MANAGEMENT'S REPORT

The accompanying consolidated financial statements of Cangene Corporation are the responsibility of management and have been approved by the Board of Directors. The financial statements necessarily include some amounts that are based on management's best estimates, which have been made using careful judgment. Management has prepared the financial statements in accordance with Canadian generally accepted accounting principles. Financing and operating data elsewhere in the annual report are consistent with the information contained in the financial statements.

In fulfilling its responsibilities, management of Cangene Corporation maintains internal accounting controls. While no system will prevent or detect all errors or irregularities, the controls are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, transactions are properly recorded, and the financial records are reliable for preparing the financial statements.

The Board of Directors carries out its responsibility with respect to the consolidated financial statements primarily through its Audit Committee. The Audit Committee meets periodically with management and the external auditors to discuss the annual audit, accounting policies and practices, and other financial reporting matters.

The most recent financial statements have been audited by Ernst & Young LLP, Chartered Accountants, who have full access to the Audit Committee, with and without the presence of management. Their report follows hereafter.

(signed)
John Langstaff,
President and CEO

(signed)
Michael Graham,
Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of Cangene Corporation

We have audited the consolidated balance sheets of Cangene Corporation as at July 31, 2009 and 2008 and the consolidated statements of income, comprehensive income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at July 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed)
Ernst & Young LLP
Chartered Accountants
Winnipeg, Canada
October 2, 2009
(except for *note 23* which is as of October 16, 2009)

CONSOLIDATED BALANCE SHEETS

Incorporated under the laws of Ontario

As at July 31

in thousands of Canadian dollars	**2009**	2008
Assets *[note 9]*		
Current		
Cash	**$ 56,131**	$ 14,675
Accounts receivable *[notes 18[c] and 22]*	**34,547**	38,383
Inventories and contracts in progress *[note 6]*	**92,430**	72,087
Income and other taxes recoverable	**5,637**	4,755
Future income taxes *[note 10]*	**8,231**	—
Prepaid expenses and deposits	**2,830**	2,589
Total current assets	**199,806**	132,489
Property, plant and equipment, net *[notes 7 and 15]*	**98,411**	98,648
Future income taxes *[note 10]*	**—**	2,212
Goodwill and intangible assets *[notes 5 and 8]*	**41,514**	40,514
Other assets *[note 10]*	**5,460**	8,956
	$ 345,191	$ 282,819
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	**$ 27,948**	$ 26,738
Income and other taxes payable	**4,126**	654
Current portion of deferred income	**5,875**	5,337
Total current liabilities	**37,949**	32,729
Deferred income	**9,906**	5,765
Incentive plan liability *[note 12[a]]*	**122**	—
Future income taxes *[note 10]*	**5,522**	5,705
Total liabilities	**53,499**	44,199
Commitments *[notes 18[d], 18[e], 18[g], 20, 21 and 23[a]]*		
Shareholders' equity		
Share capital *[note 11]*	**65,655**	66,948
Contributed surplus	**3,239**	3,239
Accumulated other comprehensive loss *[note 2[g]]*	**(4,467)**	(4,467)
Retained earnings	**227,265**	172,900
Total shareholders' equity	**291,692**	238,620
	$ 345,191	$ 282,819

See accompanying notes

On behalf of the Board:

(signed)
John Langstaff
Director

(signed)
J. Robert Lavery
Director

CONSOLIDATED STATEMENTS OF INCOME, COMPREHENSIVE INCOME AND RETAINED EARNINGS

Years ended July 31

in thousands of Canadian dollars except share-related data	**2009**	2008
Revenues *[note 22]*		
Product sales and services	**$ 177,790**	$ 86,386
R&D services *[note 14]*	**51,882**	71,779
Royalties	**9,079**	7,891
	238,751	166,056
Cost of sales		
Product sales and services	**82,129**	45,671
R&D services *[notes 14 and 15]*	**36,697**	42,672
	118,826	88,343
Gross profit	**119,925**	77,713
Expenses		
Independent R&D *[notes 14 and 15]*	**12,735**	6,028
Selling, general and administrative	**23,117**	17,753
Amortization	**12,979**	12,449
Interest expense (income)		
Short-term *[note 9]*	**(41)**	164
Long-term	**—**	72
Foreign exchange gain	**(11,709)**	(360)
Gain from bargain purchase *[note 5]*	**(3,470)**	—
	33,611	36,106
Income before income taxes	**86,314**	41,607
Income tax expense (recovery) *[note 10]*		
Current	**26,241**	16,206
Future	**205**	(4,224)
	26,446	11,982
Net income and comprehensive income for the year	**59,868**	29,625
Retained earnings, beginning of year	**172,900**	144,999
Purchase of common shares in excess of average stated capital *[notes 11[b] and 11[c]]*	**(5,503)**	(1,724)
Retained earnings, end of year	**$ 227,265**	$ 172,900
Earnings per share *[note 13]*		
Basic and diluted	**$ 0.86**	$ 0.42

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended July 31 *in thousands of Canadian dollars*	**2009**	2008
Operating Activities		
Net income for the year	**$ 59,868**	$ 29,625
Add (deduct) items not involving cash:		
Amortization	**12,979**	12,449
Deferred income	**4,679**	4,548
Gain from bargain purchase *[note 5]*	**(3,470)**	—
Incentive plan liability *[note 12[a]]*	**122**	(226)
Future income tax expense (recovery)	**205**	(4,224)
Unrealized foreign exchange gain	**(4,340)**	(164)
	70,043	42,008
Net change in non-cash working capital balances and other assets related to operations *[note 16]*	**(9,452)**	(13,332)
Cash provided by operating activities	**60,591**	28,676
Investing Activities		
Acquisition, net *[note 5]*	**(1,707)**	—
Purchase of property, plant and equipment, net *[note 15]*	**(12,742)**	(7,526)
Cash used in investing activities	**(14,449)**	(7,526)
Financing Activities		
Decrease in bank indebtedness, net *[note 9]*	**—**	(2,136)
Repayment of long-term debt	**—**	(2,748)
Shares repurchased for cancellation *[notes 11[b] and 11[c]]*	**(6,796)**	(2,120)
Proceeds on exercise of stock options *[note 11[a]]*	**—**	450
Cash used in financing activities	**(6,796)**	(6,554)
Effect of exchange rates on cash	**2,110**	79
Net increase in cash during the year	**41,456**	14,675
Cash, beginning of year	**14,675**	—
Cash, end of year	**$ 56,131**	$ 14,675
Interest paid	**$ 63**	$ 403
Income taxes paid (received)	**$ 12,945**	$ (7,806)

See accompanying notes

July 31, 2009 and 2008

1. Description of Business

Cangene Corporation ("the Corporation" or "Cangene") is a biopharmaceutical company in the business of developing, manufacturing, and commercializing products and technologies for global markets. Revenues are generated by product sales, contract manufacturing, contract research and development, and royalties. The Corporation manages its business and evaluates performance based on two operating segments: biopharmaceutical operations and contract services.

