

2

CANGENE CORPORATION
2010
SECOND QUARTER REPORT

MESSAGE TO SHAREHOLDERS

I mentioned last quarter that we had acquired the U.S. commercialization rights for HepaGam B[®]. With this acquisition, which became effective on November 1, 2009, the big focus this quarter has been on establishing our U.S. commercial operations. Behind the scenes, accounting and IT systems, and warehousing and distribution networks are being established. And are building an effective sales force with experienced people. Service to existing customers has been maintained and we are already beginning to make inroads into hospital purchasing operations that have not previously purchased HepaGam B[®]. We expect to begin to see these changes reflected in the financial results for the second half of this fiscal year. HepaGam B[®] is a hyperimmune antibody product containing antibodies specific for the hepatitis B surface antigen. It is our second largest selling commercial product in North America.

With this increased strategic focus on our commercial products, we were pleased to receive a positive opinion from the European Medicines Agency (“EMA”) regarding our ImmunoGam[™] product [Human Hepatitis B Immunoglobulin]. This is the same product we market as HepaGam B[®] in North America and Israel. The Marketing Authorization Application for this product was submitted to the EMA via the centralized procedure. Accordingly, if a Marketing Authorization is received, ImmunoGam[™] will be licensed in all 27 member states of the European Union. It is the first time we have used this procedure. While the European market potential is smaller than that in North America, this is nevertheless a positive regulatory step and an expansion of our regulatory experience with various jurisdictions.

The last stage of our plasma centre expansions is now complete with the move of our Winnipeg centre to its new location adjacent to our head office. All four of our Cangene Plasma Resources centres are now in larger facilities and are operating under the Cangene brand. The larger centres allow us to accommodate more donors, especially at peak times of the day, which will better fit the donors’ schedules. If you live in or near Winnipeg or one of the three U.S. cities that house a Cangene Plasma Resources centre and are interested in becoming a plasma donor, please visit www.cangeneplasma.com for more information about our donor programs.

In the background, we continue to develop various project submissions and contract proposals, including the one for treating acute radiation syndrome that we have previously disclosed. We believe these have the potential to add to our pipeline. As well, we are continuing to evaluate acquisition opportunities that hold commercial promise.

Our financial results for the quarter reflect the opposing combination of increased deliveries on biodefence contracts and higher operating costs, including the costs of establishing our commercial operations in the U.S. at Cangene bioPharma, Inc., our Baltimore-based subsidiary. I encourage you to read the accompanying MD&A for more detail.

Lastly, although our stock has exhibited some strength in recent months, we continue to purchase shares under our Normal Course Issuer Bid (the “Bid”). In November, we amended the Bid to increase the maximum number of shares available for purchase 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 1,219,300 shares pursuant to this Bid to date.

(signed)
Dr. John Langstaff
President and Chief Executive Officer
March 12, 2010

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

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

March 12, 2010

This review contains management's discussion of Cangene Corporation's operating results and financial condition for the three and six-month periods ended January 31, 2010, 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.

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 controls 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 six months ended January 31, 2010, there have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls 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 March 12, 2010 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[®] [Rh₀ (D) Immune Globulin (Human) for Injection], and its development established a core competency in developing and manufacturing hyperimmunes. Three additional hyperimmune products, VariZIG[™] [Varicella Zoster Immune Globulin (Human)], VIG [Vaccinia Immune Globulin Intravenous (Human)] and HepaGam B[®] [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[™] ([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[®] SDF, which are made primarily through our distributor, Baxter Healthcare Corporation. HepaGam B[®], our next largest selling commercial product, continues to grow in both sales and market share in the North American market. Effective November 1, 2009, we acquired the U.S. commercialization rights to HepaGam B[®] 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 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 \$266.5 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. (“Cangene bioPharma”; 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.

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 stockpiling contracts. We made one delivery on the BAT contract and one delivery on the AIG contract in the second 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. 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 have re-branded the centres under the name Cangene Plasma Resources so they are more closely identified with our corporate identity. The four plasma centre expansions are complete and operational, with the Canadian centre most recently moved to its new location adjacent to our head office. In addition, we are considering adding new sites.

With respect to WinRho[®] 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.

We continue our efforts to grow HepaGam B[®] 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 granted HepaGam B[®] orphan drug status in March 2008, which conferred seven years of market exclusivity from that time 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[®] 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[®] 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 expect that developing our own sales force will help us achieve a greater market share and greater profitability.

We have entered into an agreement with Maxygen, Inc. for an exclusive option to acquire an exclusive licence to Maxygen’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; negotiations are ongoing. If we are awarded a development contract under this RFP that meets our criteria, we would exercise our option with Maxygen 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 last quarter’s \$3.3-million contract to supply VIG and BAT to a non-North American government. This was 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, representing 2.2% of the outstanding common shares on April 20, 2009, that being the date of the related Notice of Intention to Make a Normal Course Issuer Bid. The Bid commenced on April 25, 2009 and will expire on April 24, 2010.

On December 18, 2009, we reported that we had received a positive opinion from the European Medicines Agency's ("EMA") Committee for Medicinal Products for Human Use regarding the immunoprophylaxis indication of our ImmunoGam™ [Human Hepatitis B Immunoglobulin]. This is the product we market as HepaGam B® in North America and Israel. A Marketing Authorization from The European Commission is expected to follow this opinion. This is the first time we have submitted a Marketing Authorization Application to the EMA via the centralized procedure, under which, approval will apply to all 27 member states of the European Union.

RESULTS OF OPERATIONS

Consolidated revenues

Total revenues for the quarter ended January 31, 2010 were \$41.5 million, compared with \$34.5 million in the

same quarter of the prior year, an increase of 20%. Our revenues have increased in the current quarter due to deliveries on our BAT and AIG stockpiling contracts, which generated a total of \$18.3 million of product revenue in the current quarter. Partially offsetting the increased BAT and AIG product revenues were reduced R&D-services revenues on the development of BAT and AIG, and also on other third-party contracts.

Total revenues for the six months ended January 31, 2010 were \$83.6 million, compared with \$86.8 million for the same period of the prior year, a decrease of 4%. This decrease in revenues for the first six months of 2010 is due to a combination of factors. First, revenues related to WinRho® SDF have decreased by \$7.4 million from the same period of the prior year, due to the prior-year period including a US\$3.0-million contractual milestone payment from Baxter that did not recur in addition to lower revenues in non-North American markets in the current period. Second, the year-earlier period included \$5.2 million in R&D revenues from Apotex, for which there was no corresponding revenue in the current six-month period as a result of the conclusion of previous R&D contracts. These decreases in revenue have been largely offset by a \$10.7-million increase in revenues on the BAT and AIG stockpiling contracts in the current period.

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® (deferiprone) that it manufactures and markets.

<i>in thousands of Canadian dollars</i>	Quarter ended January 31, 2010				Quarter ended January 31, 2009			
	Product sales	R&D services	Royalties	Total	Product sales	R&D services	Royalties	Total
Revenues	\$ 11,358	\$ —	\$ 1,871	\$ 13,229	\$ 12,833	\$ 2,621	\$ 1,920	\$ 17,374
Gross profit	\$ 7,170	\$ —	\$ 1,871	\$ 9,041	\$ 10,406	\$ 908	\$ 1,920	\$ 13,234
Gross margin	63%	—	100%	68%	81%	35%	100%	76%

<i>in thousands of Canadian dollars</i>	Six months ended January 31, 2010				Six months ended January 31, 2009			
	Product sales	R&D services	Royalties	Total	Product sales	R&D services	Royalties	Total
Revenues	\$ 21,865	\$ —	\$ 4,105	\$ 25,970	\$ 26,954	\$ 5,154	\$ 4,082	\$ 36,190
Gross profit	\$ 14,000	\$ —	\$ 4,105	\$ 18,105	\$ 21,848	\$ 1,914	\$ 4,082	\$ 27,844
Gross margin	64%	—	100%	70%	81%	37%	100%	77%

In the current quarter, sales of WinRho[®] SDF have decreased by \$3.1 million due to lower sales in all markets except Canada. HepaGam B[®] sales have increased by \$1.5 million over the same quarter of the prior year as we are no longer sharing this revenue with Apotex.

