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**CANGENE CORPORATION**  
2010  
FIRST QUARTER REPORT

## MESSAGE TO SHAREHOLDERS

As we move into our new fiscal year, we have increased focus on our commercial products and in particular our U.S. commercial operations. Building on the momentum of 2009, in which we posted our highest ever revenues and net income, we believe the U.S. commercial market presents some great opportunities for growth going forward.

Most significantly, we acquired all U.S. commercialization rights to HepaGam B<sup>®</sup> under a new agreement with the Apotex Group. HepaGam B<sup>®</sup> [Hepatitis B Immune Globulin (Human) Injection], is a hyperimmune product that contains antibodies specific for the hepatitis B virus, and Apotex has been marketing and distributing the product for us in the U.S. since it was approved in 2006. Sales have been growing, and HepaGam B<sup>®</sup> accounted for 17% of our biopharmaceutical product sales in fiscal 2009. So it now makes sense for us to develop our own commercial infrastructure to access this important market, beginning with the building of a small U.S. sales force. This new agreement with Apotex came into effect on November 1, 2009. We paid Apotex an upfront deposit of US\$7.0 million and will pay ongoing royalties on net U.S. sales of HepaGam B<sup>®</sup> until June 2016, resulting in an estimated total purchase price of US\$14.0 million.

In concert with our expanding commercial activities and to further enhance Cangene's presence in the U.S. marketplace, I'm pleased to announce that we are in the process of changing the name of our Baltimore-based subsidiary, Chesapeake Biological Laboratories, Inc., to Cangene bioPharma, Inc., to better align it with the strong Cangene brand. Chesapeake has been a significant piece of our business for a number of years and we believe that by clearly linking it to the Cangene family it will help to promote the corporate identity and better reflect the growth in our commercial activities in the U.S. market. This subsidiary will include the existing contract manufacturing operations as well as the new U.S. sales and marketing group.

Recently, we have also undertaken a re-branding of our plasma-collection centres so that they also fall more obviously under the Cangene corporate umbrella; all four of our centres will be known as Cangene Plasma Resources. This will further expand our corporate presence as well as strengthen the message to our plasma donors that Cangene's commitment to quality is integral to their experience at our centres.

The quarter was not entirely about our commercial products. We also signed a \$3.3-million contract to supply Vaccinia Immune Globulin Intravenous (Human) and Botulism Antitoxin Heptavalent ("BAT") to a non-North American government. This will be the first sale of our investigational BAT product to a customer other than the United States government.

Our Board of Directors, particularly the Human Resource and Compensation Committee, has also been active. One of their recent initiatives was to revise our short- and long-term incentive compensation programs. The new short-term incentive model that links compensation to performance relative to the Corporate Scorecard was in place for fiscal 2009. The Board has approved a new long-term incentive plan for executive officers and certain other management employees, and on October 16, 2009, approved the grant of approximately 1,000,000 restricted share units ("RSUs"). Participants in the plan are required to meet certain share ownership requirements.

The Board has also approved a Deferred Share Unit plan for Director compensation. Under this new plan, Directors may elect to receive all or part of their annual retainer in deferred share units ("DSUs"). The Corporation issued 12,831 DSUs to our non-employee Directors, effective August 1, 2009.

As neither of the new plans involve the issuance of actual shares, they effectively tie compensation to share performance but don't affect trading of our shares.

Our Board and executive management continue to believe that recent market prices of our common shares do not fully reflect the value of our business and future prospects. In that regard, we recently amended our Normal Course Issue Bid ("Bid") to increase the maximum number of shares available for purchase under the Bid by 500,000, for a total of 1,500,000 shares. The Bid commenced on April 25, 2009 and expires on April 24, 2010. We have purchased 949,800 common shares pursuant to this Bid to date.

The financial results for the quarter continue to reflect our delivery on the U.S. government biodefence contracts in accordance with established schedules. Our balance sheet also remains strong with a substantial cash position and no debt. For a detailed discussion of our financial position, I encourage you to review the following Management's Discussion and Analysis, and the accompanying financial statements and notes.

With our continued financial strength, we remain in a good position to execute on our strategy of building our commercial pipeline through acquisition, internal R&D efforts, and sales and marketing infrastructure growth. In addition, our successful track record as a contractor for the development and supply of biodefence products continues to attract new customers.

I wish you all an enjoyable holiday season and a safe and happy New Year.

(signed)

Dr. John Langstaff  
President and Chief Executive Officer  
December 10, 2009

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

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

December 10, 2009

*This review contains management's discussion of Cangene Corporation's operating results and financial condition for the three-month period ended October 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 2009 annual report, which is available on request from the Company or from Cangene's website at [www.cangene.com](http://www.cangene.com).*

***The discussion of products in this report is intended as an information summary for investment purposes and does not contain all relevant product safety and risk information. Healthcare professionals should refer to approved labelling or the appropriate prescribing information for products and not rely on information discussed in this report. Prescribing information or drug names may differ in various countries. 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. No information in this report is intended to promote the products discussed.***

### **Disclosure and internal controls**

*Management has established and maintains 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, particularly during the period in which the annual filings are being prepared. We have evaluated the effectiveness of our disclosure controls and procedures as at the date of our 2009 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.*

*Management is also responsible for the design and effectiveness of 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"). The Corporation is continually evolving and enhancing its systems of internal controls over financial reporting. We have*

*evaluated the design and effectiveness of our internal control over financial reporting as at the end of the period covered by our annual filings and have concluded that the controls are sufficient to provide reasonable assurance. During the quarter ended October 31, 2009, there have been no changes in our internal control over financial reporting that have materially affected, or are 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 2009 annual report mentioned above. Forward-looking statements may include words such as "expects", "plans", "will", "believes", "estimates", "intends", "may", "bodes" or 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" or 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.

Cangene has a majority shareholder, the Apotex Group ("Apotex"), which, to the knowledge of the directors of Cangene, at December 10, 2009 controlled, directly or indirectly, 42,875,787 common shares, representing 63% 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., and 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.

Strategically Cangene is 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 approved product was WinRho<sup>®</sup> [Rh<sub>0</sub> (D) Immune Globulin (Human) for Injection], and its development established a core competency in developing and manufacturing hyperimmunes. Three additional hyperimmune products, VariZIG<sup>™</sup> [Varicella Zoster Immune Globulin (Human)], VIG [Vaccinia Immune Globulin Intravenous (Human)] and HepaGam B<sup>®</sup> [Hepatitis B Immune Globulin (Human) Injection] have also been approved for use.

We also have a recombinant biopharmaceutical development program. Since 1995, under a previous agreement, Apotex funded research and development of several of our recombinant products. These funding obligations have now been satisfied and we have signed a new agreement with Apotex. Our first licensed recombinant product is Accretropin<sup>™</sup> ([somatropin (rDNA origin)] Injection), our human growth hormone,

which has been approved by the U.S. Food and Drug Administration ("FDA"). While we are continuing to develop certain products such as recombinant monoclonal antibodies in our independent R&D program, under the new agreement this development is no longer being funded by Apotex.