Cangene is focused primarily on developing and manufacturing therapeutics for infectious diseases or biodefence applications. It has particular expertise in two different 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.

As at July 31, 2009, 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., Apotex Research Inc., Apotex Corp., as well as the 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 President and a director of Sherman Foundation and Apotex Foundation.

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared by Cangene Corporation in accordance with Canadian generally accepted accounting principles ("GAAP") applied on a consistent basis. The significant accounting policies are summarized below:

[a] Consolidation

These financial statements consolidate the accounts of Cangene Corporation and its wholly owned subsidiaries: Cangene U.S. Incorporated, Chesapeake Biological Laboratories, Inc. ("Chesapeake"), Biotherapeutic Laboratories, Inc., Mid-Florida Biologicals, Inc. and Twinstrand Holdings Inc.

[b] Use of estimates

The preparation of the financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods presented. Actual results could differ significantly from those estimates.

The Corporation recognizes 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. This requires significant estimates and assumptions regarding future revenues and earnings, and the ability to implement certain tax planning strategies in order to assess the likelihood of utilizing such losses and deductions. These estimates and assumptions are subject to significant uncertainty and if changed could materially affect the assessment of the ability to fully realize the benefit of the future income tax assets.

When evaluating goodwill for potential impairment, the Corporation uses estimates or forecasts of future cash flows. Qualitative factors, including market presence and trends, strength of customer relationships, strength of local management, strength of debt and capital markets, and degree of variability in cash flows, as well as other factors, are considered when making assumptions with regard to future cash flows and the appropriate discount rate. A change in any of the significant assumptions or estimates used to evaluate goodwill could result in a material change to the results of operations.

Revenue from biopharmaceutical product sales, net of trade discounts and allowances, is recognized upon shipment, when all significant contractual obligations have been satisfied and collection is reasonably assured. The Corporation recognizes its share of the revenue from sales of products by distributors upon shipment by the distributors from their warehouses to wholesalers or customers.

The Corporation's distributors estimate allowances for revenue-reducing obligations such as trade discounts, chargebacks, rebates and other allowances, using a combination of historical trends, contractual obligations and information received from third parties. The accuracy of these estimates is dependent upon the inherent limitations of extrapolating estimates from historical trends, as well as the quality of the third-party information (see *note 2[i]*).

[c] Inventories and contracts in progress

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

Summary of Significant Accounting Policies *continued*
production facility and allocates fixed production-overhead costs on that basis. Any excess, unallocated, fixed production-overhead costs are expensed as incurred.

[d] Property, plant and equipment
Property, plant and equipment is recorded at cost, net of investment tax credits and impairment. Design, construction, installation and interest costs related to assets under construction, including all costs for preparing a facility for its intended use, are recorded as construction in progress and are not subject to amortization until the asset is placed into service. Management assesses the carrying value of property, plant and equipment using its best estimate of undiscounted future cash flows whenever conditions arise that could indicate a possible impairment. Any impairment is recognized as a reduction in cost when identified and the asset is written down to estimated fair value. Amortization is provided on a straight-line basis over the following periods based on the estimated useful lives of the assets:

Buildings	25–30 years
Equipment, furniture and fixtures	5–10 years
Computer systems	3–5 years
Leasehold improvements	Term of lease

[e] Goodwill and intangible assets
Goodwill represents the difference between the purchase price, including acquisition costs, of businesses acquired and the fair value of the identifiable net assets acquired. Goodwill is not amortized, but rather is subject to at least annual impairment tests by comparing the fair value of the Corporation's reporting units to their respective carrying value. Any impairment in carrying value is recognized when it is identified.

Intangible assets consist of patents and are subject to amortization on a straight-line basis over the remaining lives of the assets, which range from 8 to 16 years. The Corporation reviews the estimated useful lives and carrying values of its intangible assets as part of its periodic assessment for impairment of long-lived assets. No impairment adjustment has been recorded to date.

The amount shown for intangible assets does not necessarily reflect the present or future value and the ultimate amount recoverable will be dependent upon the successful development and commercialization of products based on the underlying technologies.

[f] Income taxes
Income taxes are provided for using the liability method. Under this method, future tax assets and liabilities are recognized for the difference between the financial statement and income tax bases of assets or liabilities, and for operating losses and tax credit carryforwards. Future tax assets or liabilities are measured using the substantively enacted tax rates and laws anticipated to be in effect when these assets and liabilities are expected to be realized or settled. A valuation allowance is provided for the portion of future tax assets that is more likely than not to remain unrealized. The Corporation is required to make significant estimates and assumptions regarding future taxable income in order to assess the likelihood of tax asset utilization.

[g] Foreign currency translation
Assets and liabilities in foreign currencies related to domestic and integrated foreign operations are translated into Canadian dollars using current exchange rates at the consolidated balance sheet dates for monetary assets and liabilities, historical exchange rates for non-monetary assets and liabilities, and the average monthly exchange rate for revenues and expenses, except for amortization, which is translated at the historical exchange rate of the corresponding non-monetary assets. Exchange gains and losses arising on translation are included in income in the period incurred.

The accumulated other comprehensive loss comprises unrealized translation adjustments that arose on the translation of assets and liabilities of the Corporation's previously self-sustaining foreign operation to Canadian dollars and on the translation of related foreign currency debt designated as a hedge of the net investment in Chesapeake to April 30, 2004, that being the date that Chesapeake was determined to be an integrated foreign operation.