For the six-month period ended January 31, 2010, revenues for WinRho[®] SDF in the U.S. decreased by \$3.9 million. However, the comparative period in 2009 included a US\$3.0-million contractual milestone payment from Baxter, and when the impact of that payment is removed, the decrease in our WinRho[®] SDF revenues for the U.S. market is much less significant. WinRho[®] SDF sales in Canada have decreased moderately, and sales in Europe and the rest of the world have declined by approximately \$3.4 million compared with the first half of 2009. We opted to exit the European WinRho[®] SDF market at the end of fiscal 2009. HepaGam B[®] sales in Canada and the U.S. increased by \$2.0 million in the first half of 2010 compared with the same period of the prior year, as we have gained market share and, effective November 1, 2009, are no longer sharing this revenue with Apotex.

Gross margin on product sales in the current quarter has decreased by 18 percentage points from the comparable quarter last year, due primarily to plasma centre start-up costs combined with unabsorbed overhead resulting from excess production capacity and the effects of compensation costs of long-term incentive plans.

Gross margin on product sales in the first six months of 2010 has decreased by 17 percentage points from the comparable period 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 75% in the comparative period. The decrease in gross margin is due primarily to plasma centre start-up costs combined with unabsorbed overhead resulting from excess production capacity and the effects of compensation costs of long-term incentive plans.

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

The decrease in royalty revenue in the quarter is due to a decreased royalty rate on sales of Ferriprox[®], the drug manufactured and marketed by Apotex, for which we received 37.5% of net profits in the second quarter of 2010 and 50% of net profits in the second quarter of 2009. The increase in royalty revenue in the current year-to-date is due to higher sales of Ferriprox[®], which offset the reduced royalty rate.

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% for 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 January 31, 2010			Quarter ended January 31, 2009		
	Product services	R&D services	Total	Product services	R&D services	Total
Revenues	\$ 24,184	\$ 4,123	\$ 28,307	\$ 8,754	\$ 8,415	\$ 17,169
Gross profit	\$ 7,951	\$ 1,072	\$ 9,023	\$ 2,161	\$ 2,548	\$ 4,709
Gross margin	33%	26%	32%	25%	30%	27%

<i>in thousands of Canadian dollars</i>	Six months ended January 31, 2010			Six months ended January 31, 2009		
	Product services	R&D services	Total	Product services	R&D services	Total
Revenues	\$ 45,652	\$ 11,946	\$ 57,598	\$ 29,143	\$ 21,434	\$ 50,577
Gross profit	\$ 17,384	\$ 2,626	\$ 20,010	\$ 12,234	\$ 6,239	\$ 18,473
Gross margin	38%	22%	35%	42%	29%	37%

Our higher product-services revenues in the second quarter of 2010 resulted from product deliveries of \$18.3 million on our BAT and AIG stockpiling contracts, which were partially offset by reduced contract-manufacturing revenue at our Cangene bioPharma subsidiary in Baltimore. 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 subcontract capacity.

Our higher product-services revenues in the first half of 2010 resulted from increased product deliveries on the stockpiling contracts and a \$2.5-million sale of VIG plasma to the CDC. However, this increase was partially offset by reduced contract-manufacturing revenue at Cangene bioPharma.

Gross profit on product-services revenues increased in absolute dollars and the gross margin improved from 25% in the second quarter of 2009 to 33% in the second quarter of 2010. Our higher gross margin is due to the increase in BAT and AIG product delivery revenues.

In the first half of 2010, gross profit on product-services revenues increased in absolute dollars but the gross margin declined from 42% in the first half of 2009 to 38% in the current period. Increased gross profit is a result of our greater product deliveries on the stockpiling contracts. The lower gross margin is due to the inclusion of the lower margin sale of VIG plasma in the first half of 2010.

In R&D services, the BAT and AIG stockpiling contracts contributed \$4.0 million in revenues in the second quarter of 2010 and \$11.7 million in the year-to-date. The same contracts contributed \$5.6 million in the second quarter of 2009 and \$16.1 million in first six months of 2009. The recognition of revenue related to development activity on the stockpiling contracts varies with the level of activity. We did not conduct any other significant third-party contract-R&D work in our Canadian operations during the quarter or the year-to-date.

Gross profit on R&D-services revenues in this segment declined in comparison with the same quarter and year-to-date period of the prior year. As well, gross margin declined over the same periods 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 stockpiling contracts. These costs can be expensed and the related revenue recognized when revenue recognition criteria are met. At January 31, 2010, we had recorded costs of \$58.9 million related to these two contracts as follows:

- Raw materials of \$17.9 million, Work in process – product costs of \$25.5 million, Work in process – manufacturing process development costs of \$3.8 million, Work in process – development costs of \$1.4 million and Finished goods of \$8.9 million recorded in Inventories and contracts in progress;
- Insurance of \$0.9 million recorded in Prepaid expenses; and
- Insurance of \$0.5 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 \$2.7 million in the second quarter of 2010, compared with \$2.5 million in the same quarter of the prior year. In the second quarter of 2010, our efforts were primarily focused on an undisclosed anti-infective product, and to a lesser extent on HepaGam B[®] and monoclonal antibody development aimed at a number of diseases. The prior-year quarter included expenses related to a product known as PEP 35, as well as the same undisclosed anti-infective product and HepaGam B[®].

Independent R&D expenses, from which no related revenue is derived, were \$6.2 million in the first half of 2010, compared with \$4.0 million in the same period of the prior year. In the first half of 2010, our efforts were primarily focused on the undisclosed anti-infective product, and to a lesser extent on HepaGam B[®], PEP 35 and monoclonal antibody development. The prior-year period included expenses related to PEP 35, as well as the same undisclosed anti-infective

product and HepaGam B[®]. 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 second quarter of 2010 increased to \$7.4 million from \$5.6 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 deferred share units ("DSUs"), and an allocation of facility overhead expenses. The primary reason for the increase in SG&A is increased liability for the Phantom-stock Incentive Plan ("PSIP") and Restricted Share Unit Plan ("RSU") of \$0.9 million, combined with costs associated with the set-up of our new U.S. sales force in Cangene bioPharma. These costs include advertising and promotion, salaries and benefits, consulting, training and travel. SG&A costs incurred in the new Cangene bioPharma sales division amounted to \$1.4 million for the quarter ended January 31, 2010.

Total SG&A expense in the first half of 2010 increased to \$12.5 million from \$10.8 million in the same period of the prior year. The primary reason for the increase in SG&A is increased liability for the Phantom-stock and RSU incentive plans of \$1.6 million, combined with costs associated with the set-up of our new U.S. sales force in Cangene bioPharma as described above. SG&A costs incurred in the new Cangene bioPharma sales division amounted to \$1.4 million for the year-to-date period ended January 31, 2010.

The expenses for the PSIP, and the RSU and DSU plans are all calculated based on the 90-day weighted-average share price, the number of units outstanding and the vesting of the units over time using a graded vesting table. The expenses for the RSU Plan and PSIP are allocated consistent with the salaries of the related employees among SG&A, cost of sales, inventory, and research and development. While the incentive plan liability has increased by \$4.6 million since July 31, 2009, the amount charged to SG&A expense is \$1.1 million for the quarter ended January 31, 2010 and \$1.9 million for the six months ended January 31, 2010. This compares with \$0.2 million for both the comparable quarter and year-to-date periods of the prior year when only the PSIP was in place. The DSU expense all relates to the

Board of Directors and is therefore charged entirely to SG&A, consistent with the treatment of directors' fees. This expense amounted to \$0.1 million for both the quarter and the six months ended January 31, 2010. There was no DSU expense in the prior year as the plan did not yet exist.