Revenues from the biopharmaceutical operations segment result largely from sales of WinRho<sup>®</sup> SDF, which are made primarily through our distributor, Baxter Healthcare Corporation. HepaGam B<sup>®</sup>, our next largest commercial product, continues to grow in both sales and market share in the North American market.

We have leveraged our capability to develop and manufacture hyperimmunes into a contract-services business, and 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 revenue 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 shipping product. 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 incurred to date, amounts to \$244.2 million.

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. We also have a subsidiary in Baltimore, Maryland, United States that offers facilities for filling and finishing process-sensitive biologics. This subsidiary has very recently been re-named as Cangene bioPharma, Inc. (formerly Chesapeake Biological Laboratories, Inc.) to better identify it with our strong Cangene brand.

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 timing of contract deliveries. 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 Cangene bioPharma, Inc. ("Cangene bioPharma")

We will use cash generated from operations 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

A primary focus continues to be meeting delivery commitments on the U.S. government BAT and AIG contracts. We made one delivery on the BAT contract in the first quarter of 2010. Our plasma inventory levels continue to be ahead of schedule and we anticipate that we will be successful in meeting our current delivery requirements. For both products, we will continue deliveries as specified under the contracts unless otherwise directed by BARDA. We are also continuing to work on the licensing elements of the contracts for both products and those efforts are expected to continue.

Strategically, we have also focused on increasing our plasma-collection capabilities through expansion of our existing plasma centres. The expansions are largely complete and operations in the expanded centres are being phased in. These efforts are aimed at bringing more of our plasma supply in-house. Competition for plasma supplies and donor recruitment are significant risks 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, in-house supply of plasma can be more cost-effective than commercial purchases. We are currently in the process of expanding and re-branding the centres under the name Cangene Plasma Resources so they are more closely identified with our corporate identity. Three of our four centre expansions are complete and operational, with the Canadian centre slated to move into its new location in the new year. In addition, we are considering adding new sites.

With respect to WinRho<sup>®</sup> SDF, our focus is on markets where we can effectively compete and on growing our North American market share. We continue to work with our distribution partners to increase our presence in the market. Sales in Canada and the U.S. remain strong.

We continue to grow HepaGam B<sup>®</sup> sales in the U.S. and Canada, targeting the largest liver transplant centres as well as the long-term post-transplant (home therapy) market to introduce them to the product. The FDA has granted HepaGam B<sup>®</sup> orphan drug status, which confers seven years of market exclusivity for the approved indication to prevent 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<sup>®</sup> will provide strong sales in the years to come as we continue to penetrate the U.S. market. Effective November 1, 2009, we acquired the U.S. commercialization rights to HepaGam B<sup>®</sup> from Apotex. Sales have been growing and we feel it makes sense for us to develop our own commercial infrastructure to access this market using our own sales force.

We have entered into an agreement with Maxisgen, Inc. for an exclusive option to acquire an exclusive licence to Maxisgen's protein therapeutic called MAXY-G34 for treating acute radiation syndrome ("ARS"). Cangene paid an upfront fee of US\$0.5 million for this option. This protein is a long-acting version of the white-blood-cell-stimulating protein known as G-CSF. We concurrently submitted a bid to develop MAXY-G34 for treating ARS under a request for proposal ("RFP") issued in March 2009 by BARDA. If we are awarded a development contract under this RFP that meets our criteria, we would exercise our option with Maxisgen and pay licence fees.

Looking toward the remainder of 2010, we are continuing to focus our efforts on a number of independent research and development initiatives, including hyperimmune process improvements, clinical studies, and the development of monoclonal antibody technology and other anti-infectives. We also continue to evaluate a number of acquisition, licensing and distribution opportunities with respect to companies and specific products. We are well on our way to achieving our goal of introducing eight new products by 2016. In addition, we continue to pursue new customers for our products, such as the recently signed \$3.3-million contract to supply VIG and BAT to a non-North American government. This will be the first sale of our investigational BAT product to a customer other than the United States government.

## NEW DEVELOPMENTS

On November 12, 2009 we announced an amendment of our Normal Course Issuer Bid (the "Bid") to increase the maximum number of common shares of the Corporation available for purchase under the Bid from 1,000,000 to 1,500,000 common shares. The Bid commenced on April 25, 2009 and will expire on April 24, 2010.

## RESULTS OF OPERATIONS

### Consolidated revenues

Total revenues for the quarter ended October 31, 2009 were \$42.0 million, compared with \$52.2 million in the same quarter of the prior year, a decrease of 20%. Our revenues have decreased in the quarter, due to a combination of three factors. First, the product delivery schedules on our BAT and AIG stockpiling contracts resulted in one delivery of BAT during the current quarter and no delivery of AIG. Consequently, while during the first quarter of 2010 we recognized \$21.2 million in revenue on the stockpiling contracts, it was \$4.4 million lower than in the first quarter of 2009 when we

recognized \$25.6 million in revenue from the stockpiling contracts. Second, revenues related to WinRho<sup>®</sup> SDF have decreased by \$4.3 million from the same quarter of the prior year, primarily due to the prior-year quarter including a US\$3.0-million contractual milestone payment from Baxter which did not recur. Third, revenues from Apotex have decreased by \$2.6 million from the corresponding quarter of the prior year, as a result of the conclusion of previous R&D contracts.

We manage our business and evaluate performance based on two operating segments: biopharmaceutical operations and contract services

### Biopharmaceutical operations

Product-sales revenues in the biopharmaceutical operations segment consist of sales of approved products. During fiscal 2009, revenues in this segment included R&D-services revenues from joint development agreements with Apotex. Royalty revenues are received from Apotex based on its sales of a drug called Ferriprox<sup>®</sup> (deferiprone) that it manufactures and markets.

<i>in thousands of Canadian dollars</i>	Quarter ended October 31, 2009				Quarter ended October 31, 2008			
	Product sales	R&D services	Royalties	Total	Product sales	R&D services	Royalties T	total
Revenues	\$ 10,507	\$ —	\$ 2,234	\$ 12,741	\$ 14,122	\$ 2,533	\$ 2, 162	\$ 18,817
Gross profit	\$ 6,830	\$ —	\$ 2,234	\$ 9,064	\$ 11,443	\$ 1,006	\$ 2, 162	\$ 14,611
Gross margin	65%	—	100%	71%	81%	40%	10 0%	78%

In the current quarter, our sales revenues for WinRho<sup>®</sup> SDF in the U.S. have decreased by \$1.9 million. However, the comparative quarter in 2009 included a US\$3.0-million contractual milestone payment from Baxter, and when the impact that payment is removed, our WinRho<sup>®</sup> SDF revenues for the U.S. market are increased over the first quarter of 2009. WinRho<sup>®</sup> SDF sales in Canada have decreased moderately, and sales in Europe and the rest of the world have declined by approximately \$2.2 million compared to the first quarter in 2009. We have recently opted to exit the European WinRho<sup>®</sup> SDF market.

HepaGam B<sup>®</sup> sales in Canada and the U.S. increased to \$1.8 million in the first quarter of 2010, compared with \$1.4 million in the same quarter of the prior year as we continue to gain market share.