[h] Financial instruments
Based on financial statement classification, gains and losses on financial instruments are recognized in net income or other comprehensive income.

The Corporation has made the following classifications:

- 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, bank indebtedness, and long-term debt 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, interest rate swaps, currency swaps and forward foreign exchange collars, are classified as "held for trading" and measured at fair value. Transaction costs are included in the determination of the fair value. Gains and losses resulting from periodic revaluation are recorded in net income.

[i] Revenue recognition

The Corporation recognizes revenue from product sales, net of trade discounts, chargebacks, rebates and others allowances, when persuasive evidence of an agreement exists, delivery has occurred, price is fixed or determinable, and ultimate collection is reasonably assured.

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

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

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

Revenue earned under contract-manufacturing agreements is for commercial manufacturing and development services. Revenue is recognized when goods are shipped or services are provided in accordance with the terms of the related agreements.

Revenue from research contracts is recognized when the related costs are incurred and includes amounts received in respect of equipment purchased for research, which is recorded as deferred income when received and recognized over the useful life of the related asset.

The Corporation has certain collaborative agreements with third parties that may include multiple deliverables. A delivered item should be accounted for as a separate unit of accounting when:

- the delivered item(s) has stand-alone value to the customer,
- there is objective and reliable evidence of the fair value of the remaining undelivered item(s),
- the arrangement includes a general right of return relative to the delivered item(s), and delivery or performance of the undelivered item(s) is considered probable and substantially in control of the Corporation.

Revenues associated with multiple-deliverable arrangements are attributed to the various deliverables based on their relative fair value. Where a deliverable does not qualify as a separate unit of accounting, revenue attributed to the delivered item(s) is combined with revenue attributed to undelivered items within the arrangement.

Payments received under collaborative arrangements may include non-refundable upfront fees, funding for services performed and milestone payments for specific achievements. Non-refundable upfront fees are deferred and amortized into income on a systematic basis over the appropriate elements within the agreements. Non-refundable milestone payments are recognized into income upon the achievement of the specified milestones when the Corporation has no further involvement or obligation to perform related to that specific element of the arrangement. Milestone payments received that require the ongoing involvement of the Corporation are recorded as deferred income and amortized over the period of ongoing involvement.

Royalty revenue is recorded when the amount of the royalty fee is earned and determinable, and collection is reasonably assured.

[j] Research and development expenses

Research expenses are charged to income in the year they are incurred, net of related tax credits. Development costs are charged to operations in the period of the expenditure unless a development project meets the criteria under Canadian GAAP for deferral and amortization.

[k] Government assistance

Government assistance in connection with research activities is recognized as an expense reduction in the year that the related expenditure is incurred. Government assistance in connection with capital expenditures is treated as a reduction of the cost of the applicable asset.

Federal and provincial investment tax credits are accounted for as a reduction of the cost of the related assets or expenditures in the year in which the credits are earned and when there is reasonable assurance that the credits can be used to recover taxes.

[l] Earnings per share

The calculation of earnings per share is based on net income divided by the weighted-average number of common shares outstanding during the year. Diluted earnings per share reflects the assumed conversion of all dilutive securities using the treasury stock method. Under the treasury stock method, the weighted-average number of common shares outstanding is calculated assuming that the proceeds from the exercise of options are used to repurchase common shares at the average price during the year.

[m] Stock-based compensation plans

Stock option plan

The Corporation has a stock option plan as described in *note 11[d]*. Under the fair-value-based method, compensation expense is determined by calculating fair value at the date of grant using the Black-Scholes option pricing model and is expensed over the award's vesting period. Any consideration paid by employees upon exercise of stock options is recorded as an increase to share capital.

Phantom-stock incentive plan

The Corporation records compensation expense for the phantom-stock incentive plan as described in *note 12[a]*. The Corporation records a related liability in any accounting period when the 90-day weighted-average market price of the Corporation's common shares as at the end of the accounting period exceeds the grant price of the phantom-stock units. This liability could increase or decrease from one period to the next resulting in compensation expense or recovery in any given period. Compensation expense and related liabilities are calculated using the graded-vesting approach in accordance with *CICA Handbook Section 3870 – Stock-based Compensation and Other Stock-based Payments*, and are adjusted in each subsequent accounting period to reflect the current 90-day weighted-average market price of the Corporation's common shares at the end of the applicable accounting period.

3. Changes in Accounting Policies

Effective August 1, 2008, the Corporation adopted the following new *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 18*). 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 17*).

Effective August 1, 2008, the Corporation prospectively adopted *CICA 1582 – Business Combinations*. Section 1582 replaces the former guidance on business combinations, and establishes principles and requirements of the acquisition method for business combinations and related disclosures. Adoption of the standard impacted the accounting treatment for the acquisition of Twinstrand Therapeutics Inc. (see *note 5*), resulting in the recognition of the gain from bargain purchase.

Effective August 1, 2008, the Corporation prospectively adopted *CICA 1601 – Consolidated Financial Statements* and *CICA 1602 – Non-controlling Interests*. Section 1601 replaces existing guidance. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The adoption of these two standards had no impact on the Corporation's consolidated financial statements.

Effective January 31, 2009, the Corporation adopted *CICA Emerging Issues Committee ("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 Corporation 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.

4. Future Accounting Standards

[a] Recent accounting pronouncement

CICA 3064 – Goodwill and Intangible Assets:
Section 3064 revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. This standard is effective for Cangene as at August 1, 2009. The Corporation does not believe that Section 3064 will have a significant impact on its consolidated financial statements under current operating conditions. The only anticipated change is a modification of the Corporation's accounting policy for patent costs. Prior to the adoption of *CICA 3064*, the Company expensed the majority of patent costs as incurred. With the adoption of *CICA 3064*, patent costs that meet the applicable criteria in Section 3064 can be capitalized and amortized over their estimated useful lives.

[b] Convergence with International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board confirmed that the use of IFRS will be required for fiscal years beginning on and after January 1, 2011, with appropriate comparative data from the prior year. Under IFRS, there is significantly more disclosure required. Further, while IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy that must be addressed. While the Corporation has begun assessing the adoption of IFRS for its fiscal year beginning August 1, 2011, the financial impact of the transition to IFRS cannot be reasonably estimated at this time.

