INTERIM REPORT

FIRST QUARTER

DECEMBER 31ST, 2004

AXCAN

PHARMA

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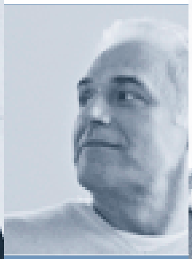
We are **growing** in gastroenterology

Diseases of the Liver

Diseases of the Pancreas

Diseases of the Bowel



Gastrointestinal (GI) and GI-related Cancer

Other GI diseases and disorders

A new era of growth...

Building on its solid base of five core therapeutic areas, Axcan is poised for expansion into larger GI markets with innovative products. Our commitment and dedication to improving quality of care and treatment of patients suffering from gastrointestinal diseases and disorders, are stronger than ever.

Dear Shareholders,

"We are pleased with this quarter's financial results", stated Leon F. Gosselin, President and Chief Executive Officer of Axcan. "Revenues are in line with our forecast and net income reflects Axcan's commitment to increase R&D expenditures to move ITAX, a potential blockbuster drug for the treatment of functional dyspepsia, to market as soon as possible. The results also demonstrate our intention to support the rapid development of the other innovative drugs in our pipeline that will assure a prosperous future for Axcan throughout the coming decade."

Léon F. Gosselin
Chairman of the Board,
President and Chief Executive Officer

Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion should be read in conjunction with the information contained in Axcan's consolidated financial statements and the related notes thereto. All amounts are in U.S. dollars.

Overview

Axcan is a leading specialty pharmaceutical company concentrating in the field of gastroenterology, with operations in North America and Europe. Axcan markets and sells pharmaceutical products used in the treatment of a variety of gastrointestinal diseases and disorders. The Company seeks to expand its gastrointestinal franchise by in-licensing products and acquiring products or companies, as well as developing additional products and expanding indications for existing products. Axcan's current products include ULTRASE, PANZYTRAT and VIOKASE for the treatment of certain gastrointestinal symptoms, related to cystic fibrosis in the case of ULTRASE and PANZYTRAT; URSO 250 and DELURSAN for the treatment of certain cholestatic liver diseases; SALOFALK and CANASA for the treatment of certain inflammatory bowel diseases; and PHOTOFRIN for the treatment of certain types of gastrointestinal cancers and other conditions. In addition, as at December 31, 2004, Axcan had one product pending approval, a new formulation for a product currently marketed in the United States. Axcan also has a number of other pharmaceutical projects in all phases of development, including ITAX for the treatment of functional dyspepsia. Axcan reported revenue of $61.6 million and operating income of $12.1 million for the three-month period ended December 31, 2004.

During the first quarter of fiscal 2004, Axcan acquired the rights to a group of products from Aventis Pharma S.A. ("Aventis") for a cash purchase price of $145.0 million. These products are CARAFATE and BENTYL for the U.S. market and SULCRATE, BENTYLOL and PROCTOSEDYL for the Canadian market (collectively, "AVAX" product line). Revenue from sales of Axcan's products in the United States was $38.2 million (62.0% of total revenue) for the three-month period ended December 31, 2004, compared to $37.8 million (65.6% of total revenue) for the same period of fiscal 2004. In Canada, revenue was $9.2 million (14.9% of total revenue) for the three-month period ended December 31, 2004, compared to $6.6 million (11.5% of total revenue) for the same period of fiscal 2004. In Europe, revenue was $14.2 million (23.1% of total revenue) for the three-month period ended December 31, 2004, compared to $13.2 million (22.9% of total revenue) for the same period of fiscal 2004.

Axcan's revenue historically has been and continues to be principally derived from sales of pharmaceutical products to large pharmaceutical wholesalers and large chain pharmacies. Axcan utilizes a "pull-through" marketing approach that is typical of pharmaceutical companies. Under this approach, Axcan's sales representatives demonstrate the features and benefits of its products to gastroenterologists who may write their patients prescriptions for Axcan's products. The patients, in turn, take the prescriptions to pharmacies to be filled. The pharmacies then place orders with the wholesalers or, in the case of large chain pharmacies, their distribution centres, to whom Axcan sells its products.

Axcan's expenses are comprised primarily of selling and administrative expenses (including marketing expenses), cost of goods sold (including royalty payments to those companies from whom Axcan licenses some of its products), research and development expenses as well as depreciation and amortization.

Axcan's annual and quarterly operating results are primarily affected by three factors: wholesaler buying patterns; the level of acceptance of Axcan's products by gastroenterologists and their patients; and the extent of Axcan's control over the marketing of its products. Wholesaler buying patterns, including a tendency to increase inventory levels prior to an anticipated or announced price increase, affect Axcan's operating results by shifting revenue between quarters. To maintain good relations with wholesalers, Axcan typically gives prior notice of price increases. The level of patient and physician acceptance of Axcan's products, as well as the availability of similar therapies, which may be less effective but also less expensive than some of Axcan's products, impact Axcan's revenues by driving the level and timing of prescriptions for its products.

Critical Accounting Policies

Axcan's consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"), applied on a consistent basis. Axcan's critical accounting policies include the use of estimates, revenue recognition, the recording of research and development expenses and the determination of the useful lives or fair value of goodwill and intangible assets.

Some of our critical accounting policies require the use of judgment in their application or require estimates of inherently uncertain matters. Although our accounting policies are in compliance with U.S. GAAP, a change in the facts and circumstances of an underlying transaction could significantly change the application of our accounting policies to that transaction, which could have an effect on our financial statements. Discussed below are those policies that we believe are critical and require the use of complex judgment in their application.

