31,808
Royalties	1,920	1,680	4,082	2,742
	34,543	23,467	86,767	73,292
Cost of sales				
Product sales and services	9,020	6,842	22,015	20,941
R&D services [note 7]	7,580	5,389	18,435	22,334
	16,600	12,231	40,450	43,275
Gross profit	17,943	11,236	46,317	30,017
Expenses				
Independent R&D [note 7]	2,484	795	4,031	3,421
Selling, general and administrative	5,614	3,959	10,829	7,719
Amortization	3,217	3,213	6,293	6,187
Interest expense (income)				
Short-term	(6)	(3)	(42)	43
Long-term	—	17	—	72
Foreign exchange loss (gain)	(784)	(706)	(10,949)	392
	10,525	7,275	10,162	17,834
Income before income taxes	7,418	3,961	36,155	12,183
Income tax expense (recovery)				
Current	894	745	8,238	7,669
Future	936	(321)	1,194	(3,309)
	1,830	424	9,432	4,360
Net income and comprehensive income for the period	5,588	3,537	26,723	7,823
Retained earnings, beginning of period	192,676	149,285	172,900	144,999
Purchase of common shares in excess of average stated capital [note 13]	(621)	—	(1,980)	—
Retained earnings, end of period	\$ 197,643	\$ 152,822	\$ 197,643	\$ 152,822
Earnings per share [note 6]				
Basic and diluted	\$ 0.08	\$ 0.05	\$ 0.38	\$ 0.11
Weighted-average number of shares outstanding				
	# 69,642,453	# 70,504,670	# 69,744,645	# 70,500,512

See accompanying notes

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

<i>in thousands of Canadian dollars</i>	Three months ended January 31, 2009	Three months ended January 31, 2008	Six months ended January 31, 2009	Six months ended January 31, 2008
OPERATING ACTIVITIES				
Net income for the period	\$ 5,588	\$ 3,537	\$ 26,723	\$ 7,823
Add (deduct) items not involving cash:				
Amortization	3,217	3,213	6,293	6,187
Deferred income	(1,257)	(404)	(1,350)	3,558
Incentive plan liability	488	(266)	488	(139)
Future income tax expense (recovery)	936	(321)	1,194	(3,309)
Unrealized foreign exchange loss (gain)	587	(798)	(1,105)	151
	9,559	4,961	32,243	14,271
Net change in non-cash working capital balances and other assets related to operations <i>[note 8]</i>	(12,392)	(1,076)	(30,319)	(6,361)
Cash provided by (used in) operating activities	(2,833)	3,885	1,924	7,910
INVESTING ACTIVITIES				
Purchase of property, plant and equipment, net	(2,397)	(1,883)	(5,938)	(3,461)
Cash used in investing activities	(2,397)	(1,883)	(5,938)	(3,461)
FINANCING ACTIVITIES				
Decrease in bank indebtedness, net	—	(1,076)	—	(2,136)
Repayment of long-term debt	—	(83)	—	(1,402)
Shares repurchased for cancellation <i>[note 13]</i>	(769)	—	(2,495)	—
Proceeds on exercise of stock options <i>[note 12[a]]</i>	—	12	—	450
Cash used in financing activities	(769)	(1,147)	(2,495)	(3,088)
Effect of exchange rates on cash	336	318	2,173	(188)
Net increase (decrease) in cash during the period	(5,663)	1,173	(4,336)	1,173
Cash, beginning of period	16,002	—	14,675	—
Cash, end of period	\$ 10,339	\$ 1,173	\$ 10,339	\$ 1,173
Interest paid	\$ 11	\$ 91	\$ 46	\$ 209
Income taxes paid	\$ 4,114	\$ 1,370	\$ 5,188	\$ 1,846

See accompanying notes

CANGENE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and six-month periods ended January 31, 2009 and January 31, 2008 (unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared by Cangene Corporation (the "Corporation" or "Cangene") 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 Canadian 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, 2008.

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, 2008, the Corporation adopted the following new *Canadian Institute of Chartered Accountants* ("CICA") *Handbook* standards:

CICA 3031 – Inventories:

Section 3031 establishes new standards for the determination of cost and requires inventory to be measured at the lower of cost and net realizable value. The cost of inventory includes the cost to purchase and other costs incurred in bringing inventories to their present location. The new standard also requires additional disclosures regarding the accounting policies used in measuring the inventories, the carrying value of the inventories, amounts recognized as an expense during the period, write-downs and the amount of any reversal of write-downs recognized in the period.