Amortization

For the quarter ended January 31, 2010, amortization increased to \$3.9 million from \$3.2 million in the prior-year comparative quarter. This expense includes amortization of property, plant and equipment as well as finite-life intangible assets. The primary reason for the increase is amortization of \$0.6 million for the commercialization rights intangible asset which began effective November 1, 2009 and will continue through June 2016.

Similarly, for the six months ended January 31, 2010, amortization increased to \$7.2 million from \$6.3 million in the prior-year comparative period. The primary reason for this increase is amortization of \$0.6 million for the commercialization rights intangible asset as described above.

Income taxes

Income tax expense of \$0.5 million for the quarter ended January 31, 2010 decreased from \$1.8 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 12% is lower than our statutory tax rate of 30% primarily due to the recognition of previously unrecognized Maryland state tax losses.

On a year-to-date basis, the income tax expense of \$2.5 million is decreased from the prior year's expense of \$9.4 million, primarily due to a decrease of taxable income. The effective tax rate for the year-to-date of 22% is lower than our statutory rate of 30% due to the recognition of previously unrecognized Maryland state tax losses, and a reduction in the provision for certain items in prior years that have now become statute barred.

Net income

Net income of \$3.8 million for the second quarter of 2010 is 32% lower than the \$5.6 million in the same quarter of the prior year. The lower net income is due to lower gross margins that have resulted from a shifting product mix, as well as increased SG&A and amortization expenses as described above.

Net income of \$9.1 million for the first half of 2010 is 66% lower than the \$26.7 million in the same period of the prior year. The lower net income is due to two primary factors as well as the shifting product mix. First, the comparative period of the prior year included \$8.2 million in gross profit on R&D services, while the

current six-month period only included \$2.6 million in gross profit on R&D services. This was largely due to reduced revenues, but also a lower gross margin on R&D services of 22% in the current period, compared with 31% in the prior year. Second, the comparative period from 2009 also included a \$10.9-million foreign-exchange gain, while there was a \$0.7-million foreign-exchange loss in the same period of 2010. Other less

significant factors contributing to the lower net income in the current period include higher independent R&D expenditures, SG&A and amortization.

Basic and diluted earnings per share

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

SUMMARY OF QUARTERLY RESULTS

	Quarters ended								
	January 31, 2010 (Q2 2010)	October 31, 2009 (Q1 2010)	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)	
Revenues	\$ 41,536	\$ 42,032	\$ 84,638	\$ 67,346	\$ 34,543	\$ 52,224	\$ 63,114	\$ 29,650	
R&D expense ¹	5,774	9,730	12,487	14,479	10,064	12,402	15,943	7,002	
Net income	3,783	5,320	21,893	11,252	5,588	21,135	18,658	3,144	
Earnings per share									
Basic and diluted	\$ 0.06	\$ 0.08	\$ 0.32	\$ 0.16	\$ 0.08	\$ 0.30	\$ 0.27	\$ 0.04	

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 2008, revenues in the third quarter reflect a small AIG delivery and further development-related revenues on these stockpiling contracts. 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 as no product deliveries were made under the stockpiling 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. Reduced revenues related to WinRho[®] SDF also affected the

quarter. Revenues remained relatively flat in the second quarter of 2010 as product delivery revenues on the AIG and BAT contracts increased while other R&D-services and commercial product revenues decreased.

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 stockpiling contracts. The first two quarters of 2010 include higher independent R&D expenses; however, due to the fact that we are no longer working on joint-development projects with Apotex, there was less R&D-services activity and therefore less R&D-services cost of sales included in the R&D expense.

Earnings per share over the two-year period reflects the fluctuations in net income as well as the recent decreases in the number of shares outstanding due to the Normal Course Issuer Bids, which have resulted in the cancellation of 2,081,500 of our common shares to January 31, 2010.

LIQUIDITY & CAPITAL RESOURCES

Operating activities

Cash of \$0.1 million was provided by operating activities during the second quarter of 2010, compared with \$2.8 million used in operating activities during the same quarter of the prior year. The change was primarily due to lower net change in non-cash working capital balances and other assets related to operations in the current quarter compared with the second quarter of 2009. Net change in non-cash working capital balances and other assets related to operations has increased by \$8.8 million during the quarter. Higher working capital levels at January 31, 2010 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. By comparison, the second quarter of 2009 included a significant decrease in accounts receivable offset by a significant increase in inventories and contracts in progress, in addition to increased income and other taxes recoverable, and lower accounts payable and accrued liabilities.

During the first half of 2010, cash of \$10.2 million was used in operating activities, compared with \$1.9 million provided by operating activities during the same period of the prior year. The change was primarily due to lower net income in the current period combined with an increase in non-cash expenses related to accruals for incentive plan liabilities.

Financing activities

In the second quarter of 2010, cash of \$1.3 million was used in financing activities to repurchase shares for cancellation under a Normal Course Issuer Bid. In the prior year, \$0.8 million was used in financing activities, also due to the repurchase of shares for cancellation under a Normal Course Issuer Bid.

In the first half of 2010, cash of \$1.7 million was used in financing activities to repurchase shares for cancellation under a Normal Course Issuer Bid. In the prior-year comparison period, \$2.5 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
Shares cancelled under Normal Course Issuer Bid	(210,300)	(201)
As at January 31, 2010	68,423,670	\$ 65,356

At January 31, 2010, 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 would 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 January 31, 2010 and July 31, 2009, there was \$Nil outstanding on the operating line.

Investing activities

Cash used in investing activities in the second quarter of 2010 increased to \$3.7 million from \$2.4 million in the same quarter of the prior year, due mainly to the acquisition of property, plant and equipment, net of tax credits.

Cash used in investing activities in the first half of 2010 increased to \$13.4 million from \$5.9 million in the same period of the prior year, due mainly to \$7.5 million that was paid during the first quarter of 2010 to Apotex for the acquisition of intangible assets related to the U.S. commercialization rights for HepaGam B[®] (see RELATED-PARTY TRANSACTIONS).

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 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[®]. Effective April 13, 2009, we signed a new agreement with Apotex under which we acquired rights to the recombinant products, and royalties on Ferriprox[®] have changed.

We also had a distribution agreement with Apotex Corp. for it to market and distribute HepaGam B[®] in the U.S. On October 16, 2009, our Board of Directors approved an agreement, under which we acquired the U.S. commercialization rights to HepaGam B[®]. Per the agreement, we paid Apotex \$7.5 million in the first quarter of 2010. In addition, we will pay royalties on net U.S. HepaGam B[®] sales occurring through June 2016. The effective date of this transfer of rights was November 1, 2009. Our independent directors approved this new agreement after having determined that it is fair to Cangene and our shareholders. The \$7.5 million has been recorded in Intangible assets at January 31, 2010, along with the present value of the estimated future royalty stream on U.S. sales of HepaGam B[®] through June 2016, of \$7.4 million. The total commercialization rights intangible asset is \$14.9 million, which, less amortization of \$0.5 million, results in a net book value of \$14.4 million at January 31, 2010.

In the quarter ended January 31, 2010, we earned revenues from Apotex of \$1.9 million, a decrease from the \$6.7 million earned during the same quarter in the prior year. The decrease is due to the fact that the current quarter includes only the royalty revenue on Ferriprox[®] sales, while the comparative period also included HepaGam B[®] sales and revenues on joint research projects. At January 31, 2010, \$2.1 million was included in accounts receivable from these related-party transactions, compared with \$5.1 million at July 31, 2009.

During the six months ended January 31, 2010, Cangene recorded revenues from Apotex of \$5.5 million compared with \$13.2 million in the same period of the prior year. The decrease is due to the prior period including revenues on joint research projects and six months of HepaGam B[®] sales.

