UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of report (Date of earliest event reported): **January 22, 2014**

Emergent BioSolutions Inc.
(Exact Name of Registrant as Specified in Charter)

Delaware	**001-33137**	**14-1902018**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

2273 Research Boulevard, Suite 400, Rockville, Maryland	**20850**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: **(301) 795-1800**

Not applicable
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01 Other Events.

On January 22, 2014, Emergent BioSolutions Inc. (the "Company") issued a press release announcing its intention to offer $200 million aggregate principal amount of convertible senior notes due 2021, subject to market conditions and other factors, in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Offering"). The Company also intends to grant the initial purchasers of the notes an option to purchase up to an additional $30 million aggregate principal amount of convertible senior notes. A copy of the Company's press release is filed herewith as Exhibit 99.5 and is incorporated herein by reference.

As previously reported, on December 11, 2013, the Company entered into an arrangement agreement (the "Arrangement Agreement") with Cangene Corporation, a corporation amalgamated under the laws of Ontario ("Cangene"), pursuant to which a wholly-owned subsidiary of the Company will acquire all of the outstanding common shares of Cangene (the "Arrangement") for $3.24 per share in cash (on a fully diluted basis), which represents a total purchase price of $222 million. Completion of the Arrangement is subject to various customary closing conditions, including, among others, (1) approval of the Arrangement by holders of at least 66 2/3% of the votes cast by Cangene shareholders at a special meeting, (2) expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and (3) issuance by the Ontario Superior Court of Justice of a final order approving the Arrangement.

This Current Report on Form 8-K is being filed to provide the audited historical consolidated financial statements of Cangene as of July 31, 2013 and 2012 and for each of the three years in the period ended July 31, 2013, the unaudited historical condensed consolidated financial statements of Cangene as of October 31, 2013 and for the three months ended October 31, 2013 and 2012 and the unaudited pro forma combined financial statements of the Company and Cangene reflecting the Arrangement and the Offering.

The information contained in this Current Report on Form 8-K, including the exhibits hereto, does not constitute an offer to sell or the solicitation of an offer to buy these securities, nor shall there be any sale of these securities in any state in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any state.

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements of Business Acquired.

The audited consolidated financial statements of Cangene Corporation, including the consolidated balance sheets as at July 31, 2013 and 2012 and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the years ended July 31, 2013 and 2012 are filed herewith as Exhibit 99.1.

The audited consolidated financial statements of Cangene Corporation, including the consolidated balance sheets as at July 31, 2012 and 2011 and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the years ended July 31, 2012 and 2011 are filed herewith as Exhibit 99.2.

The unaudited condensed consolidated interim financial statements of Cangene Corporation, including the condensed consolidated interim balance sheets as at October 31, 2013 and July 31, 2013 and the condensed consolidated interim statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the three months ended October 31, 2013 and 2012 are filed herewith as Exhibit 99.3.

(b) Pro Forma Financial Information.

The unaudited pro forma combined financial statements reflecting the Arrangement and the Offering are filed herewith as Exhibit 99.4.

(d) Exhibits.

Number	Exhibit
23.1	Consent of Ernst & Young LLP, Independent Auditors of Cangene Corporation.
99.1	Audited consolidated financial statements of Cangene Corporation, including the consolidated balance sheets as at July 31, 2013 and 2012 and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the years ended July 31, 2013 and 2012.
99.2	Audited consolidated financial statements of Cangene Corporation, including the consolidated balance sheets as at July 31, 2012 and 2011 and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the years ended July 31, 2012 and 2011.
99.3	Unaudited condensed consolidated interim financial statements of Cangene Corporation, including the condensed consolidated interim balance sheets as at October 31, 2013 and July 31, 2013 and the condensed consolidated interim statements of income (loss) and comprehensive income (loss), changes in equity and cash flows or the three months ended October 31, 2013 and 2012.
99.4	Unaudited pro forma combined financial statements as of and for the nine months ended September 30, 2013 and the year ended December 31, 2012.
99.5	Press release, dated January 22, 2014.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: January 22, 2014

EMERGENT BIOSOLUTIONS INC.

By: /s/ Robert G. Kramer

Robert G. Kramer

Executive Vice President and Chief Financial Officer

Exhibit 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-8 No. 333-139190, pertaining to the Employee Stock Option Plan, as amended and restated, the 2006 Stock Incentive Plan and individual director options agreements of Emergent BioSolutions Inc.; Form S-8 No. 333-161154, pertaining to the Employee Stock Option Plan, as amended and restated, and the 2006 Stock Incentive Plan of Emergent BioSolutions, Inc.; Form S-4 No. 333-169351 of Emergent BioSolutions Inc. and Subsidiaries; Form S-3 No. 333-181133 of Emergent BioSolutions Inc.; and Form S-8 No. 333-184699, pertaining to the 2012 Employee Stock Option Plan and the Second Amended and Restated Emergent BioSolutions Inc. 2006 Stock Incentive Plan), to the use of our report dated October 29, 2013 with respect to the 2013 consolidated financial statements of Cangene Corporation and to the use of our report dated October 24, 2012 with respect to the 2012 consolidated financial statements of Cangene Corporation, both included in the Form 8-K of Emergent BioSolutions Inc. dated January 22, 2014.

Winnipeg, Canada
January 22, 2014

/s/Ernst & Young LLP
Chartered Accountants

Exhibit 99.1

Independent Auditors' Report

To the Shareholders of Cangene Corporation

We have audited the accompanying consolidated financial statements of Cangene Corporation, which comprise the consolidated balance sheets as at July 31, 2013 and 2012 and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the years ended July 31, 2013 and 2012, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cangene Corporation as at July 31, 2013 and 2012 and its financial performance and its cash flows for the years ended July 31, 2013 and 2012 in accordance with International Financial Reporting Standards.

/s/ERNST & YOUNG LLP

Winnipeg, Canada	Ernst & Young LLP
October 29, 2013	Chartered Accountants

Cangene Corporation
Consolidated Balance Sheets

in thousands of U.S. dollars	*Related notes*		At July 31, 2013		At July 31, 2012 *(Adjusted; see note 7[c])*
ASSETS	*8*				
Current					
Cash		$	46,410	$	35,870
Accounts receivable	*19[c], 24[a]*		21,206		22,330
Inventories and contracts in progress	*5, 16, 23*		52,454		57,650
Taxes recoverable	*16*		2,090		4,355
Prepaid expenses and deposits			7,342		2,221
Total current assets			129,502		122,426
Property, plant and equipment, net	*6, 16*		61,301		61,467
Taxes recoverable	*16*		15,849		17,539
Deferred development cost	*2[r]*		178		—
Deferred tax	*17[b]*		12,374		14,636
Intangible assets, net	*7[a]*		59,353		15,900
Other assets	*7[b]*		7,961		—
Total assets		$	286,518	$	231,968
LIABILITIES AND EQUITY					
Current					
Accounts payable and accrued liabilities	*24[a]*	$	20,607	$	13,782
Derivative financial instruments	*19[d]*		—		79
Provisions for chargebacks	*9[b]*		4,530		3,625
Royalty provision	*9[a]*		605		761
Royalty liability	*7[c]*		604		320
Incentive plan liabilities	*11[b]*		1,436		841
Taxes payable			—		707
Current portion of deferred income			3,804		1,883
Total current liabilities			31,586		21,998
Deferred income			3,286		5,912
Royalty provision	*9[a]*		793		1,492
Royalty liability	*7[c]*		3,691		3,901
Purchase consideration payable	*7[b]*		45,638		—
Incentive plan liabilities	*11[b], 11[d]*		301		1,062
Deferred share unit liability	*12*		1,134		481
Deferred tax	*17[b]*		3,180		1,770
Total liabilities			89,609		36,616
Commitments	*22, 23*				
Equity					
Share capital	*10*		50,860		50,860
Contributed surplus	*11[c]*		638		439
Retained earnings			145,411		144,053
Total equity			196,909		195,352
Total liabilities and equity		$	286,518	$	231,968

See accompanying notes

Cangene Corporation

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

in thousands of U.S. dollars except share-related data	*Related notes*	Year ended July 31, 2013	Year ended July 31, 2012
Revenues			
Product sales		$ 43,598	$ 48,616
Product services		71,010	45,793
R&D services		12,708	16,620
		127,316	111,029
Cost of sales	*5, 14*		
Product sales		33,925	41,044
Product services		31,111	30,742
R&D services	*16*	9,994	13,581
		75,030	85,367
Gross profit		52,286	25,662
Expenses (income)	*14*		
Independent R&D	*16*	16,749	27,109
Selling, general and administrative		33,678	27,387
Impairment (reversal of impairment) of property, plant and equipment, and intangible assets	*6, 7[a]*	(4,116)	6,227
Loss (gain) on disposal of assets	*6*	(4,633)	61
Change in fair value of royalty provision	*9[a]*	(714)	(983)
		40,964	59,801
Income (loss) before the following:		11,322	(34,139)
Financing charges, net	*7[b], 7[c], 9[a], 13*	(2,324)	(724)
Foreign-exchange gain (loss)		(349)	2,075
Income (loss) before taxes		8,649	(32,788)
Tax expense (benefit)	*17[a]*		
Current		3,619	(5,132)
Deferred		3,672	631
		7,291	(4,501)
Net income (loss) and comprehensive income (loss) for the year		$ 1,358	$ (28,287)
Earnings (loss) per share	*15*		
Basic and diluted		$ 0.02	$ (0.42)

See accompanying notes

Cangene Corporation
Consolidated Statements of Changes in Equity

in thousands of U.S. dollars	*Related notes*	Share capital	Retained earnings	Contributed surplus	Total
Balance at August 1, 2011		$ 50,860	$ 172,340	$ —	$ 223,200
Net loss for the year ended July 31, 2012		—	(28,287)	—	(28,287)
Stock option expense	*11[c]*	—	—	439	439
Balance at July 31, 2012		50,860	144,053	439	195,352
Net income for the year ended July 31, 2013		—	1,358	—	1,358
Stock option expense	*11[c]*	—	—	199	199
Balance at July 31, 2013		$ 50,860	$ 145,411	$ 638	$ 196,909

See accompanying notes

Cangene Corporation
Consolidated Statements of Cash Flows

in thousands of U.S. dollars	*Related notes*	Year ended July 31, 2013	Year ended July 31, 2012
OPERATING ACTIVITIES			
Net income (loss) for the year		$ 1,358	$ (28,287)
Adjustments for:			
Depreciation of property, plant and equipment	*6*	7,000	8,560
Amortization of intangible assets	*7[a]*	4,268	2,630
Loss (gain) on disposal of assets	*6*	(4,633)	61
Taxes recoverable, long-term		1,690	(1,251)
Deferred income		(705)	(2,128)
Incentive plan liabilities	*11[b], 11[d]*	(166)	(941)
Royalty provision	*9[a]*	(740)	(864)
Royalty liability	*7[c]*	(691)	—
Deferred share unit liability	*12*	653	259
Change in fair value of royalty provision	*9[a]*	(714)	(983)
Non-cash financing charges	*7[b], 7[c], 9[a], 13*	2,408	784
Deferred tax expense	*17[b]*	3,672	631
Change in fair value of derivative financial instruments	*19[d]*	(79)	(1,696)
Impairment (reversal of impairment) of property, plant and equipment, and intangible assets	*6, 7[a]*	(4,116)	6,227
Stock option expense	*11[c]*	199	439
Net change in non-cash working capital balances related to operations	*18*	10,487	10,897
Cash provided by (used in) operating activities		19,891	(5,662)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment, net	*6, 16*	(3,069)	(1,604)
Acquisition of intangible assets	*7[a]*	(135)	(2,106)
Acquisition of business	*7[b]*	(8,701)	—
Increase in deferred development cost		(178)	—
Proceeds on disposal of assets	*6*	2,732	66
Cash used in investing activities		(9,351)	(3,644)
Net increase (decrease) in cash during the year		10,540	(9,306)
Cash, beginning of year		35,870	45,176
Cash, end of year		$ 46,410	$ 35,870
Interest paid[1]		$ 116	$ 15
Taxes received[2]		$ (3,677)	$ (12,342)

1. *Amounts paid and received for interest were reflected as operating cash flows in the consolidated statements of cash flows.*
2. *Amounts paid and received for income taxes were reflected as either operating or investing cash flows in the consolidated statements of cash flows, depending upon the nature of the underlying transaction.*

See accompanying notes

1. DESCRIPTION OF BUSINESS

Cangene Corporation (the "Corporation" or "Cangene") was incorporated by Articles of Incorporation under the *Business Corporations Act (Ontario)* on February 22, 1984. The Corporation is a public entity with common shares listed on the Toronto Stock Exchange, and it is domiciled in Canada. The address of its registered office is 150 Signet Drive, Toronto, Ontario, Canada, M9L 1T9.

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

Cangene is focused primarily on specialty therapeutics. It has particular expertise in two different types of products: plasma products and in particular hyperimmunes, which are concentrated specialty antibody preparations made from specialty 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.

These consolidated annual financial statements were authorized for issue by the Corporation's Board of Directors on October 29, 2013.

As at July 31, 2013, the Apotex Group ("Apotex") controlled, directly or indirectly, 40,872,787 common shares, representing 61% of the outstanding common shares of the Corporation. Apotex includes Apotex Holdings Inc., Apotex Inc., Apotex Research Inc. and Apotex Corp., as well as the charitable foundations, Sherman Foundation and Apotex Foundation. Apotex is controlled, directly or indirectly, by Bernard Sherman and the Bernard and Honey Sherman Family Trust, of which he is the trustee. Dr. Sherman is also the Chairman and a director of Apotex Inc., and he is a director of Sherman Foundation and Apotex Foundation.

2. STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES

[a] Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

[b] Basis of presentation

These consolidated financial statements have been prepared on a going-concern basis under the historical cost convention, except for certain financial instruments, liabilities and provisions that are valued at fair value. The Corporation's consolidated financial statements are presented in U.S. dollars, which is the functional currency of the Corporation, and all values have been rounded to the nearest thousand dollars except when otherwise indicated.

[c] Basis of consolidation

These financial statements consolidate the accounts of Cangene Corporation and its wholly owned subsidiaries: Cangene U.S. Incorporated, Cangene bioPharma, Inc. ("Cangene bioPharma"), Cangene Plasma Resources, Inc. ("Cangene Plasma Resources"), CNJ Holdings Inc. (formerly "Twistrand Holdings Inc."), 3579299 Manitoba Ltd. and Cangene Europe Limited.

Subsidiaries are entities controlled by the Corporation. Control exists when the Corporation has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. Subsidiaries are fully consolidated from the date on which control is obtained until the date that control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Intercompany transactions, balances and unrealized gains (losses) on transactions between subsidiaries are eliminated.

[d] Business combinations

Business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition is measured at the fair value of the assets acquired, equity instruments issued and liabilities assumed at the date of exchange. Acquisition costs incurred are expensed and included in administrative expenses. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognized in accordance with *International Accounting Standards* ("IAS") *39 – Financial Instruments: Recognition and Measurement*, in either income or loss, or as a charge to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured until it is finally settled within equity.

Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Corporation's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statements of income (loss) and comprehensive income (loss). After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to cash-generating units ("CGUs"). The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying value of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

[e] Cash

Cash comprises cash on hand and current balances with banks and similar institutions.

[f] Trade receivables and trade payables

Trade receivables are carried at the original invoice amount less any provisions for doubtful debts. Provisions are made where there is evidence of a risk of non-payment, taking into account aging, previous experience and general economic conditions. When a trade receivable is determined to be uncollectible it is written off: first against any provision available, and then to the consolidated statements of income (loss) and comprehensive income (loss). Subsequent recoveries of amounts previously provided for are credited to the consolidated statements of income (loss) and comprehensive income (loss). Long-term receivables are discounted where the effect is material.

Trade payables are held at amortized cost, which equates to nominal value. Long-term payables are discounted where the effect is material and accreted using the effective-interest-rate ("EIR") method.

[g] Inventories and contracts in progress

Inventories are stated at the lower of cost and net realizable value. Costs of purchased inventories are recorded using weighted-average costing. Costs for work-in-process and finished-goods inventories include materials, direct labour and an allocation of production-overhead costs. The Corporation determines normal capacity for each production facility and allocates fixed production-overhead costs on that basis. Any excess, unallocated fixed production-overhead costs are expensed as incurred. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

[h] Property, plant and equipment

Property, plant and equipment is recorded at cost, net of investment tax credits, impairment and depreciation. Design, construction, installation and interest costs related to assets under construction, including all costs for preparing a facility for its intended use, are recorded as construction in progress and are not subject to depreciation until the asset is available for use. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. The carrying amount of any significant replaced part is de-recognized; all other repairs and maintenance are charged to the consolidated statements of income (loss) and comprehensive income (loss) during the financial period in which they are incurred.

Depreciation is provided on a straight-line basis for each component of an asset that is significant in relation to the total cost over the following periods based on the estimated useful lives of the assets:

Buildings	25–60 years
Equipment	5–15 years
Furniture and fixtures	5–10 years
Computer systems	3–5 years
Leasehold improvements	Shorter of the term of lease or useful life

Land is not depreciated. Residual values and useful lives are reviewed at least at each financial year-end and are adjusted prospectively accordingly.

[i] Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to prepare for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowings of funds.

[j] Intangible assets

Intangible assets consist of patents, commercialization rights and computer software that is not an integral part of the related hardware. Internally generated intangible assets, excluding capitalized development costs, are not capitalized, and the expenditure is reflected in the consolidated statements of income (loss) and comprehensive income (loss) in the period in which the expenditure is incurred. Intangible assets are capitalized on the basis of the costs incurred to acquire and bring to use the specific asset, and they are subject to amortization on a straight-line basis over the remaining estimated useful life of the asset:

Patents		8–16 years
Computer software		5 years
U.S. commercialization rights for HepaGam B®	80 months	*(ending June 2016)*
U.S. commercialization rights for episil®	5 years	*(ending October 2017)*
Acquired IB1001 R&D		14–16 years
Contract rights		3 years

The Corporation reviews the estimated useful lives and carrying values of its intangible assets as part of its annual assessment for impairments. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of income (loss) and comprehensive income (loss) in the expense category that is consistent with the function of the intangible asset.

The Corporation currently has no intangible assets with indefinite useful lives.

Gains or losses from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the consolidated statements of income (loss) and comprehensive income (loss) when the asset is de-recognized.

[k] Impairment of non-financial assets

Goodwill is not subject to amortization, and is tested for impairment annually at July 31, or whenever events or changes in circumstances indicate that the carrying value of the asset may be impaired.

Non-financial assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may be impaired.

An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable CGUs. The Corporation bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of its CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Non-financial assets other than goodwill that were previously impaired are reviewed for possible reversal of the impairment at each reporting date. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. Where an impairment loss is subsequently reversed, the carrying amount of the asset other than goodwill is increased to the revised estimate of its recoverable amount, but the increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statements of income (loss) and comprehensive income (loss).

[l] Provisions

Provisions for restructuring costs and legal claims are recognized when the Corporation has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

For the recognition of a restructuring provision, the Corporation needs to follow a detailed formal restructuring plan for the business or the part of the business concerned, including the location and number of employees affected, a detailed estimate of the associated costs and an appropriate timeline. The employees affected should have a valid expectation that the restructuring is being carried out or the implementation has been initiated already. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. An increase in the provision because of the passage of time is recognized as a charge to the consolidated statements of income (loss) and comprehensive income (loss) as interest expense.

The Corporation recorded a royalty provision when it acquired the U.S. commercialization rights for HepaGam B®. As per the agreement, the Corporation will pay royalties on net U.S. HepaGam B® sales occurring through June 2016. The present value of this estimated future royalty stream was recorded as a provision at the time of acquisition. The royalty provision is remeasured to fair value at each reporting period and changes in fair value are recorded in the consolidated statements of income (loss) and comprehensive income (loss).

The Corporation recorded a purchase consideration payable when it acquired the business operations of Ipsen Pharma S.A.S and Inspiration Biopharmaceuticals, Inc., consisting of three product candidates for the treatment of hemophilia. The present value of the purchase consideration payable, which is contingent upon the achievement of certain sales milestones as well as royalties that commence when specified sales levels are achieved, was recorded as a provision at the time of acquisition. The purchase consideration payable is remeasured to fair value at each reporting period, and changes in fair value are recorded in the consolidated statements of income (loss) and comprehensive income (loss).

[m] Borrowings

All borrowings are initially recorded at the amount of proceeds received net of transaction costs. Borrowings are subsequently carried at amortized cost, with the difference between the proceeds net of transaction costs and the amount due on redemption being recognized as a charge to the consolidated statements of income (loss) and comprehensive income (loss) as an interest expense over the period of the relevant borrowing.

[n] Taxes

The tax expense (benefit) for a period comprises current and deferred tax. Tax expense (benefit) is recognized in the consolidated statements of income (loss) and comprehensive income (loss) except to the extent that it relates to items recognized directly in equity. In that case, the tax expense (benefit) is recognized directly in equity.

Deferred tax is recognized using the liability method on temporary differences arising between the tax bases of assets and liabilities, and their carrying amounts in the consolidated financial statements. Deferred tax and current tax are determined using tax rates and tax laws that have been enacted or substantively enacted at the consolidated balance sheet dates. Deferred tax assets or liabilities are measured using rates that are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Corporation and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions for uncertain tax positions and possible consequences of audits and differing interpretations by the tax authorities. These provisions are based upon the likelihood and then best estimates of any amount that could be required to be paid.

Revenues, expenses and assets are recognized net of the amount of sales tax, except where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority. In this case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable. Receivables and payables are stated with the amount of sales tax included. The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated balance sheet.

[o] Foreign currency translation

The functional currency of each entity within the Corporation is determined based on the currency of the primary economic environment in which that entity operates. Transactions in currencies other than the entity's functional currency are recognized at the exchange rates on the date of the transaction. Monetary assets and liabilities denominated in such currencies are translated at exchange rates at the consolidated balance sheet dates. Non-monetary items are measured in terms of historical cost in the foreign currency and are translated using the exchange rate as at the date of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value is determined. Exchange gains and losses arising on translation are included in income (loss) in the period incurred.

[p] Financial instruments

FINANCIAL ASSETS

The Corporation classifies its financial assets in the following categories: held for trading, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Financial assets are accounted for on the settlement date. Based on financial statement classification, gains and losses on financial instruments are recognized in net income (loss) or other comprehensive income (loss). The Corporation has made the following classifications:

- cash is classified as loans and receivables, which are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the EIR method;
- accounts receivable are classified as loans and receivables, which are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the EIR method;
- derivative financial instruments, including forward-foreign-exchange contracts, interest rate swaps, currency swaps and forward-foreign-exchange option collars, are classified as held for trading and measured at fair value. Gains and losses resulting from periodic revaluation are recorded in net income.

De-recognition of financial assets

A financial asset is de-recognized in the following circumstances:

- the rights to receive cash flows from the asset have expired; or
- the Corporation has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either

(a) the Corporation has transferred substantially all the risks and rewards of the asset; or

(b) the Corporation has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Corporation has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and it has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Corporation's continuing involvement in the asset. In that case, the Corporation also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Corporation has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying value of the asset or the maximum amount of consideration that the Corporation could be required to repay.

Impairment of financial assets

The Corporation assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event"), and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, such as their default or delinquency in interest or principal payments or the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Corporation first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Corporation determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the consolidated statements of income (loss) and comprehensive income (loss). Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery, and all collateral has been realized or has been transferred to the Corporation. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a writeoff is later recovered, the recovery is credited to finance costs in the consolidated statements of income (loss) and comprehensive income (loss).

FINANCIAL LIABILITIES

Initial recognition and measurement of financial liabilities

Financial liabilities within the scope of *IAS 39* are classified as financial liabilities at fair value through profit or loss, or as other financial liabilities, as appropriate. The Corporation determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value (in the case of loans and borrowings plus directly attributable transaction costs).

The Corporation's financial liabilities include trade and other payables, bank overdrafts, and derivative financial instruments.

Subsequent measurement of financial liabilities

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments. Gains or losses on liabilities held for trading are recognized in the consolidated statements of income (loss) and comprehensive income (loss). The Corporation has not designated any financial liabilities upon initial recognition at fair value through profit or loss.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the consolidated statements of income (loss) and comprehensive income (loss) when the liabilities are de-recognized as well as through the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition, and any fees or costs that are an integral part of the EIR. The EIR amortization is included in interest costs in the consolidated statements of income (loss) and comprehensive income (loss).

De-recognition

A financial liability is de-recognized when the obligation under the liability is discharged or cancelled, or it expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying value is recognized in the consolidated statements of income (loss) and comprehensive income (loss).

[q] Revenue recognition

The Corporation recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Corporation and specific criteria have been met for the Corporation's activities as noted in the following sections. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

PRODUCT SALES

The Corporation markets and distributes approved commercial products through distribution partners or through its own sales force. The Corporation recognizes revenue from sales of these products—net of trade discounts, chargebacks, rebates and other allowances—upon shipment by either the distribution partners or the Corporation from their warehouses to wholesalers or customers, as applicable.

The Corporation estimates allowances for deductions from revenue using a combination of information received from third parties including market data, inventory reports from major wholesalers, historical information and analysis.

These estimates are subject to the inherent limitations of estimates that rely on third-party data, as certain third-party information may itself rely on estimates and reflect other limitations. Provisions for estimated rebates and other allowances, such as discounts and promotional and other credits, are estimated based on historical payment experience, historical relationship to revenues, estimated customer inventory levels and contract terms, and actual discounts offered. Management believes that such provisions are determinable because of the limited number of assumptions involved and the consistency of historical experience.

Recognition of revenue on product sales in the U.S. involves a provision for chargebacks. The provision for chargebacks is a significant and complex estimate that is calculated by combining current and historical sales data for each product. The Corporation markets and sells its products through commercial wholesalers (direct customers) who purchase the products at a price referred to as the wholesale acquisition cost ("WAC"). Additionally, the Corporation enters into agreements with indirect customers for a contracted price that is less than the WAC. The indirect customers, such as group-purchasing organizations, physician practice-management groups and hospitals, purchase the Corporation's products from the wholesalers. Under the agreements with the wholesalers, the Corporation guarantees that it will credit them for the difference between the WAC and the indirect customers' contracted price. This credit is referred to as a chargeback. Wholesalers provide detailed information regarding indirect customer purchases as part of the justification for their credit request. Once received by the Corporation, these requests are standardized and tracked within a software system that adjudicates and reconciles all indirect claims coming from wholesalers. The database with these claims is used for historical trending and estimating future indirect sales, which are used to estimate accruals. Adjustments to these provisions are made periodically to reflect new facts and circumstances that may indicate that historical experience may not be indicative of current and/or future results. The Corporation makes subjective judgments primarily based on its evaluation of current market conditions and trade inventory levels related to the products. This evaluation may result in an increase or decrease in the experience rate that is applied to current and future sales, or as an adjustment to past sales, or both.

CONTRACT SERVICES

Revenue earned under contract manufacturing agreements is for commercial manufacturing and development services. Revenue is recognized when goods are shipped or services are provided in accordance with the terms of the related agreements. Specifically, revenues from services provided are recognized by reference to the stage of completion. Stage of completion is measured by reference to the total costs incurred to date as a percentage of total estimated costs for the respective services obligated by the respective contract. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered.

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

The Corporation has certain collaborative agreements with third parties that may include multiple elements. A delivered item is accounted for as a separate unit of accounting when the delivered item(s) has stand-alone value to the customer. Revenues associated with multiple-element arrangements are attributed to the various elements based on their relative fair value.

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

INTEREST INCOME

For all financial instruments measured at amortized cost, interest income is recorded using the EIR method, which is the rate that exactly discounts the estimated future cash payments or receipts, through the expected life of the financial instrument or a shorter period where appropriate, to the net carrying amount of the financial asset. Interest income is included in financing charges, net in the consolidated statements of income (loss) and comprehensive income (loss).

[r] Research and development expenses

Research expenses, net of related tax credits, are charged to the consolidated statements of income (loss) and comprehensive income (loss) in the period they are incurred. Development costs are charged to operations in the period of the expenditure unless they satisfy the condition for recognition of an intangible asset and it is probable that future economic benefits will flow to the Corporation and the cost of the intangible asset can be reliably measured. Where regulatory and other uncertainties are such that those criteria are not met, the expenditure is recognized in gross profit; this is almost invariably the case prior to approval of a drug by relevant regulatory authorities. Where recognition criteria are met however, intangible assets are capitalized and amortized on a straight-line basis over their useful economic lives. As at July 31, 2013, $0.2 million of internally developed intangible assets have met the recognition criteria and were included in the deferred development cost account in the consolidated balance sheet [July 31, 2012 – $Nil].

[s] Government assistance

Government assistance in connection with research activities is recognized as a reduction to the related expense in the period incurred. Government assistance in connection with capital expenditures is treated as a reduction of the cost of the applicable asset. Federal and provincial investment tax credits are accounted for as a reduction of the cost of the related asset or expenditure in the year in which the credits are earned and when there is reasonable assurance that the credits can be used to recover taxes.

[t] Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at its inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets, or whether the arrangement conveys a right to use the asset, even if that right is not explicitly specified in the arrangement.

Leasing agreements that transfer substantially all the benefits and risks of ownership of an asset to the Corporation are treated as finance leases: as if the asset had been purchased outright. The assets are included in property, plant and equipment or in computer software, and the capital elements of the leasing commitments are shown as obligations under finance leases. The capitalization happens at the commencement date of the lease contract, at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Assets held under finance leases are depreciated on a basis consistent with similar owned assets, or the lease term if shorter and there is no reasonable certainty that the Corporation will obtain ownership by the end of the lease term. Lease payments are apportioned between interest charges and reduction of the lease's liability so as to achieve a constant rate of interest on the remaining balance of the liability. The interest element of the lease rental is included in the consolidated statements of income (loss) and comprehensive income (loss) within interest expense.

All other leases are operating leases and the rental costs are charged to the consolidated statements of income (loss) and comprehensive income (loss) on a straight-line basis over the lease term.

[u] Earnings (loss) per share

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

[v] Stock-based compensation plans

The Corporation records compensation expense for the cash-settled phantom-stock incentive plan, restricted share unit plan, stock option plan and deferred share unit plan as described in *notes 11[a], 11[b], 11[c] and 12.*

EQUITY-SETTLED TRANSACTIONS

The cost of the equity-settled stock option plan is recognized, together with a corresponding increase in contributed surplus, in equity over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has elapsed and the Corporation's best estimate of the number of equity instruments that will ultimately vest. The expense or recovery for a period represents the movement in cumulative expense recognized as at the beginning and end of that period, and is recognized in employee benefits expense in the consolidated statements of income (loss) and comprehensive income (loss).

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the equity-based payment transaction or that is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award and is designated as a replacement award on the date it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

CASH-SETTLED TRANSACTIONS

The cost of transactions in the phantom-stock incentive plan are measured initially at fair value at the grant date using the Black-Scholes Model. This fair value is expensed over the period until the vesting date, with recognition of a corresponding liability. The liability is re-measured to fair value at each reporting date, up to and including the settlement date, with changes in fair value recognized in employee benefits expense.

The Corporation records compensation expense for the restricted share unit plan as described in *note 11[b]*. The Corporation records a related liability in any accounting period when the 90-day weighted-average market price of the Corporation's common shares as at the end of the accounting period is greater than zero. This liability can increase or decrease from one period to the next, resulting in compensation expense or recovery in any given period. Compensation expense and related liabilities are calculated using the graded-vesting approach and are adjusted in each subsequent accounting period to reflect the current 90-day weighted-average market price of the Corporation's common shares at the end of the applicable accounting period.

The Corporation records Board compensation expense for the deferred share unit plan as described in *note 12*. The Corporation records a related liability in any accounting period when the 90-day weighted-average market price of the Corporation's common shares as at the end of the accounting period is greater than zero. This liability could increase or decrease from one period to the next resulting in expense or recovery in any given period. Compensation expense and related liabilities are calculated using the graded-vesting approach and are adjusted in each subsequent accounting period to reflect the current 90-day weighted-average market price of the Corporation's common shares at the end of the applicable accounting period.

[w] Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker for the Corporation. This chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. The chief operating decision-maker for the Corporation has been identified as its executive management team.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions about future events that may affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses and disclosure of contingent liabilities during the reporting periods presented. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed in the following sections. The Corporation bases its assumptions and estimates on parameters available when the consolidated financial statements are prepared. Existing circumstances and assumptions about future developments, however, may change as a result of market conditions or circumstances beyond the control of the Corporation. Such changes are reflected in the assumptions when they occur.

[a] Taxes

The Corporation recognizes deferred tax assets, related tax-loss carryforwards and other deductible temporary differences where it is probable that sufficient future taxable income can be generated in order to fully utilize such losses and deductions. Significant estimates and assumptions regarding future earnings, and the ability to implement certain tax planning opportunities are required to assess the likelihood of utilizing such losses and deductions. These estimates and assumptions are subject to uncertainty and if changed could materially affect the assessment of the ability to fully realize the benefit of the deferred tax assets.