Gross margin on product sales in the current quarter has decreased by 16 percentage points from the comparable quarter last year, which is partially attributable to the

US\$3.0-million contractual milestone payment from Baxter that was received in the first quarter of 2009. Without the milestone payment, gross margin would have been approximately 76% in the comparative quarter. Our decision to exit the European WinRho<sup>®</sup> SDF market also adversely affected margins in the current period.

We are no longer receiving R&D-services revenues in this segment as work on our joint-development agreements with Apotex, that included Accretropin<sup>™</sup> and Leucotropin<sup>®</sup>, came to a close in 2009.

The increase in royalty revenue in the current year is due to higher sales of Ferriprox<sup>®</sup>, the drug manufactured and marketed by Apotex, for which we received 37.5% of net profits in the first quarter of 2010 and 50% of net profits in the first quarter of 2009. These royalty revenues will be phased out over the next two fiscal years—continuing at 37.5% for the remainder of fiscal 2010, reducing to 18.75% in fiscal 2011 and concluding at the end of 2011.

## 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 Cangene bioPharma. R&D-services revenues in this segment are derived from contract-R&D activities for third parties including government and non-government customers.

<i>in thousands of Canadian dollars</i>	Quarter ended October 31, 2009			Quarter ended October 31, 2008		
	Product services	R&D services	Total	Product services	R&D services	Total
Revenues	\$ 21,468	\$ 7,823	\$ 29,291	\$ 20,388	\$ 13,019	\$ 33,407
Gross profit	\$ 9,433	\$ 1,554	\$ 10,987	\$ 10,072	\$ 3,691	\$ 13,763
Gross margin	44%	20%	38%	49%	28%	41%

Our higher product-services revenues in the first quarter of 2010 resulted from a \$2.5-million sale of VIG plasma to the CDC. This was partially offset by reduced revenues on the stockpiling contracts, as the BAT delivery in the first quarter of 2010 was smaller than the delivery in the same quarter of the prior year. Our Cangene bioPharma subsidiary generated revenues in the first quarter of 2010 that were consistent with its performance in the same period of the prior year. While continuing to generate third-party contract manufacturing revenues, Cangene bioPharma also contributed significantly to our efforts on the BAT and AIG stockpiling contracts in a subcontractor capacity.

Gross profit on product-services revenues decreased in absolute dollars and the gross margin declined from 49% in the first quarter of 2009 to 44% in the first quarter of 2010. Our lower gross margin is due to the decrease in BAT product delivery revenues and the inclusion of the lower margin sale of VIG plasma.

In R&D services, the BAT and AIG stockpiling contracts contributed \$7.7 million in revenues in the first quarter of 2010. The same contracts contributed \$10.5 million in the first quarter of 2009. The recognition of revenue related to development activity on the stockpiling contracts varies with the level of activity. We also continue to conduct other third-party contract-R&D work in our Canadian operations.

Gross profit on R&D-services revenues in this segment declined in comparison with the same quarter of the prior year. As well, gross margin declined from the prior year as we have realized lower margins on the development components of our BAT and AIG stockpiling contracts in 2010. The reduced margins are a result of additional R&D expenses incurred related to an alternative method of donor antibody stimulation that may benefit future contracts or contract options, and an increased allocation of overhead expenses as overall R&D-services activity has declined. We continue to perform well on the BAT and AIG biodefence stockpiling contracts. Some components of the work generate scientific research and experimental development tax credits ("SR&ED"), which improves margins.

In addition to revenues and expenses recognized to date, we also have costs in inventory 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 October 31, 2009, we had recorded costs of \$62.2 million related to these two contracts as follows:

- Raw materials of \$20.0 million, Work in process – product costs of \$19.4 million, Work in process – manufacturing process development costs of \$4.2 million, Work in process – development costs of \$1.0 million and Finished goods of \$16.0 million recorded in Inventories and contracts in progress;
- Insurance of \$0.9 million recorded in Prepaid expenses; and
- Insurance of \$0.7 million recorded in Other assets.

We anticipate that contract-services revenues will continue to fluctuate in the future, depending on varying levels of activity related to existing U.S. government contracts and our success in obtaining new R&D or manufacturing contracts with the U.S. government or other parties.

#### **Independent R&D**

Independent R&D expenses, from which no related revenue is derived, were \$3.5 million in the first quarter of 2010, compared with \$1.5 million in the same quarter of the prior year. In the first quarter of 2010, our efforts were primarily focused on an undisclosed anti-infective product, and to a lesser extent on HepaGam B<sup>®</sup> and PEP 35 development. The prior-year quarter included expenses related to PEP 35, as well as the same undisclosed anti-infective product. We expect investment in independent R&D may increase significantly as development activities related to the undisclosed product continue.

We continue to conduct independent research in several related biopharmaceutical fields, ranging from expanding applications of hyperimmunes to innovative research into entirely new therapies.

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

Total SG&A expense in the first quarter of 2010 decreased to \$5.1 million from \$5.2 million in the same quarter of the prior year. SG&A expense consists primarily 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.

Decreased SG&A expense in the first quarter of 2010 in comparison to the same quarter of 2009 includes lower consulting, legal and training costs, partially offset by the cost of the new Restricted Share Unit Plan and increased advertising and promotional costs.

#### **Amortization**

For the quarter ended October 31, 2009, amortization increased to \$3.3 million from \$3.1 million in the prior-year comparative quarter. This expense includes both amortization of property, plant and equipment as well as finite-life intangible assets.

#### **Income taxes**

Income tax expense of \$2.0 million for the quarter ended October 31, 2009 decreased from \$7.6 million in the same quarter of the prior year. The primary reason for the decrease in taxes is lower taxable income. In addition, the effective tax rate of 27.4% is lower than our statutory tax rate of 30.1% due to the impact of the translation of the U.S. operations and a reduction in the provision for certain items in prior years that have now become statute barred.

#### **Net income**

Net income of \$5.3 million for the first quarter of 2010 is 75% lower than the \$21.1 million in the same quarter of the prior year. The lower net income is due to two primary factors. First, the comparative quarter of the prior year included an additional \$10.2 million in revenue in comparison to the first quarter of 2010 that arose from the combination of factors discussed earlier under consolidated revenues. Second, the comparative quarter from 2009 also included a \$10.2-million foreign-exchange gain, while there was a \$0.9-million foreign-exchange loss in the first quarter of 2010.

Other less significant factors contributing to the lower net income in the current quarter include higher independent R&D expenditures and amortization.

#### **Basic and diluted earnings per share**

For the current quarter, our lower basic and diluted earnings per share reflect the effect of decreased net income, as discussed above.

## SUMMARY OF QUARTERLY RESULTS

Quarters ended <i>in thousands of Canadian dollars except per-share data</i>	October 31, 2009 <b>(Q1 2010)</b>	July 31, 2009 (Q4 2009)	April 30, 2009 (Q3 2009)	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)
Revenues	\$ 42,032	\$ 84,638	\$ 67,346	\$ 34,543	\$ 52,224	\$ 63,114	\$ 29,650	\$ 23,467
R&D expense <sup>1</sup>	9,730	12,487	14,479	10,064	12,402	15,943	7,002	6,184
Net income	5,320	21,893	11,252	5,588	21,135	18,658	3,144	3,537
Earnings per share								
Basic and diluted	\$ 0.08	\$ 0.32	\$ 0.16	\$ 0.08	\$ 0.30	\$ 0.27	\$ 0.04	\$ 0.05

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

Revenues over the past eight quarters have fluctuated, primarily in response to the timing of deliveries under stockpiling contracts.