Costs of purchased inventories are recorded using weighted-average costing. Inventories and contracts in progress are valued at the lower of average cost and net realizable value. Costs for work-in-process and finished goods inventories include materials, direct labour and an allocation of overhead. The Corporation determines normal capacity for each production facility and allocates fixed production-overhead costs on that basis. Any excess, unallocated, fixed production-overhead costs are expensed as incurred. The Corporation did not require an adjustment to opening inventory or retained earnings upon adoption of the new

Section, as results from previous standard cost accounting practices were consistent with the application of *CICA 3031*.

CICA 3862 – Financial Instruments – Disclosures and *CICA 3863 – Financial Instruments – Presentation:* Section 3862 describes the required disclosures related to the significance of financial instruments on the Corporation's financial position and performance. The standard also requires disclosure of the nature and extent of risks arising from financial instruments to which the Corporation is exposed, and how the Corporation manages those risks (see *note 10*). Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives.

CICA 1535 – Capital Disclosures:

Section 1535 requires the Corporation to disclose its objectives, policies and processes for managing its capital structure (see *note 9*).

Effective January 31, 2009 the Corporation adopted *CICA EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities* with retrospective application without restatement of prior periods. The guidance requires that an entity's own credit risk and the credit risk of a counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The Company has reviewed the guidance and applied it to derivatives recognized at fair values in the consolidated financial statements and determined that there was no impact.

3. RECENT ACCOUNTING PRONOUNCEMENTS

CICA 3064 – Goodwill and Intangible Assets:

Section 3064 revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The Corporation will evaluate the impact of this new standard prior to adopting it. This standard will be effective for Cangene as at August 1, 2009.

International Financial Reporting Standards ("IFRS"):

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 IFRS over a transitional period to be completed for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. While the Corporation has begun assessing the adoption of IFRS, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time. The Corporation will be required to adopt IFRS for its fiscal year beginning August 1, 2011 and is considering possible early adoption.

CICA 1582 – Business Combinations:

This Section further aligns Canadian GAAP with U.S. GAAP and IFRS, and changes the accounting for business combinations in a number of areas. It establishes principles and requirements governing how an acquiring company recognizes and measures in its financial statements identifiable assets acquired, liabilities assumed, any non-controlling interest in the acquiree, and goodwill acquired. The Section also establishes disclosure requirements. The impact to the Corporation will be limited to any future acquisitions beginning in fiscal 2012.

CICA 1601 – Consolidated Financial Statements and CICA 1602 – Non-Controlling Interests:

These Sections further align Canadian GAAP with U.S. GAAP and IFRS. Sections 1601 and 1602 change the accounting and reporting of ownership interests in

subsidiaries held by parties other than the parent. Non-controlling interests are to be presented in the consolidated statement of financial position within equity but separate from the parent's equity. The amount of consolidated net income attributable to the parent and to the non-controlling interest is to be clearly identified and presented on the face of the consolidated statement of income. In addition, these pronouncements establish standards for a change in a parent's ownership interest in a subsidiary and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. They also establish reporting requirements for providing sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. The Corporation does not believe there will be any impact on the adoption of these pronouncements in its consolidated financial statements in fiscal 2012 unless the Corporation's circumstances change.

4. INVENTORIES AND CONTRACTS IN PROGRESS

<i>in thousands of Canadian dollars</i>	At January 31, 2009		At July 31, 2008	
Raw materials	\$	20,508	\$	17,879
Work in process – product costs		2,687		2,113
Finished goods		6,379		9,117
	\$	29,574	\$	29,109
Raw materials – long-term contracts		27,112		19,631
Work in process – product costs, long-term contracts		21,654		12,607
Work in process – manufacturing process development costs, long-term contracts		6,733		6,857
Work in process – development costs, long-term contracts		1,616		3,829
Finished goods – long-term contracts		11,660		54
	\$	68,775	\$	42,978
	\$	98,349	\$	72,087

As at January 31, 2009, the Corporation has included in its inventories and contracts in progress \$68.8 million [July 31, 2008 – \$43.0 million] of costs under long-term contracts with the U.S. government (see *note 15*).

5. BANK INDEBTEDNESS

The Corporation has a \$20.0-million operating line of credit repayable on demand with no fixed expiry date. As at January 31, 2009 and July 31, 2008, the Corporation had \$Nil outstanding under the operating facility. The facility was used during the quarter.

In association with its \$20.0-million operating line of credit, the Corporation has pledged as collateral all assets under a general security agreement.