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements and the disclosure of recognized amounts of revenues and expenses during the year. Significant estimates and assumptions made by management include the allowance for accounts receivable and inventories, reserves for product returns, rebates and chargebacks, the classification of intangible assets between finite and indefinite life, useful lives of long-lived assets, the expected cash flows used in evaluating long-lived assets, goodwill and investments for impairment, contingency provisions and other accrued charges. These estimates were made using the historical information available to management. The Company reviews all significant estimates affecting the financial statements on a recurring basis and records the effect of any adjustment when necessary. Actual results could differ from those estimates.

Revenue Recognition

Revenue is recognized when the product is shipped to the Company's customer, provided the Company has not retained any significant risks of ownership or future obligations with respect to the product shipped. Revenue from product sales is recognized net of sales discounts, allowances, returns, rebates and chargebacks. In certain circumstances, returns or exchanges of products are allowed under the Company's policy, and provisions are maintained accordingly. Amounts received from customers as prepayments for products to be shipped in the future are reported as deferred revenue.

Goodwill and Intangible Assets

Axcan's goodwill and intangible assets are stated at cost, less accumulated amortization. Since October 1, 2001, the Company does not amortize goodwill and intangible assets with an indefinite life. However, management evaluates the value of the unamortized portion of goodwill and intangible assets annually, by comparing the carrying value to the future benefits of the Company's activities or the expected sale of pharmaceutical products. Should there be a permanent impairment in value or if the unamortized balance exceeds recoverable amounts, a write-down will be recognized for the current year. To date, Axcan has not recognized any significant permanent impairment in value except for an amount of $83,000 of goodwill for the year ended September 30, 2004. Intangible assets with finite life are amortized over their estimated useful lives.

Research and Development Expenses

Research and development expenses are charged to operations in the year they are incurred. Acquired in-process research and development having no alternative future use is written off at the time of acquisition. The cost of intangibles that are acquired from others for a particular research and development project, with no alternative use, are written off at the time of acquisition.

Acquisition of Products

On November 18, 2003, the Company acquired the rights to the AVAX product line from Aventis. The $145.0 million purchase price was paid out of Axcan's cash on hand.

On August 29, 2003, the Company acquired an exclusive license for North America, the European Union and Latin America, from Abbott Laboratories ("Abbott") to develop, manufacture and market ITAX, a patented gastroprokinetic drug. Under the terms of this license agreement, the Company paid $10 million in cash and assumed $2 million in research contract liability. This product is in development, has not reached technological feasibility and has no known alternative uses; therefore, its acquisition was deemed to be acquired in-process research and was expensed in the period of acquisition.

On December 10, 2002, the Company acquired the rights to the Ursodiol 250 mg tablets DELURSAN for the French market from Aventis, for a cash purchase price of $22.8 million.

On December 3, 2002, the Company acquired the worldwide rights to the PANZYTRAT enzyme product line from Abbott for a cash purchase price of $45.0 million.

During a transition period, the seller in some of these acquisition transactions acts as selling agent for the management of these products. For the three-month period ended December 31, 2004, sales of some of these products were still managed in part by the sellers. Axcan includes in its revenue the net sales from such products less corresponding cost of goods sold and other seller related expenses. Consequently, although net sales of such products for the three-month period ended December 31, 2004 were $854,008 ($2,892,231 in 2003), the Company only included in its revenue an amount of $336,294 ($1,748,359 in 2003) representing the net sales less cost of goods sold and other seller related expenses.

Results of Operations

The following table sets forth, for the periods indicated, the percentage of revenue represented by items in Axcan's consolidated statements of operations:

For the three-month periods ended December 31,	2004	2003
	%	%
Revenue	100.0	100.0
Cost of goods sold	27.2	25.3
Selling and administrative expenses	34.0	31.9
Research and development expenses	10.4	6.9
Depreciation and amortization	8.7	6.5
	80.3	70.6
Operating income	19.7	29.4
Financial expenses	2.9	2.9
Interest income	(0.1)	(0.3)
Loss (gain) on foreign exchange	(0.4)	0.1
	2.4	2.7
Income before income taxes	17.3	26.7
Income taxes	4.7	8.6
Net income	12.6	18.1

Quarter ended December 31, 2004 compared to quarter ended December 31, 2003

Revenue

For the three-month period ended December 31, 2004, revenue was $61.6 million compared to $57.6 million for the corresponding quarter of the preceding fiscal year, an increase of 6.9%. This increase in revenue primarily resulted from the U.S. and Canadian sales of the AVAX product line which was acquired in November 2003.

Cost of Goods Sold

Cost of goods sold consists principally of costs of raw materials, royalties and manufacturing costs. Axcan outsources most of its manufacturing requirements. Cost of goods sold increased $2.2 million (15.1%) to $16.8 million for the three-month period ended December 31, 2004 from $14.6 million for the corresponding quarter of the preceding fiscal year. As a percentage of revenue, cost of goods sold for the quarter ended December 31, 2004 increased as compared to the corresponding quarter of the preceding fiscal year from 25.3% to 27.2%. This increase in the cost of goods sold as a percentage of revenue was due mainly to the write-down of inventory of finished goods with less than twelve months of shelf life.

Selling and Administrative Expenses

Selling and administrative expenses consist principally of salaries and other costs associated with Axcan's sales force and marketing activities. Selling and administrative expenses increased $2.6 million (14.1%) to $21.0 million for the three-month period ended December 31, 2004 from $18.4 million for the corresponding quarter of the preceding fiscal year. This increase is mainly due to an increase in our sales force and additional marketing efforts.