The Corporation is subject to income taxes in numerous tax jurisdictions. Significant judgment is required in determining the provision for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Corporation recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes could be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax assets and liabilities in the period in which such determination is made.

[b] Impairment of goodwill and non-financial assets

An impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell or its value in use. The fair-value-less-costs-to-sell calculation is based on available data from binding sales transactions in arm's-length transactions of similar assets or observable market prices, less the incremental costs for disposing of the asset. The value-in-use calculation is based on a discounted-cash-flow model. These calculations require the use of estimates and forecasts of future cash flows. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the performance of the CGU being tested. Qualitative factors, including market presence and trends, strength of customer relationships, strength of local management, strength of debt and capital markets, and degree of variability in cash flows, as well as other factors, are considered when making assumptions with regard to future cash flows and the appropriate discount rate. The recoverable amount is most sensitive to the discount rate used for the discounted-cash-flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. A change in any of the significant assumptions or estimates used to evaluate goodwill and other non-financial assets could result in a material change to the results of operations. The Corporation tests whether goodwill has suffered any impairment at least annually in accordance with the accounting policy stated in *note 2[k]*. Other non-financial assets are tested for impairment when indicators of impairment arise.

[c] Revenue recognition

Revenue from biopharmaceutical product sales, net of trade discounts and allowances, is recognized upon shipment or in accordance with the terms of the relevant agreements, when all significant contractual obligations have been satisfied and collection is reasonably assured. The Corporation recognizes its share of the revenue from sales of the products in accordance with the accounting policy stated in *note 2[q]*.

The Corporation estimates allowances for revenue-reducing obligations such as trade discounts, chargebacks, rebates and other allowances, using a combination of historical trends, contractual obligations and information received from third parties. The accuracy of these estimates is dependent upon the inherent limitations of extrapolating estimates from historical trends and upon the quality of the third-party information.

During the year ended July 31, 2013, the Corporation revised its estimate of administrative fees accrual to reflect an expectation of lower monthly administrative fees charged by a group-purchasing organization. The Corporation also revised its estimate of Medicaid accruals during the year ended July 31, 2013, to reflect the expectation of higher claims resulting from the period from August 1, 2012, to July 31, 2013.

[d] Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated balance sheet cannot be derived from active markets, they are determined using valuation techniques including discounted-cash-flow models. The inputs into these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

[e] Share-based payments

The Corporation measures the cost of equity- and cash-settled transactions with employees and directors by reference to the fair value of equity instruments at the date at which they are granted. Cash-settled, share-based payments are remeasured at fair value at every reporting date. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the instrument, volatility and any dividend yield. Refer to *notes 11[a], 11[b], 11[c]* and *12* for further details.

[f] Royalty provision

The Corporation's royalty provision is remeasured to fair value at each reporting period and the changes in fair value are recorded in the consolidated statements of income (loss) and comprehensive income (loss). This calculation requires the use of estimates and forecasts of future U.S. net sales of HepaGam B®. The cash-flow estimates are derived from the forecast for the period to June 2016. Qualitative factors, including market presence and trends, strength of customer relationships and degree of variability in cash flows, as well as other factors, are considered when making assumptions with regard to future cash flows and the appropriate discount rate. The provision is affected by the discount rate used

for the discounted-cash-flow model as well as the expected future net sales and the growth rate used for extrapolation purposes. A change in any of the significant assumptions or estimates used could result in a material change to the provision. Refer to *note 9[a]* for further details.

[g] Purchase consideration payable

The purchase consideration payable is measured at fair value on Level 3 inputs (*note 19[a]*). The purchase consideration payable is not based on observable inputs and is measured using a discounted cash flow analysis of expected payments in future periods. The significant estimates used in the fair value calculation are as follows:

(a) the timing and amounts of the milestone and royalty payments are based on the projected net sales for IB1001 during the life of the patent acquired. The net sales forecast was based on a probability weighted average of the potential share achievable in the market for recombinant hemophilia B therapeutics and observed sales ramp-ups for new products.

(b) the probability adjusted cash flows are discounted at a rate of 6% for cash flows related to North America and 6.5% for cash flows related to Europe and Japan, which are management's best estimates of the Corporation's cost of capital.

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Corporation's consolidated financial statements are listed below. This listing is of Standards and interpretations issued that the Corporation reasonably expects to be applicable at a future date. The Corporation intends to adopt these Standards when they become effective.

IFRS 7 (amendment) – Financial Instruments: Disclosures

Amendments to *IFRS 7* introduce enhanced disclosure related to any financial instruments that are offset in accordance with *IAS 32 – Financial Instruments: Presentation*. The amendments are mandatory for annual periods beginning on or after January 1, 2013, but earlier application is permitted. The Corporation is currently assessing the impact of the amendments on its consolidated financial statements.

IFRS 9 – Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of the existing standard for financial instruments (*IAS 39*) and applies to classification and measurement of financial assets and liabilities as defined in *IAS 39*. The Standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, the IASB will address classification and measurement of hedge accounting. The adoption of the first phase of *IFRS 9* may have an effect on the classification and measurement of the Corporation's financial assets and liabilities. The Corporation will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10, IFRS 11 and IFRS 12 (amendments) – Consolidated Financial Statements, Joint Arrangements and Disclosures of Interest in Other Entities – Transition Guidance

These amendments clarify the transition guidance in *IFRS 10* and provide additional transitional relief for all three Standards by limiting the requirement to provide adjusted comparative information to the preceding comparative period only. Along with the adoption of *IFRS 10, 11* and *12*, these amendments are effective for annual periods beginning on or after January 1, 2013. The Corporation is currently assessing the impact of the amendments on its consolidated financial statements.

IFRS 13 – Fair Value Measurement

IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. While many of the concepts in *IFRS 13* are consistent with current practice, certain principles, such as the prohibition on blockage discounts for all fair value measurements, could have a significant effect. The disclosure requirements are substantial and could present additional challenges. *IFRS 13* is effective for annual periods commencing on or after January 1, 2013, and will be applied prospectively. The Corporation is currently evaluating the implications of this new Standard.

5. INVENTORIES AND CONTRACTS IN PROGRESS

in thousands of U.S. dollars	**At July 31, 2013**	At July 31, 2012
Raw materials	**$ 9,280**	$ 16,155
Work in process – product costs	**1,160**	2,026
Finished goods	**13,839**	10,450
	24,279	28,631
Long-term contracts:		
Raw materials	**1,214**	278
Work in process – product costs	**21,971**	23,823
Work in process – manufacturing process development costs	**2,782**	2,602
Work in process – development costs	**—**	361
Finished goods	**2,208**	1,955
	28,175	29,019
	$ 52,454	$ 57,650

As at July 31, 2013, the Corporation has included in its inventories and contracts in progress $28.2 million [July 31, 2012 – $29.0 million] of costs under long-term contracts with the U.S. government (*note 23*).

As at July 31, 2013, inventory of $48.6 million [July 31, 2012 – $50.7 million] is recorded at cost and $3.9 million [July 31, 2012 – $6.9 million] is recorded at net realizable value.

Cost of sales for product sales and product services for the years ended July 31, 2013 and 2012, are composed of the following amounts:

in thousands of U.S. dollars	**Year ended July 31, 2013**	Year ended July 31, 2012
Cost of sales and contracts in progress	**$ 61,558**	$ 61,656
Writedowns of finished goods	**2,064**	2,916
Writedowns of obsolete materials and supplies	**2,430**	7,590
Reversals of writedowns	**(1,016)**	(376)
	$ 65,036	$ 71,786

6. PROPERTY, PLANT AND EQUIPMENT

At July 31, 2013, equipment and computer systems in the amount of $2.1 million [July 31, 2012 – $0.3 million] are currently under development and not being depreciated.

Depreciation expense recognized in cost of sales is described in *note 14*.

in thousands of U.S. dollars	Land	Buildings	Equipment	Furniture and fixtures	Computer systems	Construction in progress	Total
Cost							
Balance as at August 1, 2011	$ 475	$ 75,566	$ 68,063	$2,623$	3,808	$ 923	$ 151,458
Additions	—	283	636	83	422	180	1,604
Disposals	—	—	(207)	(2)	(33)	(24)	(266)
Transfers	—	596	389	—	55	(1,074)	(34)
Balance as at July 31, 2012	475	76,445	68,881	2,704	4,252	5	152,762
Additions	**—**	**369**	**2,471**	**2**	**227**	**—**	**3,069**
Disposals	**—**	**—**	**(847)**	**—**	**—**	**—**	**(847)**
Transfers	**—**	**—**	**5**	**—**	**(157)**	**(5)**	**(157)**
Balance as at July 31, 2013	**475**	**76,814**	**70,510**	**2,706**	**4,322**	**—**	**154,827**
Accumulated depreciation and impairment losses							
Balance as at August 1, 2011	(143)	(24,471)	(47,690)	(1,876)	(3,103)	—	(77,283)
Disposals	—	—	106	—	33	—	139
Depreciation charge	—	(2,203)	(5,706)	(171)	(480)	—	(8,560)
Impairment loss	—	(3,530)	(2,061)	—	—	—	(5,591)
Balance as at July 31, 2012	(143)	(30,204)	(55,351)	(2,047)	(3,550)	—	(91,295)
Disposals	**—**	**—**	**653**	**—**	**—**	**—**	**653**
Depreciation charge	**—**	**(2,281)**	**(4,225)**	**(165)**	**(329)**	**—**	**(7,000)**
Reversal of impairment	**143**	**2,866**	**1,086**	**18**	**3**	**—**	**4,116**
Balance as at July 31, 2013	**—**	**(29,619)**	**(57,837)**	**(2,194)**	**(3,876)**	**—**	**(93,526)**
Net book value as at July 31, 2012	$ 332	$ 46,241	$ 13,530	657	702	$ 5	$ 61,467
Net book value as at July 31, 2013	**$ 475**	**$ 47,195**	**$ 12,673**	**$512 $**	**446**	**$ —**	**$ 61,301**

Sale of U.S.-based Plasma Centres

On October 22, 2012, the Corporation closed a transaction to sell its three U.S.-based plasma centres to Biomat USA, Inc. ("Biomat USA"), a wholly owned subsidiary of Grifols. The assets sold included leasehold improvements, equipment, licences and donor lists. As a component of the sale, the Corporation entered into a supply agreement with Biomat USA to purchase minimum quantities of plasma. The Corporation received cash consideration of $2.5 million on closing and recorded an intangible asset related to the supply agreement of $2.1 million representing the present value of amounts expected to be received from Biomat USA subject to meeting obligations under the supply agreement. The Corporation recorded a total gain on disposal of assets of $4.6 million in the consolidated statements of income (loss) and comprehensive income (loss) for the year ended July 31, 2013, as a result of the transaction. The gain was recorded in the biopharmaceutical operations segment. Prior to the sale transaction, the revenue for the three U.S.-based plasma centres (from August 1, 2012, to the close of the transaction on October 22, 2012) was $2.9 million.

Impairment loss and subsequent reversal in relation to the Cangene bioPharma CGU

At its IFRS transition date (the "Transition Date") of August 1, 2009, the Corporation identified that indicators of impairment existed for the Cangene bioPharma CGU, which was included in the Corporation's contract services operating segment. Accordingly, management estimated the recoverable amount of the Cangene bioPharma CGU based on a fair-value-less-cost-to-sell basis. As a result of the analysis, the Corporation recorded an impairment charge of $7.1 million in the carrying value of property, plant and equipment as at the Transition Date.

At July 31, 2013, following improved expectations of future operating results based on current year results of operations of the Cangene bioPharma CGU, the Corporation reassessed the recoverable amount of property, plant and equipment using the value-in-use basis. This calculation used pre-tax cash flow projections based on five-year financial budgets approved by management. Cash flows beyond the five-year period were extrapolated using an estimated growth rate of 2.5%. A pre-tax discount rate of 38% reflects specific risks relating to the operating segment. As a result of the analysis, the Corporation recognized a $4.1-million reversal of impairment of property, plant and equipment which represents the unamortized portion of the initially recognized impairment to increase the value of the property, plant and equipment to the carrying amount that would have been determined had no impairment loss been recognized at the Transition Date. The reversal of impairment of property, plant and equipment of the Cangene bioPharma CGU is included in the Corporation's contract services operating segment.

The Corporation has recorded no impairment of property, plant and equipment during the year ended July 31, 2013.

7. INTANGIBLE ASSETS AND OTHER ASSETS

Amortization expense recognized in cost of sales is described in *note 14*.

[a] Intangible assets

in thousands of U.S. dollars	IB1001	episil®	HepaGam B®	Goodwill	Contract rights	Software	Patents	Total
Cost								
Balance as at August 1, 2011	$ —	$ —	$ 14,000	$ —	$ —	$ 7,639	$ 864	$ 22,503
Additions	—	6,721	—	—	—	106	—	6,827
Transfers	—	—	—	—	—	34	—	34
Balance as at July 31, 2012	—	6,721	14,000	—	—	7,779	864	29,364
Additions	**45,200**	**—**	**—**	**134**	**2,095**	**135**	**—**	**47,564**
Transfers	**—**	**—**	**—**	**—**	**—**	**157**	**—**	**157**
Balance as at July 31, 2013	**45,200**	**6,721**	**14,000**	**134**	**2,095**	**8,071**	**864**	**77,085**
Accumulated amortization and impairment losses								
Balance as at August 1, 2011	—	—	(3,675)	—	—	(6,332)	(191)	(10,198)
Amortization charge	—	(17)	(2,100)	—	—	(476)	(37)	(2,630)
Impairment loss	—	—	—	—	—	—	(636)	(636)
Balance as at July 31, 2012	—	(17)	(5,775)	—	—	(6,808)	(864)	(13,464)
Amortization charge	**—**	**(1,103)**	**(2,100)**	**—**	**(584)**	**(481)**	**—**	**(4,268)**
Balance as at July 31, 2013	**—**	**(1,120)**	**(7,875)**	**—**	**(584)**	**(7,289)**	**(864)**	**(17,732)**
Net book value as at July 31, 2012	$ —	$ 6,704	$ 8,225	$ —	$ —	$ 971	$ —	$ 15,900
Net book value as at July 31, 2013	**$ 45,200**	**$ 5,601**	**$ 6,125**	**$ 134**	**$ 1,511**	**$ 782**	**$ —**	**$ 59,353**

[b] Acquisition of IB1001

On February 15, 2013, the Corporation and its Cangene Europe Limited, CNJ Holdings Inc. and Cangene bioPharma subsidiaries entered into an asset purchase agreement with Ipsen Pharma S.A.S. and Inspiration Biopharmaceuticals, Inc. ("IBI") to acquire their business operations consisting of three product candidates for the treatment of hemophilia. This acquisition was made pursuant to IBI's bankruptcy proceedings, which were initiated in October 2012. Cangene acquired the assets and liabilities of IBI (with the exception of certain contracts that relate to a Factor VIII product that is owned by Ipsen, a significant shareholder and creditor of IBI). The assets acquired by the Corporation consist of a late-stage recombinant Factor IX candidate for treatment of hemophilia B (IB1001), and preclinical recombinant Factor VIIa and Factor VIII candidates. IB1001 represents the majority of the acquisition's value.

The transaction is accounted for as a business combination under the acquisition method of accounting. The fair values as at February 15, 2013, of the net assets acquired are as follows:

in thousands of U.S. dollars	Fair value as at February 15, 2013
Prepaid deposit[1]	$ 7,767
Intangible assets[2]	45,334
Liabilities assumed[3]	(5,451)
Net assets and liabilities	$ 47,650
Consideration paid:	
Cash[3]	$ 3,250
Purchase consideration payable	44,400
Total consideration	$ 47,650

1. Represents the present value of a $10.0-million deposit with a contract manufacturer, which is due to be refunded in fiscal 2017 as long as the Corporation meets the terms of a supply agreement with the manufacturer.

2. Intangible assets includes goodwill of $0.1 million.

3. Liabilities assumed and cash consideration paid total $8.7 million.

The Corporation recorded the intangible assets acquired based on the present value at the date of acquisition of the future cash flows that will be generated from the use of the intellectual property R&D discounted at a rate of 19.5%.

The total purchase consideration payable is contingent upon the achievement of certain sales milestones as well as royalties that commence when specified sales levels are achieved. The expected value of this contingent consideration was calculated based on the probability of achieving various market cases with differing assumptions for market-share capture and by further adjusting for the probability of success related to clinical trials and regulatory approval. The expected cash flows were then discounted using a cost of debt adjusted for counter-party credit risk. The resulting estimated fair values of the purchase considerations payable for the achievement of the sales milestones and the specified sales levels are $6.5 million and $37.9 million, respectively.

The prepaid deposit is being amortized monthly on the basis of the present value calculations. This accretion is being recorded as a reduction of financing charges in the consolidated statements of income (loss) and comprehensive income (loss). Total accretion for the year ended July 31, 2013, is $0.2 million [year ended July 31, 2012 – $Nil].

The purchase consideration payable is being amortized monthly on the basis of the present value calculations. Total accretion for the year ended July 31, 2013, is $1.2 million [year ended July 31, 2012 – $Nil] and is included in the financing charges in the consolidated statements of income (loss) and comprehensive income (loss).

The Corporation remeasures the purchase consideration liability at its fair value at each reporting period. The actual purchase consideration paid may vary materially from the fair value that has been determined because significant estimates and judgment were used in determining fair value. The assumptions used at the acquisition date and at July 31, 2013, have remained the same.

[c] United States commercialization rights for episil®

Pursuant to an agreement with Camurus AB, the Corporation acquired exclusive rights to commercialize a product called episil® in the United States (*note 22[b]*). As a result of the agreement, the Corporation must pay royalties on future net sales during a specified period, dependent on the dollar amount of net sales in each year. The Corporation has also agreed to certain minimum order quantities under the agreement. The purchase included an upfront payment of $2.0 million and a milestone payment of $0.5 million paid in October 2012. At July 31, 2012, the Corporation recorded a commercialization rights asset in the amount of $10.1 million for episil®. In addition, at July 31, 2012, the Corporation recorded a royalty liability of $7.6 million related to the net present value of royalties anticipated on the minimum order quantities specified in the agreement. During the year ended July 31, 2013, the Corporation discovered a calculation error related to the amount recorded for the commercialization rights asset and royalty liability at July 31, 2012. The Corporation has corrected the error and adjusted the balances of commercialization rights asset and royalty liability at July 31, 2012, by $3.4 million to $6.7 million and $4.2 million, respectively. The Corporation has concluded that the impact of the adjustment is not material to the consolidated financial statements. The royalty liability will be reduced as the royalties are paid on the minimum quantities, and increased for the value of accretion in each period. Total accretion for the year ended July 31, 2013, is $0.8 million [year ended July 31, 2012 – $Nil] and is included in the financing

charges in the consolidated statements of income (loss) and comprehensive income (loss). Royalties payable on net sales that are in excess of the specified minimum quantities will be recorded at the time of the sales. As at July 31, 2013, the purchase consideration liability was $4.3 million [July 31, 2012 – $4.2 million].

The total commercialization rights intangible asset for episil® is $6.7 million, which, less amortization of $1.1 million, results in a net book value of $5.6 million at July 31, 2013.

[d] United States commercialization rights for HepaGam B®

Cangene obtained the U.S. commercialization rights for HepaGam B® from Apotex on November 1, 2009. The Corporation's Board of Directors approved an agreement under which Cangene, through Cangene bioPharma, acquired the U.S. commercialization rights to HepaGam B®. As per the agreement, Apotex was paid $7.0 million in the first quarter of 2010 and receives royalties on net U.S. HepaGam B® sales occurring through June 2016. The effective date of this transfer of rights was November 1, 2009. Cangene's independent directors approved this new agreement after having determined that it was fair to Cangene and its shareholders. The $7.0 million was recorded in intangible assets along with the present value of the estimated future royalty stream on U.S. sales of HepaGam B® through June 2016 of $7.0 million. The total commercialization rights intangible asset is $14.0 million, which, less amortization of $7.9 million, results in a net book value of $6.1 million at July 31, 2013. As a result of the transaction, the Corporation has recorded a provision for royalties payable on net U.S. sales of HepaGam B® (*note 9[a]*).

The Corporation has recorded no impairment of intangible and other assets during the year ended July 31, 2013.

8. OPERATING LINE OF CREDIT

The Corporation has an operating line of credit from a Canadian chartered bank, which at July 31, 2013, is for C$5.0 million. During the year ended July 31, 2012, this credit line was for C$20.0 million. At July 31, 2012, the Corporation was not in compliance with one EBITDA-related debt covenant and consequently did not have access to the credit facility at that time. Effective August 1, 2012, the Corporation elected to reduce the value of the credit facility. Subsequent to August 1, 2012, the Corporation renegotiated the EBITDA-related covenant with the bank and again has access to the credit line. The line of credit is collateralized by a general security agreement in respect of all the Corporation's assets; as at July 31, 2013, C$Nil was utilized [July 31, 2012 – C$Nil]. Interest is payable on this line of credit at either LIBOR plus 1.75%, the prime lending rate plus 0.75% or the U.S.-dollar base rate plus 0.75%, depending on the duration of the borrowing and the currency borrowed. The agreement has no fixed expiry date, but is subject to periodic review by the bank.

9. PROVISIONS

[a] Royalty provision

On October 16, 2009, the Corporation's Board of Directors approved an agreement under which Cangene, through Cangene bioPharma, acquired the U.S. commercialization rights for HepaGam B® (see *note 24[a]*). As 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 $7.0-million present value of the estimated future royalty stream on U.S. sales of HepaGam B® through June 2016 was initially recorded as a royalty provision effective November 1, 2009. This provision is being amortized monthly on the basis of the present value calculations. Total accretion for the year ended July 31, 2013, is $0.6 million [year ended July 31, 2012 – $0.8 million] and is included in the financing charges in the consolidated statements of income (loss) and comprehensive income (loss). The Corporation recorded actual royalty payments for the year ended July 31, 2013, of $0.7 million [year ended July 31, 2012 – $0.9 million] as a reduction of the royalty liability. Amortization of the commercialization rights acquired is also recorded in selling, general and administrative expense (*note 7[d]*).

The Corporation is required to remeasure the royalty provision at each reporting period. At July 31, 2013, the Corporation has calculated the net present value of future royalty payments using a weighted-average cost of capital of 17% and projected net sales of HepaGam B® for the duration of the agreement. As a result of this remeasurement, the Corporation recorded a change in fair value of royalty provision of $0.7 million for the year ended July 31, 2013 [year ended July 31, 2012 – $1.0 million] in the consolidated statements of income (loss) and comprehensive income (loss).

As at July 31, 2013, the HepaGam B® royalty provision is $1.4 million [July 31, 2012 – $2.3 million]. As at July 31, 2013, the Corporation has recorded accounts payable of $0.1 million [July 31, 2012 – $0.2 million] representing the current royalty payable to Apotex.

[b] Provisions for chargebacks, administrative fees, rebates and other allowances

The Corporation estimates allowances for revenue-reducing obligations such as chargebacks, administrative fees, rebates and other allowances using a combination of historical trends, contractual obligations and information received from third parties. Administrative fees includes actual administrative fees along with additional rebates for a primary distributor. Government rebates includes Medicaid rebates, Medicare rebates and other government programs. Customer rebates includes rebate programs targeted directly to the final customer. Other allowances includes distribution fees, no-return fees, prompt payment discounts and centralized shipping fees.

in thousands of U.S. dollars	Chargebacks	Administrative fees	Government rebates	Customer rebates	Other allowances	Total
As at August 1, 2011	$ 2,143	$ 830	$ 301	$ —	$ 390	$ 3,664
Actual payments/credits issued	(8,504)	(1,297)	(126)	—	(1,818)	(11,745)
Change in estimate *[note 3[c]]*	—	—	(431)	—	—	(431)
Provisions/reversals charged	8,583	1,281	390	—	1,883	12,137
Balance as at July 31, 2012	2,222	814	134	—	455	3,625
Actual payments/credits issued	**(7,500)**	**(933)**	**(205)**	**(23)**	**(2,340)**	**(11,001)**
Change in estimate *[note 3[c]]*	**—**	**(267)**	**35**	**—**	**—**	**(232)**
Provisions/reversals charged	**8,362**	**1,117**	**229**	**80**	**2,350**	**12,138**
Balance as at July 31, 2013	**$ 3,084**	**$ 731**	**$ 193**	**$ 57**	**$ 465**	**$ 4,530**

10. SHARE CAPITAL

Authorized and issued

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

Issued share capital comprises common shares as follows:

in thousands of U.S. dollars except share data	Number of shares	Share capital
As at August 1, 2011	66,746,870	$ 50,860
As at July 31, 2012	66,746,870	50,860
As at July 31, 2013	**66,746,870**	**$ 50,860**

11. EMPLOYEE BENEFIT PLANS

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

The final grant of phantom-stock units under the PSIP matured with no pay-out during the quarter ended October 31, 2011.

Under the plan, the phantom-stock units matured three years and 90 days after the effective date of grant. The phantom-stock units were 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. Participants in the PSIP received cash awards equal to any increase in value of the phantom-stock units between the effective date of grant and the date of maturity.

Participation in the PSIP required mandatory participation in a share ownership plan, which stipulates that the participants must acquire a minimum investment in the Corporation's common shares by a predetermined future date.

The following table summarizes changes in the number of phantom-stock units outstanding during the years ended July 31, 2013 and 2012:

Phantom-stock units	**Year ended July 31, 2013**	Year ended July 31, 2012
Outstanding at beginning of year	**—**	1,915,352
Matured with no value	**—**	(1,897,791)
Cancelled with no value	**—**	(17,561)
Outstanding at end of year	**—**	—

[b] Restricted share unit plan ("RSU plan")

Pursuant to the Corporation's RSU plan, members of management may be granted restricted share units ("RSUs") as a long-term incentive component of their 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 on the Toronto Stock Exchange 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 fair value. Changes in fair 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 the Corporation's common shares by a predetermined future date. RSUs held count towards the ownership requirement.

The following table summarizes changes in the number of RSUs outstanding during the years ended July 31, 2013 and 2012:

Restricted share units	**Year ended July 31, 2013**	Year ended July 31, 2012
Outstanding at beginning of year	**1,275,906**	1,850,501
Redeemed	**(189,310)**	(574,595)
Matured	**(474,309)**	—
Outstanding at end of year	**612,287**	1,275,906

The Corporation recognized a compensation expense of $0.6 million and a compensation recovery of $0.2 million for the years ended July 31, 2013 and 2012, respectively, as a result of the RSU plan.

During the years ended July 31, 2013 and 2012, 189,310 and 574,595 RSUs, respectively, were redeemed with a value of $0.3 million and $0.8 million, respectively. During the year ended July 31, 2013, 474,309 RSUs matured with a value of $0.7 million.

The following tables summarize information about RSUs outstanding and related liabilities as at July 31, 2013 and 2012:

	Fiscal year of grant	Number of units outstanding	Weighted-average remaining contractual life	*in thousands of U.S. dollars* **Liability at July 31, 2013**
	2011	612,287	0.2 years	**$ 1,436**
Total		612,287	0.2 years	**$ 1,436**

	Fiscal year of grant	Number of units outstanding	Weighted-average remaining contractual life	*in thousands of U.S. dollars* Liability at July 31, 2012
	2010	536,244	0.3 years	$ 841
	2011	739,662	1.2	1,062
Total		1,275,906	0.8 years	$ 1,903

[c] Stock option plan

The Board of Directors may authorize the issuance of options to acquire common shares under a stock option plan, provided that the number of options outstanding to any one individual at any time does not exceed 5% of the outstanding shares. As at July 31, 2013, 1.6 million [July 31, 2012 – 2.3 million] options remain available to be granted under the plan. The exercise price of options granted under the plan cannot be lower than the arithmetic average of the daily high and low board-lot trading prices of the Corporation's common shares on the Toronto Stock Exchange for the five days immediately prior to the date of the grant. Under the plan, options expire no later than eight and five years after the date they are granted for employees and non-executive directors, respectively, and vest over four fiscal years.

The Corporation's President and Chief Executive Officer ("CEO") has been granted 750,000 stock options at an exercise price of C$1.51 per share, effective September 12, 2012, and 750,000 stock options at an exercise price of C$1.37 per share, effective September 12, 2011. The stock options vested 25% immediately upon grant and then vest an additional 25% at each subsequent August 1 until they are fully vested.

A summary of the status of the Corporation's stock option plan as at July 31, 2013 and 2012, and changes during the years ended on those dates, is presented below:

	Year ended July 31, 2013		Year ended July 31, 2012	
Stock options	**Number of options**	**Weighted-average exercise price**	Number of options	Weighted-average exercise price
Outstanding at beginning of year	**750,000**	**C$1.37**	—	C$ —
Granted	**750,000**	**1.51**	750,000	1.37
Outstanding at end of year	**1,500,000**	**C$1.44**	750,000	C$ 1.37
Exercisable at end of year	**562,500**	**C$1.42**	187,500	C$ 1.37

The following table summarizes information about stock options outstanding at July 31, 2013:

Options outstanding					Options exercisable	
Exercise price	Fiscal year of grant	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Number outstanding	Weighted-average exercise price
C$1.37	2012	750,000	6.1 years	C$1.37	375,000	C$ 1.37
1.51	2013	750,000	7.1 years	1.51	187,500	1.51
C$1.37/C$1.51		1,500,000	6.6 years	C$1.44	562,500	C$ 1.42

The combined fair value of both of the 750,000 stock option grants was estimated at the September 12, 2011, grant date using the Black-Scholes Model and taking into account the terms and conditions under which the stock options were granted. The contractual life of the options granted is eight years from the date of grant. There is no cash settlement of the stock options. The fair values of these stock options were calculated on September 12, 2011, using the following assumptions:

Dividend yield	0.0%
Expected volatility	49.2%
Risk-free interest rate	1.2%
Expected life	4.0 years
Share price	C$1.32

The fair value of the stock options is allocated over the vesting periods using the graded-vesting method. Stock option expenses of $0.2 million and $0.4 million were recorded and credited to contributed surplus for the years ended July 31, 2013 and 2012, respectively.

[d] Executive long-term incentive plan

Effective August 1, 2012, the Board of Directors authorized a new long-term incentive plan ("LTIP") for executives of the Corporation. All executives are eligible to participate, as are a limited number of key contributors who are identified by the President and CEO. The LTIP is structured in three-year cycles, with eligible participants able to earn 30% of their base salary in earned financial value in each year of the three-year cycle. The earned financial value is then paid out in the first quarter following the completion of the three-year cycle. The determination of whether an award occurs under the plan in each individual year depends on the achievement of a predetermined financial goal set by the Board of Directors. Thus, the earned financial value over the three-year cycle will be either 0%, 30%, 60% or 90% of the base salary of each eligible participant over that time, depending on whether the financial goal is met in each year of eligibility. There may be up to three, three-year cycles running concurrently. The liability for the LTIP is $0.3 million as at July 31, 2013 [July 31, 2012 – $Nil].

[e] Employee share purchase plan

Under the terms of the Corporation's employee share purchase plan, employees can choose to have up to 5% of their annual gross earnings, to a yearly maximum of $10,000, withheld to purchase common shares of the Corporation on the open market. The Corporation will match 20% of all contributions made by employees. The total contribution vests immediately. During the year ended July 31, 2013, the Corporation's contribution was less than $0.1 million [year ended July 31, 2012 – $0.1 million], which is recorded as compensation expense. Under the plan, employees acquired 232,970 common shares during the year ended July 31, 2013 [year ended July 31, 2012 – 361,366].

[f] Defined-contribution pension plan – Canadian employees

The Corporation has a defined-contribution pension plan for its Canadian employees, to which it contributes at rates of up to 4% of a non-executive employee's salary or up to 6% of an executive employee's salary, subject to the legislated maximum. The expense and payments for the year ended July 31, 2013, were $0.7 million [year ended July 31, 2012 – $1.0 million].

[g] Defined-contribution pension plan – United States employees

The Corporation has a defined-contribution 401(k) pension plan for its United States employees, to which it contributes at rates of up to 4% of the employee's salary, subject to the legislated maximum. The expense and payments for the year ended July 31, 2013, were $0.3 million [year ended July 31, 2012 – $0.3 million].

12. DEFERRED SHARE UNIT PLAN ("DSU plan")

Pursuant to the Corporation's DSU plan, non-executive 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. DSUs are issued quarterly and vest immediately on issuance.

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-executive director. Each DSU entitles the participant to receive cash payment upon termination of directorship that is 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 termination date. In the event the Corporation declares a dividend on its common shares, the participant 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 fair value. Changes in fair value between the grant date and the measurement date result in a change in the measurement of compensation cost.