6. EARNINGS PER SHARE

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

<i>in thousands of Canadian dollars except share-related data</i>	Three months ended January 31, 2009		Three months ended January 31, 2008		Six months ended January 31, 2009		Six months ended January 31, 2008	
Net income	\$	5,588	\$	3,537	\$	26,723	\$	7,823
Weighted-average number of common shares outstanding	#	69,642,453	#	70,504,670	#	69,744,645	#	70,500,512
Dilutive effect of stock options		—		71,524		—		95,536
Diluted weighted-average number of common shares outstanding	#	69,642,453	#	70,576,194	#	69,744,645	#	70,596,048
Earnings per share: Basic and diluted	\$	0.08	\$	0.05	\$	0.38	\$	0.11

For the quarter and six months ended January 31, 2009, 1,296,000 options [quarter and six months ended January 31, 2008 – 1,212,800 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.

7. RESEARCH AND DEVELOPMENT

Research and development (“R&D”) revenues are earned under terms of agreements with Apotex (see *note 14*) and through research and development agreements with third parties, including government institutions.

R&D expenditures, net of applicable investment tax credits and government assistance, consist of:

- expenditures under R&D agreements funded by Apotex, where Cangene will hold product licences and will pay Apotex certain royalties and profit sharing,
- expenditures under R&D contracts with Apotex, where Apotex will hold product licences and Cangene will provide contract-R&D services, and may ultimately provide contract manufacturing,
- expenditures under third-party contract-R&D agreements funded by the third party, where Cangene retains primary intellectual property rights (e.g., U.S. government R&D contracts for VIG, anthrax immune globulin (“AIG”) and botulism antitoxin (“BAT”)),
- expenditures under third-party contract-R&D agreements funded by the third party, where the third party holds the intellectual property rights, and
- expenditures on independent R&D funded entirely by Cangene and for which Cangene holds all intellectual property rights.

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

<i>in thousands of Canadian dollars</i>	Three months ended January 31, 2009	Three months ended January 31, 2008	Six months ended January 31, 2009	Six months ended January 31, 2008
R&D revenues				
Apotex agreements – Cangene holds licence	\$ 2,621	\$ 2,625	\$ 5,154	\$ 6,564
Apotex agreements – Apotex holds licence	465	447	1,027	1,831
Third-party contracts – Cangene holds licence	5,593	3,142	16,451	22,526
Third-party contracts – third party holds licence	2,357	779	3,956	887
	\$ 11,036	\$ 6,993	\$ 26,588	\$ 31,808
R&D expenses				
Apotex agreements – Cangene holds licence	\$ 1,713	\$ 1,678	\$ 3,240	\$ 4,256
Apotex agreements – Apotex holds licence	294	154	515	800
Third-party contracts – Cangene holds licence	4,443	3,172	12,586	16,685
Third-party contracts – third party holds licence	1,130	385	2,094	593
Total costs of sales – R&D services	7,580	5,389	18,435	22,334
Cangene independent R&D	2,484	795	4,031	3,421
	\$ 10,064	\$ 6,184	\$ 22,466	\$ 25,755

8. SUPPLEMENTARY INFORMATION FOR CONSOLIDATED STATEMENTS OF CASH FLOWS

Effect on cash flow of net change in non-cash working capital balances and other assets related to operations:

<i>in thousands of Canadian dollars</i>	Three months ended January 31, 2009	Three months ended January 31, 2008	Six months ended January 31, 2009	Six months ended January 31, 2008
Accounts receivable	\$ 15,521	\$ 13,858	\$ 1,194	\$ (3,581)
Inventories and contracts in progress	(15,311)	(10,050)	(26,262)	6
Income and other taxes recoverable	(5,322)	(4,396)	(1,265)	(474)
Prepaid expenses and deposits, and other assets	(2,469)	382	(3,310)	718
Accounts payable and accrued liabilities	(6,545)	(931)	(1,756)	(2,688)
Income and other taxes payable	1,734	61	1,080	(342)
	\$ (12,392)	\$ (1,076)	\$ (30,319)	\$ (6,361)

9. CAPITAL STRUCTURE

The Corporation's capital structure is composed of shareholders' equity and long-term debt. The Corporation's objectives when managing its capital structure are to maintain and preserve its access to capital markets, continue its ability to meet its financial obligations, fund research and development activities, and finance organic growth and acquisitions. Organic growth is achieved primarily through development of new products and expansion of sales into new markets.

The Corporation monitors its capital structure using non-GAAP financial metrics including the ratios of long-term debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") for the immediately preceding 12-month period, and long-term debt to shareholders' equity. The Corporation manages its capital to meet the targets by issuing new shares, utilizing the line of credit, acquiring new debt or purchasing shares under the Normal Course Issuer Bid.