5. Acquisition

On June 30, 2009, the Corporation purchased all issued and outstanding shares of privately held Twinstrand Therapeutics Inc. in order to acquire its products, technologies and financial attributes. The net assets acquired exceeded the consideration provided, resulting in the gain from bargain purchase.

The Corporation has accounted for the transaction using the acquisition method as follows:

Identifiable net assets acquired at fair value:

in thousands of Canadian dollars

Current assets	**$**	**258**
Current tax asset		**160**
Intangible assets		**1,000**
Current future tax asset		**3,938**
Liabilities assumed		**(179)**
Identifiable net assets acquired	**$**	**5,177**
Gain from bargain purchase		**(3,470)**
Net assets acquired	**$**	**1,707**

Consideration provided:

in thousands of Canadian dollars

Cash	**$**	**1,707**

6. Inventories and Contracts in Progress

in thousands of Canadian dollars	**2009**	2008
Raw materials	**$ 23,286**	$ 17,879
Work in process – product costs	**2,261**	2,113
Finished goods	**6,803**	9,117
	$ 32,350	$ 29,109
Raw materials – long-term contracts	**22,081**	19,631
Work in process – product costs, long-term contracts	**19,546**	12,607
Work in process – manufacturing process development costs, long-term contracts	**4,610**	6,857
Work in process – development costs, long-term contracts	**1,585**	3,829
Finished goods – long-term contracts	**12,258**	54
	$ 60,080	$ 42,978
	$ 92,430	$ 72,087

As at July 31, 2009, the Corporation has included in its inventories and contracts in progress $60.1 million [July 31, 2008 – $43.0 million] of costs under long-term contracts with the U.S. government (see *note 21*).

During the year ended July 31, 2009, inventories and contracts in progress of $100.2 million [2008 – $86.5 million] were expensed through cost of goods sold. Write-downs of finished product, and reserves for obsolete materials and supplies of $4.7 million and $14.2 million, respectively, were included in cost of goods sold during the year [2008 – $0.6 million and $1.3 million, respectively]. Reversals of write-downs of $0.3 million were recorded during the year ended July 31, 2009 [2008 – $0.1 million].

At July 31, 2009, all inventory is recorded at cost. At July 31, 2008, $0.9 million of inventory was recorded at net realizable value, with the remaining inventory recorded at cost.

7. Property, Plant and Equipment

Equipment and computer systems in the amount of $1.5 million [2008 – $4.0 million] are currently under development and not being amortized.

			2009			2008
in thousands of Canadian dollars	**Cost**	**Accumulated amortization**	**Net book value**	Cost	Accumulated amortization	Net book value
Land	**$ 705**	**$ —**	**$ 705**	$ 705	$ —	$ 705
Buildings	**79,119**	**20,079**	**59,040**	74,759	17,110	57,649
Equipment	**75,508**	**44,641**	**30,867**	72,978	37,484	35,494
Furniture and fixtures	**3,181**	**1,967**	**1,214**	2,710	1,796	914
Computer systems	**13,360**	**9,917**	**3,443**	11,595	7,954	3,641
Leasehold improvements	**3,930**	**788**	**3,142**	992	747	245
	$ 175,803	**$ 77,392**	**$ 98,411**	$ 163,739	$ 65,091	$ 98,648

8. Goodwill and Intangible Assets

Goodwill and intangible assets as at July 31, 2009 amounted to $41.5 million [2008 – $40.5 million], net of accumulated amortization and writedowns of $11.1 million [2008 – $11.1 million].

During the year ended July 31, 2009, the Corporation acquired finite-life intangible assets, consisting of patents, with a value of $1.0 million [2008 – $Nil] in the acquisition of Twinstrand Therapeutics Inc. (see *note 5*). The patents will be amortized over periods ranging from 8 to16 years. There was no amortization expense recorded during the years ended July 31, 2009 and 2008.

As at July 31, 2009 and 2008, the Corporation conducted an annual review of the carrying value of goodwill and intangible assets and determined that there was no impairment.

9. Operating Line of Credit

The Corporation has available a $20.0-million [2008 – $20.0-million] revolving term loan from a Canadian chartered bank, collateralized by a general security agreement in respect to all assets; $Nil was utilized at July 31, 2009 and July 31, 2008. On this line of credit, interest is payable at either LIBOR plus 1.6%, the prime lending rate plus 0.6%, or the U.S.-dollar base rate plus 0.6%, depending on the duration of the borrowing and the currency borrowed. The effective rate of interest during the year was 3.7% [2008 – 5.7%]. The agreement has no fixed expiry date.

10. Income Taxes

The Corporation's income tax provision is determined as follows:

in thousands of Canadian dollars	**2009**	2008
Combined statutory federal and provincial tax rate at 32.1% [2008 – 34.8%]	**$ 27,733**	$ 14,480
Adjusted for:		
Recognition of previously unrecognized tax losses from prior years	**—**	(2,084)
Unrecognized temporary difference for unrealized foreign exchange loss on advances to U.S. subsidiaries	**(1,666)**	1,048
Reduction in tax rate on previously recorded tax losses	**—**	1,246
Recognition of previously unrecorded timing differences from prior years	**—**	(1,022)
Gain from bargain purchase	**(1,115)**	—
Non-taxable foreign exchange gain on translation of U.S. subsidiaries' monetary assets and liabilities	**1,755**	(884)
Effect of tax rate changes	**(187)**	(250)
Other	**(74)**	(552)
Income tax expense	**$ 26,446**	$ 11,982

The Corporation's future income tax asset at July 31, 2009, in the amount of $8.2 million [2008 – $2.2 million], reflects the recognition of the potential future benefit of $14.4 million [2008 – $13.2 million] of tax losses and temporary differences in the Canadian and U.S. operations, net of a valuation allowance of $6.2 million [2008 – $4.6 million]. The valuation allowance represents the pre-tax potential benefit of $18.0 million [2008 – $13.4 million] in U.S. temporary differences that is due to an impairment loss on Chesapeake's viral-vaccine-filling facility that was recorded in a previous year, and which is more likely than not to remain unrealized.