Research and Development Expenses

Research and development expenses consist principally of fees paid to outside parties that Axcan uses to conduct clinical studies and to submit governmental approval applications on its behalf as well as the salaries and benefits paid to its personnel involved in research and development projects. Research and development expenses increased $2.5 million (64.1%) to $6.4 million for the quarter ended December 31, 2004 from $3.9 million for the corresponding quarter of the preceding fiscal year. This increase is mainly due to the development of ITAX, acquired in August 2003, for the treatment of functional dyspepsia.

Depreciation and Amortization

Depreciation and amortization consists principally of the amortization of intangible assets with a finite life. Intangible assets include trademarks, trademark licenses and manufacturing rights. Depreciation and amortization increased $1.7 million (45.9%) to $5.4 million for the quarter ended December 31, 2004 from $3.7 million for the corresponding quarter of the preceding fiscal year. The increase is mainly due to the amortization of the AVAX product line acquired from Aventis on November 18, 2003 and of PANZYTRAT which was reclassified from intangible assets with an indefinite life to intangible assets with a finite life on October 1, 2004.

Financial Expenses

Financial expenses consist principally of interest and fees paid in connection with money borrowed for acquisitions. Financial expenses increased $0.1 million (5.9%) to $1.8 million for the quarter ended December 31, 2004 from $1.7 million for the corresponding quarter of the preceding fiscal year.

Income Taxes

Income taxes amounted to $2.9 million for the quarter ended December 31, 2004, compared to $5.0 million for the quarter ended December 31, 2003. The effective tax rates were 32.2% for the quarter ended December 31, 2003 and 27.2% for the quarter ended December 31, 2004. The decrease in the effective tax rate is mainly due to the research and development tax credits, deducted from the income taxes expense, of $0.5 million for the quarter ended December 31, 2004 compared to $0.2 million for the corresponding quarter of the preceding fiscal year.

Net Income

Net income was $7.8 million or $0.17 of basic income per share and $0.16 of diluted income per share, for the quarter ended December 31, 2004, compared to $10.4 million or $0.23 of basic income per share and $0.21 of diluted income per share for the corresponding quarter of the preceding year. The weighted average number of common shares outstanding used to establish the basic per share amounts increased from 45.0 million for the quarter ended December 31, 2003 to 45.6 million for the quarter ended December 31, 2004, following the exercise of options previously granted pursuant to Axcan's stock option plan. The weighted average number of common shares used to establish the diluted per share amounts increased from 54.5 million for the quarter ended December 31, 2003 to 55.3 million for the quarter ended December 31, 2004. The shares issuable under the convertible subordinated notes are included for both periods following the change in accounting policy applied by restating all periods during which time the convertible notes were outstanding.

Canadian GAAP

The differences (in thousands of dollars) between U.S. and Canadian GAAP which affect net income for the three-month periods ended December 31, 2004 and 2003 are summarized in the following table:

For the three-month periods ended December 31,	**2004**	2003
	$	$
Net income in accordance with U.S. GAAP	7,754	10,435
Implicit interest on convertible debt	(1,123)	(1,026)
Stock-based compensation expense	(1,300)	–
Amortization of new product acquisition costs	(14)	(13)
Income tax impact of the above adjustments	5	5
Net earnings in accordance with Canadian GAAP	5,322	9,401

On March 5, 2003, the Company closed an offering of $125.0 million aggregate principal amount of 4 1/4 % convertible subordinated notes due April 15, 2008. As a result of the terms of the notes, under Canadian GAAP, an amount of $24,238,899 was included in shareholders' equity as equity component of the convertible debt and an amount of $100,761,101 was included in long-term debt, as the liability component of the convertible notes. For the quarter ended December 31, 2004, implicit interest in the amount of $1,122,846 ($1,025,603 in 2003) was accounted for and added to the liability component.

Since October 1, 2004, under Canadian GAAP, the effect of stock-based compensation has to be accounted for using the fair value based method.

Under Canadian GAAP, research and development expenses are stated net of related tax credits which generally constitute between 10% and 15% of the aggregate amount of such expenses. Under U.S. GAAP, these tax credits are applied against income taxes.

Liquidity and Capital Resources

Axcan's cash, cash equivalents and short-term investments increased $6.2 million (16.4%) to $44.1 million at December 31, 2004 from $37.9 million at September 30, 2004. As of December 31, 2004, working capital was $102.0 million, compared to $87.7 million at September 30, 2004. These increases are mainly due to the cash flows from operating activities of the quarter.

Total assets increased $19.8 million (3.2%) to $629.4 million as of December 31, 2004 from $609.6 million as of September 30, 2004. Shareholders' equity increased $19.7 million (5.0%) to $411.8 million as of December 31, 2004 from $392.1 million as of September 30, 2004.

Historically, Axcan has financed research and development, operations, acquisitions, milestone payments and investments out of the proceeds of public and private sales of its equity and convertible debt, cash flows from operating activities, and loans from joint venture partners and financial institutions. Since it went public in Canada in December 1995, Axcan has raised approximately $243.0 million from sales of its equity and $125.0 million from sales of convertible notes. Furthermore, Axcan has borrowed and since repaid funds from financial institutions to finance the acquisition of Axcan Scandipharm Inc. and from Schwarz Pharma Inc., a former joint venture partner, to finance the acquisition of Axcan URSO.