The table below reconciles the non-GAAP financial measure EBITDA to the net income for the preceding 12-month periods:

<i>in thousands of Canadian dollars</i>	12 months ended January 31, 2009	12 months ended July 31, 2008
Net income	\$ 48,525	\$ 29,625
Add back:		
Interest expense	270	439
Income tax expense	17,054	11,982
Depreciation and amortization	12,555	12,449
EBITDA	\$ 78,404	\$ 54,495

The Corporation's targeted capital structure is to maintain the ratio of long-term debt to shareholders' equity at levels below 1:2. The table below calculates the ratio:

<i>in thousands of Canadian dollars</i>	At January 31, 2009	At July 31, 2008
Long-term debt	\$ —	\$ —
Shareholders' equity	262,848	238,620
Ratio	0:2	0:2

The Corporation's targeted capital structure is to maintain the ratio of long-term debt to EBITDA at levels below 3:1. The table below calculates the ratio based on EBITDA achieved in the previous 12-month periods:

<i>in thousands of Canadian dollars</i>	At January 31, 2009	At July 31, 2008
Long-term debt	\$ —	\$ —
EBITDA	78,404	54,495
Ratio	0:1	0:1

The Corporation's targeted capital structure is to maintain the ratio of EBITDA to interest expense plus current portion of long-term debt and capital leases at levels above 1.5:1. The table below calculates the ratio based on EBITDA achieved in the previous 12-month periods:

<i>in thousands of Canadian dollars</i>	At January 31, 2009		At July 31, 2008	
EBITDA	\$	78,404	\$	54,495
Interest expense		270		439
Current portion of long-term debt and capital leases		—		—
Ratio		290:1		124:1

The Corporation's targeted capital structure is to maintain its working capital ratio at 1.1:1 or higher. The working capital ratio is current assets divided by current liabilities. The table below calculates the ratio:

<i>in thousands of Canadian dollars</i>	At January 31, 2009		At July 31, 2008	
Current assets	\$	154,682	\$	132,489
Current liabilities		32,019		32,729
Working capital ratio		4.8:1		4.0:1

The Corporation's capital management objectives, evaluation measures, definitions and targets have remained unchanged over the periods presented.

The Corporation is subject to externally imposed capital requirements associated with its \$20.0-million operating line of credit (see *note 5*), which must be maintained to avoid acceleration of the termination of the agreement. The externally imposed capital requirements are the same as the financial metrics used on an internal basis to monitor capital structure. The Corporation is in compliance with all financial covenants.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Corporation has the following financial instruments: cash, accounts receivable, accounts payable and accrued liabilities, and U.S.–Canadian dollar currency swaps.

[a] Classification

The Corporation has made the following classifications of financial instruments:

- Cash is classified as “held for trading”, which is measured at fair value. Gains and losses resulting from periodic revaluation are recorded in net income.
- Accounts receivable are classified as “loans and receivables”, which are recorded at cost upon initial measurement. Subsequent measurements are recorded at amortized cost using the effective interest rate method.
- Accounts payable and accrued liabilities are classified as “other financial liabilities” and are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.
- Derivative financial instruments, including forward foreign exchange contracts and currency swaps are classified as “held for trading” and measured at fair value. Gains and losses resulting from periodic revaluation are recorded in net income for the period.

[b] Fair values

As at January 31, 2009 and July 31, 2008, the carrying values of current assets and liabilities including cash, accounts receivable, accounts payable and accrued liabilities approximate their fair value. These short-term financial instruments approximate the fair value due to the relatively short period to maturity.

All derivatives are recorded at fair value in the consolidated balance sheets. The fair values of the Corporation's derivative financial instruments used to manage exposure to interest rate and currency risks are estimated based on quoted market prices for the same or similar financial instruments, or on the current rates offered to the Corporation for financial instruments of the same maturity as well as by the use of discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities. 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.

[c] 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 contracts 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 of future cash flows is one year. The Corporation has also entered into currency swaps to limit the interest expense associated with the Canadian dollar usage of its operating line of credit.

[d] Credit risk

Credit risk is the risk that a customer will fail to perform an obligation or fail to pay amounts due causing a financial loss. The Corporation is not exposed to significant credit risk. The majority of the Corporation's sales are made to governments and large, well-established companies. The Corporation, in the normal course of business, monitors the financial condition of its customers and reviews the credit history of each new customer. An allowance for doubtful accounts is established to correspond to the specific credit risk of its customers, historical trends and economic circumstances.