The Corporation has recorded $4.5 million [2008 – $6.3 million] in other assets representing the tax effect of intercompany profits taxed at the legal entity level, but not yet realized on a consolidated basis.

Non-capital losses and their expiry dates, in the Canadian operations, are as follows:

Year of loss	Year of expiry	*in thousands of Canadian dollars* Amount of tax attributes
2004	2014	$ 2,657
2005	2015	1,684
2006	2026	1,563
2007	2027	1,085
2008	2028	291
2009	2029	1,442
Total tax losses		$ 8,722

In addition to the future benefit of temporary differences related to tax losses in the amount of $2.7 million, other future benefits of temporary differences in the Canadian operations include deductible scientific research and experimental development ("SR&ED") pools, net of the prior year's investment tax credits, and inventory and other reserves totalling $2.2 million. Future benefit of temporary differences in the U.S. operations relates to inventory and other reserves in the amount of $3.3 million.

The future income tax liability at July 31, 2009, in the amount of $5.5 million [2008 – $5.7 million], primarily reflects the tax effect of the temporary differences between the net book value of assets and the related cost for tax purposes in the Canadian ($5.2 million) and the U.S. ($0.3 million) operations.

11. Share Capital

[a] Authorized and issued

The Corporation's authorized share capital comprises an unlimited number of non-voting preferred shares with a 4% non-cumulative dividend entitlement; Class A preferred shares, issuable in series with rights to be determined at issuance by the Board of Directors; and an unlimited number of common shares with no par value.

Issued share capital comprises common shares as follows:

in thousands of Canadian dollars except share-related data	Number of shares	Share capital
As at July 31, 2007	70,409,470	$ 66,894
Stock options exercised	95,700	450
Repurchase of shares for cancellation	(414,600)	(396)
As at July 31, 2008	70,090,570	66,948
Repurchase of shares for cancellation	(1,353,800)	(1,293)
As at July 31, 2009	68,736,770	$ 65,655

[b] Normal Course Issuer Bid – April 25, 2008 to April 24, 2009

On April 23, 2008, the Corporation announced regulatory approval of a share repurchase program, through the facilities of the Toronto Stock Exchange, for purchase and subsequent 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 "2008 Bid"). Under the 2008 Bid, purchases of common shares were 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 2008 Bid to increase the maximum number of common shares of the Corporation available for purchase to 1,250,000, representing 1.8% of the outstanding common shares as at April 22, 2008. The 2008 Bid expired on April 24, 2009.

During the year ended July 31, 2009, the Corporation cancelled 624,300 common shares at a net cost of $2.9 million [2008 – 414,600 shares cancelled at a net cost of $2.1 million] under the 2008 Bid. The Corporation has recorded a reduction in share capital of $0.6 million related to the 2008 Bid [2008 – $0.4 million]. The excess of purchase price over the average stated capital of the shares of $2.3 million [2008 – $1.7 million] was charged to retained earnings.

[c] Normal Course Issuer Bid – April 25, 2009 to April 24, 2010

On April 22, 2009, the Corporation announced regulatory approval of a share repurchase program, through the facilities of the Toronto Stock Exchange, for purchase and subsequent 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 20, 2009) by way of a Normal Course Issuer Bid (the "2009 Bid"). Under the 2009 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.

During the year ended July 31, 2009, the Corporation cancelled 729,500 common shares at a net cost of $3.9 million [2008 – zero shares cancelled at a net cost of $Nil] under the 2009 Bid. The Corporation has recorded a reduction in share capital of $0.7 million related to the 2009 Bid. The excess of purchase price over the average stated capital of the shares of $3.2 million was charged to retained earnings.

[d] Stock options

The Board of Directors may authorize the issuance of options to acquire up to 8 million common shares under a stock option plan, provided that the number of options outstanding to any one individual at any time does not exceed 5% of the outstanding shares. As at July 31, 2009, 2.4 million [2008 – 1.8 million] options remain available to be granted under the plan. The exercise price of options granted under the plan cannot be lower than the market price of the Corporation's common shares on the date that the options are granted. These options expire no later than five and eight years after the date they are granted for non-employee directors and employees, respectively, and vest over four fiscal years.

A summary of the status of the Corporation's stock option plan as at July 31, 2009 and 2008, and changes during the years ending on those dates is presented below:

Stock options	**2009** Number of options		**2009** Weighted-average exercise price	2008 Number of options		2008 Weighted-average exercise price
Outstanding at beginning of year	**1,296,100**	**$**	**8.46**	1,939,300	$	8.28
Exercised	**—**		**—**	(95,700)		4.70
Forfeited, expired and cancelled	**(584,900)**		**6.65**	(547,500)		8.48
Outstanding at end of year	**711,200**	**$**	**9.96**	1,296,100	$	8.46
Exercisable at end of year	**711,200**	**$**	**9.96**	1,295,475	$	8.46

The following table summarizes information about stock options outstanding at July 31, 2009:

Exercise price	Fiscal year of grant	Options outstanding: Number outstanding	Options outstanding: Weighted-average remaining contractual life		Options outstanding: Weighted-average exercise price	Options exercisable: Number outstanding		Options exercisable: Weighted-average exercise price
$ 9.31	2002	344,000	0.7 years	$	9.31	344,000	$	9.31
10.60	2003	357,200	1.5		10.60	357,200		10.60
9.33	2004	5,000	3.0		9.33	5,000		9.33
9.33	2005	2,500	3.0		9.33	2,500		9.33
8.68	2006	2,500	4.0		8.68	2,500		8.68
$ 8.68–10.60		711,200	1.1 years	$	9.96	711,200	$	9.96

A nominal amount of stock-based compensation expense, as per the accounting policy described in *note 2[m]*, was recorded in 2009 and 2008 as nearly all options had vested in prior years.

No stock options were granted in 2009 or 2008.

12. Other Employee Benefit Plans

[a] Phantom-stock incentive plan ("PSIP")

The phantom-stock units mature three years and 90 days after the effective date of grant. The phantom-stock units are valued based on the weighted-average market price of the Corporation's common shares for the 90 days preceding the maturity date. Participants in the plan will receive cash awards equal to any increase in value of the phantom-stock units between the effective date of grant and the date of maturity.