During the quarter and six months ended January 31, 2010, Cangene recorded expenses payable to Apotex of \$0.6 million for consulting and \$0.3 million for royalties payable related to net sales of HepaGam B[®]. At January 31, 2010, \$0.6 million is recorded in accounts payable and accrued liabilities, and \$0.3 million is recorded in royalty liability. There were no comparative balances related to the royalties prior to the quarter ended January 31, 2010 as the agreement became effective November 1, 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 the assessment of our 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 January 31, 2010, we have recorded a future income tax asset of \$7.8 million representing the benefit of non-deductible inventory and other reserves in the Canadian and U.S. operations, the recognition of previously unrecognized Maryland state tax losses, 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 \$3.8 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 were 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 periods 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 periods.

Revenue recognition – biopharmaceutical product sales

There has been no change to our revenue recognition policy with respect to biopharmaceutical product sales during the current periods. 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*, we 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 \$1.9 million at January 31, 2010 (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 International Financial Reporting Standards (“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 have engaged 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.

In our Impact Analysis, Evaluation and Design phase we have determined that many of the differences between the reporting standards are not expected to have a material impact on our operations or financial position. However, we have identified the following four accounting areas as being expected to have high or moderate significance:

IFRS 1 – First-time Adoption of International Financial Reporting Standards:

Most adjustments required on transition to IFRS will be made retrospectively against opening retained earnings at the date of the first comparative balance sheet. Transitional adjustments relating to those standards where comparative figures are not required to be restated will only be made as of the first day of the fiscal year of adoption.

IFRS 1 provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions to the general requirement for full retrospective application of IFRS. We are analyzing the various accounting policy options available and will implement those we determine to be most appropriate for our specific circumstances. We have made preliminary conclusions regarding these options but they will be subject to ongoing assessment during the transition year.

IFRS 2 – Share-based Payments:

Under Canadian GAAP, we account for our cash-settled Phantom-stock Incentive Plan (“PSIP”), Restricted Share Unit Plan (“RSU”) and Deferred Share Unit Plan (“DSU”) based on their intrinsic values. Under IFRS, we will be required to account for the share-based payments liability at fair value using an option pricing model. We are continuing to finalize the transition adjustment related to such plans; however, preliminary estimates indicate that if we were to early adopt, there would be an increase of our liability at July 31, 2009 of approximately \$1.0 million.

IAS 21 – The Effects of Changes in Foreign-exchange Rates:

In accordance with Canadian GAAP, we have determined that Cangene’s functional and reporting currency is Canadian dollars, and that our U.S. subsidiaries are integrated foreign operations. IFRS requires that the functional currency of each entity in a consolidated group be determined separately based on the currency of the primary economic environment in which the entity operates. A list of primary and secondary indicators is used under IFRS in this determination and these differ in content and emphasis from those factors used under Canadian GAAP. Accordingly, for IFRS, we have initially determined that the functional currency of the Corporation, including our U.S. subsidiaries, is the U.S. dollar. The net result going forward may be a decrease in earnings volatility that is due to foreign-exchange fluctuations as our exposure to Canadian-dollar revenues and expenses is significantly less than our exposure to U.S.-dollar revenue and expenses. Furthermore, we will be required to retrospectively apply the functional currency determination to prior periods. Accordingly, non-monetary assets and liabilities, including prepaid expenses, property, plant and equipment, intangible assets, goodwill, other assets, and deferred income will be required to be restated. We have made our preliminary conclusions on the impact of this change but are continuing to gather historical financial information to fully quantify its impact.

IAS 36 – Impairment of Assets:

Upon adoption of IFRS, we are required to test our goodwill for impairment in accordance with *IAS 36*. Furthermore, IFRS requires us to conduct an asset-impairment test at the date of adoption of IFRS if indicators of impairment exist. There are several differences that exist between current Canadian GAAP and IFRS for impairment of non-financial assets, which include:

- the test for non-financial asset impairment requires the use of a discounted cash flow model, whereas Canadian GAAP uses a two-step impairment test which is first based on undiscounted cash flows and then discounted cash flows;
- testing for impairment occurs at the level of cash generating units, which is the lowest level of assets that generate largely independent cash inflows, whereas Canadian GAAP requires impairment tests at the asset group level; and
- IFRS allows the reversal of previous impairment losses, with the exception of goodwill, whereas Canadian GAAP prohibits the reversal of non-financial asset impairments.

We are currently evaluating our application of *IAS 36* to determine whether an impairment charge would be recognized under IFRS.

Future changes to IFRS

The International Accounting Standards Board (“IASB”) is currently undertaking several projects that will result in changes to existing IFRS standards that may affect us:

New IFRS Standard	Expected Calendar Quarter of Issuance
Consolidations	Q3 2010 – Final Standard
Fair Value Measurement Guidance	Q3 2010 – Final Standard
Hedge Accounting	Q3 2010 – Final Standard
Impairment	Q4 2010 – Final Standard
Employee Benefits	Q1 2010 – Exposure Draft
Leases	Q2 2010 – Exposure Draft
Revenue Recognition	Q2 2010 – Exposure Draft
Financial Statement Presentation	Q2 2010 – Exposure Draft
Income Taxes	No timeline identified

Source: www.iasb.org

We continue to monitor changes proposed by the IASB and will be considering the impact any change in the standards may have on our operations and financial position, and the effect they may have on our IFRS changeover plan.

Key information technology and data-system requirements

We have performed an initial analysis of our data-system infrastructure and have concluded that transition to IFRS will not require a material modification to our information technology processes as a result of divergences we have identified to date.

Internal controls over financial reporting, and disclosure controls and procedures

We are in the process of identifying the impact of divergences on our internal controls. Any significant impacts we identify will be disclosed in future filings when the assessment is finalized.

Financial reporting expertise, including training requirements

Certain members of senior management have attended external training seminars on relevant IFRS Standards and their potential impact. We are developing a training plan for our Board of Directors, Audit Committee and other employees, as appropriate. We anticipate that training will be completed in June 2010.

Business activities

Throughout the Impact Analysis, Evaluation and Design phase, we are considering business activities that may be impacted by the conversion to IFRS. These include but are not limited to: foreign currency exchange hedging, debt covenant compliance, compensation arrangements, risk-management practices, contractual business relationships with outside parties and tax planning. So far, we have not discovered any current or future anticipated business activity that will be significantly impacted by the conversion to IFRS.

At this time, we cannot quantify the overall 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. Periodically, 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 January 31, 2010, there were no contracts outstanding.

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. 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 January 31, 2010, there was one swap outstanding. The principal amount of the swap is US\$10.0 million and the swap matures on July 29, 2010. The swap is marked to market at January 31, 2010. If it is held to maturity, we will pay fixed-fee swap costs of \$0.1 million.

Subsequent to the end of the quarter, on March 4, 2010, we entered into a U.S.–Canadian currency swap with a notional amount of \$5.2 million and a maturity date of September 7, 2010. If the instrument is held to maturity, we will pay fixed-fee swap costs of \$0.1 million.

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[®] 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 or on SEDAR at www.sedar.com.