The table below sets out the details of the accounts receivable balances outstanding as at January 31, 2009, based on the status of the receivable in relation to when the receivable was due and payable:

<i>in thousands of Canadian dollars</i>	Accounts receivable	
Neither impaired nor past due	\$	27,895
Not impaired but past the due date as follows:		
Within 30 days		4,467
31–60 days		3,089
Over 60 days		1,901
Allowance for doubtful accounts		(163)
Total	\$	37,189

There are no impaired accounts receivable.

A continuity of the allowance for doubtful accounts is as follows:

<i>in thousands of Canadian dollars</i>	Allowance for doubtful accounts	
Opening – August 1, 2008	\$	307
Foreign exchange impact		6
Write-off uncollectible account		(150)
Ending – January 31, 2009	\$	163

[e] Interest rate risk

The Corporation's Canadian-dollar operating line of credit is at a floating interest rate and is therefore subject to interest rate cash flow risk. The Corporation has entered into U.S.–Canadian dollar currency swaps for purposes of lowering interest expense associated with the Canadian dollar utilization of its operating line of credit. The Corporation does not enter into these instruments for trading or speculative purposes. The swaps are classified as held for trading.

The Corporation has two currency swaps outstanding at January 31, 2009 as follows:

<i>in thousands of Canadian dollars</i>		Fair value	Fair value at
Notional amount	Maturity date	at January 31, 2009	July 31, 2008
\$ 7,070	July 30, 2009	1,411	(14)
7,494	September 18, 2009	930	—
\$ 14,564		\$ 2,341	\$ (14)

The fair values reflect the cost to unwind the instruments. If the currency swaps are held to maturity the Corporation will pay \$0.1 million in fixed-fee swap costs for the first instrument and \$0.2 million for the second.

[f] Currency risk

The Corporation receives the majority of its revenues and incurs significant expenses in U.S. dollars; as a result, fluctuations in the rate of exchange between the U.S. and Canadian dollar can have a significant effect on the Corporation's reported results. On occasion, forward foreign exchange contracts and foreign exchange option collars are utilized by the Corporation to manage its foreign exchange exposure on anticipated U.S.-dollar sales transactions and the collection of the related accounts receivable. The Corporation does not enter into these instruments for trading or speculative purposes. These instruments are not accounted for as hedges and are marked to market at the consolidated balance sheet dates. The gains and losses are recognized in income during the year and the contracts are classified as held for trading.

At January 31, 2009, the Corporation had the following outstanding forward foreign exchange contracts:

in thousands; Canadian dollars unless noted

Settlement date	Forward rate	Face value		Fair value at January 31, 2009	
April 29, 2009	1.2200	US\$	2,500	\$	(8)
April 29, 2009	1.2307		2,500		18
July 29, 2009	1.2296		5,000		32
October 29, 2009	1.2291		5,000		29
		US\$	15,000	\$	71

The Corporation maintains U.S. dollar bank accounts. U.S. dollar cash balances at January 31, 2009 were US\$5.9 million [July 31, 2008 – US\$13.1 million].

[g] Sensitivity Analysis

The Corporation's sales denominated in U.S. dollars in the quarter ended January 31, 2009 were US\$22.0 million, and the total of its cost of sales and its selling, general and administrative expense denominated in that currency was US\$9.4 million. Accordingly, a 20% increase or decrease in the exchange rate between the Canadian and U.S. dollar would result in a \$3.6-million increase or decrease in sales and a total increase or decrease of \$1.5 million in its cost of sales plus selling, general and administrative expense.

The Corporation's sales denominated in U.S. dollars in the six months ended January 31, 2009 were US\$62.0 million, and the total of its cost of sales and its selling, general and administrative expense denominated in that currency was US\$25.1 million. Accordingly, a 20% increase or decrease in the exchange rate between the Canadian and U.S. dollar would result in a \$10.9-million increase or decrease in sales and a total increase or decrease of \$4.4 million in its cost of sales plus selling, general and administrative expense.

[h] Liquidity Risk

Liquidity risk is the risk that the Corporation will encounter difficulties in meeting its financial liability obligations. The Corporation manages its liquidity risk through cash and debt management. In managing liquidity, the Corporation has access to a \$20.0-million operating line of credit as well as to debt and equity markets, the availability of which are dependent on market conditions. The Corporation believes it has sufficient funding through the use of the existing credit facility to meet foreseeable borrowing requirements. The Corporation has entered into an agreement to purchase an additional office facility in Winnipeg, Manitoba on or before a closing date of December 1, 2009. A remaining balance of \$7.0 million is due on or before the closing date. Trade payables are due within one year.