The PSIP provides for vesting of the phantom-stock units evenly over three years and, in the event of retirement, death or termination without cause, participants may be entitled to receive early cash awards for vested phantom-stock units based on the weighted-average market price of the Corporation's common shares for the 90 days preceding the applicable date of retirement, death or termination.

Participation in the PSIP requires mandatory participation in a share ownership plan, which stipulates that the participants must acquire a minimum investment in Cangene shares by a pre-determined future date.

A total of 2,739,888 units were granted during 2009 [2008 – 877,687]. No units were redeemed during 2009 [2008 – 33,241 units redeemed for nominal value]. A further 87,500 units matured with no value during 2009 [2008 – 950,679 units matured with no value]. A total of 409,016 units were cancelled during 2009 [2008 – 173,242].

The following table summarizes information about phantom-stock units outstanding as at July 31, 2009 and 2008:

Grant price	Fiscal year of grant	Number of units outstanding	Weighted-average remaining contractual life	**Liability at July 31, 2009** (in thousands of Canadian dollars)	Liability at July 31, 2008 (in thousands of Canadian dollars)
$ 8.42	2007	535,323	0.3 years	**$ —**	$ —
7.09	2008	714,199	1.3	**—**	—
4.51	2009	2,424,313	2.3	**122**	—
$ 4.51–8.42		3,673,835	1.8 years	**$ 122**	$ —

Effective August 1, 2009, the new Restricted Share Unit Plan and Deferred Share Unit Plan as described in *notes 23[b]* and *23[c]* will be used as the primary instruments for long-term incentive compensation.

[b] Employee share purchase plan

Under the terms of the Corporation's employee share purchase plan, employees can choose to have up to 5% of their annual gross earnings, to a yearly maximum of $10,000, withheld to purchase common shares of the Corporation on the open market. The Corporation will match 20% of all contributions made by employees. The total contribution vests immediately. During 2009, the Corporation's contribution was $0.1 million [2008 – $0.1 million], which is recorded as compensation expense. Under the plan, employees acquired 117,034 shares in 2009 [2008 – 75,500].

[c] Defined-contribution pension plan

The Corporation has a defined-contribution pension plan. The Corporation contributes to the plan at rates up to 4% of the employee's salary. The expense and payments for the year were $1.1 million [2008 – $0.9 million].

13. Earnings per Share

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

in thousands of Canadian dollars except share-related data	**2009**	2008
Net income	**$ 59,868**	$ 29,625
Weighted-average number of common shares outstanding	**# 69,464,566**	# 70,445,637
Dilutive effect of stock options	**—**	4,792
Diluted weighted-average number of shares outstanding	**# 69,464,566**	# 70,450,429
Earnings per share:		
Basic	**$ 0.86**	$ 0.42
Diluted	**$ 0.86**	$ 0.42

For the year ended July 31, 2009, 711,200 options [July 31, 2008 – 810,800 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 year.

14. Research and Development

Research and development revenues are earned under terms of agreements with Apotex (see *note 22*) 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:

a) expenditures under R&D agreements funded by Apotex, where Cangene will hold the product licences and may pay Apotex certain royalties and profit sharing;

b) expenditures under R&D contracts with Apotex, where Apotex will hold the product licences and Cangene will provide contract-R&D services, and may ultimately provide contract manufacturing;

c) expenditures under third-party contract-R&D agreements funded by the third party, where Cangene retains primary intellectual property rights (e.g., U.S. government R&D contracts for VIG, anthrax immune globulin ("AIG") and heptavalent botulism antitoxin ("BAT"));

d) expenditures under third-party contract-R&D agreements funded by the third party, where the third party holds the intellectual property rights; and

e) expenditures on independent R&D funded entirely by Cangene and for which Cangene holds all intellectual property rights.

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

in thousands of Canadian dollars	**2009**	2008
R&D revenues		
Apotex agreements – Cangene holds licence	**$ 5,269**	$ 11,632
Apotex agreements – Apotex holds licence	**1,477**	2,904
Third-party contracts – Cangene holds licence	**40,692**	54,169
Third-party contracts – third party holds licence	**4,444**	3,074
	$ 51,882	$ 71,779
R&D expenses		
Apotex agreements – Cangene holds licence	**$ 3,242**	$ 7,423
Apotex agreements – Apotex holds licence	**707**	1,186
Third-party contracts – Cangene holds licence	**30,380**	32,235
Third-party contracts – third party holds licence	**2,368**	1,828
Total cost of sales – R&D services	**36,697**	42,672
Cangene independent R&D	**12,735**	6,028
	$ 49,432	$ 48,700

15. Government Assistance

Federal and provincial investment tax credits, relating to SR&ED activities and amounting to $9.9 million [2008 – $13.1 million], were included in the determination of income as a reduction of research and development expenses, while $0.1 million [2008 – $2.0 million] was recorded as a reduction of long-term contract costs in inventories and contracts in progress. In addition, investment tax credits relating to SR&ED capital expenditures amounted to $0.3 million [2008 – $0.4 million], while provincial investment tax credits related to manufacturing and processing capital expenditures amounted to $0.4 million [2008 – $0.4 million]. Both were accounted for as a reduction of the cost of the applicable assets.

To qualify for the federal and provincial SR&ED investment tax credits, the work must advance the understanding of scientific relations or technologies, address scientific or technological uncertainty, and incorporate a systematic investigation by qualified

personnel. To qualify for the Manitoba manufacturing investment tax credit, the building, machinery and equipment must be purchased for first-time use in manufacturing or processing in Manitoba.

Government funding for research projects recorded as a reduction of research and development expenses was $0.3 million [2008 – $0.4 million].

Conditions related to Canadian government funding include a 10% holdback receivable upon completion of the research project, completion and submission to the Canadian government of regular progress reports, and ongoing monitoring and acceptance of the deliverables by Canadian government technical authorities.