Participation in the DSU plan requires mandatory participation in the share ownership plan, which stipulates that the participants must acquire a minimum investment in the Corporation's common shares by a predetermined future date. DSUs held count towards the ownership requirement.

The following table summarizes changes in the number of DSUs outstanding during the years ended July 31, 2013 and 2012:

Deferred share units	**Year ended July 31, 2013**	Year ended July 31, 2012
Outstanding at beginning of year	**307,017**	114,905
Issued during the year	**179,796**	192,112
Outstanding at end of year	**486,813**	307,017

The following table summarizes information about DSUs outstanding and related liabilities as at July 31, 2013 and 2012:

in thousands of U.S. dollars except share-related data		**At July 31, 2013**		At July 31, 2012
Number of units outstanding		**486,813**		307,017
Liability	**$**	**1,134**	$	481

13. FINANCING CHARGES, NET

Financing charges for the years ended July 31, 2013 and 2012, are composed of non-cash accretion of assets, liabilities and provisions, and cash interest income (expense) as follows:

in thousands of U.S. dollars	*Related notes*		**Year ended July 31, 2013**		Year ended July 31, 2012
Accretion of purchase consideration payable	*7[b]*	**$**	**1,238**	$	—
Accretion of royalty liability	*7[c]*		**757**		—
Accretion of royalty provisions	*9[a]*		**607**		784
Accretion of other assets	*7[b]*		**(194)**		—
Short-term interest income			**(84)**		(60)
		$	**2,324**	$	724

14. EXPENSES BY NATURE

The following is a breakdown of depreciation, amortization, investment tax credits, foreign-exchange differences, employee benefits expense and cost of inventories that are included in the consolidated statements of income (loss) and comprehensive income (loss):

in thousands of U.S. dollars		**Year ended July 31, 2013**		Year ended July 31, 2012
Cost of sales – product sales and product services:				
Depreciation of property, plant and equipment	**$**	**5,858**	$	7,121
Amortization of intangible assets		**430**		423
Foreign-exchange loss (gain)		**98**		(321)
Cost of inventories recognized as an expense		**58,650**		64,563
Total cost of sales – product sales and product services	**$**	**65,036**	$	71,786
Cost of sales – R&D services:				
Depreciation of property, plant and equipment	**$**	**291**	$	275
Amortization of intangible assets		**9**		2
Investment tax credits		**(1,100)**		(202)
Foreign-exchange loss (gain)		**21**		(81)
Cost of inventories recognized as an expense		**10,773**		13,587
Total cost of sales – R&D services	**$**	**9,994**	$	13,581
Administrative expense includes:				
Depreciation of property, plant and equipment	**$**	**221**	$	397
Amortization of intangible assets		**3,829**		2,199
Foreign-exchange loss (gain)		**48**		(196)
Independent R&D expense includes:				
Depreciation of property, plant and equipment	**$**	**630**	$	767
Amortization of intangible assets		**—**		6
Investment tax credits		**(2,697)**		(1,018)
Foreign-exchange loss (gain)		**35**		(148)

Employee benefits expense:

Salaries and other short-term employee benefits	$	**45,937**	$ 49,427
Termination and retirement benefits		**561**	3,213
Post-employment benefits		**979**	1,142
Share-based compensation		**1,633**	458
Total employee benefits expense	$	**49,110**	$ 54,240

15. EARNINGS (LOSS) PER SHARE

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

in thousands of U.S. dollars except share-related data	**Year ended July 31, 2013**	Year ended July 31, 2012
Net income (loss)	**$1,358**	$(28,287)
Weighted-average number of common shares outstanding	**66,746,870 shares**	66,746,870 shares
Dilutive effect of stock options	**594,670**	—
Diluted weighted-average number of common shares outstanding	**67,341,540 shares**	66,746,870 shares
Earnings (loss) per share*:*		
Basic and diluted	**$0.02**	$(0.42)

For the year ended July 31, 2013, the dilutive effect of the1,500,000 outstanding stock options is included in the calculation of diluted earnings per share. For the year ended July 31, 2012, 750,000 options were excluded from the calculation of diluted loss per share. Under the Treasury Stock method, options are excluded from the calculation when their inclusion would reduce the loss per share, or when their exercise price exceeds the average market price of the Corporation's common shares on the Toronto Stock Exchange for the period. The dilutive effect of included stock options is calculated by assuming the proceeds that would have resulted from exercising the stock options were used to buy shares at market price for subsequent cancellation.

16. GOVERNMENT ASSISTANCE AND TAX CREDITS

R&D expenses for the years ended July 31, 2013 and 2012, are net of combined federal and provincial scientific research and experimental development ("SR&ED") tax credits in the amounts of $3.8 million and $1.2 million, respectively. As at July 31, 2013, $1.2 million [July 31, 2012 – $1.2 million] of SR&ED tax credits was included as a reduction of long-term contract costs in inventories and contracts in progress.

For the year ended July 31, 2013, there was $0.2 million [July 31, 2012 – less than $0.1 million] in investment tax credits relating to SR&ED capital expenditures and $0.1 million [July 31, 2012 – $Nil] in provincial investment tax credits related to manufacturing and processing capital expenditures. Both of these were accounted for as a reduction of the cost of the applicable assets.

To qualify for federal and provincial SR&ED investment tax credits, the work must advance the understanding of scientific relations or technologies, address scientific or technological uncertainty, and incorporate a systematic investigation by qualified personnel. To qualify for the Manitoba manufacturing investment tax credit, the building, machinery and equipment must be purchased for first-time use in manufacturing or processing in Manitoba.

As at July 31, 2013, the Corporation has Manitoba SR&ED investment tax credit carryforwards in the amount of $23.9 million [July 31, 2012 – $20.6 million]; these begin expiring in 2019. Of these, approximately $11.1 million have not been recorded because management has determined that uncertainty exists with regard to the generation of sufficient future Canadian taxable income during the carryforward period to utilize the credits.

17. TAXES

[a] Tax expense (benefit)

The components of the Corporation's tax expense (benefit) for the years ended July 31, 2013 and 2012, are as follows:

in thousands of U.S. dollars		**Year ended July 31, 2013**	Year ended July 31, 2012
Current tax:			
Current tax on profits for the year	$	**3,181**	$ (4,762)
Adjustments in respect of prior years		**438**	(370)
Total current tax expense (benefit)		**3,619**	(5,132)
Deferred tax:			
Origination and reversal of temporary differences		**3,764**	538
Impact of change in tax rate		**(92)**	93
Total deferred tax expense		**3,672**	631
Tax expense (benefit)	$	**7,291**	$ (4,501)

Factors affecting tax benefit

The standard rate of Canadian corporate tax is 26.99% [2012 – 26.99%]. The tax on the consolidated entities' income (loss) before taxes differs from the theoretical amount that would arise using the weighted-average tax rate applicable to the income (loss) of the consolidated entities as follows:

in thousands of U.S. dollars		**Year ended July 31, 2013**	Year ended July 31, 2012
Combined statutory federal and provincial tax rate at **26.99%** [2012 – 26.99%]	$	**2,334**	$(8,849)
Adjusted for:			
Income taxes recorded at rates different from the Canadian tax rate		**1,659**	1,148
Unrecognized temporary difference for unrealized foreign-exchange gain on advances to U.S. subsidiaries		**—**	(1,179)
Investment tax credits not recorded for accounting purposes		**404**	2,556
Expenses not deductible for tax purposes		**159**	83
Tax-loss benefit not recognized		**3,442**	543
Impact of functional currency tax election		**(1,061)**	—
Non-taxable foreign-exchange gain on translation		**—**	2,635
Remeasurement of deferred tax due to change in tax rate		**(92)**	93
Stock options		**54**	118
Benefit of rate differential on loss carryback		**—**	(1,067)
Non-deductible portion of intangible assets acquired		**148**	—
Other		**(194)**	(212)
Adjustment in respect of prior years		**438**	(370)
Tax expense (benefit)	$	**7,291**	$(4,501)

The effective tax rate of 84.30% for the year ended July 31, 2013, is higher than the statutory Canadian corporate tax rate of 26.99%, primarily because of the effects of the income taxes recorded at rates different from the Canadian tax rate, the impact of unrecognized Manitoba investment tax credits, the impact of tax benefits not recognized for accounting purposes, and an adjustment in respect of the prior year. These adjustments are partially offset by the impact of making a functional currency election for Canadian income tax purposes. Of the tax losses for which no benefit has been recognized, $3.3 million relates to losses of the subsidiary that is developing IB1001 within the consolidated group. The tax losses are carried forward and will be offset against future taxable income post-commercialization of IB1001.

During the year ended July 31, 2012, the Corporation's effective tax benefit rate of 13.73% was lower than the statutory Canadian corporate tax rate of 26.99%, primarily because of the effects of translation of the operations into the U.S. functional currency, income taxes recorded at rates different from the Canadian corporate tax rate and the impact of unrecognized Manitoba investment tax credits; these effects are partially offset by an unrealized foreign-exchange gain on advances to U.S. subsidiaries and the benefit of a rate differential on loss carryback.

[b] Deferred tax

The movement in deferred tax assets and liabilities during the years ended July 31, 2013, and July 31, 2012, without taking into consideration the offsetting of balances within the same tax jurisdictions are as follows:

in thousands of U.S. dollars

Deferred tax assets	Property, plant and equipment	Inventory and other reserves	Intangible and other assets	Deferred income	Loss carryforwards	Other	Total
As at August 1, 2011	$ 5,554	$ 6,114	$ 400	$ 477	$ 486	$ 3,307	$ 16,338
Credited (charged) to statement of income	132	(1,131)	434	24	(249)	(912)	(1,702)
As at July 31, 2012	5,686	4,983	834	501	237	2,395	14,636
Credited (charged) to statement of income	**(2,473)**	**(1,748)**	**599**	**(55)**	**(159)**	**1,574**	**(2,262)**
As at July 31, 2013	**$ 3,213**	**$ 3,235**	**$ 1,433**	**$ 446**	**$ 78**	**$ 3,969**	**$ 12,374**

in thousands of U.S. dollars					
Deferred tax liabilities		SR&ED investment tax credits	Deferred development costs	Other	Total
As at August 1, 2011	$	1,971	762 $	108 $	2,841
Credited to statement of income		(684)	(387)	—	(1,071)
As at July 31, 2012		1,287	375	108	1,770
Charged to statement of income		**971**	**433**	**6**	**1,410**
As at July 31, 2013	**$**	**2,258**	**808 $**	**114 $**	**3,180**

In addition to the above recognized deferred tax assets, at July 31, 2013, the Corporation has a temporary difference relating to unrecognized Manitoba investment tax credits that when tax-effected have an estimated value of $3.0 million. The Corporation has Canadian losses carried forward that when tax-effected have an estimated value of $3.3 million. Additionally, the Corporation has $3.8 million of capital losses carried forward, which may only be used to offset future capital gains. The Corporation has not recorded a deferred tax asset in respect of these items.

As at July 31, 2013, the Corporation also has U.S. state tax losses carried forward and other temporary differences relating to its former U.S. plasma operations that when tax-effected have an estimated value of $0.5 million.

As at July 31, 2012, the Corporation had a temporary difference relating to unrecognized Manitoba investment tax credits that when tax-effected had an estimated value of $2.6 million. Additionally, the Corporation had $3.8 million of capital losses carried forward, which may only be used to offset future capital gains. The Corporation did not record a deferred tax asset in respect of these items.

As at July 31, 2012, the Corporation also had U.S. state tax losses carried forward and other temporary differences relating to its then U.S. plasma operations that when tax-effected had an estimated value of $0.4 million.

The analysis of deferred tax assets and deferred tax liabilities is as follows:

in thousands of U.S. dollars		**At July 31, 2013**	At July 31, 2012
Deferred tax assets:			
To be recovered after more than 12 months	$	**5,125**	$7,216
To be recovered within 12 months		**7,249**	7,420
		12,374	14,636
Deferred tax liabilities:			
To be recovered after more than 12 months		**922**	483
To be recovered within 12 months		**2,258**	1,287
		3,180	1,770
Net deferred tax	**$**	**9,194**	$12,866

The gross movement on the deferred tax account is as follows:

in thousands of U.S. dollars		**At July 31, 2013**	At July 31, 2012
Opening balance	$	**12,866**	$13,497
Charged to statement of income		**(3,672)**	(631)
Closing balance	**$**	**9,194**	$12,866

18. SUPPLEMENTARY INFORMATION FOR CONSOLIDATED STATEMENTS OF CASH FLOWS

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

in thousands of U.S. dollars		**Year ended July 31, 2013**		Year ended July 31, 2012
Accounts receivable	**$**	**1,124**	$	(2,247)
Inventories and contracts in progress		**5,196**		9,527
Taxes recoverable		**2,265**		7,865
Prepaid expenses and deposits		**(5,121)**		113
Accounts payable and accrued liabilities		**6,825**		(4,937)
Provision for chargebacks		**905**		(39)
Taxes payable		**(707)**		615
	$	**10,487**	$	10,897

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Corporation has the following financial instruments: cash, accounts receivable, and accounts payable and accrued liabilities.

[a] Fair value hierarchy

The Corporation primarily applies the market approach for recurring fair value measurements. Three levels of inputs may be used to measure fair value:

LEVEL 1 – Unadjusted, quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

LEVEL 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

LEVEL 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table presents information about the Corporation's assets and liabilities measured at fair value on a recurring basis as at July 31, 2013, and the fair value hierarchy of the valuation techniques used to determine such fair value.

in thousands of U.S. dollars	Level 1	Level 2	Level 3	**Total**
Cash	$46,410	—	—	**$46,410**

As at July 31, 2013, and July 31, 2012, the carrying values of current assets and liabilities, including cash, accounts receivable, accounts payable and accrued liabilities, and royalty liability approximate their fair value. These short-term financial instruments approximate the fair value because of the relatively short period to maturity.

All derivatives are recorded at fair value in the consolidated balance sheets. The fair values of the Corporation's derivative financial instruments used to manage exposure to interest rate risk are estimated based on quoted market prices for the same or similar financial instruments, or on the current rates offered to the Corporation for financial instruments of the same maturity, as well as by the use of discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities. The Corporation had no derivative instruments outstanding as at July 31, 2013.

The Corporation has reviewed all significant contractual arrangements and determined that there are no material embedded derivatives that must be separated from the host contract and accounted for separately.

[b] Risk management policies

The Corporation manages risk and risk exposures through a combination of insurance, derivative financial instruments, a system of internal and disclosure controls, and sound business practices. The Corporation is exposed to significant currency risk and uses derivative financial instruments to manage the risk of fluctuation in foreign-exchange rates. The Corporation may enter into forward-foreign-exchange contracts to limit exposure on certain anticipated future U.S.-dollar sales and cash flows. The maximum length of time over which the Corporation hedges its exposure to the variability of future cash flows is one year.

[c] Credit risk

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

The following table sets out the details of the accounts receivable balances outstanding based on the status of the receivable in relation to when the receivable was due and payable:

in thousands of U.S. dollars		**At July 31, 2013**		At July 31, 2012
Neither impaired nor past due	**$**	**8,212**	$	14,576
Not impaired but past the due date as follows:				
Within 30 days		**5,454**		5,339
31–60 days		**3,656**		633

Over 60 days	**3,995**	1,817
Allowance for doubtful accounts	**(111)**	(35)
Total	**$ 21,206**	$ 22,330

There are no impaired accounts receivable.

A continuity of the allowance for doubtful accounts for the years ended July 31, 2013, and July 31, 2012, is as follows:

in thousands of U.S. dollars	**Year ended July 31, 2013**	Year ended July 31, 2012
Opening balance, beginning of year	**$ 35**	$ 41
Foreign-exchange impact	**—**	(1)
Additional allowances	**99**	—
Collection of doubtful accounts	**—**	(5)
Writeoff of uncollectible accounts	**(23)**	—
Closing balance, end of year	**$ 111**	$ 35

[d] Interest rate risk

The Corporation's Canadian-dollar operating line of credit is at a floating interest rate; therefore, it is subject to interest rate cash flow risk. In prior years, the Corporation had entered into U.S.–Canadian-dollar currency swaps whereby the Corporation received Canadian funds in return for U.S. funds at the trade-date exchange rate. At the maturity date, the Corporation repaid the U.S. funds with Canadian funds at the same exchange rate for a fixed fee. These swaps were entered into for the purpose of lowering interest expense associated with the Canadian-dollar utilization of its operating line of credit and not for trading or speculative purposes. The swaps were classified as held for trading.

The Corporation did not enter into new U.S.–Canadian-dollar currency swaps during the current fiscal year. After the swaps outstanding at July 31, 2012 had matured, the Corporation had no currency swaps outstanding.

At July 31, 2012, the Corporation had currency swaps outstanding as follows:

in thousands of U.S. dollars

Notional amount	Maturity date	Fair value at July 31, 2012
$ 5,000	August 1, 2012	$ (64)
5,000	August 28, 2012	(47)
5,000	September 10, 2012	(45)
5,000	September 24, 2012	21
5,000	November 5, 2012	56
$ 25,000		$ (79)

[e] Currency risk

The Corporation receives the majority of its revenues and incurs significant expenses in U.S. dollars. However, the Corporation does receive certain revenues and incurs certain expenses in Canadian dollars; consequently, fluctuations in the rate of exchange between U.S. and Canadian dollars can have an effect on the Corporation's reported results. On occasion, forward-foreign-exchange contracts and foreign-exchange option collars are used by the Corporation to manage its foreign-exchange exposure on anticipated Canadian-dollar expenditures. 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. As at July 31, 2013 and 2012, the Corporation had no forward-foreign-exchange contracts or foreign-exchange option collars outstanding.

Furthermore, the Corporation maintains a Canadian-dollar operating line of credit, which may also affect the Corporation's reported results when there are fluctuations in the rate of exchange between Canadian and U.S. dollars. However, as at July 31, 2013, C$Nil [July 31, 2012 – C$Nil] was utilized on this facility.

The Corporation maintains Canadian-dollar bank accounts; Canadian-dollar cash balances at July 31, 2013, were C$2.6 million [July 31, 2012 – C$1.5 million].

[f] Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulties in meeting its financial liability obligations. The Corporation manages its liquidity risk through cash and debt management.

The following are the contractual maturities of the Corporation's financial liabilities at July 31, 2013, excluding interest payments:

		Payments due by period		
in thousands of U.S. dollars	**Total**	Within 1 year	1–3 years	4–5 years
Accounts payable and accrued liabilities	**$ 20,607**	$ 20,607	$ —	$ —
Royalty liability	**4,295**	604	2,290	1,401
Incentive plan liabilities	**1,737**	1,436	301	—
	$ 26,639	$ 22,647	$ 2,591	$ 1,401

[g] Sensitivity analysis

The Corporation's sales denominated in Canadian dollars for the year ended July 31, 2013, were C$10.1 million, and the total of its cost of sales, independent R&D and selling, general and administrative expense denominated in that currency was C$40.6 million. Accordingly, a 10% increase or decrease in the exchange rate between Canadian and U.S. dollars would result in a $1.0-million increase or decrease in sales, and a total increase or decrease of $4.1 million in cost of sales, independent R&D and selling, general and administrative expense.

20. CAPITAL STRUCTURE

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

The Corporation monitors its capital structure using non-IFRS financial metrics including the ratio of long-term debt to EBITDA and the working capital ratio. The Corporation defines EBITDA as earnings before interest; taxes; depreciation; amortization; the change in fair value of royalty liability; impairment (reversal of impairment) of property, plant and equipment and intangible assets; financing charges, net; and foreign-exchange loss (gain) for the immediately preceding 12-month period. The Corporation may manage its capital to meet the targets by issuing new shares, using the line of credit, acquiring new debt or purchasing shares under Normal Course Issuer Bids.

The following table reconciles the non-IFRS financial measure EBITDA to the net income (loss) for the preceding 12-month periods:

in thousands of U.S. dollars	**Year ended July 31, 2013**	Year ended July 31, 2012
Net income (loss)	**1,358**	(28,287)
Add (deduct):		
Tax expense (benefit)	**7,291**	(4,501)
Change in fair value of royalty provision	**(714)**	(983)
Impairment (reversal of impairment) of property, plant and equipment, and intangible assets	**(4,116)**	6,227
Financing charges, net	**2,324**	724
Foreign-exchange loss (gain)	**349**	(2,075)
Depreciation and amortization	**11,268**	11,190
EBITDA	**17,760**	(17,705)

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

in thousands of U.S. dollars except ratio	**At July 31, 2013**	At July 31, 2012
Long-term debt	**$ —**	$ —
EBITDA	**$ 17,760**	$(17,705)
Ratio	**—**	—

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

in thousands of U.S. dollars except ratio	**At July 31, 2013**	At July 31, 2012
Current assets	**$ 129,502**	$ 122,426
Current liabilities	**$ 31,586**	$ 21,998
Working capital ratio	**4.1:1**	5.6:1

The Corporation is subject to externally imposed capital requirements associated with its C$5.0-million operating line of credit (see *note 8*), which must be maintained to avoid acceleration of the termination of the agreement. The externally imposed capital requirements are the same as the financial metrics used on an internal basis to monitor capital structure. As at July 31, 2013, the Corporation is in compliance with all of its financial covenants.

21. SEGMENT INFORMATION

The Corporation manages its business and evaluates performance based on two operating segments: biopharmaceutical operations and contract services. Biopharmaceutical operations includes approved product sales and commercial plasma sales (to the end of the second quarter of 2013; subsequent to the sale of its U.S.-based plasma centres, the Corporation no longer collects and sells non-specialty plasma). Contract services provides manufacturing and R&D services to related and unrelated parties.

The accounting policies of the Corporation's operating segments are the same as those described in *note 2*. There are no significant intersegment transactions. The following presents segment operating results for the years ended July 31, 2013 and 2012, and identifiable assets as at July 31, 2013, and July 31, 2012:

	Year ended July 31, 2013			Year ended July 31, 2012		
in thousands of U.S. dollars	**Biopharma-ceutical operations**	**Contract services**	**Total**	Biopharma-ceutical operations	Contract services	Total
Revenues						
Product sales	**$ 43,598**	**$ —**	**$ 43,598**	$ 48,616	$ —	$ 48,616
Product services	**—**	**71,010**	**71,010**	—	45,793	45,793
R&D services	**—**	**12,708**	**12,708**	—	16,620	16,620
	43,598	**83,718**	**127,316**	48,616	62,413	111,029
Cost of sales						
Product sales	**33,925**	**—**	**33,925**	41,044	—	41,044
Product services	**—**	**31,111**	**31,111**	—	30,742	30,742
R&D services	**—**	**9,994**	**9,994**	—	13,581	13,581
	33,925	**41,105**	**75,030**	41,044	44,323	85,367
Gross profit	**9,673**	**42,613**	**52,286**	7,572	18,090	25,662
Expenses	**34,703**	**6,261**	**40,964**	49,421	10,380	59,801
Income (loss) before the following:	**(25,030)**	**36,352**	**11,322**	(41,849)	7,710	(34,139)
Financing charges, net	**(2,406)**	**82**	**(2,324)**	(784)	60	(724)
Foreign-exchange gain (loss)	**(118)**	**(231)**	**(349)**	909	1,166	2,075
Income (loss) before taxes	**$ (27,554)**	**$ 36,203**	**$ 8,649**	$ (41,724)	$ 8,936	$ (32,788)
Total assets	**$ 148,447**	**$ 138,071**	**$ 286,518**	$ 100,231	$ 131,737	$ 231,968
Additions to property, plant and equipment, and intangible assets, net	**$ 47,945**	**$ 2,688**	**$ 50,633**	$ 7,278	$ 1,153	$ 8,431

Geographic information about the Corporation's revenue is based on the product shipment destination or the location of the contracting organization. Assets are based on their physical location as at July 31, 2013, and July 31, 2012.

	Year ended July 31, 2013		Year ended July 31, 2012	
in thousands of U.S. dollars	**Revenues**	**Property, plant and equipment, and intangible assets, net**	Revenues	Property, plant and equipment, and intangible assets, net
Canada	**$ 10,012**	**$86,126**	$ 10,200	$46,056
United States	**106,543**	**34,128**	91,591	31,311
Rest of world	**10,761**	**400**	9,238	—
	$ 127,316	**$120,654**	$ 111,029	$77,367

For the year ended July 31, 2013, sales to one customer represent 53% [year ended July 31, 2012 – 56%] of the revenue of the contract services segment. For the year ended July 31, 2013, sales to one customer represent 17% [year ended July 31, 2012 – 17%] of the revenue of the biopharmaceutical operations segment.

22. COMMITMENTS

[a] Operating leases

At July 31, 2013, the Corporation had commitments under operating leases requiring future minimum annual payments as follows:

in thousands of U.S. dollars	
2014	$ 616
2015	528
2016	424
2017	378
2018	241
Thereafter	1,177
	$ 3,364

During the year ended July 31, 2013, the Corporation recorded expenses of $0.6 million related to operating leases.

[b] Agreement to commercialize episil®

On July 9, 2012, the Corporation announced that it had entered into an agreement with Camurus AB to acquire exclusive rights to commercialize a product called episil® in the United States. The Corporation launched episil® in the United States in October 2012. As a result of the agreement, the Corporation made a milestone payment of $0.5 million in October 2012 and will pay royalties on future net sales during the contract period. The Corporation has also agreed to certain minimum order quantities under the contract and has recorded a liability for purchase consideration payable related to the royalties on the minimum quantities (see *note 7[c]*).

[c] Agreement with Biomat USA

The Corporation has entered into a supply agreement with Biomat USA to purchase minimum quantities of plasma for a period of five years, ending on October 22, 2017.

23. SIGNIFICANT AGREEMENTS

[a] Heptavalent botulism antitoxin (BAT™)

On May 31, 2006, the Corporation 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 toxins that cause botulism.

On June 3, 2011, the Corporation announced that the Biomedical Advanced Research and Development Authority ("BARDA"; the department within HHS that manages the stockpiling contracts) had exercised options under the BAT™ stockpiling contract that are expected to generate approximately $61 million in additional contract revenue over the ensuing three to four years. In addition, the delivery schedule under the existing contract was extended out to 2018, with a heavier weighting in 2017 and 2018.

The base contract provides for revenue of $362 million, which includes the supplementary payment that was based on achieving U.S. Food and Drug Administration ("FDA") approval for the product. Optional task orders, which include the $61 million discussed above, are worth up to an additional $234 million in revenue.

During the years ended July 31, 2013 and 2012, the Corporation recorded revenues of $37.3 million and $28.2 million, respectively, related to the BAT™ contract.

As at July 31, 2013, costs of $28.1 million have been charged to inventories and contracts in progress [July 31, 2012 – $29.0 million] related to this contract.

[b] Anthrax immune globulin ("AIGIV")

On July 28, 2006, HHS exercised its option to purchase 10,000 doses of AIGIV 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. AIGIV is to be made available for treating inhalational anthrax. This modification to the contract will provide approximately $143 million in revenue.

On August 28, 2012, the Corporation announced it had entered into a contract modification that expanded the scope of work under the existing contract with HHS for the development and supply of AIGIV. The contract modification extended the timeline for obtaining licensure to 2016, and it could generate up to approximately $16.5 million in additional revenue for over the next four years (approximately an 11% increase over the original contract value).

During the years ended July 31, 2013 and 2012, the Corporation recorded revenues of $4.8 million and $4.7 million, respectively, related to the AIGIV contract.

As at July 31, 2013, costs of less than $0.1 million have been charged to inventories and contracts in progress [July 31, 2012 – less than $0.1 million] related to this contract.

24. RELATED-PARTY TRANSACTIONS

[a] Apotex transactions

Apotex (see *note 1*) is Cangene's majority shareholder and holds 61% of the Corporation's common shares as at July 31, 2013. During the year ended July 31, 2013, Apotex donated 2,003,000 common shares of the Corporation to an arm's-length charitable organization.

On October 16, 2009, the Corporation's Board of Directors approved an agreement under which Cangene, through Cangene bioPharma, acquired the U.S. commercialization rights to HepaGam B®. As per the agreement, Apotex was paid $7.0 million in the first quarter of 2010 and receives royalties on net U.S. HepaGam B® sales occurring through June 2016. The effective date of this transfer of rights was November 1, 2009. Cangene's independent directors approved this new agreement after having determined that it was fair to Cangene and its shareholders. The $7.0 million was recorded in intangible assets along with the present value of the estimated future royalty stream on U.S. sales of HepaGam B® through June 2016 of $7.0 million. The total commercialization rights intangible asset is $14.0 million, which, less amortization of $7.9 million, results in a net book value of $6.1 million at July 31, 2013 (see *note 7[d]*).

On December 5, 2011, Cangene bioPharma signed an agreement to provide contract services to Apotex in the form of process development, fill/finish of eight runs of clinical trial product and validation. At July 31, 2013, the Corporation has recorded less than $0.1 million [July 31, 2012 – $0.1 million] in deferred income related to this agreement.

During the year ended July 31, 2013, the Corporation recorded revenues of $1.8 million [year ended July 31, 2012 – $0.5 million] from contract manufacturing services provided to Apotex; as at July 31, 2013, $0.7 million [July 31, 2012 – $0.2 million] is included in accounts receivable.

During the year ended July 31, 2013, the Corporation made payments and recorded amounts payable to Apotex of $0.7 million for royalties related to net U.S. sales of HepaGam B® [year ended July 31, 2012 – $0.9 million]. As at July 31, 2013, $0.1 million [July 31, 2012 – $0.2 million] is recorded in accounts payable and accrued liabilities owing to Apotex.

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

[b] Compensation of key management

Key management includes the roles of President/CEO, COO, CFO, CSO, Senior Vice President and Vice President. The compensation paid or payable to key management personnel for employee services is shown below:

in thousands of U.S. dollars	**Year ended July 31, 2013**	Year ended July 31, 2012
Salaries and other short-term benefits	**$ 3,275**	$ 2,074
Long-term incentive benefits	**212**	—
Retirement and severance benefits	**58**	1,032
Post-employment benefits	**81**	76
Share-based compensation	**255**	701
Total	**$ 3,881**	$ 3,883

At the time of hire or promotion, key management personnel sign the Corporation's standard offer of employment that contains details on reporting relationship, salary and benefits. Former key management personnel did not receive any termination and change of control benefits other than as required by applicable legislation and consistent with the Corporation's policy on termination for all employees.

Pursuant to new employment agreements, certain current key management personnel may be entitled to the following:

- In the event of termination for reasons other than cause or voluntary termination—receive combined termination and severance benefits of up to 12 months of compensation, including payment of an amount of up to 12 months of base salary and target bonus in a lump sum following termination, and continuation of benefits for up to 12 months.

- In the event of a change of control or the Corporation being taken private that results in the termination of employment by the Corporation or termination by the employee for good reason as may be stipulated in the employment agreement—receive combined termination and severance benefits of up to 24 months of compensation, including payment of an amount of up to 24 months of base salary and target bonus in a lump sum following termination, and continuation of benefits for up to 24 months.

In addition, any unvested stock options held by the President and CEO at the time of such termination would automatically vest.

25. SUBSEQUENT EVENTS

[a] Deferred share units

Effective August 1, 2013, the Corporation issued 25,836 DSUs to its non-executive directors under the DSU plan described in *note 12*.

[b] Stock options

Mr. John Sedor, the Corporation's President and CEO, was granted 209,302 stock options at an exercise price of C$2.15 per share, effective August 1, 2013, under the stock option plan described in *note 11[c]*. These stock options vest 25% immediately upon grant; 25% then vest on August 1, 2014; 25% on August 1, 2015; and finally, 25% vest on August 1, 2016.

[c] Expansion of the VIGIV contract

On September 3, 2013, the Corporation announced that its contract with the CDC for the supply of VIGIV into the U.S. SNS had been expanded. The contract, which relates to the United States government biodefence programs, has been extended by 18 months and has also been modified to include three additional option periods that extend through 2017.

Under the terms of the contract extension, the Corporation will conduct additional services to support licensure maintenance activities for VIGIV that could generate up to approximately $6.9 million in revenue over the ensuing 18 months. In addition, the contract extension includes future optional services to support licensure maintenance activities for the product, as well as options for additional manufacturing and plasma collections. These options, if exercised, could generate an additional revenue of $45 million (if the baseline scope of work is implemented) or up to $77 million (if the maximum scope is implemented).

[d] Marketing authorization approval for WinRho® 1500 LQ in Portugal

On September 11, 2013, the Corporation announced that its wholly owned Cangene Europe Limited subsidiary had received marketing authorization approval for WinRho 1500 LQ in Portugal from the National Authority of Medicines and Heath Products, I.P.