Cangene Corporation

CONSOLIDATED BALANCE SHEETS *(unaudited)*

<i>in thousands of Canadian dollars</i>	At	
	January 31, 2010	July 31, 2009
ASSETS [note 6]		
Current		
Cash	\$ 30,213	\$ 56,131
Accounts receivable [note 17]	42,734	34,547
Inventories and contracts in progress [note 4]	99,534	92,430
Income and other taxes recoverable	10,632	5,637
Future income taxes	5,400	8,231
Prepaid expenses and deposits	2,979	2,830
Total current assets	191,492	199,806
Property, plant and equipment, net	95,934	96,405
Future income taxes	2,403	—
Goodwill and intangible assets [note 5]	57,689	43,520
Other assets	4,327	5,460
	\$ 351,845	\$ 345,191
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 20,623	\$ 27,948
Income and other taxes payable	17	4,126
Current portion of deferred income	5,525	5,875
Total current liabilities	26,165	37,949
Deferred income	11,294	9,906
Royalty liability [note 7]	7,137	—
Incentive plan liabilities [notes 9[b] and 9[c]]	4,735	122
Deferred share units [note 10]	141	—
Future income taxes	3,229	5,522
Total liabilities	52,701	53,499
Commitments [notes 14, 16 and 17]		
Shareholders' equity		
Share capital [note 8]	65,356	65,655
Contributed surplus	3,239	3,239
Accumulated other comprehensive loss	(4,467)	(4,467)
Retained earnings	235,016	227,265
Total shareholders' equity	299,144	291,692
	\$ 351,845	\$ 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>	Three months ended January 31, 2010	Three months ended January 31, 2009	Six months ended January 31, 2010	Six months ended January 31, 2009
Revenues [note 17]				
Product sales and services	\$ 35,542	\$ 21,587	\$ 67,517	\$ 56,097
R&D services [note 12]	4,123	11,036	11,946	26,588
Royalties	1,871	1,920	4,105	4,082
	41,536	34,543	83,568	86,767
Cost of sales				
Product sales and services	20,421	9,020	36,133	22,015
R&D services [note 12]	3,051	7,580	9,320	18,435
	23,472	16,600	45,453	40,450
Gross profit	18,064	17,943	38,115	46,317
Expenses				
Independent R&D [note 12]	2,723	2,484	6,184	4,031
Selling, general and administrative	7,413	5,614	12,466	10,829
Amortization	3,868	3,217	7,157	6,293
Interest income				
Short-term	(8)	(6)	(33)	(42)
Foreign-exchange loss (gain)	(210)	(784)	733	(10,949)
	13,786	10,525	26,507	10,162
Income before income taxes	4,278	7,418	11,608	36,155
Income tax expense (recovery)				
Current	2,313	894	3,049	8,238
Future	(1,818)	936	(544)	1,194
	495	1,830	2,505	9,432
Net income and comprehensive income for the period	3,783	5,588	9,103	26,723
Retained earnings, beginning of period	232,222	192,676	227,265	172,900
Purchase of common shares in excess of average stated capital [notes 8[b] and 8[c]]	(989)	(621)	(1,352)	(1,980)
Retained earnings, end of period	\$ 235,016	\$ 197,643	\$ 235,016	\$ 197,643
Basic and diluted earnings per share [note 11]	\$ 0.06	\$ 0.08	\$ 0.13	\$ 0.38

See accompanying notes

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

<i>in thousands of Canadian dollars</i>	Three months ended January 31, 2010	Three months ended January 31, 2009	Six months ended January 31, 2010	Six months ended January 31, 2009
OPERATING ACTIVITIES				
Net income for the period	\$ 3,783	\$ 5,588	\$ 9,103	\$ 26,723
Add (deduct) items not involving cash:				
Amortization of property, plant & equipment	3,075	2,865	6,138	5,624
Amortization of intangible assets	793	352	1,019	669
Deferred income	873	(1,257)	1,038	(1,350)
Incentive plan liabilities	2,587	488	4,613	488
Deferred share unit liability	81	—	141	—
Amortization of royalty liability <i>[note 7]</i>	(326)	—	(326)	—
Future income tax expense (recovery)	(1,818)	936	(544)	1,194
Unrealized foreign-exchange loss (gain)	(174)	587	(645)	(1,105)
	8,874	9,559	20,537	32,243
Net change in non-cash working capital balances and other assets related to operations <i>[note 13]</i>	(8,775)	(12,392)	(30,736)	(30,319)
Cash provided by (used in) operating activities	99	(2,833)	(10,199)	1,924
INVESTING ACTIVITIES				
Purchase of property, plant and equipment, net	(3,719)	(2,313)	(5,667)	(5,510)
Acquisition of intangible assets	(23)	(84)	(7,719)	(428)
Cash used in investing activities	(3,742)	(2,397)	(13,386)	(5,938)
FINANCING ACTIVITIES				
Shares repurchased for cancellation <i>[notes 8[b] and 8[c]]</i>	(1,252)	(769)	(1,713)	(2,495)
Cash used in financing activities	(1,252)	(769)	(1,713)	(2,495)
Effect of exchange rates on cash	(137)	336	(620)	2,173
Net decrease in cash during the period	(5,032)	(5,663)	(25,918)	(4,336)
Cash, beginning of period	35,245	16,002	56,131	14,675
Cash, end of period	\$ 30,213	\$ 10,339	\$ 30,213	\$ 10,339
Interest paid	\$ 1	\$ 11	\$ 1	\$ 46
Income taxes paid	\$ 1,142	\$ 4,114	\$ 8,040	\$ 5,188

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 below with respect to royalty liability and expense, and those 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.

Royalty liability and expense

The Corporation has recorded a royalty liability equal to the present value of anticipated future royalties payable on net sales of HepaGam B[®] occurring through June 2016. This liability is being amortized monthly into cost of sales on the basis of the original present value calculations. Concurrently, the actual royalty expense, based on the monthly net sales of HepaGam B[®], is expensed in cost of sales. Amounts payable to Apotex for the actual royalty expense are recorded as current liabilities in accounts payable and accrued liabilities.

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 \$1.9 million at January 31, 2010 and \$2.0 million at July 31, 2009.

3. FUTURE ACCOUNTING CHANGES

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 policies that must be addressed. While the Corporation has begun planning and preparing for transitioning to IFRS for its fiscal year beginning August 1, 2011, and is considering early adoption, the financial impact of the transition to IFRS cannot be fully estimated at this time.

The Corporation has completed the initial Scoping and Diagnostics phase of its implementation plan and has commenced the Impact Analysis, Evaluation and Design phase. It is possible that the Corporation will consider early adoption. Cangene has engaged a third-party consultant to assist with the scoping and execution of an accelerated conversion timeline should the Corporation decide to apply to the Ontario Securities Commission for early adoption.

During its Impact Analysis, Evaluation and Design phase, the Corporation determined that many of the differences between the reporting standards are not expected to have a material impact on its operations or financial position. The Corporation has identified the following four accounting areas as being expected to have high or moderate significance:

- *IFRS 1 – First-time Adoption of International Financial Reporting Standards*
- *IFRS 2 – Share-based Payments*
- *IAS 21 – The Effects of Changes in Foreign-exchange Rates*
- *IAS 36 – Impairment of Assets*

4. INVENTORIES AND CONTRACTS IN PROGRESS

<i>in thousands of Canadian dollars</i>	At January 31, 2010	At July 31, 2009
Raw materials	\$ 26,822	\$ 23,286
Work in process – product costs	2,114	2,261
Finished goods	13,106	6,803
	\$ 42,042	\$ 32,350
Long-term contracts:		
Raw materials	17,908	22,081
Work in process – product costs	25,548	19,546
Work in process – manufacturing process development costs	3,821	4,610
Work in process – development costs	1,363	1,585
Finished goods	8,852	12,258
	\$ 57,492	\$ 60,080
	\$ 99,534	\$ 92,430

As at January 31, 2010, the Corporation has included in its inventories and contracts in progress \$57.5 million [July 31, 2009 – \$60.1 million] of costs under long-term contracts with the U.S. government (see *note 16*).

During the quarter ended January 31, 2010, inventories and contracts in progress of \$20.6 million [quarter ended January 31, 2009 – \$15.8 million] were expensed through cost of goods sold. Write-downs of raw materials and finished goods to the lower of cost or market, and reserves for obsolete materials and supplies of \$3.0 million were included in cost of goods sold during the quarter ended January 31, 2010 [quarter ended January 31, 2009 – \$1.2 million]. Reversals of write-downs of \$0.2 million were recorded during the quarter ended January 31, 2010 [quarter ended January 31, 2009 – \$0.4 million].