16. 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:

in thousands of Canadian dollars	**2009**	2008
Accounts receivable	**$ 3,836**	$ (17,908)
Inventories and contracts in progress	**(20,343)**	(11,334)
Income and other taxes recoverable	**(882)**	10,658
Prepaid expenses and deposits, and other assets	**3,255**	1,450
Accounts payable and accrued liabilities	**1,210**	3,598
Income and other taxes payable	**3,472**	204
	$ (9,452)	$ (13,332)

17. Capital Structure

The Corporation's capital structure is composed of shareholders' equity. 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 a Normal Course Issuer Bid.

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

in thousands of Canadian dollars	**Year ended July 31, 2009**	Year ended July 31, 2008
Net income	**$ 59,868**	$ 29,625
Add back:		
Interest expense	**62**	439
Income tax expense	**26,446**	11,982
Depreciation and amortization	**12,979**	12,449
EBITDA	**$ 99,355**	$ 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:

in thousands of Canadian dollars	**At July 31, 2009**	At July 31, 2008
Long-term debt	**$ —**	$ —
Shareholders' equity	**291,692**	238,620
Ratio	**—**	—

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:

in thousands of Canadian dollars	**At July 31, 2009**	At July 31, 2008
Long-term debt	**$ —**	$ —
EBITDA	**99,355**	54,495
Ratio	**—**	—

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:

in thousands of Canadian dollars	**At July 31, 2009**	At July 31, 2008
EBITDA	**$ 99,355**	$ 54,495
Interest expense	**62**	439
Current portion of long-term debt and capital leases	**—**	—
Ratio	**1,603:1**	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:

in thousands of Canadian dollars	**At July 31, 2009**	At July 31, 2008
Current assets	**$ 199,806**	$ 132,489
Current liabilities	**37,949**	32,729
Working capital ratio	**5.3:1**	4.0:1

The Corporation's capital management objectives, and 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 9*), 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.

18. Financial Instruments and Risk Management

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

[a] Fair values

As at July 31, 2009 and 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.

[b] 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.

Financial Instruments and Risk Management *continued*

[c] 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 based on the status of the receivable in relation to when the receivable was due and payable:

in thousands of Canadian dollars	**At July 31, 2009**	At July 31, 2008
Neither impaired nor past due	**$ 30,583**	$ 33,780
Not impaired but past the due date as follows:		
Within 30 days	**2,966**	1,702
31–60 days	**137**	—
Over 60 days	**1,027**	3,208
Allowance for doubtful accounts	**(166)**	(307)
Total	**$ 34,547**	$ 38,383

There are no impaired accounts receivable.

A continuity of the allowance for doubtful accounts for the years ending July 31, 2009 and 2008 is as follows:

in thousands of Canadian dollars	**2009**	2008
Opening, beginning of year	**$ 307**	$ 317
Foreign exchange impact	**2**	(1)
Additional allowance	**7**	—
Write-off uncollectible account	**(150)**	(9)
Closing, end of year	**$ 166**	$ 307

[d] 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 the purpose 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 one currency swap outstanding at July 31, 2009 as follows:

in thousands of Canadian dollars	Notional amount	Maturity date	**Fair value at July 31, 2009**	Fair value at July 31, 2008
	$ 7,494	September 18, 2009	**$ (110)**	$ —
Total	$ 7,494		**$ (110)**	$ —

The fair values reflect the cost to unwind the instrument. If the currency swap is held to maturity, the Corporation pays $0.2 million in fixed-fee swap costs for the instrument.

[e] 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 U.S. and Canadian dollars 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 July 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 July 31, 2009
August 31, 2009	1.1502	US$ 5,000	**$ 330**
September 30, 2009	1.1500	5,000	**329**
October 29, 2009	1.2291	5,000	**724**
November 30, 2009	1.1494	5,000	**326**
December 31, 2009	1.1490	5,000	**324**
		US$ 25,000	**$ 2,033**

The Corporation maintains U.S.-dollar bank accounts; U.S.-dollar cash balances at July 31, 2009 were US$33.0 million [July 31, 2008 – US$13.1 million].

[f] Sensitivity analysis

The Corporation's sales denominated in U.S. dollars in the year ended July 31, 2009 were US$182.1 million, and the total of its cost of sales and its selling, general and administrative expense denominated in that currency was US$70.3 million. Accordingly, a 20% increase or decrease in the exchange rate between Canadian and U.S. dollars would result in a $42.5 million increase or decrease in sales, and a total increase or decrease of $16.5 million in cost of sales plus selling, general and administrative expense.

[g] 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. Trade payables are due within one year.

19. 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 (see *note 22*). Contract services provides manufacturing and R&D services to related and unrelated parties.

The accounting policies of the Corporation's operating segments are the same as those described in *note 2*. There are no significant inter-segment transactions. The following presents segment operating results for the years ended July 31, 2009 and July 31, 2008, and identifiable assets as at July 31, 2009 and July 31, 2008:

			2009			2008
in thousands of Canadian dollars	**Biopharma-ceutical operations**	**Contract services**	**Total**	Biopharma-ceutical operations	Contract services	Total
Revenues						
Product sales and services	**$ 50,735**	**$ 127,055**	**$ 177,790**	$ 42,084	$ 44,302	$ 86,386
R&D services	**5,269**	**46,613**	**51,882**	11,632	60,147	71,779
Royalties	**9,079**	**—**	**9,079**	7,891	—	7,891
	65,083	**173,668**	**238,751**	61,607	104,449	166,056
Cost of sales						
Product sales and services	**14,633**	**67,496**	**82,129**	17,214	28,457	45,671
R&D services	**3,242**	**33,455**	**36,697**	7,422	35,250	42,672
	17,875	**100,951**	**118,826**	24,636	63,707	88,343
Gross profit	**47,208**	**72,717**	**119,925**	36,971	40,742	77,713
Income before income taxes	**31,327**	**54,987**	**86,314**	20,159	21,448	41,607
Income tax expense	**8,043**	**18,403**	**26,446**	7,375	4,607	11,982
Net income for the year	**$ 23,284**	**$ 36,584**	**$ 59,868**	$ 12,784	$ 16,841	$ 29,625
Total assets	**$ 79,463**	**$ 265,728**	**$ 345,191**	$ 80,542	$ 202,277	$ 282,819
Additions to property, plant and equipment, and goodwill and intangible assets, net	**$ 5,024**	**$ 7,718**	**$ 12,742**	$ 2,301	$ 5,225	$ 7,526

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 July 31, 2009 and July 31, 2008.