[e] Biodefence contract for AIGIV

On September 19, 2013, the Corporation announced that it had been awarded a new contract by HHS related to Cangene's AIGIV. This five-year contract is structured as a multiple award, indefinite delivery/indefinite quantity contract, and under it the Corporation could be awarded delivery orders for the collection and storage of human anti-anthrax plasma for manufacturing bulk drug substance and AIGIV final drug product. The contract has a potential total maximum value of approximately

$264 million. In conjunction with the contract award, the Corporation was awarded the first related task/delivery order, which is for the collection and storage of human anti-anthrax plasma that would be sufficient to manufacture 10,000 doses of bulk drug substance or final drug product. This order is expected to generate aggregate revenue of approximately $63 million from 2014 to 2016 (this $63 million is included in the $264 million potential total).

26. COMPARATIVE FIGURES

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

Specifically, the comparative consolidated balance sheet at July 31, 2012, includes a reclassification of $0.8 million of the current portion of the royalty provision from long-term liabilities to current.

The comparative consolidated statements of income (loss) and comprehensive income (loss) for the year ended

July 31, 2012, includes reclassifications that resulted in an addition of $0.2 million to cost of sales related to product sales; the Corporation has recorded a gain of $1.0 million from the change in fair value of royalty provision and net financing charges of $0.7 million, which include short-term interest income of less than $0.1 million.

The comparative consolidated statements of cash flows for the year ended July 31, 2012, includes a reclassification of $1.3 million of the change in long-term taxes recoverable in the net change in non-cash working capital balances related to operations to taxes recoverable, long-term. The amortization of royalty provision of $0.8 million and revaluation of royalty provision of $0.2 million were also reclassified to royalty provisions of $0.9 million, change in fair value of royalty provision of $1.0 million and non-cash financing charge of $0.8 million in order to conform with the presentation for the current year.

Independent Auditors' Report

To the Shareholders of Cangene Corporation

We have audited the accompanying consolidated financial statements of **Cangene Corporation**, which comprise the consolidated balance sheets as at July 31, 2012 and 2011, and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity, and cash flows for the years ended July 31, 2012 and 2011, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Cangene Corporation** as at July 31, 2012 and 2011, and its financial performance and its cash flows for the years ended July 31, 2012 and 2011, in accordance with International Financial Reporting Standards.

/s/ERNST & YOUNG LLP

Winnipeg, Canada — Ernst & Young LLP
October 24, 2012 — Chartered Accountants

Cangene Corporation
Consolidated Balance Sheets

in thousands of U.S. dollars		At July 31, 2012		At July 31, 2011
ASSETS *[note 8]*				
Current				
Cash	$	35,870	$	45,176
Accounts receivable *[notes 18[c]* and *23[a]]*		22,330		20,083
Inventories and contracts in progress *[notes 5, 15, 22[a]* and *22[b]]*		57,650		67,177
Taxes recoverable *[note 15]*		4,355		12,220
Prepaid expenses and deposits		2,221		2,334
Total current assets		122,426		146,990
Property, plant and equipment, net *[notes 6* and *15]*		61,467		74,175
Taxes recoverable *[note 15]*		17,539		16,288
Deferred tax *[note 16[b]]*		14,636		16,338
Intangible assets, net *[note 7]*		19,249		12,305
	$	235,317	$	266,096
LIABILITIES AND EQUITY				
Current				
Accounts payable and accrued liabilities *[note 23[a]]*	$	13,782	$	18,219
Derivative financial instruments *[notes 18[a]* and *18[d]]*		79		1,775
Purchase consideration payable *[note 7]*		759		—
Provision for chargebacks *[note 9[b]]*		3,625		3,664
Incentive plan liability *[note 11[b]]*		841		—
Taxes payable		707		92
Current portion of deferred income *[note 23[a]]*		1,883		3,207
Total current liabilities		21,676		26,957
Deferred income		5,912		6,716
Royalty provision *[note 9[a]]*		2,253		3,316
Purchase consideration payable *[note 7]*		6,811		—
Incentive plan liability *[note 11[b]]*		1,062		2,844
Deferred share unit liability *[note 12]*		481		222
Deferred tax *[note 16[b]]*		1,770		2,841
Total liabilities		39,965		42,896
Commitments *[notes 21* and *22]*				
Equity				
Share capital *[note 10]*		50,860		50,860
Contributed surplus *[note 11[c]]*		439		—
Retained earnings		144,053		172,340
Total equity		195,352		223,200
	$	235,317	$	266,096

See accompanying notes

Cangene Corporation
Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

in thousands of U.S. dollars except share-related data		Year ended July 31, 2012		Year ended July 31, 2011
Revenues				
Product sales	$	48,616	$	51,172
Product services		45,793		78,872
R&D services		16,620		16,437
Royalties *[note 23[a]]*		—		3,226
		111,029		149,707
Cost of sales *[notes 5* and *13]*				
Product sales *[note 9]*		40,845		34,509
Product services		30,742		50,229
R&D services *[note 15]*		13,581		11,273
		85,168		96,011
Gross profit		25,861		53,696
Expenses *[note 13]*				
Independent R&D *[note 15]*		27,109		15,937
Selling, general and administrative		27,387		29,661
Impairment of property, plant and equipment *[note 6]*		5,591		1,763
Impairment of intangible assets *[note 7]*		636		2,328
Loss (gain) on disposal of assets		61		(118)
		60,784		49,571
Operating profit (loss)		(34,923)		4,125
Short-term interest income		60		51
Foreign-exchange gain (loss)		2,075		(4,908)
Loss before taxes		(32,788)		(732)
Tax expense (benefit) *[note 16[a]]*				
Current		(5,132)		(2,521)
Deferred		631		280
		(4,501)		(2,241)
Net income (loss) and comprehensive income (loss) for the year	$	(28,287)	$	1,509
Earnings (loss) per share *[note 14]*				
Basic and diluted	$	(0.42)	$	0.02

See accompanying notes

Cangene Corporation
Consolidated Statements of Changes in Equity

in thousands of U.S. dollars	Share capital	Retained earnings	Contributed surplus	Total
Balance at July 31, 2010	$ 51,696	$ 173,295	$ —	$ 224,991
Net income for the year ended July 31, 2011	—	1,509	—	1,509
Common shares purchased and cancelled under Normal Course Issuer Bid *[note 10[b]]*	(836)	(2,464)	—	(3,300)
Balance at July 31, 2011	50,860	172,340	—	223,200
Net loss for the year ended July 31, 2012	—	(28,287)	—	(28,287)
Stock option expense *[note 11[c]]*	—	—	439	439
Balance at July 31, 2012	$ 50,860	$ 144,053	$ 439	$ 195,352

See accompanying notes

Cangene Corporation
Consolidated Statements of Cash Flows

in thousands of U.S. dollars	Year ended July 31, 2012	Year ended July 31, 2011
OPERATING ACTIVITIES		
Net income (loss) for the year	$ (28,287)	$ 1,509
Add (deduct) items not involving cash:		
Depreciation of property, plant and equipment	8,560	10,355
Amortization of intangible assets	2,630	2,751
Deferred income	(2,128)	(3,045)
Incentive plan liability *[notes 11[a]* and *11[b]]*	(941)	(750)
Deferred share unit liability *[note 12]*	259	48
Amortization of royalty provision *[note 9[a]]*	(839)	(1,093)
Revaluation of royalty provision *[note 9[a]]*	(224)	(1,663)
Deferred tax expense *[note 16[b]]*	631	280
Change in value of derivative financial instruments *[note 18[d]]*	(1,696)	1,213
Loss (gain) on disposal of assets	61	(118)
Impairment of intangible assets *[note 7]*	636	2,328
Impairment of property, plant and equipment *[note 6]*	5,591	1,763
Stock option expense *[note 11[c]]*	439	—
Net change in non-cash working capital balances related to operations *[note 17]*	9,646	2,122
Cash provided by (used in) operating activities	(5,662)	15,700
INVESTING ACTIVITIES		
Purchase of property, plant and equipment, net *[notes 6* and *15]*	(1,604)	(7,530)
Acquisition of intangible assets *[note 7]*	(2,106)	(271)
Proceeds on disposal of assets	66	209
Cash used in investing activities	(3,644)	(7,592)
FINANCING ACTIVITIES		
Shares repurchased for cancellation *[note 10[b]]*	—	(3,300)
Cash used in financing activities	—	(3,300)
Effect of exchange rates on cash	—	2
Net increase (decrease) in cash during the year	(9,306)	4,810
Cash, beginning of year	45,176	40,366
Cash, end of year	$ 35,870	$ 45,176
Interest paid[1]	$ 15	$ 15
Taxes received[2]	$ (12,342)	$ (1,955)

1. *Amounts paid and received for interest were reflected as operating cash flows in the consolidated statements of cash flows.*
2. *Amounts paid and received for income taxes were reflected as either operating or investing cash flows in the consolidated statements of cash flows, depending upon the nature of the underlying transaction.*

See accompanying notes

1. DESCRIPTION OF BUSINESS

Cangene Corporation (the "Corporation" or "Cangene") was incorporated by Articles of Incorporation under the *Business Corporations Act (Ontario)* on February 22, 1984. The Corporation is a public entity with common shares listed on the Toronto Stock Exchange and is domiciled in Canada. The address of its registered office is 150 Signet Drive, Toronto, Ontario, Canada, M9L 1T9.

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

Cangene is focused primarily on specialty hospital-based therapeutics. It has particular expertise in two different types of products: plasma products and in particular hyperimmunes, which are concentrated specialty antibody preparations made from specialty 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.

These consolidated annual financial statements were authorized for issue by the Corporation's Board of Directors on October 24, 2012.

As at July 31, 2012, the Apotex Group ("Apotex") controlled, directly or indirectly, 42,875,787 common shares, representing 64% of the outstanding common shares of the Corporation. Apotex includes Apotex Holdings Inc., Apotex Inc., Apotex Research Inc. and Apotex Corp., as well as the charitable foundations, Sherman Foundation and Apotex Foundation. Apotex is controlled, directly or indirectly, by Bernard Sherman and the Bernard and Honey Sherman Family Trust, of which he is the trustee. Dr. Sherman is also the Chairman and a director of Apotex Inc., and he is a director of Sherman Foundation and Apotex Foundation.

2. STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES

[a] Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

[b] Basis of presentation

These consolidated financial statements have been prepared on a going-concern basis under the historical cost convention, except for certain financial instruments, liabilities and provisions that are valued at fair value. The Corporation's consolidated financial statements are presented in U.S. dollars, which is the functional currency of the parent company, and all values are rounded to the nearest thousand dollars except when otherwise indicated.

[c] Basis of consolidation

These financial statements consolidate the accounts of Cangene Corporation and its wholly owned subsidiaries: Cangene U.S. Incorporated, Cangene bioPharma, Inc. ("Cangene bioPharma"), Cangene Plasma Resources, Inc. ("Cangene Plasma Resources") and Twinstrand Holdings Inc.

Subsidiaries are entities controlled by the Corporation. Control exists when the Corporation has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. Subsidiaries are fully consolidated from the date on which control is obtained until the date that control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Intercompany transactions, balances and unrealized gains (losses) on transactions between subsidiaries are eliminated.

[d] Business combinations

Business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition is measured at the fair value of the assets acquired, equity instruments issued and liabilities assumed at the date of exchange. Acquisition costs incurred are expensed and included in administrative expenses. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognized in accordance with *International Accounting Standards* ("IAS") *39 – Financial Instruments: Recognition and Measurement*, in either income or loss, or as a charge to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured until it is finally settled within equity.

Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Corporation's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statement of income (loss) and comprehensive income (loss). After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to cash-generating units ("CGUs"). The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying value of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

[e] Cash

Cash comprises cash on hand and current balances with banks and similar institutions. They are readily convertible into known amounts of cash and have an insignificant risk of changes in value.

[f] Trade receivables and trade payables

Trade receivables are carried at the original invoice amount less any provisions for doubtful debts. Provisions are made where there is evidence of a risk of non-payment, taking into account aging, previous experience and general economic conditions. When a trade receivable is determined to be uncollectible it is written off—first against any provision available and then to the consolidated statement of income (loss) and comprehensive income (loss). Subsequent recoveries of amounts previously provided for are credited to the consolidated statement of income (loss) and comprehensive income (loss). Long-term receivables are discounted where the effect is material.

Trade payables are held at amortized cost, which equates to nominal value. Long-term payables are discounted where the effect is material and accreted using the effective-interest-rate ("EIR") method.

[g] Inventories and contracts in progress

Inventories are stated at the lower of cost and net realizable value. Costs of purchased inventories are recorded using weighted-average costing. Costs for work-in-process and finished-goods inventories include materials, direct labour and an allocation of production-overhead costs. The Corporation determines normal capacity for each production facility and allocates fixed production-overhead costs on that basis. Any excess, unallocated fixed production-overhead costs are expensed as incurred. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

[h] Property, plant and equipment

Property, plant and equipment is recorded at cost, net of investment tax credits, impairment and depreciation. Design, construction, installation and interest costs related to assets under construction, including all costs for preparing a facility for its intended use, are recorded as construction in progress and are not subject to amortization until the asset is available for use. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. The carrying amount of any significant replaced part is de-recognized; all other repairs and maintenance are charged to the consolidated statement of income (loss) and comprehensive income (loss) during the financial period in which they are incurred.

Depreciation is provided on a straight-line basis for each component of an asset that is significant in relation to the total cost over the following periods based on the estimated useful lives of the assets:

Buildings	25–60 years
Equipment	5–15 years
Furniture and fixtures	5–10 years
Computer systems	3–5 years
Leasehold improvements	Shorter of the term of lease or useful life

Land is not depreciated. Residual values and useful lives are reviewed at least at each financial year-end and are adjusted prospectively accordingly.

[i] Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to prepare for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowings of funds.

[j] Intangible assets

Intangible assets consist of patents, commercialization rights and computer software that is not an integral part of the related hardware. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and the expenditure is reflected in the consolidated statement of income (loss) and comprehensive income (loss) in the period in which the expenditure is incurred. Intangible assets are capitalized on the basis of the costs incurred to acquire and bring to use the specific asset, and are subject to amortization on a straight-line basis over the remaining estimated useful life of the asset:

Patents		8–16 years
Computer software		5 years
U.S. commercialization rights for HepaGam B®	80 months	*(ending June 2016)*
U.S. commercialization rights for episil®	5 years	*(ending October 2017)*

The Corporation reviews the estimated useful lives and carrying values of its intangible assets as part of its periodic assessment for impairments. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income (loss) and comprehensive income (loss) in the expense category consistent with the function of the intangible asset.

The Corporation currently has no intangible assets with indefinite useful lives.

Gains or losses from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the consolidated statement of income (loss) and comprehensive income (loss) when the asset is de-recognized.

[k] Impairment of non-financial assets

Goodwill is not subject to amortization, and is tested for impairment annually at July 31, or whenever events or changes in circumstances indicate that the carrying value of the asset may be impaired.

Non-financial assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may be impaired.

An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable CGUs. The Corporation bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of its CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Non-financial assets, other than goodwill, that were previously impaired are reviewed for possible reversal of the impairment at each reporting date. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. Where an impairment loss is subsequently reversed, the carrying amount of the asset, other than goodwill, is increased to the revised estimate of its recoverable amount, but the increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of income (loss) and comprehensive income (loss).

[l] Provisions

Provisions for restructuring costs and legal claims are recognized when the Corporation has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

For the recognition of a restructuring provision, the Corporation needs to follow a detailed formal restructuring plan for the business or the part of the business concerned, including the location and number of employees affected, a detailed estimate of the associated costs and an appropriate timeline. The employees affected should have a valid expectation that the restructuring is being carried out or the implementation has been initiated already. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. An increase in the provision due to the passage of time is recognized as a charge to the consolidated statement of income (loss) and comprehensive income (loss) as interest expense.

The Corporation recorded a royalty provision when it acquired the U.S. commercialization rights for HepaGam B®. As per the agreement, the Corporation will pay royalties on net U.S. HepaGam B® sales occurring through June 2016. The present value of this estimated future royalty stream was recorded as a provision at the time of acquisition. The royalty provision is remeasured to fair value at each reporting period and changes in fair value are recorded in the consolidated statement of income (loss) and comprehensive income (loss).

[m] Borrowings

All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortized cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognized as a charge to the consolidated statement of income (loss) and comprehensive income (loss) as an interest expense over the period of the relevant borrowing.

[n] Taxes

The tax expense (benefit) for a period comprises current and deferred tax. Tax expense (benefit) is recognized in the consolidated statement of income (loss) and comprehensive income (loss), except to the extent that it relates to items recognized directly in equity. In that case, the tax expense (benefit) is recognized directly in equity.

Deferred tax is recognized using the liability method on temporary differences arising between the tax bases of assets and liabilities, and their carrying amounts in the consolidated financial statements. Deferred tax and current tax are determined using tax rates and tax laws that have been enacted or substantively enacted at the consolidated balance sheet dates. Deferred tax assets or liabilities are measured using rates that are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Corporation and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions for uncertain tax positions and possible consequences of audits and differing interpretations by the tax authorities. These provisions are based upon the likelihood and then best estimates of any amount that could be required to be paid.

Revenues, expenses and assets are recognized net of the amount of sales tax, except where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority. In this case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable. Receivables and payables are stated with the amount of sales tax included. The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated balance sheet.

[o] Foreign currency translation

The functional currency of each entity within the Corporation is determined based on the currency of the primary economic environment in which that entity operates. Transactions in currencies other than the entity's functional currency are recognized at the exchange rates on the date of the transaction. Monetary assets and liabilities denominated in such currencies are translated at exchange rates at the consolidated balance sheet dates. Non-monetary items are measured in terms of historical cost in the foreign currency and are translated using the exchange rate as at the date of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value is determined. Exchange gains and losses arising on translation are included in income (loss) in the period incurred.

[p] Financial instruments

FINANCIAL ASSETS

The Corporation classifies its financial assets in the following categories: held for trading, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Financial assets are accounted for on the settlement date. Transaction costs are expensed evenly over the term of the financial instrument. Based on financial statement classification, gains and losses on financial instruments are recognized in net income (loss) or other comprehensive income (loss). The Corporation has made the following classifications:

- cash is classified as loans and receivables, which are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the EIR method;
- accounts receivable are classified as loans and receivables, which are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the EIR method;
- derivative financial instruments, including forward-foreign-exchange contracts, interest rate swaps, currency swaps and forward-foreign-exchange option collars, are classified as held for trading and measured at fair value. Gains and losses resulting from periodic revaluation are recorded in net income.

De-recognition of financial assets

A financial asset is de-recognized when:

- the rights to receive cash flows from the asset have expired; or
- the Corporation has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either

(a) the Corporation has transferred substantially all the risks and rewards of the asset; or

(b) the Corporation has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Corporation has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Corporation's continuing involvement in the asset. In that case, the Corporation also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Corporation has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying value of the asset or the maximum amount of consideration that the Corporation could be required to repay.

Impairment of financial assets

The Corporation assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event"), and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, such as their default or delinquency in

interest or principal payments or the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Corporation first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Corporation determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the consolidated statement of income (loss) and comprehensive income (loss). Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery, and all collateral has been realized or has been transferred to the Corporation. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a writeoff is later recovered, the recovery is credited to finance costs in the consolidated statement of income (loss) and comprehensive income (loss).

FINANCIAL LIABILITIES

Initial recognition and measurement of financial liabilities

Financial liabilities within the scope of *IAS 39* are classified as financial liabilities at fair value through profit or loss, or as loans and borrowings, as appropriate. The Corporation determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value (in the case of loans and borrowings plus directly attributable transaction costs).

The Corporation's financial liabilities include trade and other payables, bank overdrafts, and derivative financial instruments.

Subsequent measurement of financial liabilities

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments. Gains or losses on liabilities held for trading are recognized in the consolidated statement of income (loss) and comprehensive income (loss). The Corporation has not designated any financial liabilities upon initial recognition at fair value through profit or loss.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the consolidated statement of income (loss) and comprehensive income (loss) when the liabilities are de-recognized as well as through the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in interest costs in the consolidated statement of income (loss) and comprehensive income (loss).

De-recognition

A financial liability is de-recognized when the obligation under the liability is discharged or cancelled, or it expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying value is recognized in the consolidated statement of income (loss) and comprehensive income (loss).

[q] Revenue recognition

The Corporation recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Corporation and specific criteria have been met for the Corporation's activities as noted in the following sections. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

PRODUCT SALES

The Corporation markets and distributes approved commercial products through distribution partners or through its own sales force. The Corporation recognizes revenue from sales of these products—net of trade discounts, chargebacks, rebates and other allowances—upon shipment by either the distribution partners or the Corporation from their warehouses to wholesalers or customers, as applicable.

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

Recognition of revenue on product sales in the U.S. involves a provision for chargebacks. The provision for chargebacks is a significant and complex estimate that is calculated by combining current and historical sales data for each product. The Corporation markets and sells its products through commercial wholesalers (direct customers) who purchase the products at a price referred to as the wholesale acquisition cost ("WAC"). Additionally, the Corporation enters into agreements with indirect customers for a contracted price that is less than the WAC. The indirect customers, such as group-purchasing organizations, physician practice-management groups and hospitals, purchase the Corporation's products from the wholesalers. Under the agreements with the wholesalers, the Corporation guarantees that it will credit them for the difference between the WAC and the indirect customers' contracted price. This credit is referred to as a chargeback. Wholesalers provide detailed information regarding indirect customer purchases as part of the justification for their credit request. Once received by the Corporation, these requests are standardized and tracked within a software system that adjudicates and reconciles all indirect claims coming from wholesalers. The database with these claims is used for historical trending and estimating future indirect sales, which are used to estimate accruals. Adjustments to these provisions are made periodically to reflect new facts and circumstances that may indicate that historical experience may not be indicative of current and/or future results. The Corporation makes subjective judgments primarily based on its evaluation of current market conditions and trade inventory levels related to the products. This evaluation may result in an increase or decrease in the experience rate that is applied to current and future sales, or as an adjustment to past sales, or both.

CONTRACT SERVICES

Revenue earned under contract-manufacturing agreements is for commercial manufacturing and development services. Revenue is recognized when goods are shipped or services are provided in accordance with the terms of the related agreements. Specifically, revenues from services provided are recognized by reference to the stage of completion. Stage of completion is measured by reference to the total costs incurred to date as a percentage of total estimated costs for the respective services obligated by the respective contract. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered.

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

The Corporation has certain collaborative agreements with third parties that may include multiple elements. A delivered item is accounted for as a separate unit of accounting when the delivered item(s) has stand-alone value to the customer. Revenues associated with multiple-element arrangements are attributed to the various elements based on their relative fair value.

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

ROYALTIES

Royalty revenue is recorded on an accrual basis in accordance with the substance of the relevant agreements.

INTEREST INCOME

For all financial instruments measured at amortized cost, interest income is recorded using the EIR method, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset. Interest income is separately recorded in the consolidated statement of income (loss) and comprehensive income (loss).

[r] Research and development expenses

Research expenses, net of related tax credits, are charged to the consolidated statement of income (loss) and comprehensive income (loss) in the period they are incurred. Development costs are charged to operations in the period of the expenditure unless they satisfy the condition for recognition of an intangible asset, and it is probable that future economic benefits will flow to the Corporation and the cost of the intangible asset can be reliably measured. Where regulatory and other uncertainties are such that those criteria are not met, the expenditure is recognized in gross profit; this is almost invariably the case prior to approval of a drug by relevant regulatory authorities. Where recognition criteria are met however, intangible assets are capitalized and amortized on a straight-line basis over their useful economic lives. As at July 31, 2012 and 2011, no amounts of internally developed intangible assets have met recognition criteria.

[s] Government assistance

Government assistance in connection with research activities is recognized as a reduction to the related expense in the period incurred. Government assistance in connection with capital expenditures is treated as a reduction of the cost of the applicable asset. Federal and provincial investment tax credits are accounted for as a reduction of the cost of the related asset or expenditure in the year in which the credits are earned and when there is reasonable assurance that the credits can be used to recover taxes.

[t] Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at its inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets, or whether the arrangement conveys a right to use the asset, even if that right is not explicitly specified in the arrangement.

Leasing agreements that transfer substantially all the benefits and risks of ownership of an asset to the Corporation are treated as finance leases, as if the asset had been purchased outright. The assets are included in property, plant and equipment or in computer software, and the capital elements of the leasing commitments are shown as obligations under finance leases. The capitalization happens at the commencement date of the lease contract, at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Assets held under finance leases are depreciated on a basis consistent with similar owned assets, or the lease term if shorter and there is no reasonable certainty that the Corporation will obtain ownership by the end of the lease term. Lease payments are apportioned between interest charges and reduction of the lease's liability so as to achieve a constant rate of interest on the remaining balance of the liability. The interest element of the lease rental is included in the consolidated statement of income (loss) and comprehensive income (loss) within interest expense.

All other leases are operating leases and the rental costs are charged to the consolidated statement of income (loss) and comprehensive income (loss) on a straight-line basis over the lease term.

[u] Earnings (loss) per share

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

[v] Stock-based compensation plans

The Corporation records compensation expense for the cash-settled phantom-stock incentive plan, restricted share unit plan and deferred share unit plan as described in *notes 11[a], 11[b] and 12.*

EQUITY-SETTLED TRANSACTIONS

The cost of the equity-settled stock option plan is recognized, together with a corresponding increase in other capital reserves, in equity over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Corporation's best estimate of the number of equity instruments that will ultimately vest. The expense or recovery for a period represents the movement in cumulative expense recognized as at the beginning and end of that period, and is recognized in employee benefits expense in the consolidated statement of income (loss) and comprehensive income (loss).

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the equity-based payment transaction or that is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

CASH-SETTLED TRANSACTIONS

The cost of transactions in the phantom-stock incentive plan are measured initially at fair value at the grant date using the Black-Scholes Model. This fair value is expensed over the period until the vesting date, with recognition of a corresponding liability. The liability is re-measured to fair value at each reporting date, up to and including the settlement date, with changes in fair value recognized in employee benefits expense.

The Corporation records compensation expense for the restricted share unit plan as described in *note 11[b]*. The Corporation records a related liability in any accounting period when the 90-day weighted-average market price of the Corporation's common shares as at the end of the accounting period is greater than zero. This liability could increase or decrease from one period to the next resulting in compensation expense or recovery in any given period. Compensation expense and related liabilities are calculated using the graded-vesting approach and are adjusted in each subsequent accounting period to reflect the current 90-day weighted-average market price of the Corporation's common shares at the end of the applicable accounting period.

The Corporation records Board compensation expense for the deferred share unit plan as described in *note 12*. The Corporation records a related liability in any accounting period when the 90-day weighted-average market price of the Corporation's common shares as at the end of the accounting period is greater than zero. This liability could increase or decrease from one period to the next resulting in expense or recovery in any given period. Compensation expense and related liabilities are calculated using the graded-vesting approach and are adjusted in each subsequent accounting period to reflect the current 90-day weighted-average market price of the Corporation's common shares at the end of the applicable accounting period.

[w] Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker for the Corporation. This chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. The chief operating decision-maker for the Corporation has been identified as its executive management team.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions about future events that may affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods presented. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed in the following sections. The Corporation bases its assumptions and estimates on parameters available when the consolidated financial statements are prepared. Existing circumstances and assumptions about future developments, however, may change due to market conditions or circumstances beyond the control of the Corporation. Such changes are reflected in the assumptions when they occur.

[a] Taxes

The Corporation recognizes deferred tax assets, related tax-loss carryforwards and other deductible temporary differences where it is probable that sufficient future taxable income can be generated in order to fully utilize such losses and deductions. Significant estimates and assumptions regarding future earnings, and the ability to implement certain tax planning opportunities are required to assess the likelihood of utilizing such losses and deductions. These estimates and assumptions are subject to uncertainty and if changed could materially affect the assessment of the ability to fully realize the benefit of the deferred tax assets.

The Corporation is subject to income taxes in numerous tax jurisdictions. Significant judgment is required in determining the provision for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Corporation recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes could be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax assets and liabilities in the period in which such determination is made.

[b] Impairment of goodwill and non-financial assets

An impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell or its value in use. The fair-value-less-costs-to-sell calculation is based on available data from binding sales transactions in arm's-length transactions of similar assets or observable market prices, less the incremental costs for disposing of the asset. The value-in-use calculation is based on a discounted-cash-flow model. These calculations require the use of estimates and forecasts of future cash flows. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Corporation is not yet committed to, or significant future investments that will enhance the performance of the CGU being tested. Qualitative factors, including market presence and trends, strength of customer relationships, strength of local management, strength of debt and capital markets, and degree of variability in cash flows, as well as other factors, are considered when making assumptions with regard to future cash flows and the appropriate discount rate. The recoverable amount is most sensitive to the discount rate used for the discounted-cash-flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. A change in any of the significant assumptions or estimates used to evaluate goodwill and other non-financial assets could result in a material change to the results of operations. The Corporation tests whether goodwill has suffered any impairment at least annually in accordance with the accounting policy stated in *note 2[k]*. Other non-financial assets are tested for impairment when indicators of impairment arise. The key assumptions used to determine the recoverable amount for the different CGUs are further explained in *note 6*.

[c] Revenue recognition

Revenue from biopharmaceutical product sales, net of trade discounts and allowances, is recognized upon shipment or in accordance with the terms of the relevant agreements, when all significant contractual obligations have been satisfied and collection is reasonably assured. The Corporation recognizes its share of the revenue from sales of the products in accordance with the accounting policy stated in *note 2[q]*.

The Corporation estimates allowances for revenue-reducing obligations such as trade discounts, chargebacks, rebates and other allowances, using a combination of historical trends, contractual obligations and information received from third parties. The accuracy of these estimates is dependent upon the inherent limitations of extrapolating estimates from historical trends and upon the quality of the third-party information.

During the year ended July 31, 2012, the Corporation revised its estimate of Medicaid accruals to reflect an expectation of lower claims resulting from the period from August 1, 2010, to January 1, 2011. This period was prior to the Corporation's official start date in the Medicaid program.

[d] Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated balance sheet cannot be derived from active markets, they are determined using valuation techniques including discounted-cash-flow models. The inputs into these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

[e] Share-based payments

The Corporation measures the cost of equity- and cash-settled transactions with employees and directors by reference to the fair value of equity instruments at the date at which they are granted. Cash-settled, share-based payments are remeasured at fair value at every reporting date. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the instrument, volatility and any dividend yield. Refer to *notes 11[a], 11[b], 11[c]* and *12* for further details.

[f] Royalty provision

The Corporation's royalty provision is remeasured to fair value at each reporting period and the changes in fair value are recorded in the consolidated statement of income (loss) and comprehensive income (loss). This calculation requires the use of estimates and forecasts of future U.S. net sales of HepaGam B®. The cash-flow estimates are derived from the forecast for the period to June 2016. Qualitative factors, including market presence and trends, strength of customer relationships and degree of variability in cash flows, as well as other factors, are considered when making assumptions with regard to future cash flows and the appropriate discount rate. The provision is impacted by the discount rate used for the discounted-cash-flow model as well as the expected future net sales and the growth rate used for extrapolation purposes. A change in any of the significant assumptions or estimates used could result in a material change provision. Refer to *note 9[a]* for further details.

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Corporation's consolidated financial statements are listed below. This listing is of Standards and interpretations issued that the Corporation reasonably expects to be applicable at a future date. The Corporation intends to adopt these Standards when they become effective.

IAS 1 (amendment) – Presentation of Financial Statements

On June 16, 2011, the IASB issued amendments to *IAS 1 – Presentation of Financial Statements*. The amendments enhance the presentation of other comprehensive income ("OCI") in the financial statements, primarily by requiring the components of OCI to be presented separately for items that may be reclassified to the statement of earnings from those that remain in equity. The amendments are effective for annual periods beginning on or after January 1, 2012. The Corporation is currently assessing the impact of the amendments on its consolidated financial statements.

IFRS 9 – Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of the existing standard for financial instruments (*IAS 39*) and applies to classification and measurement of financial assets and liabilities as defined in *IAS 39*. The Standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, the IASB will address classification and measurement of hedge accounting. The adoption of the first phase of *IFRS 9* may have an effect on the classification and measurement of the Corporation's financial assets and liabilities. The Corporation will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 13 – Fair Value Measurement

IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by *IFRS*. While many of the concepts in *IFRS 13* are consistent with current practice, certain principles, such as the prohibition on blockage discounts for all fair value measurements, could have a significant effect. The disclosure requirements are substantial and could present additional challenges. *IFRS 13* is effective for annual periods commencing on or after January 1, 2013, and will be applied prospectively. The Corporation is currently evaluating the implications of this new Standard.