During the six months ended January 31, 2010, inventories and contracts in progress of \$39.5 million [six months ended January 31, 2009 – \$38.6 million] were expensed through cost of goods sold. Write-downs of raw materials and finished goods to the lower of cost or market, and reserves for obsolete materials and supplies of \$6.4 million were included in cost of goods sold during the six months ended January 31, 2010 [six months ended January 31, 2009 – \$2.3 million]. Reversals of write-downs of \$0.4 million were recorded during the six months ended January 31, 2010 [six months ended January 31, 2009 – \$0.5 million].

At January 31, 2010, \$88.8 million of inventory is recorded at cost and \$10.7 million is recorded at net realizable value. At July 31, 2009, \$3.0 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 January 31, 2010 amounted to \$57.7 million [July 31, 2009 – \$43.5 million], net of accumulated amortization and write-downs of \$17.6 million [July 31, 2009 – \$16.7 million].

At January 31, 2010, the Corporation owns finite-life intangible assets consisting of patents with a value of \$0.9 million [July 31, 2009 – \$1.0 million], commercialization rights with a value of \$14.4 million [July 31, 2009 – \$Nil], and software with a value of \$1.9 million [July 31, 2009 – \$2.0 million].

All finite-life intangible assets are amortized on a straight-line basis. The patents are amortized over periods ranging from 8 to 16 years. Software is amortized over 5 years. The commercialization rights are amortized over the contract period ending June 2016, a period of 80 months.

Amortization expense related to intangible assets of \$0.8 million was recorded during the quarter ended January 31, 2010 [quarter ended January 31, 2009 – \$0.3 million]. Amortization expense related to intangible assets of \$1.0 million was recorded during the six months ended January 31, 2010 [six months ended January 31, 2009 – \$0.6 million].

	At January 31, 2010			At July 31, 2009		
	Accumulated			Accumulated		
	Cost	amortization and write-downs	Net book value	Cost	amortization and write-downs	Net book value
Goodwill	\$ 51,614	\$ 11,100	\$ 40,514	\$ 51,614	\$ 11,100	\$ 40,514
Patents	1,000	55	945	1,000	—	1,000
Commercialization rights (note 17)	14,938	560	14,378	—	—	—
Software	7,750	5,898	1,852	7,576	5,570	2,006
	\$ 75,302	\$ 17,613	\$ 57,689	\$ 60,190	\$ 16,670	\$ 43,520

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 January 31, 2010 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. ROYALTY LIABILITY

On October 16, 2009, the Corporation's Board of Directors approved an agreement, under which Cangene, through its Cangene bioPharma, Inc. subsidiary, acquired the U.S. commercialization rights for HepaGam B[®] (see note 17). Per the agreement, Apotex will be paid royalties on net U.S. HepaGam B[®] sales occurring through June 2016. The effective date of this transfer of rights was November 1, 2009. The \$7.4-million present value of the estimated future royalty stream on U.S. sales of HepaGam B[®] through June 2016 was recorded as a royalty liability effective November 1, 2009. This liability is being amortized monthly into cost of sales on the basis of the original present value calculations. Amortization for the quarter and six months ended January 31, 2010 is \$0.3 million [quarter and six months ended January 31, 2009 – \$Nil]. Concurrently, the Corporation is recording the royalty expense in cost of sales. The royalty expense for the quarter and six months ended January 31, 2010 is \$0.2 million [quarter and six months ended January 31, 2009 – \$Nil]. The royalty expense is based on the net U.S. sales of HepaGam B[®]. Therefore, the net expense (recovery) recorded in cost of sales for the quarter and six months ended January 31, 2010 is a \$0.1 million recovery [quarter and six months ended January 31, 2009 – \$Nil].

At January 31, 2010, the Corporation has recorded a royalty liability of \$7.1 million [July 31, 2009 – \$Nil] representing the estimated present value of the future royalty stream on U.S. sales of HepaGam B[®] through June 2016. At January 31, 2010, the Corporation has recorded accounts payable of \$0.3 million [July 31, 2009 – \$Nil] representing the royalty expense payable to Apotex for the quarter ended January 31, 2010.

8. 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)
As at October 31, 2009	68,633,970	\$ 65,557
Shares cancelled under Normal Course Issuer Bid	(210,300)	(201)
As at January 31, 2010	68,423,670	\$ 65,356

[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 January 31, 2009, the Corporation cancelled 155,600 shares at a net cost of \$0.8 million under the 2008 Bid. During the quarter ended January 31, 2009, the Corporation recorded a reduction in share capital of \$0.2 million related to the 2008 Bid and the excess of purchase price over the average stated capital of the shares of \$0.6 million was charged to retained earnings.

During the six months ended January 31, 2009, the Corporation cancelled 539,200 shares at a net cost of \$2.5 million under the 2008 Bid. During the six months ended January 31, 2009, the Corporation recorded a reduction in share capital of \$0.5 million related to the 2008 Bid and the excess of purchase price over the average stated capital of the shares of \$2.0 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. The 2009 Bid expires on April 24, 2010.

On November 12, 2009, the Corporation announced an amendment to the 2009 Bid to increase the maximum number of common shares of the Corporation available for purchase to 1,500,000, representing 2.2% of the outstanding common shares as at April 20, 2009.

During the quarter ended January 31, 2010, the Corporation cancelled 210,300 common shares at a net cost of \$1.2 million under the 2009 Bid. The Corporation has recorded a reduction in share capital of \$0.2 million related to the 2009 Bid. The excess of purchase price over the average stated capital of the shares of \$1.0 million was charged to retained earnings.

During the six months ended January 31, 2010, the Corporation cancelled 313,100 common shares at a net cost of \$1.7 million under the 2009 Bid. The Corporation has recorded a reduction in share capital of \$0.3 million related to the 2009 Bid. The excess of purchase price over the average stated capital of the shares of \$1.4 million was charged to retained earnings.

9. 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 January 31, 2010, 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 or six-month periods ended January 31, 2010 and January 31, 2009. Nor were any stock options exercised during the same periods; therefore, there was no increase in share capital during the quarters or six-month periods. A total of 41,000 stock options were cancelled during the quarter ended January 31, 2010; none expired [quarter ended January 31, 2009 – 100 were cancelled and none expired]. A total of 46,500 stock options were cancelled during the six months ended January 31, 2010; none expired [six months ended January 31, 2009 – 100 were cancelled and none expired].

[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 participants must acquire a minimum investment in Cangene common shares by a pre-determined future date.

No units were granted during the quarters ended January 31, 2010 and January 31, 2009. During the quarter ended January 31, 2010, no units were redeemed, cancelled or matured [quarter ended January 31, 2009 – no units matured; 343,478 were cancelled; none were redeemed]. No units were granted during the six months ended January 31, 2010 [six months ended January 31, 2009 – 2.7 million units at a grant price of \$4.51]. During the six months ended January 31, 2010, 13,769 units were redeemed for a nominal value, 175,859 were cancelled and 508,103 matured with no value [six months ended January 31, 2009 – 87,500 units matured with no value; 343,478 were cancelled and none were redeemed].

The following table summarizes information about phantom-stock units outstanding as at January 31, 2010:

<i>in thousands of Canadian dollars</i>				
Grant price	Fiscal year of grant	Number of units outstanding	Weighted-average remaining contractual life	Liability at January 31, 2010
\$ 7.09	2008	678,749	0.8 years	\$ —
4.51	2009	2,297,355	1.8	1,961
\$ 4.51–7.09		2,976,104	1.6 years	\$ 1,961

Effective August 1, 2009, the new Restricted Share Unit Plan as described in *note 9[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 long-term incentive compensation.

An RSU is 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 RSU was 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.

No RSUs were granted during the quarter ended January 31, 2010 [quarter ended January 31, 2009 – Nil]. During the quarter ended January 31, 2010, 7,657 RSUs were redeemed with a nominal value and 17,436 RSUs were cancelled with no value [quarter ended January 31, 2009 – Nil were redeemed or cancelled].

During the six months ended January 31, 2010, 1,052,723 RSUs were issued with vesting as described above. During the six months ended January 31, 2010, 7,657 RSUs were redeemed with a nominal value and 17,436 RSUs were cancelled with no value [six months ended January 31, 2009 – Nil were granted, redeemed or cancelled].