		2009		2008
in thousands of Canadian dollars	**Revenues**	**Property, plant and equipment, and goodwill and intangible assets, net**	Revenues	Property, plant and equipment, and goodwill and intangible assets, net
Canada	**$ 25,574**	**$ 77,602**	$ 30,916	$ 81,290
United States	**202,308**	**62,323**	124,018	57,872
Rest of world	**10,869**	**—**	11,122	—
	$ 238,751	**$ 139,925**	$ 166,056	$ 139,162

For the current year, sales to two customers represent 74% [2008 – two customers, 76%] of the revenue of the biopharmaceutical operating segment, and sales to two customers represent 86% [2008 – two customers, 79%] of the revenue of the contract-services segment.

20. Commitments

[a] Operating leases

At July 31, 2009, the Corporation had commitments under operating leases requiring future minimum annual payments as follows:

in thousands of Canadian dollars

2010	$ 1,055
2011	940
2012	846
2013	599
2014	511
Thereafter	715
	$ 4,666

[b] Cross-currency swap contracts

At July 31, 2009, the Corporation had entered into a U.S.–Canadian currency swap with a notional amount of $7.5 million (see *note 18[d]*). If the instrument is held to maturity, the Corporation pays fixed-fee swap costs of $0.2 million.

21. 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 2009, Cangene recorded revenues of $111.6 million [2008 – $49.8 million] related to the BAT contract. As at July 31, 2009, costs of $30.8 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 approximately US$143 million in revenue, which includes a potential supplementary payment based upon achieving FDA licensure. The contract 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 delivery of 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 July 31, 2009, $0.7 million has been deferred [July 31, 2008 – $0.1 million].

During 2009, Cangene recorded revenues of $35.5 million [2008 – $26.1 million] related to the AIG contract. As at July 31, 2009, costs of $31.2 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.

22. Related-party Transactions

Apotex (see *note 1*) is Cangene's majority shareholder and holds 62% of Cangene's common shares.

The Corporation had an agreement whereby Apotex funded Cangene's development of certain recombinant biopharmaceutical products up to and including post-licensure research and development. Research revenue received pursuant to this contract was based on the direct research costs plus a

contribution to overhead. The Corporation recognizes investment tax credits associated with these costs as a reduction of R&D-services expense. Under the agreement, Apotex was entitled to receive a royalty and profit-sharing on net commercial sales of certain biopharmaceutical products developed under the agreement. However, no sales of biopharmaceutical products developed pursuant to this agreement have been made.

Effective April 13, 2009, the Corporation signed a new agreement with Apotex under which Cangene obtained rights to commercialize these products, which include Leucotropin® and Accretropin™. Due to the extent of Apotex's investment in these two lead drugs, however, both companies have the right to take Leucotropin® and Accretropin™ to market and would pay the other company a small royalty based on any sales. It was not possible to determine a fair market value of the rights exchanged in the new agreement, accordingly the transaction was recorded at carrying value, which was $Nil. Cangene's independent directors approved the new agreement after having determined that it is fair to Cangene and its shareholders.

On November 5, 1996, the Corporation acquired royalty rights on the drug Ferriprox® (deferiprone) from Apotex. Under this earlier agreement with Apotex, the Corporation was entitled to receive 50% of any net profits from sales of the drug worldwide. Under the new agreement, this royalty will phase out over three fiscal years; it continued at 50% for fiscal 2009, decreases to 37.5% in fiscal 2010 and terminates with 18.75% in fiscal 2011.

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. Effective November 1, 2009, a new agreement will go into effect (see *note 23[a]*).

During 2009, Cangene recorded revenues of $22.6 million [2008 – $27.4 million] from Apotex and at July 31, 2009, $5.1 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.

23. Subsequent Events

[a] Distribution rights for HepaGam B®

On October 16, 2009, the Corporation's Board of Directors (the "Board") approved an agreement between Cangene Corporation and Apotex, under which Cangene acquires the U.S. commercialization rights to HepaGam B®. Per the agreement, Cangene will pay Apotex an upfront fee of US$7.0 million. In addition, Cangene will pay royalties on net U.S. HepaGam B® sales occurring prior to June 2016. The effective date of this transfer of rights to Cangene is November 1, 2009. Cangene's independent directors approved this new agreement after having determined that it is fair to Cangene and its shareholders.

[b] Restricted share units

On October 16, 2009, the Board approved a grant of approximately 1,000,000 restricted share units ("RSUs") to employees and officers of Cangene under a new compensation plan previously approved by the Board. RSUs mature three years and 90 days after the effective date of grant. The RSUs are valued based on the weighted-average market price of the Corporation's common shares for the 90 days preceding the maturity date. Participants in the plan will receive cash awards equal to the number of units multiplied by the 90-day weighted-average share price on the date of maturity.

The RSU plan provides for vesting of the RSUs evenly over three years and, in the event of retirement, death or termination without cause, participants may be entitled to receive early cash awards for vested RSUs based on the weighted-average market price of the Corporation's common shares for the 90 days preceding the applicable date of retirement, death or termination.

Participation in the RSU Plan requires mandatory participation in a share ownership plan, which stipulates that the participants must acquire a minimum investment in Cangene shares by a pre-determined future date. RSUs held count towards the ownership requirement.

[c] Deferred share units

Effective August 1, 2009, the Corporation issued 12,831 deferred share units ("DSUs") to its non-employee directors under a Deferred Share Unit Plan previously approved by the Board. DSUs are granted quarterly to the Corporation's non-employee directors if they elect to have all or a portion of their annual retainer paid in DSUs. DSUs vest immediately upon issue and mature effective the date that the individual ceases to be a director of the Corporation. The DSUs are valued based on the weighted-average market price of the Corporation's common shares for 90 days preceding the date of maturity and a cash payment will be made at that time.

Participation in the DSU Plan requires mandatory participation in a share ownership plan, which stipulates that the participants must acquire a minimum investment in Cangene shares by a pre-determined future date. DSUs held count towards the ownership requirement.

24. Comparative Figures

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