Axcan's research and development expenses totalled $19.9 million for fiscal 2004. Axcan believes that cash, cash equivalents and short-term investments, together with funds provided by operations, will be sufficient to meet its operating cash requirements, including the development of products through research and development activities, capital expenditures and repayment of its debt. Assuming regulatory approvals of future products and indications stemming from its research and development efforts, Axcan believes that these will also significantly contribute to an increase in funds provided by operations. However, Axcan regularly reviews product and other acquisition opportunities and may therefore require additional debt or equity financing. Axcan cannot be certain that such additional financing, if required, will be available on acceptable terms, or at all.

Line of Credit

Since September 22, 2004, the Company has had an amended credit facility with a banking syndicate. The amended credit facility consists in a $125.0 million 364-day extendible revolving facility with a two-year term-out option maturing on September 22, 2007.

The credit facility is secured by a first priority security interest on all present and future acquired assets of the Company and its material subsidiaries, and provides for the maintenance of certain financial ratios. Among the restrictions imposed by the credit facility is a covenant limiting cash dividends, share repurchases (other than redeemable shares issued in connection with a permitted acquisition) and similar distributions to shareholders to 10% of the Company's net income for the preceding fiscal year. As of December 31, 2004, Axcan was in compliance with all covenants under the credit facility.

The interest rate varies, depending on the Company's leverage, between 25 basis points and 100 basis points over Canadian prime rate or U.S. base rate, and between 125 basis points and 200 basis points over the LIBOR rate or bankers acceptances. The credit facility may be drawn in U.S. dollars or in Canadian dollar equivalents. As of December 31, 2004, there was no amount outstanding under this credit facility.

Convertible Subordinated Notes and Other Long-term Debt

Long-term debt including instalments due within one year totaled $129.6 million as of December 31, 2004 compared to $129.7 million as of September 30, 2004. As of December 31, 2004, the long-term debt included, $2.1 million of bank loans, $2.5 million of obligations under capital leases contracted by Axcan's French subsidiary and the $125.0 million 4 1/4 % convertible subordinated notes due 2008 which were issued on March 5, 2003.

The notes are convertible into 8,924,113 common shares during any quarterly conversion period if the closing price per share for at least 20 consecutive trading days during the 30 consecutive trading-day period ending on the first day of the conversion period exceeds 110% of the conversion price in effect on that thirtieth trading day. The notes are also convertible during the five business-day period following any 10 consecutive trading-day period in which the daily average of the trading prices for the notes was less than 95% of the average conversion value for the notes during that period. The note holders may also convert their notes upon the occurrence of specified corporate transactions or if the Company has called the notes for redemption. On or after April 20, 2006, the Company may at its option, redeem the notes, in whole or in part at redemption prices varying from 101.70% to 100.85% of the principal amount plus any accrued and unpaid interest to the redemption date. The notes also include provisions for the redemption of all the notes for cash at the option of the Company following certain changes in tax treatment.

Cash Flows

Cash flows from operating activities increased $10.0 million from $1.2 million of cash used by operating activities for the quarter ended December 31, 2003 to $8.8 million of cash provided by operating activities for the quarter ended December 31, 2004. This increase is mainly due to the fact that the accounts receivable and inventories remained stable during the quarter ended December 31, 2004 compared to the corresponding quarter of the previous fiscal year when they increased following the increase in sales and the acquisition of new products. Cash flows used by financing activities for the quarter ended December 31, 2004 were $0.9 million. Cash flows from investment activities for the quarter ended December 31, 2004, were $11.0 million and were mainly due to the receipt of $12.8 million from the sale of short-term investments, wich was offset by the use of $1.8 million for the acquisition of property, plant and equipment. Cash flows used for financing activities for the quarter ended December 31, 2003 were $0.1 million. Cash flows used for investment activities for the quarter ended December 31, 2003 were $21.1 million mainly due to the net cash used for the acquisition of intangible assets for $145.6 million with the proceeds from the disposal of short-term investments.

Off-Balance Sheet Arrangements

Axcan does not have any transactions, arrangements and other relationships with unconsolidated entities that are likely to affect its operating results, its liquidity or capital resources. Axcan has no special purpose or limited purpose entities that provide off balance sheet financing, liquidity or market or credit risk support, engage in leasing, hedging, research and development services, or other relationships that expose the Company to liability that is not reflected on the face of the consolidated financial statements.

Contractual Obligations

The following table summarizes Axcan's significant contractual obligations (in thousands of dollars) as of December 31, 2004 and the effect such obligations are expected to have on our liquidity and cash flows in future years. This table excludes amounts already recorded on the balance sheet as current liabilities at December 31, 2004 or certain other purchase obligations as discussed below:

	For the twelve-month periods ending December 31,				
	2005	2006	2007	2008	2009 and thereafter
	$	$	$	$	$
Long-term debt	1,857	1,601	937	125,221	34
Operating leases	1,117	415	136	93	35
Other commitments	1,579	150	150	150	–
	4,553	2,166	1,223	125,464	69

Purchase orders for raw materials, finished goods and other goods and services are not included in the above table. Management is not able to determine the aggregate amount of such purchase orders that represent contractual obligations, as purchase orders may represent authorizations to purchase rather than binding agreements. For the purpose of this table, contractual obligations for purchase of goods or services are defined as agreements that are enforceable and legally binding on the Company and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Axcan's purchase orders are based on current needs and are fulfilled by our vendors with relatively short timetables. The Company does not have significant agreements for the purchase of raw materials or finished goods specifying minimum quantities or set prices that exceed its short-term expected requirements. Axcan also enters into contracts for outsourced services; however, the obligations under these contracts are not significant, and the contracts generally contain clauses allowing for cancellation without significant, penalty except for a sales management services contract included in the above table. As milestone payments are primarily contingent on receiving regulatory approval for products under development, they do not have defined maturities.