As at January 31, 2010, 1,027,630 [July 31, 2009 – Nil] RSUs were outstanding under the RSU Plan. As a result, the Corporation recognized a compensation expense of \$2.8 million for the six months ended January 31, 2010 [six months ended January 31, 2009 – \$Nil].

The following table summarizes information about restricted share units outstanding as at January 31, 2010:

<i>in thousands of Canadian dollars</i>				
Fiscal year of grant	Number of units outstanding	Weighted-average remaining contractual life	Liability at January 31, 2010	
2010	1,027,630	2.7 years	\$	2,774
	1,027,630	2.7 years	\$	2,774

10. 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 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 January 31, 2010, 12,531 [quarter ended January 31, 2009 – Nil] DSUs were issued with immediate vesting on the date of issuance. During the six months ended January 31, 2010, 25,362 [six months ended January 31, 2009 – Nil] DSUs were issued with immediate vesting on the date of issuance.

The following table summarizes information about deferred share units outstanding as at January 31, 2010:

	<i>in thousands of Canadian dollars</i>	
Number of units outstanding	Liability at January 31, 2010	
25,362	\$	141
25,362	\$	141

11. EARNINGS PER SHARE

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

<i>in thousands of Canadian dollars except share-related data</i>	Three months ended January 31, 2010		Three months ended January 31, 2009		Six months ended January 31, 2010		Six months ended January 31, 2009	
Net income	\$	3,783	\$	5,588	\$	9,103	\$	26,723
Weighted-average number of common shares outstanding	#	68,522,470	#	69,642,453	#	68,542,503	#	69,744,645
Dilutive effect of stock options		—		—		—		—
Diluted weighted-average number of shares outstanding	#	68,522,470	#	69,642,453	#	68,542,503	#	69,744,645
Earnings per share: Basic and diluted	\$	0.06	\$	0.08	\$	0.13	\$	0.38

For the quarter and six months ended January 31, 2010, 664,700 options [quarter and six months ended January 31, 2009 – 1,296,000 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.

12. RESEARCH AND DEVELOPMENT

Research and development revenues were earned under terms of past agreements with Apotex (see *note 17*) 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 holds the product licences and may pay Apotex certain royalties and profit sharing;
- expenditures under R&D contracts funded by Apotex, where Apotex holds the product licences and Cangene provided contract-R&D services;
- 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>	Three months ended January 31, 2010	Three months ended January 31, 2009	Six months ended January 31, 2010	Six months ended January 31, 2009
R&D revenues				
Apotex agreements – Cangene holds licence	\$ —	\$ 2,621	\$ —	\$ 5,154
Apotex agreements – Apotex holds licence	—	465	—	1,027
Third-party contracts – Cangene holds licence	4,092	5,593	11,873	16,451
Third-party contracts – third party holds licence	31	2,357	73	3,956
	\$ 4,123	\$ 11,036	\$ 11,946	\$ 26,588
R&D expenses				
Apotex agreements – Cangene holds licence	\$ —	\$ 1,713	\$ —	\$ 3,240
Apotex agreements – Apotex holds licence	—	294	—	515
Third-party contracts – Cangene holds licence	3,038	4,443	9,297	12,586
Third-party contracts – third party holds licence	13	1,130	23	2,094
Total cost of sales – R&D services	3,051	7,580	9,320	18,435
Cangene independent R&D	2,723	2,484	6,184	4,031
	\$ 5,774	\$ 10,064	\$ 15,504	\$ 22,466

13. SUPPLEMENTARY INFORMATION FOR CONSOLIDATED STATEMENTS OF CASH FLOWS

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

<i>in thousands of Canadian dollars</i>	Three months ended January 31, 2010	Three months ended January 31, 2009	Six months ended January 31, 2010	Six months ended January 31, 2009
Accounts receivable	\$ (2,852)	\$ 15,521	\$ (8,187)	\$ 1,194
Inventories and contracts in progress	(3,075)	(15,311)	(7,104)	(26,262)
Income and other taxes recoverable	(1,424)	(5,322)	(4,995)	(1,265)
Prepaid expenses and deposits, and other assets	1,538	(2,469)	984	(3,310)
Accounts payable and accrued liabilities	(2,962)	(6,545)	(7,325)	(1,756)
Income and other taxes payable	—	1,734	(4,109)	1,080
	\$ (8,775)	\$ (12,392)	\$ (30,736)	\$ (30,319)

14. FINANCIAL INSTRUMENTS

The Corporation has the following financial instruments outstanding at January 31, 2010: cash, accounts receivable, accounts payable and accrued liabilities, and a U.S.–Canadian-dollar currency swap.

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; none are outstanding at January 31, 2010. 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.

Interest rate risk

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

The Corporation has one currency swap outstanding at January 31, 2010 as follows:

<i>in thousands of Canadian dollars</i>	Notional amount	Maturity date	Fair value at January 31, 2010	Fair value at July 31, 2009
	\$ 10,625	July 29, 2010	\$ 29	\$ —
Total	\$ 10,625		\$ 29	\$ —

The fair value reflects the cost to unwind the instrument. If the currency swap is held to maturity, the Corporation will pay \$0.1 million in fixed-fee swap costs for the instrument.

The Corporation maintains U.S.-dollar bank accounts and at January 31, 2010, U.S.-dollar cash balances were US\$14.9 million [July 31, 2009 – US\$33.0 million].

15. 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, and fiscal 2009 also included related-party research and development on recombinant products (see *note 17*). 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 and six-month periods ended January 31, 2010 and January 31, 2009, and identifiable assets as at January 31, 2010 and January 31, 2009:

<i>in thousands of Canadian dollars</i>	Three months ended January 31, 2010			Three months ended January 31, 2009		
	Biopharmaceutical operations	Contract services	Total	Biopharmaceutical operations	Contract services	Total
Revenues						
Product sales and services	\$ 11,358	\$ 24,184	\$ 35,542	\$ 12,833	\$ 8,754	\$ 21,587
R&D services	—	4,123	4,123	2,621	8,415	11,036
Royalties	1,871	—	1,871	1,920	—	1,920
	13,229	28,307	41,536	17,374	17,169	34,543
Cost of sales						
Product sales and services	4,188	16,233	20,421	2,427	6,593	9,020
R&D services	—	3,051	3,051	1,713	5,867	7,580
	4,188	19,284	23,472	4,140	12,460	16,600
Gross profit	9,041	9,023	18,064	13,234	4,709	17,943
Income before income taxes	1,559	2,719	4,278	6,986	432	7,418
Income tax expense (recovery)	(633)	1,128	495	1,861	(31)	1,830
Net income for the period	\$ 2,192	\$ 1,591	\$ 3,783	\$ 5,125	\$ 463	\$ 5,588
Total assets	\$ 104,539	\$ 247,306	\$ 351,845	\$ 100,421	\$ 205,138	\$ 305,559
Additions to property, plant and equipment, and goodwill and intangible assets, net	\$ 783	\$ 2,959	\$ 3,742	\$ 915	\$ 1,482	\$ 2,397

<i>in thousands of Canadian dollars</i>	Six months ended January 31, 2010			Six months ended January 31, 2009		
	Biopharmaceutical operations	Contract services	Total	Biopharmaceutical operations	Contract services	Total
Revenues						
Product sales and services	\$ 21,865	\$ 45,652	\$ 67,517	\$ 26,954	\$ 29,143	\$ 56,097
R&D services	—	11,946	11,946	5,154	21,434	26,588
Royalties	4,105	—	4,105	4,082	—	4,082
	25,970	57,598	83,568	36,190	50,577	86,767
Cost of sales						
Product sales and services	7,865	28,268	36,133	5,106	16,909	22,015
R&D services	—	9,320	9,320	3,240	15,195	18,435
	7,865	37,588	45,453	8,346	32,104	40,450
Gross profit	18,105	20,010	38,115	27,844	18,473	46,317
Income before income taxes	4,705	6,903	11,608	20,863	15,292	36,155
Income tax expense	677	1,828	2,505	5,781	3,651	9,432
Net income for the period	\$ 4,028	\$ 5,075	\$ 9,103	\$ 15,082	\$ 11,641	\$ 26,723
Total assets	\$ 104,539	\$ 247,306	\$ 351,845	\$ 100,421	\$ 205,138	\$ 305,559
Additions to property, plant and equipment, and goodwill and intangible assets, net	\$ 8,715	\$ 4,671	\$ 13,386	\$ 2,044	\$ 3,894	\$ 5,938

Geographic information about the Corporation's revenue is based on the product shipment destination or the location of the contracting organization. Assets are based on their physical location as at January 31, 2010 and January 31, 2009.