IAS 12 (amendment) – Deferred Tax: Recovery of Underlying Assets

On December 20, 2010, the IASB issued *Deferred Tax: Recovery of Underlying Assets* (amendments to *IAS 12*) concerning the determination of deferred tax on investment property measured at fair value. The amendments incorporate *Standing Interpretations Committee* ("SIC") *– 21 Income Taxes: Recovery of Revalued Non-depreciable Assets* into *IAS 12 – Income Taxes* for non-depreciable assets measured using the revaluation model in *IAS 16 – Property, Plant and Equipment*. The aim of the amendments is to provide a practical solution for jurisdictions where entities currently find it difficult and subjective to determine the expected manner of recovery for investment property that is measured using the fair-value model in *IAS 40 – Investment Property. IAS 12* has been updated to include the following:

- A rebuttable presumption that deferred tax on investment property measured using the fair-value model in *IAS 40* should be determined on the basis that its carrying amount will be recovered through sale; and

- A requirement that deferred tax on non-depreciable assets, measured using the revaluation model in *IAS 16*, should always be measured on a sale basis.

The amendments are mandatory for annual periods beginning on or after January 1, 2012, but earlier application is permitted. The Corporation is currently assessing the impact of the amendments on its consolidated financial statements.

5. INVENTORIES AND CONTRACTS IN PROGRESS

in thousands of U.S. dollars	**At July 31, 2012**	At July 31, 2011
Raw materials	**$ 16,155**	$ 21,046
Work in process – product costs	**2,026**	2,587
Finished goods	**10,450**	10,521
	28,631	34,154
Long-term contracts:		
Raw materials	**278**	813
Work in process – product costs	**23,823**	27,557
Work in process – manufacturing process development costs	**2,602**	3,012
Work in process – development costs	**361**	1,158
Finished goods	**1,955**	483
	29,019	33,023
	$ 57,650	$ 67,177

At July 31, 2012, the Corporation has included in its inventories and contracts in progress $29.0 million [July 31, 2011 – $33.0 million] of costs under long-term contracts with the U.S. government (see *note 22*).

During the year ended July 31, 2012, inventories and contracts in progress of $61.5 million, [year ended July 31, 2011 – $76.4 million], were expensed through cost of sales. Writedowns of finished goods and reserves for obsolete materials and supplies of $2.9 million and $7.6 million, respectively, were included in cost of sales during the year ended July 31, 2012 [year ended July 31, 2011 – $2.6 million and $8.0 million, respectively]. Reversals of writedowns of $0.4 million were recorded during the year ended July 31, 2012 [year ended July 31, 2011 – $2.2 million].

At July 31, 2012, inventory of $50.7 million is recorded at cost and $6.9 million is recorded at net realizable value. At July 31, 2011, inventory of $61.9 million was recorded at cost and $5.3 million was recorded at net realizable value.

6. PROPERTY, PLANT AND EQUIPMENT

At July 31, 2012, equipment and computer systems in the amount of $0.3 million [July 31, 2011 – $2.3 million] are currently under development and not being depreciated.

Depreciation expense recognized in cost of sales is described in *note 13*.

in thousands of U.S. dollars	Land	Buildings	Equipment	Furniture and fixtures	Computer systems	Leasehold improvements	Construction in progress	Total
Net book value as at July 31, 2010	$ 332	$ 43,994	$ 21,978	$924	$ 1,258	$1,755	$8,620	$ 78,861
Additions	—	558	2,134	159	202	26	4,451	7,530
Disposals – cost	—	(119)	(481)	—	(246)	(121)	—	(967)
Disposals – accumulated depreciation	—	119	430	—	217	110	—	876
Transfers	—	8,981	3,058	(12)	114	—	(12,148)	(7)
Impairment	—	—	(201)	(116)	(169)	(1,277)	—	(1,763)
Depreciation charge	—	(2,438)	(6,545)	(208)	(671)	(493)	—	(10,355)
Net book value as at July 31, 2011	332	51,095	20,373	747	705	—	923	74,175
Additions	**—**	**283**	**636**	**83**	**422**	**—**	**180**	**1,604**
Disposals – cost	**—**	**—**	**(207)**	**(2)**	**(33)**	**—**	**(24)**	**(266)**
Disposals – accumulated depreciation	**—**	**—**	**106**	**—**	**33**	**—**	**—**	**139**
Transfers	**—**	**596**	**389**	**—**	**55**	**—**	**(1,074)**	**(34)**
Impairment	**—**	**(3,530)**	**(2,061)**	**—**	**—**	**—**	**—**	**(5,591)**
Depreciation charge	**—**	**(2,203)**	**(5,706)**	**(171)**	**(480)**	**—**	**—**	**(8,560)**
Net book value as at July 31, 2012	**$ 332**	**$ 46,241**	**$ 13,530**	**657**	**702**	**—**	**$5**	**$ 61,467**

The Corporation has determined that there continue to be indications of impairment in the Cangene Plasma Resources CGU at July 31, 2012. As a result, an impairment charge of $3.5 million has been recorded against buildings. The Corporation has determined that there are also indications of impairment in the CGU that relates to the Immune Globulin Intravenous project ("IGIV CGU") at July 31, 2012. As a result, an impairment charge of $2.1 million has been recorded against equipment. The Corporation has determined that there are no further indicators of impairment of property, plant and equipment for other CGUs at July 31, 2012. Cangene Plasma Resources and IGIV are included in the Corporation's biopharmaceutical-operations segment. At July 31, 2012, the recoverable amounts of the Cangene Plasma Resources CGU and the IGIV CGU were determined on a fair-value-less-costs-to-sell basis, which was higher than their value in use. The fair value less costs to sell of the Cangene Plasma Resources CGU and the IGIV CGU was determined by reference to external sources for liquidation values.

7. INTANGIBLE ASSETS

Amortization expense recognized in cost of sales is described in *note 13*.

in thousands of U.S. dollars	Goodwill	Patents	Commercialization rights	Software	Total
Net book value as at July 31, 2010	$ 2,328	$ 769	$12,425	$ 1,584	$ 17,106
Additions	—	—	—	271	271
Amortization charge	—	(96)	(2,100)	(555)	(2,751)

Impairment	(2,328)	—	—	—	(2,328)
Transfer	—	—	—	7	7
Net book value as at July 31, 2011	—	673	10,325	1,307	12,305
Additions	**—**	**—**	**10,070**	**106**	**10,176**
Amortization charge	**—**	**(37)**	**(2,117)**	**(476)**	**(2,630)**
Impairment	**—**	**(636)**	**—**	**—**	**(636)**
Transfers	**—**	**—**	**—**	**34**	**34**
Net book value as at July 31, 2012	**$ —**	**$ —**	**$18,278**	**$ 971**	**$ 19,249**

United States commercialization rights for episil®

On July 9, 2012, the Corporation announced that it had entered into an agreement with Camurus AB to acquire exclusive rights to commercialize a product called episil® in the United States (see also *note 21[c]*). The Corporation has recorded a commercialization rights asset in the amount of $10.1 million for episil®. As a result of the agreement, the Corporation must pay royalties on future net sales during the contract period, dependent on the dollar amount of net sales in each year. The Corporation has also agreed to certain minimum order quantities under the contract. The purchase includes an upfront payment of $2.0 million and a milestone payment of $0.5 million due in October 2012. In addition, at July 31, 2012, the Corporation has recorded a purchase consideration liability of $7.6 million related to the royalties anticipated on the minimum order quantities specified in the contract. This liability will be reduced as the royalties are paid on the minimum quantities. Royalties payable on net sales that are in excess of the specified minimum quantities will be recorded at the time of the sales.

Impairment of patents

During the year ended July 31, 2012, the Corporation identified that indicators of impairment existed for the patents that are included in its biopharmaceutical-operations segment. As a result of a strategic review, the Corporation has decided not to proceed with the related R&D programs and not to pursue further business development activities with respect to the patents. Although some of the patents remain in place, the Corporation intends to allow them to lapse when they come up for renewal. At July 31, 2012, the Corporation has recorded an impairment charge of $0.6 million against these patents, resulting in a recoverable amount of $Nil.

8. OPERATING LINE OF CREDIT

As at July 31, 2012, the Corporation has a C$20.0-million [July 31, 2011 – C$20.0-million] revolving term loan from a Canadian chartered bank; however, as the Corporation is not in compliance with an EBITDA-related debt covenant, it does not have access to this credit facility at July 31, 2012 (see *note 19*). This line of credit is collateralized by a general security agreement in respect of all the Corporation's assets; as at July 31, 2012, C$Nil was utilized [July 31, 2011 – $CNil]. Interest is payable on this line of credit 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, but is subject to periodic review by the bank. See *note 24[c]* for a subsequent event related to this operating line of credit.

9. PROVISIONS

[a] Royalty provision

On October 16, 2009, the Corporation's Board of Directors approved an agreement under which Cangene, through Cangene bioPharma, acquired the U.S. commercialization rights for HepaGam B® (see *note 23[a]*). As 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 $7.0-million present value of the estimated future royalty stream on U.S. sales of HepaGam B® through June 2016 was initially recorded as a royalty provision effective November 1, 2009. This provision is being amortized monthly to cost of sales on the basis of the present value calculations. This amortization for the years ended July 31, 2012 and 2011, is $0.8 million and $1.1 million, respectively. Concurrently, the Corporation is recording a royalty expense in cost of sales for the actual royalty paid or payable in the period. The royalty expense for the years ended July 31, 2012 and 2011, is $0.9 million and $0.8 million, respectively. Therefore, for the years ended July 31, 2012 and 2011, the net impact is an increase of less than $0.1 million and a recovery of $0.2 million, respectively, in cost of sales. Amortization of the commercialization rights acquired is also recorded in selling, general and administrative expense (see *note 7*).

The Corporation is required to remeasure the royalty provision at each reporting period. At July 31, 2012, the Corporation has calculated the net present value of future royalty payments using a weighted-average cost of capital of 17% and projected net sales of HepaGam B® for the duration of the agreement. As a result of this remeasurement, the Corporation has reduced the royalty provision by $0.2 million for the year ended July 31, 2012 [year ended July 31, 2011 – reduced the royalty provision by $1.7 million].

At July 31, 2012, the HepaGam B® royalty provision is $2.3 million [July 31, 2011 – $3.3 million]. At July 31, 2012, the Corporation has recorded accounts payable of $0.2 million [July 31, 2011 – $0.2 million] representing the current royalty provision payable to Apotex.

[b] Provisions for chargebacks, administrative fees, rebates and other allowances

The Corporation estimates allowances for revenue-reducing obligations such as trade discounts, chargebacks, administrative fees, rebates and other allowances using a combination of historical trends, contractual obligations and information received from third parties. Administrative fees includes actual administrative fees along with additional rebates for a primary distributor. Rebates includes Medicaid rebates, Medicare rebates and other government programs. Other allowances includes distribution fees, no-return fees, prompt payment discounts and centralized shipping fees.

in thousands of U.S. dollars	Chargebacks	Administrative fees	Rebates	Other allowances	Total
As at July 31, 2010	$ 1,365	$ 159	$ —	$ 355	$ 1,879
Actual payments/credits issued	(8,645)	(971)	(15)	(1,937)	(11,568)
Provisions/reversals charged	9,423	1,642	316	1,972	13,353
Balance at July 31, 2011	2,143	830	301	390	3,664
Actual payments/credits issued	**(8,504)**	**(1,297)**	**(126)**	**(1,818)**	**(11,745)**
Change in estimate	**—**	**—**	**(431)**	**—**	**(431)**
Provisions/reversals charged	**8,583**	**1,281**	**390**	**1,883**	**12,137**
Balance at July 31, 2012	**$ 2,222**	**$ 814**	**$ 134**	**$ 455**	**$ 3,625**

10. SHARE CAPITAL

Authorized and issued

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

Issued share capital comprises common shares as follows:

in thousands of U.S. dollars except share data	Number of shares	Share capital
As at July 31, 2010	67,843,570	$ 51,696
Shares cancelled under Normal Course Issuer Bid	(1,096,700)	(836)
As at July 31, 2011	66,746,870	50,860
As at July 31, 2012	**66,746,870**	**$ 50,860**

[b] Normal Course Issuer Bid

June 1, 2010, to May 31, 2011 (the "2010 Bid")

On May 27, 2010, 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 1,500,000 common shares (approximately 2.2% of the Corporation's total issued and outstanding common shares as at May 25, 2010) by way of a Normal Course Issuer Bid. Under the 2010 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. The 2010 Bid expired on May 31, 2011.

When shares are repurchased and cancelled under a Normal Course Issuer Bid, the excess of purchase price over the average stated capital of the shares is charged to retained earnings. A summary of the activity under the 2010 Bid for the year ended July 31, 2011, is presented below (there was no Normal Course Issuer Bid active during the year ended July 31, 2012):

in thousands of U.S. dollars except share data				Year ended July 31, 2011
	Shares cancelled	Cost	Share capital	Retained earnings
2010 Bid	1,096,700	$ 3,300	$(836)	$(2,464)
Total	1,096,700	$ 3,300	$(836)	$(2,464)

11. EMPLOYEE BENEFIT PLANS

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

The final grant of phantom-stock units under the PSIP matured with no pay-out during the quarter ended October 31, 2011.

Under the plan, the phantom-stock units matured three years and 90 days after the effective date of grant. The phantom-stock units were 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. Participants in the PSIP received cash awards equal to any increase in value of the phantom-stock units between the effective date of grant and the date of maturity.

Participation in the PSIP required mandatory participation in a share ownership plan, which stipulates that the participants must acquire a minimum investment in the Corporation's common shares by a pre-determined future date.

The following table summarizes changes in the number of phantom-stock units outstanding during the years ended July 31, 2012 and 2011:

Phantom-stock units	**Year ended July 31, 2012**	Year ended July 31, 2011
Outstanding at beginning of year	**1,915,352**	2,941,994
Matured with no value	**(1,897,791)**	(652,747)
Cancelled with no value	**(17,561)**	(373,895)
Outstanding at end of year	**—**	1,915,352

The Corporation recognized a compensation recovery of $Nil for the year ended July 31, 2012 [year ended July 31, 2011 – recovery of $1.0 million].

[b] Restricted share unit plan ("RSU plan")

In 2009 the Board of Directors authorized an RSU plan for members of management. Pursuant to the RSU plan, members of management may be granted restricted share units ("RSUs") as the long-term incentive component of their 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 on the Toronto Stock Exchange 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 fair value. Changes in fair 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 the Corporation's common shares by a pre-determined future date. RSUs held count towards the ownership requirement.

The following table summarizes changes in the number of RSUs outstanding during the years ended July 31, 2012 and 2011:

Restricted share units	**Year ended July 31, 2012**	Year ended July 31, 2011
Outstanding at beginning of year	**1,850,501**	1,010,651
Issued	**—**	1,157,965
Redeemed	**(574,595)**	(229,022)
Cancelled	**—**	(89,093)
Outstanding at end of year	**1,275,906**	1,850,501

The Corporation recognized a compensation recovery of $0.2 million and a compensation expense of $0.7 million for the years ended July 31, 2012 and 2011, respectively, as a result of the RSU plan.

During the years ended July 31, 2012 and 2011, 574,595 and 229,022 RSUs, respectively, were redeemed with a value of $0.8 million and $0.4 million, respectively.

The following tables summarize information about RSUs outstanding and related liabilities as at July 31, 2012, and July 31, 2011:

	Fiscal year of grant	Number of units outstanding	Weighted-average remaining contractual life	*in thousands of U.S. dollars* **Liability at July 31, 2012**
	2010	536,244	0.3 years	**$ 841**
	2011	739,662	1.2 years	**1,062**
Total		1,275,906	0.8 years	**$ 1,903**

	Fiscal year of grant	Number of units outstanding	Weighted-average remaining contractual life	*in thousands of U.S. dollars* Liability at July 31, 2011
	2010	855,115	1.3 years	$ 1,498
	2011	995,386	2.3 years	1,346
Total		1,850,501	1.8 years	$ 2,844

[c] Stock option plan

The Board of Directors may authorize the issuance of options to acquire common shares under a stock option plan, provided that the number of options outstanding to any one individual at any time does not exceed 5% of the outstanding shares. As at July 31, 2012, 2.3 million [July 31, 2011 – 3.1 million] options remain available to be granted under the plan. The exercise price of options granted under the plan cannot be lower than the arithmetic average of the daily high and low board-lot trading prices of the Corporation's common shares on the Toronto Stock Exchange for the five days immediately prior to the date of the grant. Under the plan, options expire no later than eight and five years after the date they are granted for employees and non-executive directors, respectively, and vest over four fiscal years.

A summary of the status of the Corporation's stock option plan as at July 31, 2012 and 2011, and changes during the years ended on those dates, is presented below:

	Year ended July 31, 2012		Year ended July 31, 2011	
Stock options	**Number of options**	**Weighted-average exercise price**	Number of options	Weighted-average exercise price
Outstanding at beginning of year	**—**	**—**	339,200	C$10.60
Granted	**750,000**	**1.37**	—	—
Forfeited, expired or cancelled	**—**	**—**	(339,200)	10.60
Outstanding at end of year	**750,000**	**C$1.37**	—	—
Exercisable at end of year	**187,500**	**C$1.37**	—	—

The following table summarizes information about stock options outstanding at July 31, 2012:

		Options outstanding			Options exercisable	
Exercise price	Fiscal year of grant	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Number outstanding	Weighted-average exercise price
C$1.37	2012	750,000	7.1 years	C$1.37	187,500	C$1.37

The Corporation's President and Chief Executive Officer ("CEO") was granted 750,000 stock options at an exercise price of C$1.37 per share, effective September 12, 2011, under the stock option plan. These stock options vested 25% immediately upon grant; 25% then vest on August 1, 2012, 25% on August 1, 2013, and finally, 25% vest on August 1, 2014.

In accordance with his employment contract, the President and CEO also received a further 750,000 stock options at an exercise price of C$1.51 per share on September 12, 2012. No stock options were granted during the year ended July 31, 2011.

The fair value of the stock options granted is estimated at the grant date using the Black-Scholes Model, taking into account the terms and conditions under which the stock options were granted. The Corporation has calculated fair value during the year for both of the 750,000 stock option grants. The contractual life of the options granted is eight years from the date of grant. There is no cash settlement of the stock options. The fair value of these stock options was calculated on September 12, 2011, using the following assumptions:

Dividend yield	0.0%
Expected volatility	49.2%
Risk-free interest rate	1.2%
Expected life	4.0 years
Share price	C$1.32

The fair value of the stock options is allocated over the vesting periods using the graded-vesting method. Stock option expenses of $0.4 million and $Nil were recorded and credited to contributed surplus for the years ended July 31, 2012 and 2011, respectively.

[d] Employee share purchase plan

Under the terms of the Corporation's employee share purchase plan, employees can choose to have up to 5% of their annual gross earnings, to a yearly maximum of $10,000, withheld to purchase common shares of the Corporation on the open market. The Corporation will match 20% of all contributions made by employees. The total contribution vests immediately. During the year ended July 31, 2012, the Corporation's contribution was $0.1 million [year ended July 31, 2011 – $0.1 million], which is recorded as compensation expense. Under the plan, employees acquired 361,366 common shares during the year ended July 31, 2012 [year ended July 31, 2011 – 245,808].

[e] Defined-contribution pension plan – Canadian employees

The Corporation has a defined-contribution pension plan for its Canadian employees, to which it contributes at rates of up to 4% of a non-executive employee's salary or up to 6% of an executive employee's salary, subject to the legislated maximum. The expense and payments for the year ended July 31, 2012, were $1.0 million [year ended July 31, 2011 – $1.1 million].

[f] Defined-contribution pension plan – United States employees

The Corporation has a defined-contribution 401(k) pension plan for its United States employees, to which it contributes at rates of up to 4% of the employee's salary, subject to the legislated maximum. The expense and payments for the year ended July 31, 2012, were $0.3 million [year ended July 31, 2011 – $0.3 million].

12. DEFERRED SHARE UNIT PLAN ("DSU plan")

In 2009 the Board of Directors authorized a DSU plan for non-executive directors. Pursuant to the DSU plan, non-executive 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. DSUs are issued quarterly and vest immediately on issuance.

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-executive director. Each DSU entitles the participant to receive cash payment upon termination of directorship that is 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 termination date. In the event the Corporation declares a dividend on its common shares, the participant 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 fair value. Changes in fair value between the grant date and the measurement date result in a change in the measurement of compensation cost.

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

The following table summarizes changes in the number of DSUs outstanding during the years ended July 31, 2012 and 2011:

Deferred share units	**Year ended July 31, 2012**	Year ended July 31, 2011
Outstanding at beginning of year	**114,905**	49,069
Issued during the year	**192,112**	65,836
Outstanding at end of year	**307,017**	114,905

The following tables summarize information about DSUs outstanding and related liabilities as at July 31, 2012 and 2011:

		in thousands of U.S. dollars
	Number of units outstanding	**Liability at July 31, 2012**
	307,017	**$481**
Total	307,017	**$481**

		in thousands of U.S. dollars
	Number of units outstanding	Liability at July 31, 2011
	114,905	$222
Total	114,905	$222

13. EXPENSES BY NATURE

The following is a breakdown of depreciation, amortization, investment tax credits, foreign-exchange differences, employee benefits expense and cost of inventories that are included in the consolidated statements of income (loss) and comprehensive income (loss):

in thousands of U.S. dollars		**Year ended July 31, 2012**		Year ended July 31, 2011
Cost of sales – product sales and product services:				
Depreciation of property, plant and equipment	**$**	**7,121**	$	9,115
Amortization of intangible assets		**423**		469
Foreign-exchange gain		**(321)**		(652)
Cost of inventories recognized as an expense		**64,364**		75,806
Total cost of sales – product sales and product services	**$**	**71,587**	$	84,738
Cost of sales – R&D services:				
Depreciation of property, plant and equipment	**$**	**275**	$	205
Amortization of intangible assets		**2**		3
Investment tax credits		**(202)**		(1,858)
Foreign-exchange gain		**(81)**		(135)
Cost of inventories recognized as an expense		**13,587**		13,058
Total cost of sales – R&D services	**$**	**13,581**	$	11,273
Administrative expense includes:				
Depreciation of property, plant and equipment	**$**	**397**	$	415
Amortization of intangible assets		**2,199**		2,269
Foreign-exchange gain		**(196)**		(314)
Independent R&D expense includes:				
Depreciation of property, plant and equipment	**$**	**767**	$	620
Amortization of intangible assets		**6**		10
Investment tax credits		**(1,018)**		(8,088)
Foreign-exchange gain		**(148)**		(363)
Employee benefits expense:				
Salaries and other short-term employee benefits	**$**	**49,427**	$	57,326
Termination and retirement benefits		**3,213**		1,719
Post-employment benefits		**1,142**		1,282
Share-based compensation		**458**		(624)
Total employee benefits expense	**$**	**54,240**	$	59,703

14. EARNINGS (LOSS) PER SHARE

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

in thousands of U.S. dollars except share-related data		**Year ended July 31, 2012**	Year ended July 31, 2011
Net income (loss)	**$**	**(28,287)**	$1,509
Weighted-average number of common shares outstanding		**#66,746,870**	#67,141,337
Dilutive effect of stock options		**—**	—
Diluted weighted-average number of common shares outstanding		**#66,746,870**	#67,141,337
Earnings (loss) per share*:*			
Basic and diluted	**$**	**(0.42)**	$0.02

For the year ended July 31, 2012, 750,000 options [July 31, 2011 – Nil options] were excluded from the calculation of diluted earnings (loss) per share; options are excluded from the calculation when their exercise price exceeds the average market price of the Corporation's common shares on the Toronto Stock Exchange for the period or when their inclusion would reduce the loss per share.

15. GOVERNMENT ASSISTANCE AND TAX CREDITS

R&D expenses for the years ended July 31, 2012 and 2011, are net of combined federal and provincial scientific research and experimental development ("SR&ED") tax credits in the amounts of $1.2 million and $9.9 million, respectively. At July 31, 2012, $1.2 million [July 31, 2011 – $1.3 million] of SR&ED tax credits were included as a reduction of long-term contract costs in inventories and contracts in progress.

For the years ended July 31, 2012 and 2011, there was less than $0.1 million in investment tax credits relating to SR&ED capital expenditures and no provincial investment tax credits related to manufacturing and processing capital expenditures. Both of these were accounted for as a reduction of the cost of the applicable assets.

To qualify for federal and provincial SR&ED investment tax credits, the work must advance the understanding of scientific relations or technologies, address scientific or technological uncertainty, and incorporate a systematic investigation by qualified personnel. To qualify for the Manitoba manufacturing investment tax credit, the building, machinery and equipment must be purchased for first-time use in manufacturing or processing in Manitoba.

The Corporation has Manitoba SR&ED investment tax credit carryforwards in the amount of $20.6 million which begin expiring in 2019. Of these, approximately $9.6 million were not recorded in 2012 as management has determined that uncertainty exists with regards to sufficient future Canadian taxable income during the carryforward period to utilize the credits.

16. TAXES

[a] Tax expense (benefit)

The components of the Corporation's tax expense (benefit) for the years ended July 31, 2012, and July 31, 2011, are as follows:

in thousands of U.S. dollars		**Year ended July 31, 2012**	Year ended July 31, 2011
Current tax:			
Current tax on profits for the year	**$**	**(4,762)**	$(2,518)
Adjustments in respect of prior years		**(370)**	(3)
Total current tax benefit		**(5,132)**	(2,521)
Deferred tax:			
Origination and reversal of temporary differences		**538**	(584)
Impact of change in tax rate		**93**	864
Total deferred tax expense		**631**	280
Tax benefit	**$**	**(4,501)**	$(2,241)

Factors affecting tax benefit:

The standard rate of Canadian corporate tax is 26.99% [2011 – 28.50%]. The tax on the consolidated entities' loss before taxes differs from the theoretical amount that would arise using the weighted-average tax rate applicable to the loss of the consolidated entities as follows:

in thousands of U.S. dollars			**Year ended July 31, 2012**	Year ended July 31, 2011
Combined statutory federal and provincial tax rate at **26.99**%	[2011 – 28.5%]	**$**	**(8,849)**	$(209)
Adjusted for:				
Income taxes recorded at rates different from the Canadian tax rate			**1,148**	414
Unrecognized temporary difference for unrealized foreign-exchange (gain) loss on advances to U.S. subsidiaries			**(1,179)**	2,069
Investment tax credits for which no benefit is recognized			**2,556**	—
Expenses not deductible for tax purposes			**83**	73
Tax-loss benefit not recognized			**543**	44
Non-taxable foreign-exchange gain (loss) on translation			**2,635**	(6,127)
Remeasurement of deferred tax due to change in tax rate			**93**	864
Impairment of goodwill			**—**	664
Stock options			**118**	—
Benefit of rate differential on loss carryback			**(1,067)**	—
Other			**(212)**	(31)
Adjustment in respect of prior years			**(370)**	(2)
Tax benefit		**$**	**(4,501)**	$(2,241)

The effective tax benefit rate for the year ended July 31, 2012, of 13.73% is lower than the statutory Canadian corporate tax rate of 26.99%, primarily due to the effects of the translation of the operations into the U.S. functional currency, income taxes recorded at rates different from the Canadian corporate tax rate and the impact of unrecognized Manitoba income tax credits; these effects are partially offset by an unrealized foreign-exchange gain on advances to U.S. subsidiaries and the benefit of a rate differential on loss carryback.

During the year ended July 31, 2011, the Corporation's effective tax benefit rate of 306.1% was higher than the statutory Canadian corporate tax rate of 28.5%, primarily due to the effects of the translation of the operations into the U.S. functional currency.

[b] Deferred tax

The movement in deferred tax assets and liabilities during the years ended July 31, 2012, and July 31, 2011, without taking into consideration the offsetting of balances within the same tax jurisdictions, are as follows:

in thousands of U.S. dollars

Deferred tax assets	Property, plant and equipment	Inventory and other reserves	Intangible assets	Deferred income	Loss carryforwards	Other	Total
As at July 31, 2010	$ 4,254	$ 5,869	$ 441	$ 642	$ 1,255	$ 3,379	$ 15,840
Credited (charged) to income statement	1,300	245	(41)	(165)	(769)	(72)	498
As at July 31, 2011	5,554	6,114	400	477	486	3,307	16,338
Credited (charged) to income statement	**132**	**(1,131)**	**434**	**24**	**(249)**	**(912)**	**(1,702)**
As at July 31, 2012	**$ 5,686**	**$ 4,983**	**$ 834**	**$ 501**	**$ 237**	**$ 2,395**	**$ 14,636**

in thousands of U.S. dollars

Deferred tax liabilities	SR&ED investment tax credits	Deferred development costs	Other	Total
As at July 31, 2010	$1,069	$871	$ 122	$ 2,062
Charged (credited) to income statement	902	(109)	(15)	778
Other movements	—	—	1	1
As at July 31, 2011	1,971	762	108	2,841
Charged (credited) to income statement	**(684)**	**(387)**	**—**	**(1,071)**
As at July 31, 2012	**$1,287**	**$375**	**$ 108**	**$ 1,770**

In addition to the above recognized deferred tax assets, at July 31, 2012, the Corporation has U.S. state tax losses carried forward and other temporary differences relating to its U.S.-based plasma centres that, when tax-effected, have an estimated value of $0.4 million. The Corporation also has a temporary difference relating to unrecognized Manitoba investment tax credits that, when tax-effected, have an estimated value of $2.6 million. Additionally, the Corporation has $3.8 million of capital losses carried forward, which may only be used to offset future capital gains. In respect of these, the Corporation has not recognized a deferred tax asset.

At July 31, 2011, the Corporation had U.S. state tax losses carried forward that, at the then current U.S. state tax rates, had an estimated value of $0.5 million. Additionally, the Corporation had $3.8 million of capital losses carried forward, which may only be used to offset future capital gains. In respect of these, the Corporation has not recognized a deferred tax asset.

In a prior year, the Corporation recorded an impairment loss on Cangene bioPharma's viral-vaccine-filling facility. A deferred tax asset of approximately $6.2 million related to the impairment has not been recognized.

The analysis of deferred tax assets and deferred tax liabilities is as follows:

in thousands of U.S. dollars		**At July 31, 2012**	At July 31, 2011
Deferred tax assets:			
To be recovered after more than 12 months	**$**	**7,216**	$6,917
To be recovered within 12 months		**7,420**	9,421
		14,636	16,338
Deferred tax liabilities:			
To be recovered after more than 12 months		**483**	870
To be recovered within 12 months		**1,287**	1,971
		1,770	2,841
Net deferred tax	**$**	**12,866**	$13,497

The gross movement on the deferred tax account is as follows:

in thousands of U.S. dollars		**At July 31, 2012**	At July 31, 2011
Opening balance	**$**	**13,497**	$13,778
Income statement charge		**(631)**	(280)
Other		**—**	(1)
Closing balance	**$**	**12,866**	$13,497

17. SUPPLEMENTARY INFORMATION FOR CONSOLIDATED STATEMENTS OF CASH FLOWS

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

in thousands of U.S. dollars		**Year ended July 31, 2012**		Year ended July 31, 2011
Accounts receivable	**$**	**(2,247)**	$	(1,835)
Inventories and contracts in progress		**9,527**		18,691
Taxes recoverable		**6,614**		(12,637)
Prepaid expenses and deposits		**113**		701
Accounts payable and accrued liabilities		**(4,937)**		(4,602)
Provision for chargebacks		**(39)**		1,785
Taxes payable		**615**		19
	$	**9,646**	$	2,122

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

[a] Fair value hierarchy

The Corporation primarily applies the market approach for recurring fair value measurements. Three levels of inputs may be used to measure fair value:

LEVEL 1 – Unadjusted, quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

LEVEL 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

LEVEL 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table presents information about the Corporation's assets and liabilities measured at fair value on a recurring basis as at July 31, 2012, and the fair value hierarchy of the valuation techniques used to determine such fair value.

in thousands of U.S. dollars	Level 1	Level 2	Level 3	**Total**
Cash	$35,870	—	—	**$35,870**
Derivative financial instruments	—	(79)	—	**(79)**

As at July 31, 2012, and July 31, 2011, the carrying values of current assets and liabilities, including cash, accounts receivable, accounts payable and accrued liabilities, and purchase consideration payable approximate their fair value. These short-term financial instruments approximate the fair value due to the relatively short period to maturity.

All derivatives are recorded at fair value in the consolidated balance sheets. The fair values of the Corporation's derivative financial instruments used to manage exposure to interest rate risk are estimated based on quoted market prices for the same or similar financial instruments, or on the current rates offered to the Corporation for financial instruments of the same maturity, as well as by the use of discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities. The Corporation has reviewed all significant contractual arrangements and determined that there are no material embedded derivatives that must be separated from the host contract and accounted for separately.

[b] Risk management policies

The Corporation manages risk and risk exposures through a combination of insurance, derivative financial instruments, a system of internal and disclosure controls, and sound business practices. The Corporation is exposed to significant currency risk and uses derivative financial instruments to manage the risk of fluctuation in foreign-exchange rates. The Corporation enters into forward-foreign-exchange contracts to limit exposure on certain anticipated future U.S.-dollar sales and cash flows. The maximum length of time over which the Corporation hedges its exposure to the variability of future cash flows is one year. The Corporation has also entered into currency swaps to limit the interest expense associated with the Canadian-dollar usage of its operating line of credit.