The expected timing of payment of the obligations discussed above is estimated based on current information. Timing of payments and actual amounts paid may be different depending on the time of receipt of goods or services, or for some obligations, changes to agreed-upon amounts.

Effect of Recently Issued U.S. Accounting Pronouncements

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("FASB") No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure". SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition to SFAS No. 123's fair value method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure provisions of SFAS No. 123 and Accounting Principles Board Opinion ("APB") No. 28, "Interim Financial Reporting", to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. While SFAS No. 148 does not amend SFAS No. 123 to require companies to account for employee stock options using the fair value method, the disclosure provisions of SFAS No. 148 are applicable to all companies with stock-based employee compensation, regardless of whether they account for that compensation using the fair value method of SFAS No. 123 or the intrinsic value method of APB No. 25. As allowed by SFAS No. 123, the Company elected to continue to utilize the accounting method prescribed by APB No. 25 and applies the disclosure requirements of SFAS No. 123.

On March 31, 2004, the FASB issued an Exposure Draft, "Share-Based Payment, an Amendment of FASB Statements No. 123 and 95". The Exposure Draft would require all entities to recognize compensation cost for share-based awards, including options, granted to employees. The proposed Statement would eliminate the ability to account for share-based compensation transactions using APB No. 25, “Accounting for Stock Issued to Employees”, and generally would require instead that such transactions be accounted for using a fair-value based method. Public companies would be required to measure stock-based compensation classified as equity by valuing the instrument the employee receives at its grant-date fair value. Share-based awards classified as liabilities, would be measured at fair value and remeasured at fair value at each reporting period. Currently such awards are measured at intrinsic value under both APB No. 25 and SFAS 123, “Accounting for Stock-Based Compensation”. The Company would apply the proposed Statement for interim and fiscal periods beginning after June 15, 2005 using the modified prospective transition approach.

During the September 2004 meeting of the Emerging Issues Task Force (“EITF”) a consensus was reached on EITF Issue 04-8, “The Effect of Contingently Convertible Debt on Diluted Earnings per Share”. The EITF 04-8 requires Companies to include certain convertible debt and equity instruments, that were previously excluded, into their calculations of diluted earnings per share. The EITF concluded that Issue 04-8 is effective for periods ending after December 15, 2004, and must be applied by restating all periods during which time the applicable convertible instruments were outstanding. The 4 1/4% convertible subordinated notes, issued in 2003 are therefore included in the Company’s diluted earnings per share calculation.

Earnings Coverage

Under U.S. GAAP, for the twelve months ended December 31, 2004, our interest requirements amounted to $5.7 million on a pro-forma basis and our earnings coverage ratio, defined as the ratio of earnings before interest and income taxes to pro-forma interest requirements, was 12.5 to one.

Under Canadian GAAP, for the twelve months ended December 31, 2004, our interest requirements amounted to $10.8 million on a pro-forma basis, and our earnings coverage ratio was 6.7 to one. The principal difference between the earnings coverage ratios under Canadian GAAP and U.S. GAAP is attributable to the inclusion of implicit interest of $4.7 million as required by Canadian GAAP.

Risk Factors

Axcan is exposed to financial market risks, including changes in foreign currency exchange rates and interest rates. Axcan does not use derivative financial instruments for speculative or trading purposes. Axcan does not use off-balance sheet financing or similar special purpose entities. Inflation has not had a significant impact on Axcan’s results of operations.

Foreign Currency Risk

Axcan operates internationally; however, a substantial portion of the revenue and expense activities and capital expenditures are transacted in U.S. dollars. Axcan's exposure to exchange rate fluctuation is reduced because, in general, Axcan's revenues denominated in currencies other than the U.S. dollar are matched by a corresponding amount of costs denominated in the same currency. Axcan expects this matching to continue.

Interest Rate Risk

The primary objective of Axcan’s investment policy is the protection of capital. Accordingly, investments are made in high-grade government and corporate securities with varying maturities, but typically, less than 180 days. Therefore, Axcan does not have a material exposure to interest rate risk, and a 100 basis-point adverse change in interest rates would not have a material effect on Axcan’s consolidated results of operations, financial position or cash flows. Axcan is exposed to interest rate risk on borrowings under the credit facility. The credit facility bears interest based on LIBOR, U.S. dollar base rate, Canadian dollar prime rate, or Canadian dollar Bankers’ Acceptances. Based on projected advances under the credit facility, a 100 basis-point adverse change in interest rates would not have a material effect on Axcan’s consolidated results of operations, financial position, or cash flows.

Supply and Manufacture

Axcan depends on third parties for the supply of active ingredients and for the manufacture of the majority of its products. Although Axcan looks to secure alternative suppliers, Axcan may not be able to obtain the active ingredients or products from such third parties. Furthermore, the active ingredients or products acquired from third parties, may not comply with specifications, and the prices at which Axcan purchases them may increase. In the event of a problem with a supplier, Axcan may not be able to locate alternative sources of supply in a reasonable time period, or at all. If any of these events occur, Axcan may not be able to continue to market certain of its products, and its sales and profitability would be adversely affected.

Volatility of Share Prices

The market price of Axcan's shares is subject to volatility. Deviations in actual financial or scientific results, as compared to expectations of securities analysts who follow our activities can have a significant effect on the trading price of Axcan's shares.