11. 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 recombinant products. Contract services provides manufacturing and R&D services to related and unrelated parties.

There are no significant inter-segment transactions. The following presents segment operating results for the three and six-month periods ended January 31, 2009 and January 31, 2008, and identifiable assets as at January 31, 2009 and January 31, 2008:

<i>in thousands of Canadian dollars</i>	Three months ended January 31, 2009			Three months ended January 31, 2008		
	Biopharma- ceutical operations	Contract services	Total	Biopharma- ceutical operations	Contract Services	Total
Revenues						
Product sales and services	\$ 12,833	\$ 8,754	\$ 21,587	\$ 9,160	\$ 5,634	\$ 14,794
R&D services	2,621	8,415	11,036	2,625	4,368	6,993
Royalties	1,920	—	1,920	1,680	—	1,680
	17,374	17,169	34,543	13,465	10,002	23,467
Cost of sales						
Product sales and services	2,427	6,593	9,020	2,508	4,334	6,842
R&D services	1,713	5,867	7,580	1,678	3,711	5,389
	4,140	12,460	16,600	4,186	8,045	12,231
Gross profit	13,234	4,709	17,943	9,279	1,957	11,236
Income (loss) before income taxes	6,986	432	7,418	5,008	(1,047)	3,961
Income tax expense (recovery)	1,861	(31)	1,830	545	(121)	424
Net income (loss) for the period	\$ 5,125	\$ 463	\$ 5,588	\$ 4,463	\$ (926)	\$ 3,537
Total assets	\$ 100,421	\$ 205,138	\$ 305,559	\$ 107,732	\$ 149,745	\$ 257,477
Additions to property, plant and equipment, and goodwill, net	\$ 915	\$ 1,482	\$ 2,397	\$ 900	\$ 983	\$ 1,883

<i>in thousands of Canadian dollars</i>	Six months ended January 31, 2009			Six months ended January 31, 2008		
	Biopharma- ceutical operations	Contract services	Total	Biopharma- ceutical operations	Contract services	Total
Revenues						
Product sales and services	\$ 26,954	\$ 29,143	\$ 56,097	\$ 19,456	\$ 19,286	\$ 38,742
R&D services	5,154	21,434	26,588	6,564	25,244	31,808
Royalties	4,082	—	4,082	2,742	—	2,742
	36,190	50,577	86,767	28,762	44,530	73,292
Cost of sales						
Product sales and services	5,106	16,909	22,015	5,206	15,735	20,941
R&D services	3,240	15,195	18,435	4,006	18,328	22,334
	8,346	32,104	40,450	9,212	34,063	43,275
Gross profit	27,844	18,473	46,317	19,550	10,467	30,017
Income before income taxes	20,863	15,292	36,155	10,422	1,761	12,183
Income tax expense	5,781	3,651	9,432	2,415	1,945	4,360
Net income (loss) for the period	\$ 15,082	\$ 11,641	\$ 26,723	\$ 8,007	\$ (184)	\$ 7,823
Total assets	\$ 100,421	\$ 205,138	\$ 305,559	\$ 107,732	\$ 149,745	\$ 257,477
Additions to property, plant and equipment, and goodwill, net	\$ 2,044	\$ 3,894	\$ 5,938	\$ 1,193	\$ 2,268	\$ 3,461

Geographic information about the Corporation's revenue is based on the product shipment destination or the location of the contracting organization. Assets are based on their physical location as at January 31, 2009 and January 31, 2008.

<i>in thousands of Canadian dollars</i>	Three months ended January 31, 2009		Three months ended January 31, 2008	
	Revenues	Property, plant and equipment, and goodwill	Revenues	Property, plant and equipment, and goodwill
Canada	\$ 7,486	\$ 79,179	\$ 6,866	\$ 82,635
United States	24,160	59,628	14,057	58,724
Rest of world	2,897	—	2,544	—
	\$ 34,543	\$ 138,807	\$ 23,467	\$ 141,359

<i>in thousands of Canadian dollars</i>	Six months ended January 31, 2009		Six months ended January 31, 2008	
	Revenues	Property, plant and equipment, and goodwill	Revenues	Property, plant and equipment, and goodwill
Canada	\$ 15,213	\$ 79,179	\$ 15,756	\$ 82,635
United States	65,255	59,628	52,879	58,724
Rest of world	6,299	—	4,657	—
	\$ 86,767	\$ 138,807	\$ 73,292	\$ 141,359

For the current quarter, sales to two customers represent 76% [quarter ended January 31, 2008 – two customers, 74%] of the revenue of the biopharmaceutical operating segment. Sales to two customers represent 46% [quarter ended January 31, 2008 – two customers, 52%] of the revenue of the contract-services segment.