[c] Credit risk

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

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

in thousands of U.S. dollars		**At July 31, 2012**		At July 31, 2011
Neither impaired nor past due	**$**	**14,576**	$	13,432
Not impaired but past the due date as follows:				
Within 30 days		**5,339**		3,574
31–60 days		**633**		2,081
Over 60 days		**1,817**		1,037
Allowance for doubtful accounts		**(35)**		(41)
Total	**$**	**22,330**	$	20,083

There are no impaired accounts receivable.

A continuity of the allowance for doubtful accounts for the years ended July 31, 2012, and July 31, 2011, is as follows:

in thousands of U.S. dollars		**Year ended July 31, 2012**		Year ended July 31, 2011
Opening balance, beginning of year	**$**	**41**	$	163
Foreign-exchange impact		**(1)**		10
Additional allowances		**—**		32
Collection of doubtful accounts		**(5)**		—
Writeoff of uncollectible accounts		**—**		(164)
Closing balance, end of year	**$**	**35**	$	41

[d] Interest rate risk

The Corporation's Canadian-dollar operating line of credit is at a floating interest rate; therefore, it is subject to interest rate cash flow risk. The Corporation has entered into U.S.–Canadian-dollar currency swaps whereby the Corporation received Canadian funds in return for U.S. funds at the trade-date exchange rate. At the maturity date, the Corporation repays the U.S. funds with Canadian funds at the same exchange rate for a fixed fee. These swaps are entered into 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 had currency swaps outstanding at July 31, 2012, as follows:

in thousands of U.S. dollars

Notional amount	Maturity date		Fair value at July 31, 2012
$5,000	August 1, 2012	**$**	**(64)**
5,000	August 28, 2012		**(47)**
5,000	September 10, 2012		**(45)**
5,000	September 24, 2012		**21**
5,000	November 5, 2012		**56**
$25,000		**$**	**(79)**

The fair values reflect the cost to unwind the instruments. If the currency swaps are held to maturity, the Corporation will pay $0.3 million in fixed-fee swap costs for the instruments.

The Corporation had currency swaps outstanding at July 31, 2011, as follows:

in thousands of U.S. dollars

	Notional amount	Maturity date		Fair value at July 31, 2011
$	5,000	August 25, 2011	$	(212)
	5,000	September 12, 2011		(142)
	5,000	September 23, 2011		(221)
	10,000	October 13, 2011		(134)
	5,000	November 4, 2011		(24)
	5,000	November 28, 2011		(142)
	10,000	December 22, 2011		(838)
	5,000	January 26, 2012		(21)
	10,000	January 30, 2012		(41)
$	60,000		$	(1,775)

[e] Currency risk

The Corporation receives the majority of its revenues and incurs significant expenses in U.S. dollars. However, the Corporation does receive certain revenues and incurs certain expenses in Canadian dollars; consequently, fluctuations in the rate of exchange between U.S. and Canadian dollars can have an effect on the Corporation's reported results. On occasion, forward-foreign-exchange contracts and foreign-exchange option collars are used by the Corporation to manage its foreign-exchange exposure on anticipated Canadian-dollar expenditures. 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. As at July 31, 2012, and July 31, 2011, the Corporation had no forward-foreign-exchange contracts or foreign-exchange option collars outstanding.

Furthermore, the Corporation maintains a Canadian-dollar operating line of credit, which may also affect the Corporation's reported results when there are fluctuations in the rate of exchange between Canadian and U.S. dollars. However, as at July 31, 2012, C$Nil [July 31, 2011 – C$Nil] was utilized on this facility.

The Corporation maintains Canadian-dollar bank accounts; Canadian-dollar cash balances at July 31, 2012, were C$1.5 million [July 31, 2011 – cash overdraft of C$0.7 million].

[f] Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulties in meeting its financial liability obligations. The Corporation manages its liquidity risk through cash and debt management. Trade payables are due within one year.

[g] Sensitivity analysis

The Corporation's sales denominated in Canadian dollars for the year ended July 31, 2012, were C$10.1 million, and the total of its cost of sales and selling, general and administrative expense denominated in that currency was C$102.6 million. Accordingly, a 10% increase or decrease in the exchange rate between Canadian and U.S. dollars would result in a $1.0-million increase or decrease in sales, and a total increase or decrease of $10.3 million in cost of sales plus selling, general and administrative expense.

19. CAPITAL STRUCTURE

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

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

The table below reconciles the non-IFRS financial measure EBITDA to the net income (loss) for the preceding 12-month periods:

in thousands of U.S. dollars		**Year ended July 31, 2012**		Year ended July 31, 2011
Net income (loss)	$	**(28,287)**	$	1,509
Add back:				
Interest expense		**15**		15
Tax benefit		**(4,501)**		(2,241)
Depreciation and amortization		**11,190**		13,106
EBITDA	**$**	**(21,583)**	$	12,389

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

in thousands of U.S. dollars except ratio	**At July 31, 2012**	At July 31, 2011
Long-term debt	**—**	—
Equity	**195,352**	223,200
Ratio	**—**	—

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

in thousands of U.S. dollars except ratio	**At July 31, 2012**	At July 31, 2011
Long-term debt	**—**	—
EBITDA	**(21,583)**	12,389
Ratio	**—**	—

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

in thousands of U.S. dollars except ratio	**At July 31, 2012**	At July 31, 2011
EBITDA	**$(21,583)**	$12,389
Interest expense	**15**	15
Current portion of long-term debt and capital leases	**—**	—
Ratio	**Negative**	826:1

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

in thousands of U.S. dollars except ratio	**At July 31, 2012**	At July 31, 2011
Current assets	**$122,426**	$146,990
Current liabilities	**21,676**	26,957
Working capital ratio	**5.6:1**	5.5:1

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

The Corporation is subject to externally imposed capital requirements associated with its C$20.0-million operating line of credit (see *note 8*), which must be maintained to avoid acceleration of the termination of the agreement. The externally imposed capital requirements are the same as the financial metrics used on an internal basis to monitor capital structure. At July 31, 2012, the Corporation is in compliance with all but one of its financial covenants. Because the Corporation is not in compliance with the EBITDA to interest expense plus current portion of the long-term debt and capital leases covenant, it does not have access to the operating line of credit at July 31, 2012. The Corporation has sufficient cash on hand, and does not require use of the operating line of credit.

20. 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 approved product and commercial plasma sales, and in 2011 included royalties. Contract services provides manufacturing and R&D services to related and unrelated parties.

The accounting policies of the Corporation's operating segments are the same as those described in *note 2*. There are no significant inter-segment transactions. The following presents segment operating results for the years ended July 31, 2012 and 2011, and identifiable assets as at July 31, 2012, and July 31, 2011:

	Year ended July 31, 2012			Year ended July 31, 2011		
in thousands of U.S. dollars	**Biopharma-ceutical operations**	**Contract services**	**Total**	Biopharma-ceutical operations	Contract services	Total
Revenues						
Product sales	**$ 48,616**	**$ —**	**$ 48,616**	$ 51,172	$ —	$ 51,172
Product services	**—**	**45,793**	**45,793**	—	78,872	78,872
R&D services	**—**	**16,620**	**16,620**	—	16,437	16,437
Royalties	**—**	**—**	**—**	3,226	—	3,226
	48,616	**62,413**	**111,029**	54,398	95,309	149,707
Cost of sales						
Product sales	**40,845**	**—**	**40,845**	34,509	—	34,509
Product services	**—**	**30,742**	**30,742**	—	50,229	50,229
R&D services	**—**	**13,581**	**13,581**	—	11,273	11,273
	40,845	**44,323**	**85,168**	34,509	61,502	96,011
Gross profit	**7,771**	**18,090**	**25,861**	19,889	33,807	53,696
Expenses	**50,404**	**10,380**	**60,784**	36,770	12,801	49,571
Operating profit (loss)	**(42,633)**	**7,710**	**(34,923)**	(16,881)	21,006	4,125
Short-term interest income	**—**	**60**	**60**	—	51	51
Foreign-exchange gain (loss)	**909**	**1,166**	**2,075**	(1,783)	(3,125)	(4,908)
Income (loss) before taxes	**$ (41,724)**	**$ 8,936**	**$ (32,788)**	$ (18,664)	$ 17,932	$ (732)
Total assets	**$ 103,580**	**$ 131,737**	**$ 235,317**	$ 103,521	$ 162,575	$ 266,096
Additions to property, plant and equipment, and intangible assets, net	**$ 10,627**	**$ 1,153**	**$ 11,780**	$ 1,305	$ 6,496	$ 7,801

Geographic information about the Corporation's revenue is based on the product-shipment destination or the location of the contracting organization. Assets are based on their physical location as at July 31, 2012, and July 31, 2011.

	Year ended July 31, 2012		Year ended July 31, 2011	
in thousands of U.S. dollars	**Revenues**	**Property, plant and equipment, and intangible assets, net**	Revenues	Property, plant and equipment, and intangible assets, net
Canada	**$ 10,200**	**$ 46,056**	$ 12,745	$ 59,295
United States	**91,591**	**34,660**	126,197	27,185
Rest of world	**9,238**	**—**	10,765	—
	$ 111,029	**$ 80,716**	$ 149,707	$ 86,480

For the year ended July 31, 2012, sales to one customer represent 56% [year ended July 31, 2011 – 70%] of the revenue of the contract-services segment. For the year ended July 31, 2012, sales to one customer represent 17% [year ended July 31, 2011 – 16%] of the revenue of the biopharmaceutical-operations segment.

21. COMMITMENTS

[a] Operating leases

At July 31, 2012, the Corporation had commitments under operating leases requiring future minimum annual payments as follows:

in thousands of U.S. dollars	
2013	$ 1,179
2014	1,058
2015	894
2016	569
2017	380
Thereafter	1,455
	$ 5,535

During the year ended July 31, 2012, the Corporation recorded expenses of $1.8 million related to operating leases.

[b] Cross-currency swap contracts

At July 31, 2012, the Corporation had entered into five U.S.–Canadian currency swaps with a combined notional amount of $25.0 million (see *note 18[d]*). If the instruments are held to maturity, the Corporation will pay fixed-fee swap costs of $0.3 million.

[c] Agreement to commercialize episil®

On July 9, 2012, the Corporation announced that it had entered into an agreement with Camurus AB to acquire exclusive rights to commercialize a product called episil® in the United States. The Corporation plans to launch episil® in the United States in October 2012. As a result of the agreement, the Corporation must make a milestone payment of $0.5 million in October 2012, in addition to paying royalties on future net sales during the contract period. The Corporation has also agreed to certain minimum order quantities under the contract and has recorded a liability for purchase consideration payable related to the royalties on the minimum quantities (see *note 7*).

22. SIGNIFICANT AGREEMENTS

[a] Heptavalent botulism antitoxin ("BAT")

On May 31, 2006, the Corporation 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.

On June 3, 2011, the Corporation announced that the Biomedical Advanced Research and Development Authority ("BARDA"; the department within HHS that manages the stockpiling contracts) had exercised options under the BAT stockpiling contract that are expected to generate approximately $61 million in additional contract revenue over the ensuing three to four years. In addition, the delivery schedule under the existing contract was extended out to 2018, with a heavier weighting in 2017 and 2018.

The base contract provides for revenue of $362 million, which includes a potential supplementary payment based on achieving U.S. Food and Drug Administration ("FDA") approval for the product. Optional task orders, which include the $61 million discussed above, are worth up to an additional $234 million in revenue.

During the years ended July 31, 2012 and 2011, the Corporation recorded revenues of $28.2 million and $24.9 million, respectively, related to the BAT contract.

As at July 31, 2012, costs of $29.0 million have been charged to inventories and contracts in progress [July 31, 2011 – $32.3 million] related to this contract.

[b] Anthrax immune globulin ("AIGIV")

On July 28, 2006, HHS exercised its option to purchase 10,000 doses of AIGIV 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. AIGIV is to be made available for treating inhalational anthrax. This modification to the contract will provide approximately $143 million in revenue.

During the years ended July 31, 2012 and 2011, the Corporation recorded revenues of $4.7 million and $39.4 million, respectively, related to the AIGIV contract.

As at July 31, 2012, costs of less than $0.1 million have been charged to inventories and contracts in progress [July 31, 2011 – $0.8 million] related to this contract.

23. RELATED-PARTY TRANSACTIONS

[a] Apotex transactions

Apotex (see *note 1*) is Cangene's majority shareholder and holds 64% of the Corporation's common shares as at July 31, 2012.

On November 5, 1996, the Corporation acquired royalty rights on the drug Ferriprox® (deferiprone) from Apotex. Under this 1996 agreement with Apotex, the Corporation was entitled to receive 50% of any net profits from sales of the drug worldwide. Under an April 2009 agreement, this royalty phased out over three fiscal years; it continued at 50% to the end of fiscal 2009, decreased to 37.5% for fiscal 2010 and terminated at 18.75% for the year ended July 31, 2011.

On October 16, 2009, the Corporation's Board of Directors approved an agreement under which Cangene, through Cangene bioPharma, acquired the U.S. commercialization rights to HepaGam B®. As per the agreement, Apotex was paid $7.0 million in the first quarter of 2010 and receives royalties on net U.S. HepaGam B® sales occurring through June 2016. The effective date of this transfer of rights was November 1, 2009. Cangene's independent directors approved this new agreement after having determined that it is fair to Cangene and its shareholders. The $7.0 million was recorded in intangible assets along with the present value of the estimated future royalty stream on U.S. sales of HepaGam B® through June 2016 of $7.0 million. The total commercialization rights intangible asset is $14.0 million, which, less amortization of $5.8 million, results in a net book value of $8.2 million at July 31, 2012 (see *note 7*).

During the year ended July 31, 2012, the Corporation recorded revenues of $0.5 million [year ended July 31, 2011 – $3.2 million] from Apotex, and as at July 31, 2012, $0.2 million [July 31, 2011 – $1.6 million] is included in accounts receivable.

During the year ended July 31, 2012, the Corporation recorded expenses payable to Apotex of $0.9 million for royalties payable related to net U.S. sales of HepaGam B® [year ended July 31, 2011 – $0.9 million]. As at July 31, 2012, $0.2 million [July 31, 2011 – $0.2 million] is recorded in accounts payable and accrued liabilities owing to Apotex.

On December 5, 2011, Cangene bioPharma signed an agreement to provide contract services to Apotex in the form of process development, fill/finish of eight runs of clinical trial product and validation. The estimated value of the contract is $1.0 million and the work is scheduled to be completed in fiscal 2013. At July 31, 2012, the Corporation has recorded $0.1 million in deferred income related to this agreement.

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

[b] Compensation of key management

Key management includes the roles of President/CEO, COO, CFO, Senior Vice President and Vice President. The compensation paid or payable to key management personnel for employee services is shown below:

in thousands of U.S. dollars		**Year ended July 31, 2012**		Year ended July 31, 2011
Salaries and other short-term employee benefits	**$**	**2,074**	$	1,864
Retirement and severance benefits		**1,032**		941
Post-employment benefits		**76**		83
Share-based compensation		**701**		(374)
Total	**$**	**3,883**	$	2,514

At the time of hire or promotion, key management personnel sign the Corporation's standard offer of employment that contains details on reporting relationship, salary and benefits. Former key management personnel did not receive any termination and change of control benefits other than as required by applicable legislation and consistent with the Corporation's policy on termination for all employees.

Pursuant to new employment agreements, certain current key management personnel may be entitled to the following:

- In the event of termination for reasons other than cause or voluntary termination—receive combined termination and severance benefits of up to 12 months of compensation, including payment of an amount of up to 12 months of base salary and target bonus in a lump sum following termination, and continuation of benefits for up to 12 months.

- In the event of a change of control or the Corporation being taken private that results in the termination of employment by the Corporation or termination by the employee for good reason as may be stipulated in the employment agreement—receive combined termination and severance benefits of up to 24 months of compensation, including payment of an amount of up to 24 months of base salary and target bonus in a lump sum following termination, and continuation of benefits for up to 24 months.

In addition, any unvested stock options held by the President and CEO at the time of such termination will automatically vest.

24. SUBSEQUENT EVENTS

[a] Deferred share units

Effective August 1, 2012, the Corporation issued 52,231 DSUs to its non-executive directors under the DSU plan described in *note 12*.

[b] Stock options

In accordance with his employment contract, Mr. John Sedor, the Corporation's President and CEO, was granted 750,000 stock options at an exercise price of C$1.51 per share, effective September 12, 2012, under the stock option plan described in *note 11[c]*. These stock options vest 25% immediately upon grant; 25% then vest on August 1, 2013; 25% on August 1, 2014; and finally, 25% vest on August 1, 2015.

[c] Operating line of credit

Effective August 1, 2012, the Corporation elected to reduce its revolving term loan with a Canadian chartered bank from C$20.0 million to C$5.0 million. The operating line is currently not available to the Corporation due to it not being in compliance with an EBITDA-based bank covenant.

[d] Continuation of biodefence programs with the U.S. government

On August 28, 2012, the Corporation announced that it has signed a new VIGIV supply contract and a modification to its AIGIV contract that expands its scope and timeline. These are expected to generate revenue of up to approximately $9.8 million and $16.5 million, respectively.

[e] Sale of U.S.-based plasma centres

On September 17, 2012, the Corporation announced that it had entered into an agreement for the sale of its three U.S.-based plasma centres to Grifols, through its wholly owned subsidiary, Biomat USA, Inc. The transaction closed on October 22, 2012. The final sale price will be determined following post-closing adjustments, at which time the Corporation anticipates recording a gain on sale in the first quarter consolidated statement of income and comprehensive income. This agreement does not involve the Corporation's Winnipeg-based plasma centre.

[f] Submission of BAT Biologic License Application ("BLA")

On September 20, 2012, the Corporation submitted a BLA with the FDA that seeks approval for BAT in the United States.

25. COMPARATIVE FIGURES

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

Specifically, the comparative balance sheet at July 31, 2011, includes a reclassification of $3.6 million from accounts payable and accrued liabilities to provision for chargebacks, in order to conform with the presentation for the current year.

CANGENE CORPORATION

Condensed Consolidated Interim Financial Statements and Associated Notes

Three-month period ended October 31, 2013

Cangene Corporation
Condensed Consolidated Interim Balance Sheets
(Unaudited)

in thousands of U.S. dollars	*Related notes*	At October 31, 2013	At July 31, 2013
ASSETS	*8*		
Current			
Cash		$ 38,692	$ 46,410
Accounts receivable		25,295	21,206
Inventories and contracts in progress	*5, 14*	54,360	52,454
Taxes recoverable	*14*	2,792	2,090
Prepaid expenses and deposits		8,245	7,342
Total current assets		129,384	129,502
Property, plant and equipment, net	*6, 14*	60,293	61,301
Taxes recoverable	*14*	16,404	15,849
Deferred development cost		215	178
Deferred tax		12,242	12,374
Intangible assets, net	*7[a]*	58,306	59,353
Other assets	*7[b]*	8,077	7,961
Total assets		$ 284,921	$ 286,518
LIABILITIES AND EQUITY			
Current			
Accounts payable and accrued liabilities	*20*	$ 23,768	$ 20,607
Provisions for chargebacks	*9[b]*	4,820	4,530
Royalty provision	*9[a]*	553	605
Royalty liability	*7[c]*	914	604
Incentive plan liability	*10[a]*	1,364	1,436
Taxes payable		12	—
Current portion of deferred income		4,128	3,804
Total current liabilities		35,559	31,586
Deferred income		2,340	3,286
Royalty provision	*9[a]*	694	793
Royalty liability	*7[c]*	3,559	3,691
Purchase consideration payable	*7[b]*	46,341	45,638
Incentive plan liability	*10[c]*	334	301
Deferred share unit liability	*11*	1,130	1,134
Deferred tax		3,180	3,180
Total liabilities		93,137	89,609
Equity			
Share capital		50,860	50,860
Contributed surplus	*10[b]*	727	638
Retained earnings		140,197	145,411
Total equity		191,784	196,909
Total liabilities and equity		$ 284,921	$ 286,518

See accompanying notes

Cangene Corporation
Condensed Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss)
(Unaudited)

in thousands of U.S. dollars except share-related data	*Related notes*	Three months ended October 31, 2013	Three months ended October 31, 2012 *(Adjusted; notes 6, 7[c])*
Revenues			
Product sales		$ 9,631	$ 13,848
Product services		13,309	19,999
R&D services		1,675	2,635
		24,615	36,482
Cost of sales			
Product sales	*5*	6,947	10,603
Product services	*5*	7,565	9,587
R&D services	*14*	1,077	2,141
		15,589	22,331
Gross profit		9,026	14,151
Expenses (income)			
Independent R&D	*14*	4,773	2,725
Selling, general and administrative		8,460	7,130
Gain on disposal of assets	*6*	(125)	(4,680)
Change in fair value of royalty provision	*9[a]*	—	(98)
		13,108	5,077
Income (loss) before the following:		(4,082)	9,074
Financing charges, net	*12*	(803)	(357)
Foreign-exchange loss		—	(288)
Income (loss) before taxes		(4,885)	8,429
Tax expense (benefit)	*15*		
Current		197	3,165
Deferred		132	(676)
		329	2,489
Net income (loss) and comprehensive income (loss) for the period		$ (5,214)	$ 5,940
Earnings (loss) per share	*13*		
Basic and diluted		$ (0.08)	$ 0.09

See accompanying notes

Cangene Corporation
Condensed Consolidated Interim Statements of Changes in Equity
(Unaudited)

in thousands of U.S. dollars	*Related notes*	Share capital	Retained earnings	Contributed surplus	Total
Balance as at August 1, 2012		$ 50,860	$ 144,053	$ 439	$ 195,352
Net income for the year ended July 31, 2013		—	1,358	—	1,358
Stock option expense	*10[b]*	—	—	199	199
Balance as at July 31, 2013		50,860	145,411	638	196,909
Net loss for the three-month period ended October 31, 2013		—	(5,214)	—	(5,214)
Stock option expense	*10[b]*	—	—	89	89
Balance as at October 31, 2013		$ 50,860	$ 140,197	$ 727	$ 191,784
Balance as at August 1, 2012		$ 50,860	$ 144,053	$ 439	$ 195,352
Net income for the three-month period ended October 31, 2012 *(Adjusted; notes 6, 7[c])*		—	5,940	—	5,940
Stock option expense	*10[b]*	—	—	66	66
Balance as at October 31, 2012 *(Adjusted; notes 6, 7[c])*		$ 50,860	$ 149,993	$ 505	$ 201,358

See accompanying notes

Cangene Corporation
Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)

in thousands of U.S. dollars	*Related notes*	Three months ended October 31, 2013	Three months ended October 31, 2012 *(Adjusted; notes 6, 7[c])*
OPERATING ACTIVITIES			
Net income (loss) for the period		$ (5,214)	$ 5,940
Adjustments for:			
Depreciation of property, plant and equipment	*6*	1,693	1,901
Amortization of intangible assets	*7[a]*	1,090	760
Gain on disposal of assets	*6*	(125)	(4,680)
Taxes recoverable, long-term		(555)	(13)
Deferred income		(622)	400
Incentive plan liabilities	*10[a],10[c]*	(55)	(856)
Royalty provision	*9[a]*	(192)	(236)
Royalty liability	*7[c]*	—	(228)
Deferred share unit liability	*11*	(4)	76
Change in fair value of royalty provision	*9[a]*	—	(98)
Non-cash financing charges	*12*	822	367
Deferred tax expense (benefit)		132	(676)
Change in fair value of derivative financial instruments		—	(104)
Stock option expense	*10[b]*	89	66
Net change in non-cash working capital balances related to operations	*16*	(4,137)	(4,399)
Cash used in operating activities		(7,078)	(1,780)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment, net	*6, 14*	(685)	(507)
Acquisition of intangible assets	*7[a]*	(43)	(3)
Increase in deferred development cost		(37)	—
Proceeds on disposal of assets	*6*	125	2,615
Cash provided by (used in) investing activities		(640)	2,105
Net increase (decrease) in cash during the period		(7,718)	325
Cash, beginning of period		46,410	35,870
Cash, end of period		$ 38,692	$ 36,195
Interest paid[1]		$ —	$ 98
Taxes paid[2]		$ 175	$ 838

1. *Amounts paid and received for interest were reflected as operating cash flows in the unaudited, condensed consolidated interim statements of cash flows.*
2. *Amounts paid and received for income taxes were reflected as either operating or investing cash flows in the unaudited, condensed consolidated interim statements of cash flows, depending upon the nature of the underlying transaction.*

See accompanying notes

1. DESCRIPTION OF BUSINESS

Cangene Corporation (the "Corporation" or "Cangene") was incorporated by Articles of Incorporation under the *Business Corporations Act (Ontario)* on February 22, 1984. The Corporation is a public entity with common shares listed on the Toronto Stock Exchange; it is domiciled in Canada. The address of its registered office is 150 Signet Drive, Toronto, Ontario, Canada, M9L 1T9.

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

These unaudited, condensed consolidated interim financial statements were authorized for issue by the Corporation's Board of Directors on December 12, 2013.

As at October 31, 2013, the Apotex Group ("Apotex") controlled, directly or indirectly, 40,872,787 common shares, representing 61% of the outstanding common shares of the Corporation.

2. STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION

[a] Statement of compliance

These unaudited, condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 – *Interim Financial Reporting* on a basis consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All significant accounting policies and standards have been applied on a basis consistent with those followed in the most recent audited consolidated annual financial statements except as listed in **[b]** below.

These unaudited, condensed consolidated interim financial statements do not include all the information and notes required by IFRS for annual financial statements; therefore, they should be read in conjunction with the audited consolidated annual financial statements and notes for the Corporation's fiscal year ended July 31, 2013, which are available on SEDAR at www.sedar.com or on the Corporation's website at www.cangene.com.

[b] Changes in accounting standards

The following accounting standards became effective during the current quarter:

IFRS 7 (amendment) – Financial Instruments: Disclosures introduce enhanced disclosures related to any financial instruments that are offset in accordance with *IAS 32 – Financial Instruments: Presentation*. The adoption of this standard did not impact the Corporation's unaudited, condensed consolidated interim financial statements.

IFRS 10 (amendment) – Consolidated Financial Statements requires an entity to consolidate an investee when it has power over the investee, is exposed or has rights to variable returns from its involvement with the investee and it has the ability to affect those returns through its power over the investee. The adoption of this standard did not impact the Corporation's unaudited, condensed consolidated interim financial statements.

IFRS 11 (amendment) – Joint Arrangements classifies interests in joint arrangements as either joint operations or joint ventures, depending on the entity's rights to the assets and obligations for the liabilities for this arrangement. The adoption of this standard did not impact the Corporation's unaudited, condensed consolidated interim financial statements.

IFRS 12 (amendment) – Disclosure of Interests in Other Entities establishes disclosure requirements for interests in other entities such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosures that address the nature of and the risks associated with an entity's interest in other entities. The adoption of this standard may require additional disclosures in the Corporation's consolidated annual financial statements.

IFRS 13 – Fair Value Measurement is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset or the price that would be paid to transfer a liability in a transaction between market participants at the measurement date. The adoption of *IFRS 13* did not require any adjustments to the valuation techniques used by the Corporation to measure fair value and did not result in any adjustments as at October 31, 2013. However, it does require additional disclosures related to fair value measurements. The standard has been applied on a prospective basis.

[c] Basis of presentation

These unaudited, condensed consolidated interim financial statements have been prepared on a going-concern basis under the historical cost convention, except for certain financial instruments, liabilities and provisions that are valued at fair value. The Corporation's consolidated financial statements are presented in U.S. dollars, which is the functional currency of the Corporation, and all values have been rounded to the nearest thousand dollars except when otherwise indicated.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions about future events that may affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses and disclosure of contingent liabilities during the reporting periods presented. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the current financial year are addressed in the audited consolidated annual financial statements for year ended July 31, 2013.

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

At the date of issuance of the Corporation's unaudited, condensed consolidated interim financial statements the following standard was issued but not yet effective. The Corporation intends to adopt this standard when it becomes effective:

IFRS 9 – Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of the existing standard for financial instruments (*IAS 39*) and applies to classification and measurement of financial assets and liabilities as defined in *IAS 39*. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, the IASB will address classification and measurement of hedge accounting. The adoption of the first phase of *IFRS 9* may have an effect on the classification and measurement of the Corporation's financial assets and liabilities. The Corporation will quantify the effect in conjunction with the other phases when issued to present a comprehensive picture.

5. INVENTORIES AND CONTRACTS IN PROGRESS

in thousands of U.S. dollars		**At October 31, 2013**		At July 31, 2013
Raw materials	**$**	**10,483**	$	9,280
Work in process – product costs		**2,788**		1,160
Finished goods		**12,722**		13,839
		25,993		24,279
Long-term contracts:				
Raw materials		**533**		1,214
Work in process – product costs		**21,793**		21,971
Work in process – manufacturing process development costs		**3,849**		2,782
Finished goods		**2,192**		2,208
		28,367		28,175
	$	**54,360**	$	52,454

As at October 31, 2013, the Corporation has included in its inventories and contracts in progress $28.4 million [July 31, 2013 – $28.2 million] of costs under long-term contracts with the U.S. government.

As at October 31, 2013, inventory of $51.2 million [July 31, 2013 – $48.6 million] is recorded at cost and $3.2 million [July 31, 2013 – $3.9 million] is recorded at net realizable value.

Cost of sales for product sales and product services for the three-month periods ended October 31, 2013 and 2012, are composed of the following amounts:

in thousands of U.S. dollars		**Three months ended October 31, 2013**		Three months ended October 31, 2012
Cost of sales and contracts in progress	**$**	**14,347**	$	19,594
Writedowns of finished goods		**111**		7
Writedowns of obsolete materials and supplies		**155**		870
Reversals of writedowns		**(101)**		(281)
	$	**14,512**	$	20,190

6. PROPERTY, PLANT AND EQUIPMENT

As at October 31, 2013, equipment and computer systems in the amount of $1.7 million [July 31, 2013 – $2.1 million] are currently under development and not being depreciated.

in thousands of U.S. dollars		Land		Buildings		Equipment	Furniture and fixtures		Computer systems		Total
Cost											
Balance as at August 1, 2012	$	475	$	76,445	$	68,886	$2,704	$	4,252	$	152,762
Additions		—		369		2,471	2		227		3,069

Disposals	—	—	(847)	—	—	(847)
Transfers	—	—	—	—	(157)	(157)
Balance as at July 31, 2013	475	76,814	70,510	2,706	4,322	154,827
Additions	**—**	**66**	**588**	**—**	**31**	**685**
Disposals	**—**	**—**	**(657)**	**—**	**—**	**(657)**
Balance as at October 31, 2013	**475**	**76,880**	**70,441**	**2,706**	**4,353**	**154,855**
Accumulated depreciation and impairment losses						
Balance as at August 1, 2012	(143)	(30,204)	(55,351)	(2,047)	(3,550)	(91,295)
Disposals	—	—	653	—	—	653
Depreciation charge	—	(2,281)	(4,225)	(165)	(329)	(7,000)
Reversal of impairment	143	2,866	1,086	18	3	4,116
Balance as at July 31, 2013	—	(29,619)	(57,837)	(2,194)	(3,876)	(93,526)
Disposals	**—**	**—**	**657**	**—**	**—**	**657**
Depreciation charge	**—**	**(627)**	**(959)**	**(35)**	**(72)**	**(1,693)**
Balance as at October 31, 2013	**—**	**(30,246)**	**(58,139)**	**(2,229)**	**(3,948)**	**(94,562)**
Net book value as at July 31, 2013	$ 475	$ 47,195	$ 12,673	512	446	$ 61,301
Net book value as at October 31, 2013	**$ 475**	**$ 46,634**	**$ 12,302**	**$477 $**	**405**	**$ 60,293**

On October 22, 2012, the Corporation closed a transaction to sell its three U.S.-based plasma centres to Biomat USA, Inc. ("Biomat USA"), a wholly owned subsidiary of Grifols. The assets sold included leasehold improvements, equipment, licences and donor lists. As a component of the sale, the Corporation entered into a supply agreement with Biomat USA to purchase minimum quantities of plasma. On closing, the Corporation recorded a gain on disposal of assets of $2.5 million, which represented the cash consideration. At July 31, 2013, the Corporation adjusted the accounting for the supply agreement and recorded an intangible asset related to the supply agreement, which represented the present value of amounts expected to be received from Biomat USA subject to meeting obligations under the supply agreement, resulting in an additional gain on disposal of assets of $2.1 million. As a result, the Corporation has recorded a restated total gain on disposal of assets of $4.6 million in the unaudited, condensed consolidated interim statement of income (loss) and comprehensive income (loss) for the quarter ended October 31, 2012. The gain was recorded in the biopharmaceutical operations segment. The Corporation has also decreased the previously reported deferred tax benefit by $0.6 million to reflect the tax effect of the additional gain on disposal of assets. Earnings per share increased by $0.02 per share as a result of the adjustments. The restatements were first reflected in the audited annual consolidated financial statements at the July 31, 2013, year-end. Prior to the sale transaction, the revenue for the three U.S.-based plasma centres (from August 1, 2012, to the close of the transaction on October 22, 2012) was $2.9 million.