In the second quarter of fiscal 2008, lower revenues reflected the fact that no product deliveries were made on the BAT and AIG stockpiling contracts. In 2008, higher revenues in the third quarter relative to 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<sup>®</sup> 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 earlier 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 fiscal 2009 due to continued activity and further deliveries on the stockpiling contracts. Revenues declined in the second quarter of 2009 because no product deliveries were made under the BAT and AIG contracts during the quarter. The third quarter of 2009 includes revenue related to two BAT shipments and one AIG shipment. The fourth quarter of 2009 saw us reach the highest quarterly revenue in our history, primarily due to \$40.3 million in deliveries of BAT and \$16.3 million in deliveries of AIG in the quarter, combined with ongoing development work on the products. The first quarter of 2010 saw our revenues decrease due to a combination of factors, primarily lower revenues on the BAT and AIG contracts, as there was only one BAT product delivery in the quarter, in addition to reduced revenues related to WinRho<sup>®</sup> SDF.

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 that were incurred from 2008 to 2009 on the BAT

and AIG contracts were capitalized in inventories and contracts in progress, and are expensed as product is delivered. 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. The third and fourth quarters of fiscal 2009 contain higher R&D expenses related to our independent research as well as the BAT and AIG stockpiling contracts. The first quarter of 2010 included higher independent R&D expenses; however, R&D-services cost of sales were lower than historical averages, primarily due to the fact that we are no longer working on joint-development projects with Apotex.

Earnings per share over the two-year period reflects the fluctuations in net income as well as the recent decrease in the number of shares outstanding due to the Normal Course Issuer Bids, which have resulted in the purchase for cancellation of 1,871,200 of our common shares to October 31, 2009.

## LIQUIDITY & CAPITAL RESOURCES

### Operating activities

Cash at October 31, 2009 was \$35.2 million, compared with \$56.1 million at July 31, 2009. Cash of \$10.3 million was used in operating activities during the first quarter of 2010, compared with \$4.8 million provided by operating activities during the same quarter of the prior year. The change was primarily due to lower net income combined with an increase in non-cash working capital related to operations. Net change in non-cash working capital balances and other assets related to operations has increased by \$22.0 million since July 31, 2009. Higher working capital levels at October 31, 2009 resulted from increased inventories and contracts in progress, increased accounts receivable, and increased income and other taxes recoverable, combined with decreased accounts payable and accrued liabilities, and decreased income and other taxes payable.

## Financing activities

In the first quarter of 2010, cash of \$0.5 million was used in financing activities to repurchase shares for cancellation under a Normal Course Issuer Bid. In the prior year, \$1.7 million was used in financing activities, also due to the repurchase of shares for cancellation under a Normal Course Issuer Bid.

## 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, 2009	68,736,770	\$ 65,655
Shares cancelled under Normal Course Issuer Bid	(102,800)	(98)
As at October 31, 2009	68,633,970	\$ 65,557

At October 31, 2009, 2.4 million [July 31, 2009 – 2.4 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 \$20.0-million operating line of credit with a bank. As at October 31, 2009 and July 31, 2009, there was \$Nil outstanding on the operating line.

## Investing activities

Cash used in investing activities in the first quarter of 2010 increased to \$9.6 million from \$3.5 million in the same quarter of the prior year, due mainly to the deposit on acquisition of intangible assets of US\$7.0 million (Cdn\$7.6 million) that was paid to Apotex for the acquisition of the U.S. commercialization rights for HepaGam B<sup>®</sup> (see RELATED-PARTY TRANSACTIONS). This was partially offset by a decrease in purchases of property, plant and equipment, net of tax credits in the current-year period.

## 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 had agreements with Apotex to support the development of certain recombinant biopharmaceutical products. In addition, we receive royalties from Apotex on its sales of Ferriprox<sup>®</sup>. Effective April 13, 2009, we signed a new agreement with Apotex under which we acquired rights to the recombinant products, and royalties on Ferriprox<sup>®</sup> have changed.

We also have had a distribution agreement with Apotex Corp. for it to market and distribute HepaGam B<sup>®</sup> in the U.S. On October 16, 2009, our Board of Directors approved an agreement between Cangene Corporation and Apotex, under which we acquired the U.S. commercialization rights to HepaGam B<sup>®</sup>. Per the agreement, we paid Apotex a deposit of US\$7.0 million in the current quarter. In addition, we will pay royalties on net U.S. HepaGam B<sup>®</sup> sales occurring prior to June 2016. The effective date of this transfer of rights to Cangene is November 1, 2009. Our independent directors approved this new agreement after having determined that it is fair to Cangene and our shareholders. The US\$7.0 million has been recorded in Other assets at October 31, 2009 at a value of \$7.6 million as a deposit on acquisition of intangible assets. The estimated total purchase price for the acquisition of the rights is US\$14.0 million, including the present value of the anticipated future royalty revenues to be paid on U.S. sales of HepaGam B<sup>®</sup> up to June 2016. The entire purchase price will be recorded effective November 1, 2009.

Pursuant to the earlier distribution agreement, in the quarter ended October 31, 2009, we earned revenues from Apotex of \$3.6 million, a decrease from the \$6.5 million earned during the same quarter in the prior year. At October 31, 2009, \$3.6 million was included in accounts receivable from these related-party transactions, compared with \$5.1 million at July 31, 2009. 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 GAAP 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 deductible temporary differences

In accordance with *Canadian Institute of Chartered Accountants* ("CICA") *Handbook Section 3465 – Income Taxes*, we should only recognize the future benefit of deductible temporary differences 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, based on revised estimates and assumptions, we determined that it was no longer more likely than not that those future tax assets would be fully realized.

As at October 31, 2009, we have recorded a future income tax asset of \$6.3 million representing the benefit of non-deductible inventory and other reserves in the Canadian and U.S. operations, and differences between the net book value of capital assets and the related tax costs in the U.S. operations. In addition, we have recorded \$4.2 million in other assets representing intercompany profits taxed at the legal entity level, but not yet realized on a consolidated basis. Unrecognized temporary differences relating to the impairment of the viral-vaccine-filling facility at our Cangene bioPharma subsidiary, which was recorded in 2005, total \$18.0 million and have a potential future tax value of approximately \$6.2 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 2009 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 2009 annual report.

## ACCOUNTING CHANGES, INCLUDING INITIAL ADOPTION OF ACCOUNTING POLICIES

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

### Initial adoption of accounting policy

During the first quarter of fiscal 2010, we initially adopted the following new *CICA Handbook* standard:

#### *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. Adoption of Section 3064 did not have a significant impact on our consolidated financial statements. The primary change is a modification of our accounting policy for patent costs. Prior to the adoption of *CICA 3064*, the Company expensed the majority of patent costs 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. In addition, adoption of Section 3064 resulted in the reclassification of software that is not an integral part of the related hardware with a net book value of \$2.0 million at October 31, 2009 (July 31, 2009 – \$2.0 million) from property, plant and equipment to intangible assets.

## INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Canadian Accounting Standards Board confirmed that IFRS will replace Canadian GAAP for publicly accountable enterprises for fiscal years beginning on and after January 1, 2011, which for Cangene will be August 1, 2011. We are planning and preparing for the coming changes in financial reporting.

The primary phases of our implementation plan and key areas where significant changes in accounting policies are required or are being considered, are outlined in the MD&A section of our 2009 annual report.

We have completed the initial Scoping and Diagnostics phase of our implementation plan and have commenced the Impact Analysis, Evaluation and Design phase. It is

possible that we will consider early adoption, which would be preferable if we determine that a listing on a U.S. securities exchange is desirable. We are in the process of engaging a third-party consultant to assist with the scoping and execution of an accelerated conversion timeline should we decide to apply to the Ontario Securities Commission for early adoption.

At this time, we cannot quantify the impact that the conversion to IFRS will have on our financial statements and key performance measures. However, we expect to make significant progress in our conversion to IFRS during fiscal 2010 and will disclose in subsequent periods any financial impacts once they become known, in compliance with *Canadian Securities Administrators Staff Notice 52-320 – Disclosure of Expected Changes in Accounting Policies Relating to Changeover to IFRS*.

## FINANCIAL INSTRUMENTS

Certain 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. We have entered into forward-foreign-exchange contracts to manage foreign-exchange exposure on anticipated U.S.-dollar sales transactions and the collection of the related accounts receivable. At October 31, 2009, the following were outstanding:

*in thousands; Canadian dollars unless noted*

Settlement date	Forward rate	Face value	Fair value at October 31, 2009
November 30, 2009	1.1494	US\$ 5,000	\$ 412
December 31, 2009	1.1490	5,000	410
		US\$ 10,000	\$ 822

### 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. Periodically, we have entered into U.S.–Canadian dollar currency swaps for the purpose of lowering the interest expense associated with the Canadian-dollar utilization of our operating line of credit. At October 31, 2009, there were no swaps outstanding.

## 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 significantly since the preparation of our 2009 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 2009 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;
- the availability, quality and cost of raw materials, especially the availability, cost and antibody concentration of plasma necessary for manufacturing hyperimmune products affects our business;

- a significant decrease in the sales of WinRho<sup>®</sup> 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;
- changes to key strategic relationships with third parties who have marketing and/or distribution rights to our products could negatively impact our business;
- changes in government regulatory policies or regulatory actions could significantly 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;
- a change in our ability to attract and retain key personnel could adversely affect our business;
- regulatory requirements related to our use of hazardous materials, chemicals and bacteria could 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 2009 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, can be found on our website at [www.cangene.com](http://www.cangene.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).

**Cangene Corporation**  
**CONSOLIDATED BALANCE SHEETS** *(unaudited)*

<i>in thousands of Canadian dollars</i>	At <b>October 31, 2009</b>		At July 31, 2009	
<b>ASSETS</b> [note 6]				
<b>Current</b>				
Cash	\$	35,245	\$	56,131
Accounts receivable [note 16]		39,882	34,54	7
Inventories and contracts in progress [note 4]		96,459	92,43	0
Income and other taxes recoverable		9,208	5,637	
Future income taxes		5,816	8,231	
Prepaid expenses and deposits		3,963	2,830	
<b>Total current assets</b>		<b>190,573</b>	199,8	06
Property, plant and equipment, net		95,271	96,40	5
Future income taxes		528	—	
Goodwill and intangible assets [note 5]		43,459	43,52	0
Other assets [note 16]		12,430	5,460	
	\$	<b>342,261</b>	\$	345,191
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current</b>				
Accounts payable and accrued liabilities	\$	23,585	\$	27,948
Income and other taxes payable		17	4,126	
Current portion of deferred income		5,408	5,875	
<b>Total current liabilities</b>		<b>29,010</b>	37,94	9
Deferred income		10,538	9,906	
Incentive plan liabilities [notes 8[b] and 8[c]]		2,148	122	
Deferred share units [note 9]		60	—	
Future income taxes		3,954	5,522	
<b>Total liabilities</b>		<b>45,710</b>	53,49	9
Commitments [notes 13, 15 and 16]				
<b>Shareholders' equity</b>				
Share capital [note 7]		65,557	65,65	5
Contributed surplus		3,239	3,239	
Accumulated other comprehensive loss		(4,467)	(4,467)	
Retained earnings		232,222	227,2	65
<b>Total shareholders' equity</b>		<b>296,551</b>	291,6	92
	\$	<b>342,261</b>	\$	345,191

See accompanying notes

**Cangene Corporation**

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

<i>in thousands of Canadian dollars except share-related data</i>	<b>Three months ended October 31, 2009</b>	<b>Three months ended October 31, 2008</b>
<b>Revenues</b> <i>[note 16]</i>		
Product sales and services	\$ 31,975	\$ 34,510
R&D services <i>[note 11]</i>	7,823	15,55
Royalties	2,234	2,162
	<b>42,032</b>	<b>52,22</b>
		<b>4</b>
<b>Cost of sales</b>		
Product sales and services	15,712	12,99
R&D services <i>[note 11]</i>	6,269	10,85
	<b>21,981</b>	<b>23,85</b>
		<b>0</b>
<b>Gross profit</b>	<b>20,051</b>	<b>28,37</b>
		<b>4</b>
<b>Expenses</b>		
Independent R&D <i>[note 11]</i>	3,461	1,547
Selling, general and administrative	5,053	5,215
Amortization	3,289	3,076
Interest income		
Short-term	(25)	(36)
Foreign-exchange loss (gain)	943	(10,16)
	<b>12,721</b>	<b>(363)</b>
Income before income taxes	<b>7,330</b>	<b>28,73</b>
		<b>7</b>
Income tax expense		
Current	736	7,344
Future	1,274	258
	<b>2,010</b>	<b>7,602</b>
<b>Net income and comprehensive income for the period</b>	<b>5,320</b>	<b>21,135</b>
Retained earnings, beginning of period	227,265	172,9
Purchase of common shares in excess of average stated capital <i>[notes 7[b] and 7[c]]</i>	(363)	(1,359)
<b>Retained earnings, end of period</b>	<b>\$ 232,222</b>	<b>\$ 192,676</b>
Basic and diluted earnings per share <i>[note 10]</i>	<b>\$ 0.08</b>	<b>\$ 0.30</b>