Forward-looking Statements

This document contains forward-looking statements, which reflect the Company's current expectations regarding future events. To the extent that any statements in this document contains information that is not historical, the statements are essentially forward-looking and are often identified by words such as "anticipate", "expect", "estimate", "intend", "project", "plan" and "believe". These forward-looking statements include but are not limited to the expected sales growth of the Company's products and the expected increase in funds from operations resulting from the Company's research and development expenditures. The forward-looking statements involve risks and uncertainties. Actual events could differ materially from those projected herein and depend on a number of factors, including but not limited to the successful and timely completion of clinical studies, the difficulty of predicting FDA or other regulatory approvals, the commercialization of a drug or therapy after regulatory approval is received, the difficulty of predicting acceptance and demand for pharmaceutical products, the impact of competitive products and pricing, new product development and launch, the availability of raw materials, the protection of our intellectual property, fluctuations in our operating results and other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission and the Canadian Securities Commissions. The reader is cautioned not to rely on these forward looking statements. The Company disclaims any obligation to update these forward-looking statements.

This MD&A has been prepared as of February 14, 2005. Additional information on the Company is available through regular filing of press releases, quarterly financial statements and Annual Information Form on the SEDAR website.

On behalf of Management,

Jean Vézina
Vice President, Finance and Chief Financial Officer

In accordance with U.S. GAAP in thousands of U.S. dollars, except share related data	**December 31, 2004** *(unaudited)* $	September 30, 2004 $
Assets		
Current assets		
Cash and cash equivalents	**41,049**	21,979
Short-term investments available for sale	**3,100**	15,922
Accounts receivable	**47,887**	46,585
Income taxes receivable	**10,426**	9,196
Inventories (Note 4)	**39,145**	37,270
Prepaid expenses and deposits	**4,398**	3,494
Deferred income taxes	**5,822**	4,586
Total current assets	**151,827**	139,032
Property, plant and equipment, net	**32,575**	31,252
Intangible assets, net (Note 5)	**413,007**	407,875
Goodwill, net	**27,467**	27,467
Deferred debt issue expenses, net	**3,402**	3,088
Deferred income taxes	**1,129**	930
Total assets	**629,407**	609,644
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**44,181**	47,917
Income taxes payable	**2,503**	731
Instalments on long-term debt	**1,653**	1,778
Deferred income taxes	**1,528**	936
Total current liabilities	**49,865**	51,362
Long-term debt	**127,996**	127,916
Deferred income taxes	**39,732**	38,290
Total liabilities	**217,593**	217,568
Shareholders' Equity		
Capital stock		
Series A preferred shares, without par value, shares authorized: 14,175,000; no shares issued.	**–**	–
Series B preferred shares, without par value, shares authorized: 12,000,000; no shares issued.	**–**	–
Common shares, without par value, unlimited shares authorized; 45,581,050 issued as at December 31, 2004 and 45,562,336 as at September 30, 2004.	**260,799**	260,643
Retained earnings	**120,116**	112,362
Contributed surplus	**980**	–
Accumulated other comprehensive income	**29,919**	19,071
Total shareholders' equity	**411,814**	392,076
Total liabilities and shareholders' equity	**629,407**	609,644

See the accompanying notes to the Consolidated Financial Statements.
These interim financial statements should be read in conjunction with the annual Consolidated Financial Statements.

In accordance with U.S. GAAP in thousands of U.S. dollars, except share related data *(unaudited)*	**For the three-month period ended December 31, 2004**	For the three-month period ended December 31, 2003
Common shares (number)		
Balance, beginning of period	**45,562,336**	45,004,320
Exercise of options	**18,714**	57,211
Balance, end of period	**45,581,050**	45,061,531
	$	$
Common shares		
Balance, beginning of period	**260,643**	255,743
Exercise of options	**156**	435
Balance, end of period	**260,799**	256,178
Retained earnings		
Balance, beginning of period	**112,362**	63,634
Net income	**7,754**	10,435
Balance, end of period	**120,116**	74,069
Contributed surplus		
Balance, beginning of period	**–**	–
Income tax savings on stock options exercise	**980**	–
Balance, end of period	**980**	–
Accumulated other comprehensive income		
Balance, beginning of period	**19,071**	11,634
Foreign currency translation adjustments	**10,848**	8,527
Balance, end of period	**29,919**	20,161
Total shareholders' equity	**411,814**	350,408
Comprehensive income		
Foreign currency translation adjustments	**10,848**	8,527
Net income	**7,754**	10,435
Total comprehensive income	**18,602**	18,962

See the accompanying notes to the Consolidated Financial Statements. These interim financial statements should be read in conjunction with the annual Consolidated Financial Statements.

In accordance with U.S. GAAP in thousands of U.S. dollars *(unaudited)*	**For the three-month period ended December 31, 2004** **$**	For the three-month period ended December 31, 2003 $
Operations		
Net income	**7,754**	10,435
Non-cash items		
Amortization of deferred debt issue expenses	**275**	258
Other depreciation and amortization	**5,364**	3,723
Loss on disposal of assets	**–**	87
Foreign currency fluctuation	**(16)**	–
Deferred income taxes	**601**	1,303
Changes in working capital items		
Accounts receivable	**(138)**	(8,864)
Income taxes receivable	**(682)**	(2,606)
Inventories	**(1,125)**	(8,376)
Prepaid expenses and deposits	**(722)**	(1,049)
Accounts payable and accrued liabilities	**(5,249)**	(1,386)
Income taxes payable	**2,755**	5,323
Cash flows from operating activities	**8,817**	(1,152)
Financing		
Repayment of long-term debt	**(469)**	(542)
Deferred debt issue expenses	**(589)**	–
Issue of shares	**156**	435
Cash flows from financing activities	**(902)**	(107)
Investment		
Disposal of short-term investments	**12,822**	126,360
Disposal of investments	**–**	138
Acquisition of property, plant and equipment	**(1,834)**	(2,363)
Disposal of property, plant and equipment	**–**	326
Acquisition of intangible assets	**(8)**	(145,590)
Cash flows from investment activities	**10,980**	(21,129)
Foreign exchange gain on cash held in foreign currencies	**175**	231
Net increase (decrease) in cash and cash equivalents	**19,070**	(22,157)
Cash and cash equivalents, beginning of period	**21,979**	37,773
Cash and cash equivalents, end of period	**41,049**	15,616
Additional information		
Interest received	**99**	220
Interest paid	**2,698**	2,722
Income taxes paid	**1,269**	952

See the accompanying notes to the Consolidated Financial Statements.
These interim financial statements should be read in conjunction with the annual Consolidated Financial Statements.