7. INTANGIBLE ASSETS AND OTHER ASSETS

[a] Intangible assets

in thousands of U.S. dollars	IB1001	episil®	HepaGam B®	Goodwill	Contract rights	Software	Patents	Total
Cost								
Balance as at August 1, 2012	$ —	$ 6,721	$ 14,000	$ —	$ —	$ 7,779	$ 864	$ 29,364
Additions	45,200	—	—	134	2,095	135	—	47,564
Transfers	—	—	—	—	—	157	—	157
Balance as at July 31, 2013	45,200	6,721	14,000	134	2,095	8,071	864	77,085
Additions	**—**	**—**	**—**	**—**	**—**	**43**	**—**	**43**
Balance as at October 31, 2013	**45,200**	**6,721**	**14,000**	**134**	**2,095**	**8,114**	**864**	**77,128**
Accumulated amortization and impairment losses								
Balance as at August 1, 2012	—	(17)	(5,775)	—	—	(6,808)	(864)	(13,464)
Amortization charge	—	(1,103)	(2,100)	—	(584)	(481)	—	(4,268)
Balance as at July 31, 2013	—	(1,120)	(7,875)	—	(584)	(7,289)	(864)	(17,732)
Amortization charge	**—**	**(335)**	**(525)**	**—**	**(130)**	**(100)**	**—**	**(1,090)**
Balance as at October 31, 2013	**—**	**(1,455)**	**(8,400)**	**—**	**(714)**	**(7,389)**	**(864)**	**(18,822)**
Net book value as at July 31, 2013	$ 45,200	$ 5,601	$ 6,125	$ 134	$ 1,511	$ 782	$ —	$ 59,353
Net book value as at October 31, 2013	**$ 45,200**	**$ 5,266**	**$ 5,600**	**$ 134**	**$ 1,381**	**$ 725**	**$ —**	**$ 58,306**

[b] IB1001

On February 15, 2013, the Corporation and its Cangene Europe Limited, CNJ Holdings Inc. and Cangene bioPharma subsidiaries entered into an asset purchase agreement with Ipsen Pharma S.A.S. and Inspiration Biopharmaceuticals, Inc. ("IBI") to acquire their business operations consisting of three product candidates for the treatment of hemophilia. This acquisition was made pursuant to IBI's bankruptcy proceedings, which were initiated in October 2012. Cangene acquired the assets and liabilities of IBI (with the exception of certain contracts that relate to a Factor VIII product that is owned by Ipsen, a significant shareholder and creditor of IBI). The assets acquired by the Corporation consist of a late-stage recombinant Factor IX candidate for treatment of hemophilia B (IB1001), and preclinical recombinant Factor VIIa and Factor VIII candidates. IB1001 represents the majority of the acquisition's value.

The Corporation recorded the acquisition of $45.3 million in intangible assets (which includes $0.1 million in goodwill) based on the present value at the date of acquisition of the future cash flows that will be generated from the use of the intellectual property R&D discounted at a rate of 19.5%.

A prepaid deposit, which represents the present value ($7.8 million at the acquisition date) of a $10.0-million deposit with a contract manufacturer, is being amortized monthly on the basis of the present value calculations. This accretion is being recorded as a reduction of financing charges in the unaudited, condensed consolidated interim statements of income (loss) and comprehensive income (loss). Total accretion for the three-month period ended October 31, 2013, is $0.1 million [three-month period ended October 31, 2012 – $Nil] (*note 12*).

The total purchase consideration payable is contingent upon the achievement of certain sales milestones as well as royalties that commence when specified sales levels are achieved. The expected value of this contingent consideration was calculated based on the probability of achieving various market cases with differing assumptions for market-share capture and by further adjusting for the probability of success related to clinical trials and regulatory approval. The expected cash flows were then discounted using a cost of debt adjusted for counter-party credit risk. The resulting estimated fair values of the purchase consideration payable for the achievement of the sales milestones and the specified sales levels are $6.5 million and $37.9 million, respectively.

The purchase consideration payable is being amortized monthly on the basis of the present value calculations. Total accretion for the three-month period ended October 31, 2013, is $0.7 million [three-month period ended October 31, 2012 – $Nil] and is included in the financing charges (*note 12*) in the unaudited, condensed consolidated interim statements of income (loss) and comprehensive income (loss).

The Corporation remeasures the purchase consideration liability at its fair value at each reporting period. The actual purchase consideration paid may vary materially from the fair value that has been determined because significant estimates and judgment were used in determining fair value (*note 17*). The assumptions used at the acquisition date and at October 31, 2013, have remained the same.

[c] United States commercialization rights for episil®

Pursuant to an agreement with Camurus AB, the Corporation acquired exclusive rights to commercialize a product called episil® in the United States. As a result of the agreement, the Corporation must pay royalties on future net sales during a specified period, dependent on the dollar amount of net sales in each year. The Corporation has also agreed to certain minimum order quantities under the agreement. The purchase included an upfront payment of $2.0 million and a milestone payment of $0.5 million paid in October 2012. At July 31, 2012, the Corporation recorded a commercialization rights asset in the amount of $10.1 million for episil®. In addition, at July 31, 2012, the Corporation recorded a royalty liability of $7.6 million related to the net present value of royalties anticipated on the minimum order quantities specified in the agreement. During the year ended July 31, 2013, the Corporation discovered a calculation error related to the amount recorded for the commercialization rights asset and royalty liability at July 31, 2012. The Corporation corrected the error at the July 31, 2013, year-end and adjusted the balances of commercialization rights asset and royalty liability at July 31, 2012, by $3.4 million to $6.7 million and $4.2 million, respectively. The Corporation has concluded that the impact of the adjustment was not material to the consolidated financial statements. The royalty liability will be reduced as the royalties are paid on the minimum quantities and increased for the value of accretion in each period. Total accretion for the three-month period ended October 31, 2013, is $0.2 million [three-month period ended October 31, 2012 – $0.2 million] and is included in the financing charges (*note 12*) in the unaudited, condensed consolidated interim statements of income (loss) and comprehensive income (loss). Any royalties payable on net sales that are in excess of the specified minimum quantities will be recorded at the time of the sales. As at October 31, 2013, the royalty liability is $4.5 million [July 31, 2013 – $4.3 million].

The total commercialization rights intangible asset for episil® is $6.7 million, which, less amortization of $1.4 million, results in a net book value of $5.3 million as at October 31, 2013 [July 31, 2013 – $5.6 million].

[d] United States commercialization rights for HepaGam B®

Cangene obtained the U.S. commercialization rights for HepaGam B® from Apotex on November 1, 2009. The Corporation's Board of Directors approved an agreement under which Cangene, through Cangene bioPharma, acquired the U.S. commercialization rights to HepaGam B®. As per the agreement, Apotex was paid $7.0 million in the first quarter of 2010 and receives royalties on net U.S. HepaGam B® sales occurring through June 2016. The effective date of this transfer of rights was November 1, 2009. Cangene's independent directors approved this agreement after having determined that it was fair to Cangene and its shareholders. The $7.0 million was recorded in intangible assets along with the present value of the estimated future royalty stream on U.S. sales of HepaGam B® through June 2016 of $7.0 million. The total commercialization rights intangible asset is $14.0 million, which, less amortization of $8.4 million, results in a net book value of $5.6 million as at October 31, 2013 [July 31, 2013 – $6.1 million]. As a result of the transaction, the Corporation has recorded a provision for royalties payable on net U.S. sales of HepaGam B® (*note 9[a]*).

[e] Impairment

The Corporation has recorded no impairment of intangible and other assets during the three-month period ended October 31, 2013.

8. OPERATING LINE OF CREDIT

The Corporation has an operating line of credit from a Canadian chartered bank. As at October 31, 2013, the line of credit is for C$5.0 million [July 31, 2013 – C$5.0 million]. The line of credit is collateralized by a general security agreement in respect of all the Corporation's assets; as at October 31, 2013, C$Nil was utilized [July 31, 2013 – C$Nil]. Interest is payable on this line of credit at either LIBOR plus 1.75%, the prime lending rate plus 0.75% or the U.S.-dollar base rate plus 0.75%, depending on the duration of the borrowing and the currency borrowed. The agreement has no fixed expiry date, but is subject to periodic review by the bank.

9. PROVISIONS

[a] Royalty provision

As per the 2009 agreement under which Cangene acquired the U.S. commercialization rights for HepaGam B® (*note 7[d]*), the Corporation pays Apotex royalties on net U.S. HepaGam B® sales occurring through June 2016. The $7.0-million present value of the estimated future royalty stream on U.S. sales of HepaGam B® through June 2016 was initially recorded as a royalty provision effective November 1, 2009. This provision is being amortized monthly on the basis of the present value calculations. Total accretion for the three-month period ended October 31, 2013, is less than $0.1 million [three-month period ended October 31, 2012 – $0.2 million] and is included in the financing charges (*note 12*) in the unaudited, condensed consolidated interim statements of income (loss) and comprehensive income (loss). The Corporation recorded actual royalty payments for the three-month period ended October 31, 2013, of $0.2 million [three-month period ended October 31, 2012 – $0.2 million] as a reduction of the royalty provision. Amortization of the commercialization rights acquired is also recorded in selling, general and administrative expense.

The Corporation is required to remeasure the royalty provision at each reporting period. At October 31, 2013, the Corporation has calculated the net present value of future royalty payments using a weighted-average cost of capital of 17% and projected net sales of HepaGam B® for the duration of the agreement. As a result of this remeasurement, the Corporation recorded a change in fair value of royalty provision of $Nil for the three-month period ended October 31, 2013 [three-month period ended October 31, 2012 – $0.1 million] in the unaudited, condensed consolidated interim statements of income (loss) and comprehensive income (loss).

As at October 31, 2013, the HepaGam B® royalty provision is $1.2 million [July 31, 2013 – $1.4 million]. As at October 31, 2013, the Corporation has recorded accounts payable of $0.2 million [July 31, 2013 – $0.1 million] representing the current royalty payable to Apotex.

[b] Provisions for chargebacks, administrative fees, rebates and other allowances

The Corporation estimates allowances for revenue-reducing obligations such as chargebacks, administrative fees, rebates and other allowances using a combination of historical trends, contractual obligations and information received from third parties. Administrative fees includes actual administrative fees along with additional rebates for a primary distributor. Government rebates includes Medicaid rebates, Medicare rebates and other government programs. Customer rebates includes rebate programs targeted directly to the final customer. Other allowances includes distribution fees, no-return fees, prompt payment discounts and centralized shipping fees.

in thousands of U.S. dollars		Chargebacks	Administrative fees	Government rebates	Customer rebates	Other allowances	Total
As at August 1, 2012	$	2,222	$814	134	—	$455	$3,625
Actual payments/credits issued		(7,500)	(933)	(205)	(23)	(2,340)	(11,001)
Change in estimate		—	(267)	35	—	—	(232)
Provisions/reversals charged		8,362	1,117	229	80	2,350	12,138
Balance as at July 31, 2013		3,084	731	193	57	465	4,530
Actual payments/credits issued		**(1,462)**	**(165)**	**(55)**	**(12)**	**(650)**	**(2,344)**
Provisions/reversals charged		**1,768**	**226**	**123**	**5**	**512**	**2,634**
Balance as at October 31, 2013	**$**	**3,390**	**$792**	**261**	**50**	**$327**	**$4,820**

10. INCENTIVE PLANS

[a] Restricted share unit plan ("RSU plan")

Pursuant to the Corporation's RSU plan, members of management may be granted restricted share units ("RSUs") as a long-term incentive component of their compensation. Further details regarding the RSU plan are described in the Corporation's audited consolidated annual financial statements for the year ended July 31, 2013. No RSUs were granted during the three-month periods ended October 31, 2013 and 2012.

The Corporation has recognized compensation recoveries of $0.1 million and less than $0.1 million for the three-month periods ended October 31, 2013 and 2012, respectively, as a result of the RSU plan.

No RSUs matured or were redeemed during the three-month period ended October 31, 2013. During the three-month period ended October 31, 2012, 140,227 RSUs were redeemed and 474,309 RSUs matured with values of $0.2 million and $0.7 million, respectively.

As at October 31, 2013, there are 612,287 RSUs outstanding. These were granted in fiscal 2011 and will mature in the next quarter. The related liability as at October 31, 2013, is $1.4 million [July 31, 2013 – $1.4 million].

[b] Stock option plan

Under the Corporation's stock option plan, the Corporation's President and Chief Executive Officer ("CEO") has been granted 209,302 stock options at an exercise price of C$2.15 per share, effective August 1, 2013. These are in addition to earlier grants that he received of 750,000 stock options at an exercise price of C$1.51 per share, effective September 12, 2012, and 750,000 stock options at an exercise price of C$1.37 per share, effective September 12, 2011. All stock options vest 25% immediately upon grant and then vest an additional 25% at each subsequent August 1 until they are fully vested.

There is no cash settlement of the stock options. The contractual life of the options granted is eight years from the date of grant. The fair values of the 209,302 stock option grant and both of the 750,000 stock option grants were estimated at the August 1, 2013, and September 12, 2011, grant dates, respectively, using the Black-Scholes Model and taking into account the terms and conditions under which the stock options were granted and using the following assumptions:

Dividend yield	0.0%
Expected volatility	49.2%
Risk-free interest rate	1.2%
Expected life	4.0 years
Share price	C$2.12 (August 1, 2013) or C$1.32 (September 12, 2011)

The fair value of the stock options is allocated over the vesting periods using the graded-vesting method. Stock option expenses of $0.1 million were recorded and credited to contributed surplus for each of the three-month periods ended October 31, 2013 and 2012.

[c] Executive long-term incentive plan ("LTIP")

Pursuant to the Corporation's LTIP, all executives and a limited number of key contributors who have been identified by the President and CEO are eligible to participate in the Corporation's LTIP. Further details regarding the LTIP are described in the Corporation's audited consolidated annual financial statements for the year ended July 31, 2013.

As at October 31, 2013, the Corporation has recorded $0.3 million [July 31, 2013 – $0.3 million] for the present value of the liability for the LTIP. This liability is being amortized monthly on the basis of the present value calculations. Total accretion for the three-month period ended October 31, 2013, is less than $0.1 million [three-month period ended October 31, 2012 – $Nil] and is included in the financing charges (*note 12*) in the unaudited, condensed consolidated interim statements of income (loss) and comprehensive income (loss).

11. DEFERRED SHARE UNIT PLAN ("DSU plan")

Pursuant to the Corporation's DSU plan, non-executive 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. DSUs are issued quarterly and vest immediately on issuance. Further details regarding the DSU plan are described in the Corporation's audited consolidated annual financial statements for the year ended July 31, 2013.

For the three-month period ended October 31, 2013, 25,836 DSUs were issued [three-month period ended October 31, 2012 – 52,231]. As at October 31, 2013, there are 512,649 DSUs outstanding with a related liability of $1.1 million [July 31, 2013 – 486,813 outstanding; related liability $1.1 million].

12. FINANCING CHARGES, NET

Financing charges for the three-month periods ended October 31, 2013 and 2012, are composed of non-cash accretion of assets, liabilities and provisions, and cash interest expense (income) as follows:

in thousands of U.S. dollars	*Related notes*		**Three months ended October 31, 2013**		Three months ended October 31, 2012
Non-cash					
Accretion of purchase consideration payable	*7[b]*	$	**703**	$	—
Accretion of royalty liability	*7[c]*		**178**		182
Accretion of royalty provision	*9[a]*		**41**		185
Accretion of incentive plan liability	*10[c]*		**16**		—
Accretion of other assets	*7[b]*		**(116)**		—
			822		367
Cash					
Short-term interest income			**(19)**		(10)
		$	**803**	$	357

13. EARNINGS (LOSS) PER SHARE

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

in thousands of U.S. dollars except share-related data	**Three months ended October 31, 2013**		Three months ended October 31, 2012	
Net income (loss)	$ **(5,214)**		$ 5,940	
Weighted-average number of common shares outstanding	**66,746,870**	**shares**	66,746,870	shares
Dilutive effect of stock options	—		90,323	
Diluted weighted-average number of common shares outstanding	**66,746,870**	**shares**	66,837,193	shares
Earnings (loss) per share*:*				
Basic and diluted	$ **0.08)**		$ 0.09	

For the three-month period ended October 31, 2013, the dilutive effect of the 1,709,302 outstanding stock options is excluded from the calculation of diluted loss per share. Under the Treasury Stock method, options are excluded from the calculation when their inclusion would reduce the loss per share or when their exercise price exceeds the average market price of the Corporation's common shares on the Toronto Stock Exchange for the period. For the three-month period ended October 31, 2012, 1,500,000 options were included in the calculation of diluted earnings per share. The dilutive effect of included stock options is calculated by assuming the proceeds that would have resulted from exercising the stock options were used to buy shares at market price for subsequent cancellation.

14. GOVERNMENT ASSISTANCE AND TAX CREDITS

R&D expenses for the three-month periods ended October 31, 2013 and 2012, are net of combined federal and provincial scientific research and experimental development ("SR&ED") tax credits in the amounts of $1.2 million and $1.0 million, respectively.

As at October 31, 2013, $1.2 million [July 31, 2013 – $1.2 million] of SR&ED tax credits was included as a reduction of long-term contract costs in inventories and contracts in progress.

For the three-month period ended October 31, 2013, there was less than $0.1 million [three-month period ended October 31, 2012 – less than $0.1 million] in investment tax credits relating to SR&ED capital expenditures and $0.1 million [three-month period ended October 31, 2012 – $Nil] in provincial investment tax credits related to manufacturing and processing capital expenditures. These tax credits were accounted for as a reduction of the cost of the applicable assets.

As at October 31, 2013, the Corporation has Manitoba SR&ED investment tax credit carryforwards in the amount of $24.8 million [July 31, 2013 – $23.9 million]; these begin expiring in 2019. Of these, approximately $12.0 million have not been recorded because management has determined that uncertainty exists with regard to the generation of sufficient future Canadian taxable income during the carryforward period to utilize the credits.

15. TAXES

The standard rate of Canadian corporate tax is 26.99% [three-month period ended October 31, 2012 – 26.99%]. The tax on the consolidated entities' income (loss) before taxes differs from the theoretical amount that would arise using the weighted-average tax rate applicable to the income (loss) of the consolidated entities as follows:

in thousands of U.S. dollars		**Three months ended October 31, 2013**	Three months ended October 31, 2012
Combined statutory federal and provincial tax rate at **26.99%**	[three-month period ended October 31, 2012 – 26.99%]	$ **(1,318)**	$2,275
Adjusted for:			
Income taxes recorded at rates different from the Canadian tax rate		**66**	636
Investment tax credits not recorded for accounting purposes		**122**	92
Expenses not deductible for tax purposes		**79**	71
Tax-loss benefit not recognized		**1,416**	62
Impact of functional currency tax election		**—**	(1,061)
Remeasurement of deferred tax due to change in tax rate		**(6)**	(1)
Stock options		**24**	18
Other		**(54)**	(66)
Adjustment in respect of prior years		**—**	463
Tax expense		$ **329**	$2,489

The income tax expense for the three-month period ended October 31, 2013, was $0.3 million [three-month period ended October 31, 2012 – $2.5 million]. At the statutory Canadian corporate tax rate of 26.99%, the net loss for the period would have resulted in a tax recovery; however, during the three-month period ended October 31, 2013, the Corporation's effective tax rate was negative 6.73%, which resulted in a tax expense. This arose primarily because of the impact of tax losses and other benefits not recognized for accounting purposes. Of the $1.4 million in tax losses for which no benefit has been recognized, $1.3 million relates to losses of a subsidiary that is developing IB1001 within the consolidated group. These tax losses will be carried forward and used to offset future taxable income post-commercialization of IB1001.

During the three months ended October 31, 2012, the effective tax rate of 29.53% was slightly higher than the statutory Canadian corporate tax rate of 26.99%, primarily because of income taxes recorded at rates different from the Canadian tax rate. These were largely offset by the impact of making a functional currency election for Canadian income tax purposes.

16. SUPPLEMENTARY INFORMATION FOR CONSOLIDATED STATEMENTS OF CASH FLOWS

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

in thousands of U.S. dollars		**Three months ended October 31, 2013**		Three months ended October 31, 2012
Accounts receivable	$	**(4,089)**	$	(9,799)
Inventories and contracts in progress		**(1,906)**		3,131
Taxes recoverable		**(702)**		1,328
Prepaid expenses and deposits		**(903)**		(158)
Accounts payable and accrued liabilities		**3,161**		357
Provision for chargebacks		**290**		732
Taxes payable		**12**		10
	$	**(4,137)**	$	(4,399)

17. MEASUREMENT OF FAIR VALUES

The Corporation primarily applies the market approach for recurring fair value measurements. Three levels of inputs may be used to measure fair value:

LEVEL 1 – Unadjusted, quoted prices in active markets for identical assets and liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

LEVEL 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

LEVEL 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following tables present information about the Corporation's assets and liabilities measured at fair value on a recurring basis as at October 31, 2013, and July 31, 2013, and the fair value hierarchy of the valuation techniques used to determine such fair value:

	At October 31, 2013				
in thousands of U.S. dollars		**Level 1**	**Level 2**		**Level 3**
Cash	**$**	**38,692**	**—**	**$**	**—**
Royalty provision		**—**	**—**		**1,247**
Purchase consideration payable	**$**	**—**	**—**	**$**	**46,341**

	At July 31, 2013				
in thousands of U.S. dollars	**Level 1**		**Level 2**		**Level 3**
Cash	**$**	**46,410**	**—**	**$**	**—**
Royalty provision		**—**	**—**		**1,398**
Purchase consideration payable	**$**	**—**	**—**	**$**	**45,368**

The royalty provision and purchase consideration payable are measured at fair value based on Level 3 inputs: they are not based on observable inputs and are measured using a discounted cash flow analysis of expected payments in future periods. The significant estimates used in the fair value calculations are as follows:

Royalty provision related to estimated future U.S. net sales of HepaGam B®

- The cash-flow estimates are derived from the forecast for the period to June 2016. Qualitative factors, including market presence and trends, strength of customer relationships and degree of variability in cash flows, as well as other factors, are considered in making assumptions with regard to the future cash flows. An increase of 10% applied to the net U.S. sales forecast of HepaGam B® with all the other variables held constant would increase the royalty provision by $0.1 million. Conversely, a decrease of 10% applied to the net U.S. sales forecast of HepaGam B® with all other variables held constant would decrease the royalty provision by $0.1 million.

- The cash flows are discounted at a rate of 17%. An increase of 1% to the discount rate would decrease the royalty provision by less than $0.1 million. Conversely, a decrease of 1% to the discount rate would increase the royalty provision by less than $0.1 million.

Purchase consideration payable related to IB1001

- The timing and amounts of the milestone and royalty payments are based on the projected net sales for IB1001 during the life of the patent acquired. The net sales forecast was based on a probability weighted average of the potential share achievable in the market for recombinant hemophilia B therapeutics and observed sales ramp-ups for new products. An increase of 10% applied to the probability assumptions with all the other variables held constant would increase the purchase consideration payable by $6.2 million. Conversely, a decrease of 10% applied to the probability assumptions with all other variables held constant would decrease the purchase consideration payable by $6.2 million.

- The probability adjusted cash flows are discounted at a rate of 6% for cash flows related to North America and 6.5% for cash flows related to Europe and Japan. An increase of 1% to the discount rate would decrease the purchase consideration payable by $3.6 million. Conversely, a decrease of 1% to the discount rate would increase the purchase consideration payable by $3.9 million.

There have been no significant transfers between levels during the three-month period ended October 31, 2013.

As at October 31, 2013, and July 31, 2013, the carrying values of the current assets and liabilities, including cash, accounts receivable, accounts payable and accrued liabilities and royalty liability, approximate their fair value. The estimated fair values of these instruments approximate their carrying values in the unaudited, condensed consolidated interim balance sheets due to their short-term nature or because the effective interest rates approximate prevailing market rates for similar instruments.

All derivatives are recorded at fair value in the unaudited, condensed consolidated interim balance sheets. The fair values of the Corporation's derivative financial instruments used to manage exposure to interest rate risk are estimated based on quoted market prices for the same or similar financial instruments or on the current rates offered to the Corporation for financial instruments of the same maturity, as well as by the use of discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities. The Corporation had no derivative instruments outstanding as at October 31, 2013 and July 31, 2013.

18. CAPITAL STRUCTURE

The Corporation monitors its capital structure using non-IFRS financial metrics including the ratio of long-term debt to EBITDA and the working capital ratio. The Corporation defines EBITDA as earnings before interest; taxes; depreciation; amortization; the change in fair value of royalty provision; financing charges, net; and foreign-exchange loss (gain) for the immediately preceding three-month period. The Corporation may manage its capital to meet the targets by issuing new shares, using the line of credit, acquiring new debt or purchasing shares under normal course issuer bids.

The following table reconciles the non-IFRS financial measure EBITDA to the net income (loss) for the preceding three-month periods:

in thousands of U.S. dollars		**Three months ended October 31, 2013**		Three months ended October 31, 2012
Net income (loss)	$	**(5,214)**	$	5,940
Add (deduct):				
Tax expense		**329**		2,489
Change in fair value of royalty provision		**—**		(98)
Financing charges, net		**803**		357
Foreign-exchange loss		**—**		288
Depreciation and amortization		**2,783**		2,661
EBITDA	$	**(1,299)**	$	11,637

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

in thousands of U.S. dollars except ratio		**At October 31, 2013**		At October 31, 2012
Long-term debt	$	**—**	$	—
EBITDA	$	**(1,299)**	$	11,637
Ratio		**—**		—

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

in thousands of U.S. dollars except ratio	**At October 31, 2013**	At July 31, 2013
Current assets	**$129,384**	$129,502
Current liabilities	**$35,559**	$31,586
Working capital ratio	**3.6:1**	4.1:1

The Corporation is subject to externally imposed capital requirements associated with its C$5.0-million operating line of credit (*note 8*), which must be maintained to avoid acceleration of the termination of the agreement. The externally imposed capital requirements are the same as the financial metrics used on an internal basis to monitor capital structure. As at October 31, 2013, the Corporation is in compliance with all of its financial covenants.

19. SEGMENT INFORMATION

The Corporation manages its business and evaluates performance based on two operating segments: biopharmaceutical operations and contract services. Biopharmaceutical operations consists of approved product sales and until the second quarter of 2013 (the three-month period ended January 31, 2013) included commercial plasma sales (subsequent to the sale of its U.S.-based plasma centres, the Corporation no longer collects and sells non-specialty plasma). Contract services provides manufacturing and R&D services to related and unrelated parties.

The accounting policies of the Corporation's operating segments are the same as those described in *note 2*. There are no significant intersegment transactions. The following presents segment operating results for the three-month periods ended October 31, 2013 and 2012, and identifiable assets as at October 31, 2013, and October 31, 2012:

		Three months ended October 31, 2013						Three months ended October 31, 2012				
in thousands of U.S. dollars		**Biopharma-ceutical operations**		**Contract services**		**Total**		Biopharma-ceutical operations		Contract services		Total
Revenues												
Product sales	$	**9,631**	$	**—**	$	**9,631**	$	13,848	$	—	$	13,848
Product services		**—**		**13,309**		**13,309**		—		19,999		19,999
R&D services		**—**		**1,675**		**1,675**		—		2,635		2,635
		9,631		**14,984**		**24,615**		13,848		22,634		36,482
Cost of sales												
Product sales		**6,947**		**—**		**6,947**		10,603		—		10,603
Product services		**—**		**7,565**		**7,565**		—		9,587		9,587
R&D services		**—**		**1,077**		**1,077**		—		2,141		2,141
		6,947		**8,642**		**15,589**		10,603		11,728		22,331
Gross profit		**2,684**		**6,342**		**9,026**		3,245		10,906		14,151
Expenses		**10,452**		**2,656**		**13,108**		2,770		2,307		5,077
Income (loss) before the following:		**(7,768)**		**3,686**		**(4,082)**		475		8,599		9,074
Financing charges, net		**(819)**		**16**		**(803)**		(367)		10		(357)
Foreign-exchange loss		**—**		**—**		**—**		(109)		(179)		(288)
Income (loss) before taxes	$	**(8,587)**	$	**3,702**	$	**(4,885)**	$	(1)	$	8,430	$	8,429
Total assets	$	**150,803**	$	**134,118**	$	**284,921**	$	92,161	$	145,465	$	237,626
Additions to property, plant and equipment, and intangible assets, net	$	**177**	$	**551**	$	**728**	$	2,113	$	492	$	2,605

Geographic information about the Corporation's revenue is based on the product shipment destination or the location of the contracting organization. Assets are based on their physical location as at October 31, 2013, and October 31, 2012.

	Three months ended October 31, 2013		Three months ended October 31, 2012	
in thousands of U.S. dollars	**Revenues**	**Property, plant and equipment, and intangible assets, net**	Revenues	Property, plant and equipment, and intangible assets, net
Canada	**$ 3,254**	**$ 86,598**	$ 3,740	$ 46,542
United States	**19,298**	**31,601**	30,244	30,739
Rest of world	**2,063**	**400**	2,498	—
	$ 24,615	**$ 118,599**	$ 36,482	$ 77,281

For the three-month period ended October 31, 2013, sales to one customer represent 52% [three-month period ended October 31, 2012 – 57%] of the revenue of the contract services segment. For the three-month period ended October 31, 2013, sales to one customer represent 20% [three-month period ended October 31, 2012 – 14%] of the revenue of the biopharmaceutical operations segment.

20. RELATED-PARTY TRANSACTIONS

Apotex (*note 1*) is Cangene's majority shareholder and holds 61% of the Corporation's common shares as at October 31, 2013 [July 31, 2013 – 61%].

At October 31, 2013, the Corporation has recorded less than $0.1 million [July 31, 2013 – less than $0.1 million] in deferred income related to contract services provided by Cangene bioPharma to Apotex.

During the three-month period ended October 31, 2013, the Corporation recorded revenue of $0.1 million [three-month period ended October 31, 2012 – $0.2 million] from contract manufacturing services provided to Apotex; as at October 31, 2013, $0.1 million [July 31, 2013 – $0.7 million] is included in accounts receivable.

During the three-month period ended October 31, 2013, the Corporation made payments and recorded amounts payable to Apotex of $0.2 million for royalties related to net U.S. sales of HepaGam B® [three-month period ended October 31, 2012 – $0.2 million]. As at October 31, 2013, $0.2 million [July 31, 2013 – $0.1 million] is recorded in accounts payable and accrued liabilities owing to Apotex.

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

21. SUBSEQUENT EVENTS

[a] Sale of Business

On December 11, 2013, the Corporation announced the signing of a definitive agreement under which Emergent BioSolutions, Inc. will acquire Cangene Corporation in an all-cash transaction. Under the terms of the agreement, the Corporation's shareholders will receive $3.24 per share (C$3.44 per share) in cash. The acquisition will be implemented through a court-approved Plan of Arrangement under Canadian law and is subject to approval of the Corporation's common shareholders, court approval and U.S. regulatory approvals and other customary closing conditions. This transaction is expected to be completed in the first calendar quarter of 2014.

[b] Deferred share units

Effective November 1, 2013, the Corporation issued 26,838 DSUs to its non-executive directors under the DSU plan described in *note 11*.

22. COMPARATIVE FIGURES

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

The comparative unaudited, condensed consolidated interim statements of income (loss) and comprehensive income (loss) for the three-month period ended October 31, 2012, includes reclassifications that resulted in a reduction of $0.1 million to cost of sales related to product sales; the Corporation has recorded a gain of $0.1 million from the change in fair value of royalty provision and net financing charges of $0.4 million, which include short-term interest income of less than $0.1 million.

The comparative unaudited, condensed consolidated interim statements of cash flows for the three-month period ended October 31, 2012, includes a reclassification of less than $0.1 million of the change in long-term taxes recoverable in the net change in non-cash working capital balances related to operations to taxes recoverable, long-term. The amortization of royalty provision of $0.2 million and revaluation of royalty provision of less than $0.1 million were also reclassified to royalty provisions of $0.2 million, change in fair value of royalty provision of $0.1 million and non-cash financing charge of $0.4 million in order to conform with the presentation for the current period.

Exhibit 99.4

UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

On December 11, 2013, Emergent BioSolutions Inc. ("Emergent") entered into an arrangement agreement, with Cangene Corporation ("Cangene"), pursuant to which one of Emergent's wholly-owned subsidiaries will acquire all of the outstanding common shares of Cangene (the "Arrangement"), for $3.24 per share in cash (on a fully diluted basis), which represents a total purchase price of $222 million.