For the first six months of 2009, sales to two customers represent 76% [six months ended January 31, 2008 – two customers, 76%] of the revenue of the biopharmaceutical operating segment. Sales to two customers represent 68% [six months ended January 31, 2008 – two customers, 77%] of the revenue of the contract-services segment.

12. INCENTIVE PLANS

[a] Stock option plan

There were no new stock options granted during the quarters ended January 31, 2009 and January 31, 2008. No stock options were exercised during the current quarter [quarter ended January 31, 2008 – 2,000 options; weighted-average price of \$6.25] resulting in no increase in share capital [quarter ended January 31, 2008 – negligible increase]. A total of 100 stock options were cancelled during the quarter [quarter ended January 31, 2008 – 70,100 expired or were cancelled].

[b] Phantom-stock incentive plan

During the quarter ended October 31, 2008, the Board of Directors approved a grant of approximately 2.7 million units, effective August 1, 2008, at a grant price of \$4.51 per unit, which was 90% of the weighted-average market price for the 90-day period prior to the effective date of the grant.

As at January 31, 2009, the Corporation recorded a liability of \$0.5 million [July 31, 2008 – \$Nil] with respect to phantom-stock units previously granted that are still outstanding.

During the three months ended January 31, 2009, no units were redeemed and 343,478 were cancelled (January 31, 2008 – 15,741 units were redeemed for a nominal value and 84,036 units were cancelled). During the three-month periods ended January 31, 2009 and January 31, 2008, no units matured.

During the six months ended January 31, 2009, no units were redeemed and 343,478 were cancelled (January 31, 2008 – 15,741 units were redeemed for a nominal value and 84,036 units were cancelled). During the six months ended January 31, 2009, 87,500 units matured with no redemption value (January 31, 2008 – 950,679 units matured with no redemption value).

13. NORMAL COURSE ISSUER BID

On April 23, 2008, the Corporation announced regulatory approval of a share repurchase program, through the facilities of the Toronto Stock Exchange, for cancellation of up to 1,000,000 common shares (approximately 1.4% of the Corporation's total issued and outstanding common shares as at April 22, 2008) by way of a Normal Course Issuer Bid (the "Bid"). Under the Bid, purchases of common shares are made from time to time at market prices and in accordance with the rules of the Toronto Stock Exchange.

On January 23, 2009, the Corporation announced an amendment to the Bid to increase the maximum number of common shares of the Corporation available for purchase under the Bid to 1,250,000, representing 1.8% of the outstanding common shares on April 22, 2008. The Bid is authorized to be in effect until April 24, 2009.

During the quarter ended January 31, 2009, the Corporation repurchased for cancellation 155,600 common shares at a net cost of \$0.8 million [quarter

ended January 31, 2008 – \$Nil]. The Corporation has recorded a reduction in share capital of \$0.2 million. The excess of purchase price over the average stated capital of the shares of \$0.6 million was charged to retained earnings.

During the six months ended January 31, 2009, the Corporation repurchased for cancellation 539,200 common shares at a net cost of \$2.5 million [six months ended January 31, 2008 – \$Nil]. The Corporation has recorded a reduction in share capital of \$0.5 million. The excess of purchase price over the average stated capital of the shares of \$2.0 million was charged to retained earnings.

14. RELATED-PARTY TRANSACTIONS

The Apotex Group ("Apotex") includes Apotex Holdings Inc., Apotex Inc. (a leader in the Canadian generic drug industry), Apotex Research Inc., Apotex Corp., as well as charitable foundations, Sherman Foundation and Apotex Foundation. Apotex is controlled, directly or indirectly, by Bernard Sherman and the Bernard and Honey Sherman Family Trust, of which he is the trustee. Dr. Sherman is also Chairman, Chief Executive Officer and a director of Apotex Inc., and is a director and President of Sherman Foundation and Apotex Foundation.

Apotex is Cangene's majority shareholder and holds 62% of Cangene's common shares. 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 commercial sales of certain biopharmaceutical products developed by the Corporation and a right to distribute the products. Apotex and the Corporation will share profits equally after deducting royalty payments. No sales of biopharmaceutical products developed pursuant to this agreement have been made to January 31, 2009.