In accordance with U.S. GAAP in thousands of U.S. dollars, except share related data *(unaudited)*	**For the three-month period ended December 31, 2004**	For the three-month period ended December 31, 2003
	$	$
Revenue	**61,583**	57,565
Cost of goods sold	**16,757**	14,572
Selling and administrative expenses	**20,957**	18,367
Research and development expenses	**6,389**	3,933
Depreciation and amortization	**5,364**	3,723
	49,467	40,595
Operating income	**12,116**	16,970
Financial expenses	**1,787**	1,681
Interest income	**(86)**	(191)
Loss (gain) on foreign currency	**(233)**	84
	1,468	1,574
Income before income taxes	**10,648**	15,396
Income taxes	**2,894**	4,961
Net income	**7,754**	10,435
Income per common share		
Basic	**0.17**	0.23
Diluted	**0.16**	0.21
Weighted average number of common shares		
Basic	**45,571,370**	45,019,129
Diluted	**55,303,339**	54,466,207

See the accompanying notes to the Consolidated Financial Statements.
These interim financial statements should be read in conjunction with the annual Consolidated Financial Statements.

In accordance with U.S. GAAP
Amounts in tables are stated in thousands of U.S. dollars, except share related data.
(unaudited)

1. Significant Accounting Policies

The accompanying unaudited financial statements are prepared in accordance with U.S. GAAP for interim financial statements and do not include all the information required for complete financial statements. They are consistent with the policies outlined in the Company's audited financial statements for the year ended September 30, 2004 except for the change mentioned in note 2. The interim financial statements and related notes should be read in conjunction with the Company's audited financial statements for the year ended September 30, 2004. When necessary, the financial statements include amounts based on informed estimates and best judgements of management. The results of operations for the interim periods reported are not necessarily indicative of results to be expected for the year. Consolidated financial statements prepared in U.S. dollars and in accordance with Canadian GAAP are available to shareholders and filed with regulatory authorities.

2. Change in Accounting Policies

During the September 2004 meeting of the Emerging Issues Task Force ("EITF") a consensus was reached on EITF Issue 04-8, "The Effect of Contingently Convertible Debt on Diluted Earnings per Share". The EITF 04-8 requires companies to include certain convertible debt and equity instruments, that were previously excluded, into their calculations of diluted earnings per share. The EITF concluded that Issue 04-8 is effective for periods ending after December 15, 2004, and must be applied by restating all periods during which time the applicable convertible instruments were outstanding. The 4.25% convertible subordinated notes issued in 2003, are therefore included in the Company's diluted earnings per share calculation. For the three-month period ended December 31, 2003, the weighted number of common shares used in the calculation of the diluted income per share has been increased from 45,542,094 to 54,466,207 and the diluted income per share has been reduced from $0.23 to $0.21.

3. Product Acquisition

On November 18, 2003, the Company acquired the rights to a group of products from Aventis Pharma S.A. for a cash purchase price of $145,000,000. The acquired products are CARAFATE and BENTYL for the U.S. market and SULCRATE, BENTYLOL and PROCTOSEDYL for the Canadian market. On December 3, 2002, the Company acquired the worldwide rights to the PANZYTRAT enzyme product line from Abbott Laboratoires.

During a transition period, the sellers may act as agents for the management of the products sales. For the three-month period ended December 31, 2004, a portion of the sales of some of these products is still managed by the sellers. Axcan includes in its revenue the net sales from such products less corresponding cost of goods sold and other seller related expenses. Consequently, although net sales of such products for the three-month period ended December 31, 2004 were $854,008 ($2,892,231 in 2003), the Company only included in its revenue an amount of $336,294 ($1,748,359 in 2003) representing the net sales less cost of goods sold and other seller related expenses.

4. Inventories

	December 31, 2004 $	September 30, 2004 $
Raw materials and packaging material	**10,847**	10,311
Work in progress	**1,889**	1,781
Finished goods	**26,409**	25,178
	39,145	37,270

In accordance with U.S. GAAP
Amounts in tables are stated in thousands of U.S. dollars, except share related data.
(unaudited)

5. Intangible Assets

	December 31, 2004		
	Cost	**Accumulated amortization**	**Net**
	$	**$**	**$**
Trademarks, trademark licenses and manufacturing rights with a:			
Finite life	**343,420**	**34,073**	**309,347**
Indefinite life	**116,077**	**12,417**	**103,660**
	459,497	**46,490**	**413,007**

	September 30, 2004		
	Cost	Accumulated amortization	Net
	$	$	$
Trademarks, trademark licenses and manufacturing rights with a:			
Finite life	280,034	29,869	250,165
Indefinite life	170,127	12,417	157,710
	450,161	42,286	407,875

The cost of the product PANZYTRAT has been transferred from intangible assets with an indefinite life to intangible assets with a finite life following changes in the regulatory rules applicable to this product and resulting in the modification of its useful life. The net cost of this product as of October 1, 2004, which amounted to $56,817,802, is therefore amortized over a 25-year period.