See accompanying notes

**Cangene Corporation**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS** *(unaudited)*

<i>in thousands of Canadian dollars</i>	<b>Three months ended October 31, 2009</b>	<b>Three months ended October 31, 2008</b>
<b>OPERATING ACTIVITIES</b>		
Net income for the period	\$ 5,320	\$ 21,135
Add (deduct) items not involving cash:		
Amortization	3,289	3,076
Deferred income	165	(93)
Incentive plan liability	2,026	—
Deferred share unit liability	60	—
Future income tax expense	1,274	258
Unrealized foreign-exchange gain	(471)	(1,693)
	<b>11,663</b>	<b>22,68</b>
Net change in non-cash working capital balances and other assets related to operations <i>[note 12]</i>	<b>(21,961)</b>	<b>(17,92</b>
<b>Cash provided by (used in) operating activities</b>	<b>(10,298)</b>	<b>4,756</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment, net	(1,948)	(3,277)
Deposit on acquisition of intangible assets <i>[note 16]</i>	(7,550)	—
Purchase of intangible assets	(146)	(264)
<b>Cash used in investing activities</b>	<b>(9,644)</b>	<b>(3,541)</b>
<b>FINANCING ACTIVITIES</b>		
Shares repurchased for cancellation <i>[notes 7[b] and 7[c]]</i>	(461)	(1,725)
<b>Cash used in financing activities</b>	<b>(461)</b>	<b>(1,725)</b>
<b>Effect of exchange rates on cash</b>	<b>(483)</b>	<b>1,837</b>
<b>Net increase (decrease) in cash during the period</b>	<b>(20,886)</b>	<b>1,327</b>
Cash, beginning of period	56,131	14,67
<b>Cash, end of period</b>	<b>\$ 35,245</b>	<b>\$ 16,002</b>
Interest paid	\$ —	\$ 35
Income taxes paid	\$ 6,899	\$ 1,074

See accompanying notes

### 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 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, 2009.

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.

### 3. RECENT ACCOUNTING PRONOUNCEMENTS

#### 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 than under Canadian GAAP. 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.

### 4. INVENTORIES AND CONTRACTS IN PROGRESS

<i>in thousands of Canadian dollars</i>	At		
	October 31, 2009	July 31, 2009	
Raw materials	\$ 24,043	\$ 23,286	
Work in process – product costs	3,528	2,261	
Finished goods	8,283	6,803	
	<b>\$ 35,854</b>	<b>\$ 32,350</b>	
Long-term contracts:			
Raw materials	20,019	22,08	1
Work in process – product costs	19,409	19,54	6
Work in process – manufacturing process development costs	4,197	4,610	
Work in process – development costs	986	1,585	
Finished goods	15,994	12,25	8
	<b>\$ 60,605</b>	<b>\$ 60,080</b>	
	<b>\$ 96,459</b>	<b>\$ 92,430</b>	

### 2. CHANGES IN ACCOUNTING POLICIES

Effective August 1, 2009, the Corporation adopted the following new *Canadian Institute of Chartered Accountants* ("CICA") *Handbook* standard:

#### *CICA 3064 – Goodwill and Intangible Assets:*

Section 3064 revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. Section 3064 did not have a significant impact on the Corporation's consolidated financial statements. The primary change was 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 incurred. With the adoption of *CICA 3064*, patent costs that meet the applicable criteria in Section 3064 are capitalized and amortized over their estimated useful lives. In addition, software that is not an integral part of the related hardware has been reclassified from property, plant and equipment to intangible assets. The effect of applying the section has been a reclassification from property, plant and equipment to intangible assets of \$2.0 million at October 31, 2009 and \$2.0 million at July 31, 2009.

As at October 31, 2009, the Corporation has included in its inventories and contracts in progress \$60.6 million [July 31, 2009 – \$60.1 million] of costs under long-term contracts with the U.S. government (see *note 15*).

During the quarter ended October 31, 2009, inventories and contracts in progress of \$18.6 million [quarter ended October 31, 2008 – \$22.7 million] were expensed through cost of goods sold. Write-downs of finished product, and reserves for obsolete materials and supplies of \$0.4 million and \$3.2 million, respectively, were included in cost of goods sold during the quarter ended October 31, 2009 [quarter ended October 31, 2008 – \$0.3 million and \$0.9 million, respectively]. Reversals of write-downs of \$0.3 million were recorded during the quarter ended October 31, 2009 [quarter ended October 31, 2008 – \$Nil].

At October 31, 2009, \$91.4 million of inventory is recorded at cost and \$5.0 million is recorded at net realizable value. At July 31, 2009, \$3.6 million of inventory was recorded at net realizable value, with the remaining inventory recorded at cost.

#### 5. GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets as at October 31, 2009 amounted to \$43.5 million [July 31, 2009 – \$43.5 million], net of accumulated amortization and writedowns of \$16.9 million [July 31, 2009 – \$16.7 million].

At October 31, 2009, the Corporation owns finite-life intangible assets, consisting of patents, with a value of \$1.0 million [July 31, 2009 – \$1.0 million] and software with a value of \$2.0 million (July 31, 2009 – \$2.0 million).

The patents are amortized over periods ranging from 8 to 16 years. Software is amortized over 5 years. Amortization expense related to intangible assets of \$0.2 million was recorded during the quarter ended October 31, 2009 (quarter ended October 31, 2008 – \$0.3 million).

#### 6. OPERATING LINE OF CREDIT

The Corporation has available a \$20.0-million [July 31, 2009 – \$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 October 31, 2009 and July 31, 2009. 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 agreement has no fixed expiry date.

#### 7. 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:

<i>in thousands of Canadian dollars except share-related data</i>	Number of shares	Share capital
As at July 31, 2009	68,736,770	\$ 65,655
Shares cancelled under Normal Course Issuer Bid	(102,800)	(98)
<b>As at October 31, 2009</b>	<b>68,633,970</b>	<b>\$ 65,557</b>

##### [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 quarter ended October 31, 2008, the Corporation cancelled 383,600 shares at a net cost of \$1.7 million under the 2008 Bid. During the quarter ended October 31, 2008, the Corporation recorded a reduction in share capital of \$0.3 related to the 2008 Bid and the excess of purchase price over the average stated capital of the shares of \$1.4 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 quarter ended October 31, 2009, the Corporation cancelled 102,800 common shares at a net cost of \$0.5 million under the 2009 Bid. The Corporation has recorded a reduction in share capital of \$0.1 million related to the 2009 Bid. The excess of purchase price over the average stated capital of the shares of \$0.4 million was charged to retained earnings.

## 8. INCENTIVE PLANS

### [a] 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 October 31, 2009, 2.4 million [July 31, 2009 – 2.4 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. There were no new stock options granted during the quarters ended October 31, 2009 and October 31, 2008. Nor were any stock options exercised during the same periods, therefore there was no increase in share capital during the quarters. A total of 5,500 stock options were cancelled during the quarter; none expired [quarter ended October 31, 2008 – none expired or cancelled].

### [b] 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; 25% vest immediately and an additional 25% vest on each anniversary of the grant date for 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 common shares by a pre-determined future date.

No units were granted during the quarter ended October 31, 2009 [quarter ended October 31, 2008 – 2.7 million units at a grant price of \$4.51]. During the quarter ended October 31, 2009, 13,769 units were redeemed for a nominal value, 175,859 units were cancelled and 508,103 units matured with no value [quarter ended October 31, 2008 – 87,500 units matured with no value; none were redeemed or cancelled].

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

					<i>in thousands of Canadian dollars</i>	
Grant price	Fiscal year of grant	Number of units outstanding		Weighted-average remaining contractual life	Liability at October 31, 2009	
\$ 7.09	2008	678,749		1.0 years	\$	—
4.51	2009	2,297,3	55	2.0		318
\$ 4.51– 7.09		2,976,104	1.8	years	\$	318

Effective August 1, 2009, the new Restricted Share Unit Plan as described in *note 8[c]* will be used as the primary instrument for long-term incentive compensation for management.