<i>in thousands of Canadian dollars</i>	Three months ended January 31, 2010		Three months ended January 31, 2009	
	Revenues	Property, plant and equipment, and goodwill and intangible assets, net	Revenues	Property, plant and equipment, and goodwill and intangible assets, net
Canada	\$ 4,774	\$ 76,970	\$ 7,486	\$ 79,179
United States	35,348	76,653	24,160	59,628
Rest of world	1,414	—	2,897	—
	\$ 41,536	\$ 153,623	\$ 34,543	\$ 138,807

<i>in thousands of Canadian dollars</i>	Six months ended January 31, 2010		Six months ended January 31, 2009	
	Revenues	Property, plant and equipment, and goodwill and intangible assets, net	Revenues	Property, plant and equipment, and goodwill and intangible assets, net
Canada	\$ 9,807	\$ 76,970	\$ 15,213	\$ 79,179
United States	71,199	76,653	65,255	59,628
Rest of world	2,562	—	6,299	—
	\$ 83,568	\$ 153,623	\$ 86,767	\$ 138,807

For the current quarter, sales to one customer represent 33% [quarter ended January 31, 2009 – two customers, 76%] of the revenue of the biopharmaceutical operating segment, and sales to one customer represent 79% [quarter ended January 31, 2009 – two customers, 46%] of the revenue of the contract-services segment.

For the first six months of 2010, sales to one customer represent 38% [six months ended January 31, 2009 – two customers, 76%] of the revenue of the biopharmaceutical operating segment, and sales to one customer represent 80% [six months ended January 31, 2009 – two customers, 68%] of the revenue of the contract-services segment.

16. SIGNIFICANT AGREEMENTS

[a] Heptavalent Botulism Antitoxin (“BAT”)

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

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

The optional task orders are worth up to an additional US\$234 million in revenue. These tasks include ongoing testing to support long-term product shelf life, maintaining product manufacturing and additional clinical testing in special populations.

During the quarter ended January 31, 2010, Cangene recorded revenues of \$14.4 million [quarter ended January 31, 2009 – \$4.8 million] related to the BAT contract.

During the six months ended January 31, 2010, Cangene recorded revenues of \$32.3 million [six months ended January 31, 2009 – \$25.6 million] related to the BAT contract.

As at January 31, 2010, costs of \$32.5 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 January 31, 2010, \$0.8 million has been deferred [July 31, 2009 – \$0.7 million].

During the quarter ended January 31, 2010, Cangene recorded revenues of \$7.9 million [quarter ended January 31, 2009 – \$2.5 million] related to the AIG contract.

During the six months ended January 31, 2010, Cangene recorded revenues of \$11.2 million [six months ended January 31, 2009 – \$7.3 million] related to the AIG contract.

As at January 31, 2010, costs of \$26.4 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.

17. 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[®] and Accretropin[™]. 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[®] and/or Accretropin[™] to market and would pay the other company a small royalty based on any sales. It was not possible to determine a fair market value of the rights exchanged in the new agreement, accordingly the transaction was recorded at carrying value, which was \$Nil. Cangene's independent directors approved the new agreement after having determined that it is fair to Cangene and its shareholders.

On November 5, 1996, the Corporation acquired royalty rights on the drug Ferriprox[®] (deferiprone) from Apotex. Under this earlier agreement with Apotex, the Corporation was entitled to receive 50% of any net profits from sales of the drug worldwide. Under the 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[®] 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, under which Cangene, through its Cangene bioPharma, Inc. subsidiary, acquired the U.S. commercialization rights to HepaGam B[®]. Per the agreement, Apotex was paid \$7.5 million in the first quarter of 2010 and will receive royalties on net U.S. HepaGam B[®] sales occurring through June 2016. The effective date of this transfer of rights 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 \$7.5 million has been recorded in Intangible assets at January 31, 2010, along with the present value of the estimated future royalty stream on U.S. sales of HepaGam B[®] through June 2016 of \$7.4 million. The total commercialization rights intangible asset is \$14.9 million, which, less amortization of \$0.5 million, results in a net book value of \$14.4 million at January 31, 2010 (see Note 5).

During the quarter ended January 31, 2010, Cangene recorded revenues of \$1.9 million [quarter ended January 31, 2009 – \$6.7 million] from Apotex and at January 31, 2010, \$2.1 million [July 31, 2009 – \$5.1 million] was included in accounts receivable.

During the six months ended January 31, 2010, Cangene recorded revenues of \$5.5 million [six months ended January 31, 2009 – \$13.2 million] from sales to Apotex.

During the quarter and six months ended January 31, 2010, Cangene recorded expenses payable to Apotex of \$0.6 million for consulting and \$0.3 million for royalties payable related to net sales of HepaGam B[®] [quarter and six months ended January 31, 2009 – \$Nil]. At January 31, 2010, \$0.6 million [July 31, 2009 – \$Nil] is recorded in accounts payable and accrued liabilities, and \$0.3 million [July 31, 2009 – \$Nil] is recorded in royalty liability.

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

18. SUBSEQUENT EVENTS

On February 12, 2010, the Corporation acquired a building at 137 Innovation Drive in Winnipeg, Manitoba for a total purchase price of \$7.2 million. The building is the site of Cangene's Winnipeg Plasma Resources centre as well as administrative departments.

On March 4, 2010, the Corporation entered into a U.S.–Canadian currency swap with a notional amount of \$5.2 million and a maturity date of September 7, 2010. If the instrument is held to maturity, the Corporation will pay fixed-fee swap costs of \$0.1 million.

19. COMPARATIVE FIGURES

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

CORPORATE INFORMATION

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FISCAL YEAR END

July 31st

TRADING SYMBOL

CNJ (Toronto Stock Exchange)

52-WEEK TRADING RANGE

\$3.84–\$6.41 (at January 31, 2010)

SHARE REGISTRAR AND TRANSFER AGENT

Computershare Investor Services Inc.
100 University Avenue, 9th Floor
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, by telephone at (416) 675-8280 or by mail to the Toronto address above.



"Accretropin", "Cangene", "HepaGam B", "ImmunoGam", "Leucotropin", "VariZIG", "WinRho", and "WinRho SDF" are trademarks belonging to Cangene Corporation. The term "WinRho" may be used in this document to refer to any of the WinRho family of products. "Ferriprox" is a trademark belonging to the Apotex Group. Unless stated otherwise, dollar amounts are in Canadian dollars.

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Approved Drugs

Accretropin[™] [somatropin (rDNA origin)] Injection; recombinant human growth hormone

HepaGam B[®] [Hepatitis B Immune Globulin (Human) Injection]; contains antibodies specific for hepatitis B virus

VariZIG[™] [Varicella Zoster Immune Globulin (Human)]; contains antibodies specific for chickenpox virus

Vaccinia Immune Globulin Intravenous (Human); [VIGIV]; ("VIG"); contains antibodies specific for the virus used to make smallpox vaccine

WinRho[®] SDF [Rh_o (D) Immune Globulin (Human) for Injection]; contains antibodies specific for a certain type of red blood cell