On January 22, 2014, Emergent announced its intention to offer $200 million aggregate principal amount of convertible senior notes due 2021, subject to market conditions and other factors, in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Offering"). Emergent intends to use a majority of the net proceeds from the Offering to finance the Arrangement.

The unaudited pro forma combined balance sheet gives effect to the proposed Arrangement and the issuance of the notes as if they had occurred on September 30, 2013, and combines the September 30, 2013 historical balance sheet of Emergent with the October 31, 2013 historical balance sheet of Cangene. The unaudited pro forma combined statements of operations are presented as if the proposed Arrangement and the Offering had occurred on January 1, 2012, and combines the historical results of operations of Emergent for the year ended December 31, 2012 with the historical results of operations of Cangene for the twelve month period ended January 31, 2013 and combines the historical results of operations for the nine month period ended September 30, 2013 of Emergent with the historical results of operations of Cangene for the nine month period ended October 31, 2013. The historical financial information is adjusted to give effect to pro forma events that are (1) directly attributable to the Arrangement and the issuance of the notes, (2) factually supportable and (3) with respect to the statement of operations, expected to have a continuing impact on the combined results of Emergent and Cangene. The unaudited pro forma combined financial statements presented below are based on, and should be read together with, the historical financial statements and accompanying notes of Emergent appearing in its Annual Report on Form 10-K for the year ended December 31, 2012 and its Quarterly Report for the nine months ended September 30, 2013, and the historical financial statements and accompanying notes of Cangene, each incorporated by reference into this Form 8-K.

The unaudited pro forma adjustments related to the Arrangement and the Offering have been prepared using the acquisition method of accounting and are based on a preliminary purchase price allocation whereby the consideration exchanged to acquire Cangene was allocated to the assets acquired and the liabilities assumed, based upon their estimated fair values. Actual adjustments will be based on analyses of fair values of identifiable tangible and intangible assets, in-process research and development, deferred tax assets and liabilities and estimates of the useful lives of tangible and amortizable intangible assets, which will be completed following the completion of the Arrangement and after Emergent obtains a final third-party valuation, performs its own assessments and reviews all available data. The final purchase price allocation will be performed using estimated fair values as of the close of the Arrangement. Differences between the preliminary and final purchase price allocations could have a material impact on the unaudited pro forma combined financial statements and Emergent's future results of operations and financial position.

The unaudited pro forma combined financial statements do not reflect the realization of potential cost savings, or any related restructuring or integration costs that may result from the integration of Cangene. Although Emergent believes that certain cost savings may result from the Arrangement, there can be no assurance that these cost savings will be achieved.

The historical financial statements of Cangene have been prepared in accordance with International Financial Reporting Standards as issued by the International Standards Board ("IFRS"). The unaudited pro forma financial statements reflect certain adjustments to the financial statements of Cangene to align with Emergent's U.S. GAAP accounting policies. The adjustments reflect Emergent's best estimates upon the information available and are subject to change once detailed information is obtained.

The unaudited pro forma combined financial statements are based on estimates and assumptions, are presented for illustrative purposes only and are not necessarily indicative of the combined financial position or results of operations in future periods or the results that actually would have been realized if the proposed Arrangement had been completed as of the dates indicated.

Emergent BioSolutions Inc. and Subsidiaries

Unaudited Pro Forma Combined Balance Sheets

As of September 30, 2013

(in thousands)

	Historical of Emergent BioSolutions as of September 30, 2013	Historical of Cangene as of October 31, 2013	Cangene Transaction Adjustments	See Note 5	Pro Forma Adjustments	See Note 6	Pro Forma Combined
ASSETS							
Current assets:							
Cash and cash equivalents	$ 172,561	$ 38,692	$ -		$ (37,692)	a	$ 173,561
Accounts receivable	30,093	25,295	-		-		55,388
Inventories, net	16,325	54,360	(1,522)	1	12,497	b	81,660
Deferred tax assets, net	1,264	-	6,878	2	-		8,142
Income tax receivable, net	588	2,792	-		-		3,380
Prepaid expenses and other current assets	13,184	8,245	-		-		21,429
Total current assets	234,015	129,384	5,356		(25,195)		343,560
Property, plant and equipment, net	263,056	60,293	(4,116)	3	(15,732)	c	303,501
In-process research and development	41,800	-	-		-		41,800
Intangible assets, net	30,771	58,306	-		(13,424)	d	75,653
Goodwill	14,294	-	-		4,008	e	18,302
Income tax receivable, net	-	16,404	1,580	4	-		17,984
Deferred tax assets, net	11,087	12,242	(6,878)	2	(6,180)	f	10,271
Other assets	441	8,292	(215)	5	7,000	g	15,518
Total assets	$ 595,464	$ 284,921	$ (4,273)		$ (49,523)		$ 826,589
LIABILITIES AND STOCKHOLDERS' EQUITY							
Current liabilities:							
Accounts payable	$ 29,018	$ 23,768	$ -		$ -		$ 52,786
Accrued expenses and other current liabilities	1,359	6,299	-		-		7,658
Accrued compensation	18,421	1,364	-		-		19,785
Long-term indebtedness, current portion	4,470	-	-		-		4,470
Contingent purchase consideration, current portion	1,326	-	-		-		1,326
Deferred revenue, current portion	2,038	4,128	-		-		6,166
Total current liabilities	56,632	35,559	-		-		92,191
Long-term indebtedness, net of current portion	54,952	-	-		200,000	h	254,952
Contingent purchase consideration, net of current portion	15,255	46,341	-		(46,341)	i	15,255
Other liabilities	1,768	5,717	-		-		7,485
Deferred revenue, long-term portion	-	2,340	-		(600)	j	1,740
Deferred tax liability, net of current portion	-	3,180	-		(3,180)		-
Total liabilities	128,607	93,137	-		149,879		371,623
Commitments and contingencies	-	-	-		-		-
Stockholders' equity:							
Preferred stock	-	-	-		-		-
Common stock	37	-	-		-		37
Treasury stock	(5,906)	-	-		-		(5,906)
Additional paid-in capital	240,372	51,587	-		(51,587)	k	240,372
Accumulated other comprehensive gain (loss)	(3,502)	-	-		-		(3,502)
Retained earnings	236,305	140,197	(4,273)	1,3,4,5	(147,815)	l	224,414
Total stockholders' equity, excluding noncontrolling interest	467,306	191,784	(4,273)		(199,402)		455,415
Noncontrolling interest in subsidiary	(449)	-	-		-		(449)
Total stockholders' equity	466,857	191,784	(4,273)		(199,402)		454,966
Total liabilities and stockholders' equity	$ 595,464	$ 284,921	$ (4,273)		$ (49,523)		$ 826,589

See notes to the Unaudited Pro Forma Combined Financial Statements

Emergent BioSolutions Inc. and Subsidiaries

Unaudited Pro Forma Combined Statements of Operations

For the nine months ended September 30, 2013

(in thousands, except share and per share data)

	Historical of Emergent BioSolutions for the nine months ended September 30, 2013	Historical of Cangene for the nine months ended October 31, 2013	Cangene Transaction Adjustments	See Note 5	Pro Forma Adjustments	See Note 6	Pro Forma Combined
Revenues:							
Product sales	$ 172,252	$ 28,118	$ -		$ 24,414	m	$ 224,784
Contract manufacturing	-	51,755	-		(28,380)	m,n	23,375
Contracts and grants	42,386	9,653	-		3,966	n	56,005
Total revenues	214,638	89,526	-		-		304,164
Operating expense:							
Cost of product sales and contract manufacturing	42,706	45,852	(641)	6	(3,090)	o	84,827
Research and development	89,939	22,521	2,156	7	5,764	p	120,380
Selling, general and administrative	62,484	21,890	3,822	8	390	q	88,586
Income (loss) from operations	19,509	(737)	(5,337)		(3,064)		10,371
Other income (expense):							
Interest income	121	-	61	9	-		182
Interest expense	(14)	-	-		(4,011)	r	(4,025)
Other income (expense), net	93	80	-		-		173
Total other income (expense)	200	80	61		(4,011)		(3,670)
Income (loss) before provision for (benefit from) income taxes	19,709	(657)	(5,276)		(7,075)		6,701
Provision for (benefit from) income taxes	4,667	5,878	(1,424)	10	(4,572)	s	4,549
Net income (loss)	15,042	(6,535)	(3,852)		(2,503)		2,152
Net loss attributable to noncontrolling interest	871	-	-		-		871
Net income (loss) attributable to Emergent BioSolutions and Cangene	$ 15,913	$ (6,535)	$ (3,852)		$ (2,503)		$ 3,023
Earnings per share - basic	$ 0.44						$ 0.08
Earnings per share - diluted	$ 0.44						$ 0.12
Weighted-average number of shares - basic	36,129,183						36,129,183
Weighted-average number of shares - diluted	36,504,230				9,591,406	aa	46,095,636

See notes to the Unaudited Pro Forma Combined Financial Statements

Emergent BioSolutions Inc. and Subsidiaries

Unaudited Pro Forma Combined Statements of Operations

For the year ended December 31, 2012

(in thousands, except share and per share data)

	Historical of Emergent BioSolutions for the year ended December 31, 2012	Historical of Cangene for the year ended January 31, 2013	Cangene Transaction Adjustments	See Note 5	Pro Forma Adjustments	See Note 6	Pro Forma Combined
Revenues:							
Product sales	$ 215,879	$ 49,100	$ -		$ 20,982	t	$ 285,961
Contract manufacturing	-	56,599	-		(34,038)	t, u	22,561
Contracts and grants	66,009	12,682	-		13,056	u	91,747
Total revenues	281,888	118,381	-		-		400,269
Operating expense:							
Cost of product sales and contract manufacturing	46,077	75,260	664	11	(5,685)	v	116,316
Research and development	120,226	30,830	-		6,204	w	157,260
Selling, general and administrative	76,018	34,924	-		520	x	111,462
Impairment of in-process research and development	9,600	-	-		-		9,600
Income (loss) from operations	29,967	(22,633)	(664)		(1,039)		5,631
Other income (expense):							
Interest income	134	-	88	12	-		222
Interest expense	(6)	-	-		(3,671)	y	(3,677)
Other income (expense), net	1,970	3,260	-		-		5,230
Total other income (expense)	2,098	3,260	88		(3,671)		1,775
Income (loss) before provision for (benefit from) income taxes	32,065	(19,373)	(576)		(4,710)		7,406
Provision for (benefit from) income taxes	13,922	(2,071)	(155)	13	(2,015)	z	9,447
Net income (loss)	18,143	(17,302)	(421)		(2,695)		(2,275)
Net loss attributable to noncontrolling interest	5,381	-	-		-		5,381
Net income (loss) attributable to Emergent BioSolutions and Cangene	$ 23,524	$ (17,302)	$ (421)		$ (2,695)		$ 3,106
Earnings per share - basic	$ 0.65						$ 0.09
Earnings per share - diluted	$ 0.65						$ 0.13
Weighted-average number of shares - basic	36,080,495						36,080,495
Weighted-average number of shares - diluted	36,420,662				9,315,757	aa	45,556,419

See notes to the Unaudited Pro Forma Combined Financial Statements

NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

1. Description of transaction

On December 11, 2013, Emergent and Cangene entered into an Arrangement pursuant to which Cangene will become a wholly-owned subsidiary of Emergent. This transaction will be accounted for by Emergent under the acquisition method of accounting, with Emergent as the acquiror. Under the acquisition method of accounting, the assets and liabilities of Cangene will be recorded as of the acquisition date, at their respective fair values, and combined with those of Emergent. The reported combined financial condition and results of operations of Emergent after completion of the Arrangement will reflect these fair values.

Under the terms and subject to the conditions of the Arrangement, each share of Cangene common stock will be converted into the right to receive $3.24 in cash, which represents total consideration of approximately $222 million.

The Arrangement is subject to customary closing conditions, including the approval of the Arrangement agreement by Cangene stockholders and the expiration or termination of the applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. Subject to these conditions, the Arrangement is expected to close in the first quarter of 2014.

2. Basis of presentation

The unaudited pro forma combined financial statements have been compiled from underlying financial statements of Emergent prepared in accordance with U.S. GAAP and reflects the effects of the Arrangement, prepared using the acquisition method of accounting under existing U.S. GAAP standards, and the Offering.

The process for estimating the fair values of identifiable intangible assets requires the use of significant estimates and assumptions, including estimating future cash flows and developing appropriate discount rates. The excess of the purchase price over the estimated fair value of identifiable assets and liabilities of Cangene as of the effective dates of the Arrangement will be allocated to goodwill. Fair value is defined, in accordance with U.S. GAAP, as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The preliminary purchase price allocation is subject to finalizing Emergent's analysis of the fair value of Cangene's assets and liabilities as of the effective date of the Arrangement and will be adjusted upon completion of the valuation. The use of different estimates could yield materially different results.

These amounts were determined based upon certain valuations and studies that have yet to be finalized, and accordingly, the assets acquired and liabilities assumed are subject to adjustment once the detailed analyses are completed. These adjustments may be material.

The unaudited pro forma combined financial statements are not intended to reflect the financial position or results of operations which would have actually resulted had the acquisition been effected on the dates indicated. Further, the results of operations are not necessarily indicative of the results of operations that may be obtained in the future.

3. Summary of significant accounting policies

The unaudited pro forma combined financial statements have been compiled consistent with Emergent's accounting policies. These accounting policies differ from Cangene's accoutning policies, prepared in accordance with IFRS. The adjustments made to align the financial statements of Cangene with U.S. GAAP and Emergent's accounting policies are discussed in Note 5, "Cangene transaction adjustments."

4. Estimated purchase price

The accompanying unaudited pro forma combined financial statements reflect an estimated purchase price of $222.0 million, in cash, to holders of Cangene common stock. It is the intent of Emergent management to complete a 338(g) election that will allow for carryover basis of certain tax attributes for acquired tangible and intangible assets. This election has not been finalized and is subject to change. Absent the election, Emergent's deferred tax liabilities will be higher.

For purposes of this pro forma analysis, the above estimated purchase price has been allocated based on a preliminary estimate of the fair value of assets acquired and liabilities assumed.

(in thousands)		September 30, 2013
Estimated fair value of tangible assets acquired and liabilities assumed:		
Acquired tangible assets (i)	$	214,688
Assumed tangible liabilities		(46,196)
Total estimated fair value of tangible assets acquired and liabilities assumed		168,492
Identified intangible assets		52,500
Deferred tax liability associated with identified intangible assets		(3,000)
		49,500
Goodwill		4,008
Total preliminary estimated purchase price	$	222,000

(i) Acquired tangible assets reflect a $12.3 million adjustment to record inventory at fair value, referred to as a step-up adjustment. The $12.3 million step-up was estimated to be amortized through cost of product sales and contract manufacturing over the next five years based on estimated inventory turnover which, will increase costs of product sales and contract manufacturing during such period.

5. Cangene transaction adjustments

Certain adjustments and reclassifications have been made to the unaudited pro forma combined statement of operations for the year ended December 31, 2012 and the nine months ended September 30, 2013, to align the Cangene financial statements prepared in accordance with IFRS with U.S. GAAP presentation and Emergent's accounting policies.

Emergent has classified the following line items within Cangene's historical financial results into the unaudited pro forma combined statement of operations for the nine months ended September 30, 2013 and the year ended December 31, 2012 as follows:

- Product service revenue has been classified as Contract manufacturing revenue
- R&D services revenue has been classified as Contracts and grants revenue
- Product sales and Product services cost of sales has been classified as Cost of product sales and contract manufacturing
- R&D services cost of sales has been classified as Research and development expense
- Independent R&D expense has been classified as Research and development expense
- Impairment of (reversal of) impairment of property, plant and equipment, and intangible assets has been classified as Selling, general and administrative expense
- Change in fair value of royalty provision has been classified as Cost of product sales and contract manufacturing
- Loss (gain) on disposal of assets has been classified as Other income (expense), net
- Finance charges, net has been classified as Cost of product sales and contract manufacturing
- Foreign-exchange gain (loss) has been classified as Other income (net)
- Current and Deferred tax expense (benefit) has been classified as Provision for (benefit from) income taxes

The unaudited pro forma combined balance sheets as of September 30, 2013 include adjustments and reclassifications summarized below:

1. Adjustment of $1.5 million for inventory allowances that were reversed under IFRS based on Cangene management's determination that the inventory that was previously reserved can be used. Under U.S. GAAP, these inventory allowances would not be reversed until the product was sold to the customer.
2. Reclassification of long-term deferred tax assets and liabilities to current to conform with Emergent's presentation of tax assets and liabilities that will be utilized within a year or less.
3. To adjust for a $4.1 million impairment reversal of the Cangene bioPharma Inc. cash generating unit recorded under IFRS that would not be reversed based on U.S. GAAP. Under U.S. GAAP, once an impairment has been recorded, that impairment cannot be reversed based on new facts and circumstances.
4. Tax effect of the $1.5 million inventory increase, $4.1 million impairment reversal and the adjustment to Research and development expense of $215,000 at the 26.99% Canadian statutory rate.
5. Adjustment to Research and development expense of $215,000 related to capitalized research and development. Under U.S. GAAP, research and development costs are expensed as incurred.

The unaudited pro forma combined statement of operations for the nine months ended September 30, 2013 includes adjustments and reclassifications summarized below:

6. Includes the following items:
   - Increase in Cost of product sales and contract manufacturing for adjustments of $945,000 for inventory allowances that were reversed under IFRS based on Cangene's determination that the inventory that was previously reserved can be used. Under U.S. GAAP, these inventory allowances would not be reversed until the product was sold to the customer;
   - Reclassification of the accretion of purchase consideration payable of ($1.9 million) from Cost of product sales and contract manufacturing to Research and development expense to conform with Emergent's accounting policy;
   - Reclassification of the decrease of other assets of $310,000 from Cost of product sales and contract manufacturing to Selling, general and administrative expense to conform with Emergent's accounting policy;
   - Reclassification of the accretion of incentive plan liability of ($16,000) from Cost of product sales and contract manufacturing to Selling, general and administrative expense to conform with Emergent's accounting policy; and
   - Reclassification of short-term interest income of $61,000 from Cost of product sales and contract manufacturing to Interest income to conform with Emergent's accounting policy.
7. Includes the following items:
   - Adjustment to Research and development expense of $215,000 related to capitalized research and development. Under U.S. GAAP, research and development costs are expensed as incurred; and
   - Reclassification of accretion of purchase consideration payable of $1.9 million to Research and development expense from Cost of product sales and contract manufacturing expense to conform with Emergent's accounting policy.
8. Includes the following items:
   - To adjust for a $4.1 million impairment reversal of the Cangene bioPharma Inc. cash generating unit recorded under IFRS that would not be reversed based on U.S. GAAP. Under U.S. GAAP, once an impairment has been recorded, that impairment cannot be reversed based on new facts and circumstances; and
   - Reclassification of the decrease of other assets of ($310,000) and the accretion of incentive plan liability of $16,000 to Selling, general and administrative from Cost of product sales and contract manufacturing to

conform with Emergent's accounting policy.

9. Reclassification of $61,000 of interest income to Interest income for Cost of product sales and contract manufacturing to conform with Emergent's accounting policy.
10. Tax effect, at the 26.99% Canadian statutory rate, of the $945,000 inventory adjustment, $4.1 million impairment reversal and the adjustment related to capitalized research and development expense of $215,000.

The unaudited pro forma combined statement of operations for the year ended December 31, 2012 includes adjustments and reclassifications summarized below:

11. Includes the following:
    - Increase in Cost of product sales and contract manufacturing for adjustments of $576,000 for inventory allowances that were reversed under IFRS based on Cangene determination that the inventory that was previously reserved can be used. Under U.S. GAAP, these inventory allowances would not be reversed until the product was sold to the customer.
    - Reclassification of $88,000 of interest income from Cost of product sales and contract manufacturing to Interest income to conform with Emergent's accounting policy.
12. Reclassification of $88,000 of interest income from Cost of product sales and contract manufacturing to Interest income to conform with Emergent's accounting policy.
13. Tax effect, at the 26.99% Canadian statutory rate, of the $576,000 inventory adjustment.

6. Pro forma adjustments

Adjustments included in the column under the heading "Pro Forma Adjustments" are primarily based on the preliminary estimated purchase price valuation and certain adjustments to conform Cangene's historical amounts to Emergent's financial statements presentation. For purposes of these unaudited pro forma combined financial statements, the book value of a majority of the assets and liabilities acquired approximates fair value. Further analysis will be performed after the completion of the Arrangement to confirm these estimates or make adjustments in the final purchase price allocation, as necessary. These unaudited pro forma combined financial statements contemplate the use of Emergent's incurrence of debt in the form of the Offering to finance the Arrangement.

The unaudited pro forma combined balance sheets as of September 30, 2013 include adjustments and reclassifications summarized below:

a. Adjustments to cash for the following:
    - Proceeds from the Offering of $193.0 million, which is net of $7.0 million in estimated debt issuance costs;
    - Payment of $222.0 million to the shareholders of Cangene in accordance with the Arrangement; and
    - Reduction in cash of $8.7 million to reflect management's assessment of the estimated cash on hand at closing (after the impact of related transaction costs).
b. Fair value adjustment to step-up inventory to estimated selling price.
c. Reduction of property, plant and equipment related to management's assessment of the fair value of certain acquired assets.
d. Adjustments to intangible assets, net,
    - Reversal of $58.3 million of intangible assets recorded on Cangene's historical balance sheet; and
    - Fair value adjustment of the intangible assets recorded in purchase accounting. The preliminary identified intangible assets, amortization periods, amortization expense and accumulated amortization are as follows:

($ in thousands)		Amount	Amortization Period in years		Total Accumulated Amortization as of September 30, 2013
Corporate trade name	$	2,600	5.0	$	910
Marketed products		5,100	15.0		595
Licensed products		1,900	3.0		1,108
Biodefense products		34,400	15.0		4,013
Contract manufacturing		8,500	15.0		992
Total identified intangible assets	$	52,500		$	7,618

The weighted average amortization period for the identified intangible assets is 14.1 years.

e. Adjustment of $4.0 million to goodwill representing the estimated purchase price paid in the acquisition in excess of the fair value of the tangible and intangible assets acquired and liabilities assumed.
f. To net short-term and long-term deferred tax assets and liabilities per Emergent's deferred tax asset and liabilities classification policy. In addition, record $3.0 million long-term deferred tax liability associated with identified intangible assets.
g. Adjustment of $7.0 million representing estimated debt issuance costs associated with the Offering.
h. Indebtedness incurred as part of the Offering.
i. Adjustment to the fair value of the contingent purchase consideration.
j. Adjustment to reflect the fair value of the remaining obligations under the existing agreements at the date of acquisition.
k. Elimination of Cangene's share capital and contributed surplus.
l. To eliminate Cangene's retained earnings of $140.2 million and adjust retained earnings for $7.6 million of amortization expense related to intangibles assets recorded as part of purchase price accounting.

The unaudited pro forma combined statement of operations for the nine months ended September 30, 2013 includes adjustments and reclassifications summarized below:

m. Reclassification of the following product sales from Contract manufacturing revenue to Product sales to conform with Emergent's accounting policy:
    - Product and plasma sales for Cangene's biodefence products; and
    - Incentive portion of revenue associated with extended expiry date for VIG.
n. Reclassification of certain biodefense and freight revenues from Contract manufacturing revenue to Contracts and grants revenue to conform with Emergent's accounting policy.
o. Includes the following:
    - Reclassification of expenses associated with certain biodefense and freight revenues from Cost of product sales and contract manufacturing to Research and development expense to conform with Emergent's accounting policy;
    - Reversal of amortization expense of $3.4 million recorded by Cangene during the period and to record $2.9 million of amortization expense during the period for intangible assets recorded in purchase accounting.
p. Includes the following:
    - Reclassification of $3.2 million of investment tax credits from Research and development to Provision for (benefit from) income taxes to conform with Emergent's accounting policy; and
    - Reclassification of expenses associated with certain biodefense and freight revenues from Cost of product sales and contract manufacturing to Research and development to conform with Emergent's accounting policy.
q. To record the inclusion of $390,000 of amortization expense during the period for intangible assets recorded in purchase accounting.
r. To record interest expense of $4.0 million associated with the Offering at an assumed interest rate of 2.875%. Amount is net of interest expense that can be capitalized based on U.S. GAAP. Capitalized interest for the period was $302,000. The sensitivity of a 25 basis point increase/decrease to the assumed interest rate of 2.875% results in a $375,000 increase/decrease in interest expense.
s. Includes the following:
    - Reclassification of $3.2 million of investment tax credits from Research and development to Provision for (benefit from) income taxes to conform with Emergent's accounting policy;
    - Tax effect of the reversal of the $3.4 million Cangene amortization expense recorded during the period and the inclusion of $3.3 million in amortization during the period for intangible assets recorded as part of purchase price accounting at 26.99% Canadian statutory rate; and
    - Tax effect of the inclusion of $4.0 million in interest expense during the period at the U.S. federal statutory rate of 35%.

The unaudited pro forma combined statement of operations for the year ended December 31, 2012 includes adjustments and reclassifications summarized below:

t. Reclassification of the following from Contract manufacturing revenue to Product sales to conform with Emergent's accounting policy:
    - Product and plasma sales for Cangene's biodefense products; and
    - Incentive portion of revenue associated with extended expiry dating.
u. Reclassification of certain biodefense and freight revenues from Contract manufacturing revenue to Contracts and grants revenue to conform with Emergent's accounting policy.
v. Includes the following:
    - Reclassification of expenses associated with certain biodefense and freight revenues from Cost of product sales and contract manufacturing to Research and development to conform with Emergent's accounting policy;
    - Reversal of amortization expense of $3.9 million recorded by Cangene during the period and record the inclusion of $3.8 million of amortization during the period for intangibles assets recorded in purchase accounting.
w. Includes the following:
    - Reclassification of ($662,000) of investment tax credits from Research and development to Provision for (benefit from) income taxes to conform with Emergent's accounting policy; and
    - Reclassification of expenses associated with plasma storage, stability testing for biodefense products and freight from Cost of product sales and contract manufacturing expense to Research and development expense to conform with Emergent's accounting policy.
x. To record the inclusion of $520,000 of amortization during the period for intangibles assets recorded in purchase accounting.
y. To record interest expense of $3.7 million associated with the Offering at an assumed interest rate of 2.875%. Amount is net of interest expense that can be capitalized based on U.S. GAAP. Capitalized interest for the period was $2.1 million. The sensitivity of a 25 basis point increase/decrease to the assumed interest rate of 2.875% results in a $500,000 increase/decrease in interest expense.
z. Includes the following:
    - Reclassification of ($662,000) of investment tax credits from Research and development to Provision for (benefit from) income taxes to conform with Emergent's accounting policy;
    - Tax effect of the reversal of the $3.9 million Cangene amortization expense recorded during the period and the inclusion of $4.4 million in amortization during the period for intangible assets recorded in purchase accounting at 26.99% Canadian statutory rate; and
    - Tax effect of the inclusion of $3.7 million in interest expense during the period at the U.S. federal statutory rate of 35%.

aa. Estimated shares issued under the if-converted method for determining diluted earnings per share. See Footnote 7.

7. Earnings per share

The pro forma calculation of diluted earnings per share, utilizing the if-converted method under U.S. GAAP, was calculated as follows:

(in thousands, except for share and per share data)		Nine months ended 9/30/2013		Year ended 12/31/2012
Net income attributable to Emergent BioSolutions and Cangene	$	3,023	$	3,106
Adjustment for interest expense associated with the Offering (tax effected @ 35%)		2,386		2,607
Adjusted net income attributable to Emergent BioSolutions and Cangene	$	5,409	$	5,713

Share price (at beginning of period)	$	16.04	$	16.84
Assumed conversion premium		30.00%		30.00%
Assumed conversion price per share		20.85		21.89
Debt assumed per the Offering	$	200,000	$	200,000
Adjustment to reflect shares issued per the Offering		9,591,406		9,135,757
Dilutive Shares Outstanding - as reported by Emergent		36,504,230		36,420,662
Diluted Shares Outstanding		46,095,636		45,556,419
Net income per share - diluted	$	0.12	$	0.13

The assumptions stated above will change based upon the completion of the Offering of the notes.

Exhibit 99.5

EMERGENT BIOSOLUTIONS ANNOUNCES PROPOSED OFFERING OF $200 MILLION CONVERTIBLE SENIOR NOTES

ROCKVILLE, MD, January 22, 2014—Emergent BioSolutions Inc. ("Emergent") (NYSE: EBS) announced today that it intends to offer, subject to market and other conditions, $200 million aggregate principal amount of Convertible Senior Notes due 2021 (the "Notes") in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"). Emergent also intends to grant the initial purchasers an option to purchase up to an additional $30 million aggregate principal amount of the Notes.

Emergent intends to use a majority of the net proceeds from the offering to finance the acquisition of Cangene Corporation, announced in December 2013. The company intends to use any remaining net proceeds from the offering for general corporate purposes.

The interest rate, conversion rate and other terms of the Notes will be determined at the time of pricing of the offering. The Notes will be senior unsecured obligations of Emergent and will accrue interest payable semiannually in arrears.

Subject to Emergent's ability to terminate the conversion rights on or after January 20, 2017 as described below, the Notes will be convertible at the option of the holders at any time prior to the close of business on the business day immediately preceding the maturity date. Emergent will settle conversions of the Notes by delivering shares of its common stock.

The conversion rate of the Notes, and the corresponding conversion price, will be subject to adjustment for certain events, but will not be adjusted for accrued interest. In addition, following certain corporate transactions that occur on or prior to the maturity date for the Notes, Emergent will increase the conversion rate for a holder that elects to convert its Notes in connection with such a corporate transaction.

Emergent may terminate the conversion rights on or after January 20, 2017 if the last reported sale price of Emergent's common stock has been at least 130% of the conversion price for at least 20 trading days during the 30 consecutive trading day period prior to Emergent delivering notice of such termination (including the last trading day of such period). There is no "sinking fund" provided for the Notes, which means that Emergent will not be required to redeem or retire the Notes periodically.

The Notes and the shares of common stock underlying the Notes have not been and will not be registered under the Securities Act, or any applicable state securities laws. Unless so registered, such Notes and such shares of common stock may not be offered or sold in the United States absent an exemption from the registration requirements of the Securities Act and applicable state securities laws.

This press release does not constitute an offer to sell or the solicitation of an offer to buy these securities, nor shall there be any sale of these securities in any state in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any state.

About Emergent BioSolutions Inc.
Emergent BioSolutions is a specialty pharmaceutical company seeking to protect and enhance life by offering specialized products to healthcare providers and governments to address medical needs and emerging health threats.

Emergent BioSolutions Safe Harbor Statement
This press release includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Any statements, other than statements of historical fact, including expectations regarding the offering of notes and our use of net proceeds, and any other statements containing the words "believes", "expects", "anticipates", "intends", "plans", "forecasts", "estimates" and similar expressions, are forward-looking statements. These forward-looking statements are based on our current intentions, beliefs and expectations regarding future events. We cannot guarantee that any forward-looking statement will be accurate. Investors should realize that if underlying assumptions prove inaccurate or unknown risks or uncertainties materialize, actual results could differ materially from our expectations. Investors are, therefore, cautioned not to place undue reliance on any forward-looking statement. Any forward-looking statement speaks only as of the date of this press release, and, except as required by law, we do not undertake to update any forward-looking statement to reflect new information, events or circumstances.

There are a number of important factors that could cause the company's actual results to differ materially from those indicated by such forward-looking statements, including the risk of closing the offering; fluctuations in the financial markets and the impact on the offering; uncertainties with respect to our pending acquisition of Cangene Corporation; our ability to successfully integrate Cangene and realize the potential benefits of the transaction; appropriations for BioThrax® procurement; our ability to successfully integrate the recent acquisition of the HPPD business and realize the benefits of the HPPD transaction; our ability to obtain new BioThrax sales contracts or modifications to existing contracts; our plans to pursue label expansions and improvements for BioThrax; availability of funding for our U.S. government grants and contracts; our ability to identify and acquire or in-license products or late-stage product candidates that satisfy our selection criteria; whether anticipated synergies and benefits from an acquisition or in-license are realized within expected time periods or at all; our ability to enter into selective collaboration arrangements; our ability to expand our manufacturing facilities and capabilities; the rate and degree of market acceptance and clinical utility of our products; the success of our ongoing and planned development programs; the timing of and our ability to obtain and maintain regulatory approvals for our product candidates; and our commercialization, marketing and manufacturing capabilities and strategy. The foregoing sets forth many, but not all, of the factors that could cause actual results to differ from our expectations in any forward-looking statement. Investors should consider this cautionary statement, as well as the risk factors identified in our periodic reports filed with the SEC, when evaluating our forward-looking statements.

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