### [c] Restricted Share Unit Plan

In 2009, the Board of Directors authorized a restricted share unit plan (“RSU Plan”) for members of management. Pursuant to the RSU Plan, members of management may be granted restricted share units (“RSUs”) as a component of their incentive compensation.

An RSU is a unit, equivalent in value to a common share of the Corporation, credited by means of a bookkeeping entry in the books of the Corporation, to an account in the name of the member of management. Each RSU entitles the participant to receive a cash payment no later than December 31 of the third calendar year following the year in which the RSUs were granted. The RSUs are valued based on the weighted-average market price of the Corporation’s common shares on the Toronto Stock Exchange for the 90 days preceding the maturity date. The RSU plan provides for vesting of the RSUs, with 25% vesting immediately and an additional 25% vesting on each anniversary of the grant date for three years and, in the event of retirement, death or termination without cause, participants may be entitled to receive 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. In the event the Corporation declares a dividend on its common shares, the participant would be entitled to receive an equivalent amount of RSUs. Compensation cost for RSUs granted under the RSU Plan is recorded as an expense with a corresponding increase in accrued liabilities and is measured at intrinsic value. Changes in intrinsic value between the grant date and the measurement date result in a change in the measurement of compensation cost.

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 common shares by a pre-determined future date. RSUs held count towards the ownership requirement.

During the quarter ended October 31, 2009, 1,052,723 (quarter ended October 31, 2008 – Nil) RSUs were issued with vesting as described above. As at October 31, 2009, 1,052,723 (July 31, 2009 – Nil) RSUs were outstanding under the RSU Plan. As a result, the Corporation recognized a compensation expense of \$1.8 million for the quarter ended October 31, 2009 (quarter ended October 31, 2008 – \$Nil).

The following table summarizes information about restricted share units outstanding as at October 31, 2009:

Fiscal year of grant	Number of units outstanding	Weighted-average remaining contractual life	<i>in thousands of Canadian dollars</i>	
			<b>Liability at October 31, 2009</b>	
2010	1,052,7	23	3.0 years	<b>\$ 1,830</b>
	1,052,7	23	3.0 years	<b>\$ 1,830</b>

### 9. DEFERRED SHARE UNIT PLAN

In 2009, the Board of Directors authorized a deferred share unit plan (“DSU Plan”) for directors. Pursuant to the DSU Plan, non-employee directors are entitled to receive all or any portion of their annual cash retainer in the form of deferred share units (“DSUs”) instead of cash.

A DSU is a unit, equivalent in value to a common share of the Corporation, credited by means of a bookkeeping entry in the books of the Corporation, to an account in the name of the non-employee director. Each DSU entitles the participant to receive cash payment upon termination of directorship that is valued based on the weighted-average market price on the Toronto Stock Exchange of the Corporation’s common shares for the 90 days preceding the termination date. In the event the Corporation declares a dividend on its common shares, the non-employee director would be entitled to receive an equivalent amount of DSUs. Compensation cost for DSUs granted under the DSU Plan is recorded as an expense with a corresponding increase in accrued liabilities and is measured at intrinsic value. Changes in intrinsic value between the grant date and the measurement date result in a change in the measurement of compensation cost.

During the quarter ended October 31, 2009, 12,831 (2008 – Nil) DSUs were issued with immediate vesting on the date of issuance. As at October 31, 2009, 12,831 (July 31, 2009 – Nil) DSUs were outstanding under the DSU Plan. As a result, the Corporation recognized a compensation expense of \$0.1 million for the quarter ended October 31, 2009 (2008 – \$Nil).

The following table summarizes information about deferred share units outstanding as at October 31, 2009:

Number of units outstanding	<i>in thousands of Canadian dollars</i>	
	<b>Liability at October 31, 2009</b>	
	12,831	<b>\$ 60</b>
	12,831	<b>\$ 60</b>

## 10. EARNINGS PER SHARE

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

<i>in thousands of Canadian dollars except share-related data</i>	<b>Three months ended October 31, 2009</b>		Three months ended October 31, 2008	
Net income	\$	5,320	\$ 21,13	5
Weighted-average number of common shares outstanding	#	68,674,037	# 69,84	6,837
Dilutive effect of stock options		—	—	
Diluted weighted-average number of shares outstanding	#	68,674,037	# 69,84	6,837
Earnings per share: Basic and diluted	\$	0.08	\$ 0.30	

For the quarter ended October 31, 2009, 757,600 options [quarter ended October 31, 2008 – 1,296,100 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.

## 11. RESEARCH AND DEVELOPMENT

Research and development revenues were earned under terms of past agreements with Apotex (see *note 16*) and through current 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 the product licences and may pay Apotex certain royalties and profit sharing;
- expenditures under R&D contracts funded by Apotex, where Apotex will hold the 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 heptavalent botulism antitoxin ("BAT"));
- expenditures under third-party contract-R&D agreements funded by the third party, where the third party holds the intellectual property rights; and
- expenditures on independent R&D funded entirely by Cangene and for which Cangene holds all intellectual property rights.

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

<i>in thousands of Canadian dollars</i>	<b>Three months ended October 31, 2009</b>		Three months ended October 31, 2008	
<b>R&amp;D revenues</b>				
Apotex agreements – Cangene holds licence	\$	—	\$ 2,533	
Apotex agreements – Apotex holds licence		—	562	
Third-party contracts – Cangene holds licence		7,781	10,85	8
Third-party contracts – third party holds licence		42	1,599	
	\$	7,823	\$ 15,55	2
<b>R&amp;D expenses</b>				
Apotex agreements – Cangene holds licence	\$	—	\$ 1,527	
Apotex agreements – Apotex holds licence		—	222	
Third-party contracts – Cangene holds licence		6,259	8,142	
Third-party contracts – third party holds licence		10	964	
Total cost of sales – R&D services		6,269	10,85	5
Cangene independent R&D		3,461	1,547	
	\$	9,730	\$ 12,40	2

## 12. 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 October 31, 2009	Three months ended October 31, 2008
Accounts receivable	\$ (5,335)	\$ (14,327)
Inventories and contracts in progress	(4,029)	(10,951)
Income and other taxes recoverable	(3,571)	3,948
Prepaid expenses and deposits, and other assets	(554)	(732)
Accounts payable and accrued liabilities	(4,363)	4,789
Income and other taxes payable	(4,109)	(654)
	<b>\$ (21,961)</b>	<b>\$ (17,927)</b>

## 13. FINANCIAL INSTRUMENTS

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.

### Currency risk

The Corporation receives the majority of its revenues and incurs significant expenses in U.S. dollars. And 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 period and the contracts are classified as held for trading.

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

<i>in thousands; Canadian dollars unless noted</i>				Fair value at October 31, 2009
Settlement date	Forward rate	Face value		
November 30, 2009	1.1494	US\$ 5,000	\$	412
December 31, 2009	1.1490	5,000		410
		US\$ 10,000	\$	822

The Corporation maintains U.S.-dollar bank accounts and at October 31, 2009, U.S.-dollar cash balances were US\$22.9 million [July 31, 2009 – US\$33.0 million].