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

On May 1, 2006, the Corporation entered into a distribution agreement with Apotex for it to market and distribute HepaGam B[®] in the U.S. Under the terms of the agreement, the Corporation manufactures and holds licence to the product. Profits are shared between the two parties.

During the quarter ended January 31, 2009, Cangene recorded revenues of \$6.7 million [quarter ended January 31, 2008 – \$5.4 million] from sales to Apotex and at January 31, 2009, \$8.2 million, [July 31, 2008 – \$6.7 million], was included in accounts receivable. These transactions occurred in the normal course of operations and were recorded at their exchange amount.

During the six months ended January 31, 2009, Cangene recorded revenues of \$13.2 million [six months ended January 31, 2008 – \$12.9 million] from sales to Apotex.

15. SIGNIFICANT AGREEMENTS

[a] Heptavalent Botulism Antitoxin (“BAT”)

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

The base contract provides for revenue of US\$362 million, which includes a potential supplementary payment based upon achieving U.S. Food and Drug Administration (“FDA”) approval for the product. The price per dose is a discounted fixed price with the discount representing the supplemental payment. The base contract requires that the Corporation apply for and receive a licence from the FDA for the use of this product. If FDA licensure is received during the term of the contract, the Corporation will receive the supplemental payment.

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.

During the quarter ended January 31, 2009, Cangene recorded revenues of \$4.8 million [quarter ended January 31, 2008 – \$2.7 million] related to the BAT contract.

During the six months ended January 31, 2009, Cangene recorded revenues of \$25.6 million [six months ended January 31, 2008 – \$20.0 million] related to the BAT contract.

As at January 31, 2009, costs of \$43.0 million have been charged to inventories and contracts in progress, prepaid expenses, and other assets [July 31, 2008 – \$33.3 million] related to this contract.

[b] Anthrax Immune Globulin (“AIG”)

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

The AIG is to be made available for treating inhalational anthrax. This modification to the contract will provide up to US\$143 million, which includes a potential supplementary payment based upon achieving FDA licensure. The contract also requires that Cangene apply for and receive product licensing from the FDA. Under the contract, the price per dose is a discounted fixed price with the discount representing the supplemental payment. If

FDA licensure is received during the term of the contract, the Corporation will receive the supplemental payment.

Optional task orders could include maintaining product manufacturing and additional clinical testing in special populations.

The U.S. government demands consideration in the event that the Corporation does not meet the specified contract delivery schedule. During 2008, Cangene committed to deliver an additional batch of AIG doses, valued at approximately \$1.2 million, as a result of late delivery on the AIG contract. The additional doses will be delivered upon completion of the scheduled 10,000 contract doses. The cost of the additional doses is being recorded proportionately over the remaining AIG contract deliveries. In order to account for the consideration, the Corporation is deferring a proportionate amount of revenue associated with each AIG contract delivery. As at January 31, 2009 and July 31, 2008, \$0.2 million of revenue has been deferred.

During the quarter ended January 31, 2009, Cangene recorded revenues of \$2.5 million [quarter ended January 31, 2008 – \$1.4 million] related to the AIG contract.

During the six months ended January 31, 2009, Cangene recorded revenues of \$7.3 million [six months ended January 31, 2008 – \$11.1 million] related to the AIG contract.

As at January 31, 2009, costs of \$28.1 million have been charged to inventories and contracts in progress, prepaid expenses, and other assets [July 31, 2008 – \$12.5 million] related to this contract.

16. COMMITMENTS

The Corporation has entered into an agreement to purchase an additional office facility in Winnipeg, Manitoba, on or before a closing date of December 1, 2009. The Corporation has paid a deposit of \$0.2 million; the remaining balance of \$7.0 million is due on or before the closing date.

17. SUBSEQUENT EVENT

On February 17, 2009, Cangene entered into the following forward foreign exchange contracts to manage its foreign exchange exposure on anticipated U.S.-dollar sales transactions and the collection of the related accounts receivable:

in thousands of U.S. dollars

Settlement date	Forward rate		Face value
May 28, 2009	1.2611	US\$	10,000
June 29, 2009	1.2605		10,000
July 30, 2009	1.2600		10,000
		US\$	30,000

18. 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

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, by telephone at (416) 675-8280 or by mail at the Toronto address above.

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

\$3.20–\$6.48 (at January 31, 2009)

SHARE REGISTRAR AND TRANSFER AGENT

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

CANGENE

“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
Vaccinia Immune Globulin Intravenous (Human); [VIGIV]; (“VIG”); 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