#### 14. 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, fiscal 2009 included related-party research and development on recombinant products (see *note 16*). 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 1*. There are no significant inter-segment transactions. The following presents segment operating results for the three-month periods ended October 31, 2009 and October 31, 2008, and identifiable assets as at October 31, 2009 and October 31, 2008:

<i>in thousands of Canadian dollars</i>	Three months ended October 31, 2009			Three months ended October 31, 2008		
	Biopharma- ceutical operations	Contract services	Total	Biopharma- ceutical operations	Contract services	Total
<b>Revenues</b>						
Product sales and services	\$ 10,507	\$ 21,468	\$ 31,975	\$ 14,122	\$ 20,388	\$ 34,510
R&D services	—	7,823	7,823	2,533	13,019	15,552
Royalties	2,234	—	2,234	2,162	—	2,162
	12,741	29,291	42,032	18,817	33,407	52,224
<b>Cost of sales</b>						
Product sales and services	3,677	12,035	15,712	2,679	10,316	12,995
R&D services	—	6,269	6,269	1,527	9,328	10,855
	3,677	18,304	21,981	4,206	19,644	23,850
<b>Gross profit</b>	<b>9,064</b>	<b>10,987</b>	<b>20,051</b>	<b>14,611</b>	<b>13,763</b>	<b>28,374</b>
<b>Income before income taxes</b>	<b>3,146</b>	<b>4,184</b>	<b>7,330</b>	<b>13,877</b>	<b>14,860</b>	<b>28,737</b>
<b>Income tax expense</b>	<b>1,310</b>	<b>700</b>	<b>2,010</b>	<b>3,920</b>	<b>3,682</b>	<b>7,602</b>
<b>Net income for the year</b>	<b>\$ 1,836</b>	<b>\$ 3,484</b>	<b>\$ 5,320</b>	<b>\$ 9,957</b>	<b>\$ 11,178</b>	<b>\$ 21,135</b>
Total assets	\$ 93,129	\$ 249,132	\$ 342,261	\$ 88,843	\$ 216,906	\$ 305,749
Additions to property, plant and equipment, and goodwill and intangible assets, net	\$ 382	\$ 1,712	\$ 2,094	\$ 1,129	\$ 2,412	\$ 3,541

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

<i>in thousands of Canadian dollars</i>	<b>Three months ended October 31, 2009</b>		<b>Three months ended October 31, 2008</b>	
	<b>Revenues</b>	<b>Property, plant and equipment, and goodwill and intangible assets, net</b>	<b>Revenues</b>	<b>Property, plant and equipment, and goodwill and intangible assets, net</b>
Canada	\$ 4,988	\$ 76,570	\$ 7,727	\$ 81,120
United States	35,858	62,160	41,095	58,507
Rest of world	1,186	—	3,402	—
	<b>\$ 42,032</b>	<b>\$ 138,730</b>	<b>\$ 52,224</b>	<b>\$ 139,627</b>

For the current quarter, sales to one customer represent 42% [quarter ended October 31, 2008 – two customers, 76%] of the revenue of the biopharmaceutical operating segment, and sales to one customer represent 81% [quarter ended October 31, 2008 – one customer, 78%] of the revenue of the contract-services segment.

## 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 October 31, 2009, Cangene recorded revenues of \$17.9 million [quarter ended October 1, 2008 – \$20.8 million] related to the BAT contract. As at October 31, 2009 costs of \$31.6 million have been charged to inventories and contracts in progress, prepaid expenses, and other assets [July 31, 2009 – \$30.8 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 requires 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 October 31, 2009, \$0.7 million has been deferred [July 31, 2009 – \$0.7 million].

During the quarter ended October 31, 2009, Cangene recorded revenues of \$3.3 million [quarter ended October 31, 2008 – \$4.8 million] related to the AIG contract. As at October 31, 2009, costs of \$30.6 million have been charged to inventories and contracts in progress, prepaid expenses, and other assets [July 31, 2009 – \$31.2 million] related to this contract.

## 16. RELATED-PARTY TRANSACTIONS

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.

Apotex is Cangene's majority shareholder and holds 63% 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 recognized 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<sup>®</sup> and Accretropin<sup>™</sup>. Under the new agreement, Apotex no longer funds development of these products. Due to the extent of Apotex's investment in these two lead drugs, both companies have the right to take Leucotropin<sup>®</sup> and/or Accretropin<sup>™</sup> 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<sup>®</sup> (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 April 13, 2009 agreement, this royalty will phase out over three fiscal years; it continued at 50% to the end of fiscal 2009, decreased to 37.5% for 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<sup>®</sup> in the U.S. Under the terms of that agreement, the Corporation manufactured and held licence to the product. Profits were shared between the two parties.

On October 16, 2009, the Corporation's Board of Directors approved an agreement between Cangene Corporation and Apotex, under which Cangene acquires the U.S. commercialization rights to HepaGam B<sup>®</sup>. Per the agreement, Cangene paid Apotex a deposit of US\$7.0 million in the current quarter. In addition, Cangene will pay royalties on net U.S. HepaGam B<sup>®</sup> 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. The US\$7.0 million has been recorded in Other assets at October 31, 2009 at a value of \$7.6 million as a deposit on acquisition of intangible assets. The estimated total purchase price for the acquisition of the rights is US\$14.0 million, including the present value of the anticipated future royalty revenues to be paid on U.S. sales of HepaGam B<sup>®</sup> up to June 2016. The entire purchase price will be recorded effective November 1, 2009.

During the quarter ended October 31, 2009, Cangene recorded revenues of \$3.6 million [quarter ended October 31, 2008 – \$6.5 million] from Apotex and at October 31, 2009, \$3.6 million [July 31, 2009 – \$5.1 million] was included in accounts receivable. These transactions occurred in the normal course of operations and were recorded at their exchange amounts.

## 17. COMPARATIVE FIGURES

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

## CORPORATE INFORMATION

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### CORPORATE WEBSITE

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

### FISCAL YEAR END

July 31st

### TRADING SYMBOL

CNJ (Toronto Stock Exchange)

### 52-WEEK TRADING RANGE

\$3.84–\$6.48 (at October 31, 2009)

### SHARE REGISTRAR AND TRANSFER AGENT

Computershare Investor Services Inc.  
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Toronto, Ontario, M5J 2Y1

### SHAREHOLDER INQUIRIES

For further information about Cangene Corporation and its activities, please contact Ms. Jean Compton, Manager of Corporate Communications by e-mail at [jcompton@cangene.com](mailto:jcompton@cangene.com), by telephone at (416) 675-8280 or by mail to the Toronto address above.



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**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 information contained in this document is intended as an investor summary only and space does not permit a full discussion of medical, safety and risk 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 to rely on information discussed in this report. Prescribing information or drug names may differ in various countries. No information in this report is intended to promote the products discussed.**

#### Approved Drugs

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

**CANGENE**  
CANGENE CORPORATION  
2010  
FIRST QUARTER REPORT