6. Segmented Information

The Company considers that it operates in a single reportable segment, the pharmaceutical industry, since its other activities do not account for a significant portion of segment assets.

The Company operates in the following geographic areas:

	For the three-month period ended December 31, 2004	For the three-month period ended December 31, 2003
	$	$
Revenue		
Canada		
Domestic sales	**9,190**	6,552
Foreign sales	**–**	–
United States		
Domestic sales	**37,028**	37,811
Foreign sales	**1,157**	–
Europe		
Domestic sales	**11,743**	12,645
Foreign sales	**2,423**	529
Other	**42**	28
	61,583	57,565

In accordance with U.S. GAAP
Amounts in tables are stated in thousands of U.S. dollars, except share related data.
(unaudited)

6. Segmented Information (continued)

	December 31, 2004	September 30, 2004
	$	$
Property, plant, equipment, intangible assets and goodwill		
Canada	**40,364**	40,401
United States	**130,465**	131,242
Europe	**273,040**	265,417
Other	**29,180**	29,534
	473,049	466,594

Revenue is attributed to geographic segments based on the sales country of origin.

7. Financial Information Included in the Consolidated Statement of Operations

a) Financial expenses

	For the three-month period ended December 31, 2004	For the three-month period ended December 31, 2003
	$	$
Interest on long-term debt	**1,434**	1,382
Bank charges	**7**	24
Financing fees	**71**	17
Amortization of deferred debt issue expenses	**275**	258
	1,787	1,681

b) Selling and administrative expenses

Selling and administrative expenses include the followings:

	For the three-month period ended December 31, 2004	For the three-month period ended December 31, 2003
	$	$
Shipping and handling expenses	**1,004**	980
Advertising expenses	**4,625**	2,843

In accordance with U.S. GAAP
Amounts in tables are stated in thousands of U.S. dollars, except share related data.
(unaudited)

7. Financial Information Included in the Consolidated Statement of Operations (continued)

c) Other information

	For the three-month period ended December 31, 2004	For the three-month period ended December 31, 2003
	$	$
Rental expenses	**287**	274
Depreciation of property, plant and equipment	**1,301**	1,250
Amortization of intangible assets	**4,063**	2,473

d) Income per common share

The following tables reconcile the numerators and the denominators of the basic and diluted income per common share computations:

	For the three-month period ended December 31, 2004	For the three-month period ended December 31, 2003
	$	$
Net income available to common shareholders		
Basic	**7,754**	10,435
Financial expenses relating to the convertible subordinated notes	**1,079**	1,079
Net income available to common shareholders on a diluted basis	**8,833**	11,514

	For the three-month period ended December 31, 2004	For the three-month period ended December 31, 2003
Weighted average number of common shares		
Weighted average number of common shares outstanding	**45,571,370**	45,019,129
Effect of dilutive stock options	**807,856**	522,965
Effect of dilutive convertible subordinated notes	**8,924,113**	8,924,113
Adjusted weighted average number of common shares outstanding	**55,303,339**	54,466,207
Number of common shares outstanding as at January 31, 2005	**45,592,365**	

Options to purchase 283,000 and 698,550 common shares were outstanding as at December 31, 2004 and 2003 respectively but were not included in the computation of diluted income per share because the exercise price of the options was greater than the average market price of the common shares.

The $125,000,000 subordinated notes are convertible into 8,924,113 common shares. The noteholders may convert their notes during any quarterly conversion period if the closing price per share for at the least 20 consecutive trading days during the 30 consecutive trading-day period ending on the first day of the conversion period exceeds 110% of the conversion price in effect on that thirtieth trading day. The noteholders may also convert their notes during the five business-day period following any 10 consecutive trading-day period in which the daily average of the trading prices for the notes was less than 95% of the average conversion value for the notes during that period. Finally, the noteholders may also convert their notes upon the occurrence of specified corporate transactions or, if the company has called the notes for redemption. On or after April 20, 2006, the Company may at its option, redeem the notes, in whole or in part at redemption prices varying from 101.70% to 100.85% of the principal amount plus any accrued and unpaid interest to the redemption date. The notes also include provisions for the redemption of all the notes for cash at the option of the Company following some changes in tax treatment.

In accordance with U.S. GAAP
Amounts in tables are stated in thousands of U.S. dollars, except share related data.
(unaudited)

7. Financial Information Included in the Consolidated Statement of Operations (continued)

e) Employee benefit plan

A subsidiary of the Company has a defined contribution plan ("The Plan") for its U.S. employees. Participation is available to substantially all U.S. employees. Employees may contribute up to 15% of their gross pay and up to limits set by the U.S. Internal Revenue Service. For the three-month period ended December 31, 2004, the Company made matching contributions to the Plan totalling $122,183 ($61,778 in 2003).

8. Stock Options

The estimated fair value of stock options at the time of grant using the Black-Scholes option pricing model was as follows:

	For the three-month period ended December 31, 2004	For the three-month period ended December 31, 2003
Fair value per option	**$6.98**	$5.87
Assumptions used in Black-Scholes option pricing model		
Expected volatility	**44%**	44%
Risk-free interest rate	**4.16%**	4.40%
Expected option life (years)	**6**	6
Expected dividend	**–**	–

The Company's net income, basic income per share and diluted income per share would have been reduced on a pro-forma basis as follows:

	For the three-month period ended December 31, 2004	**For the three-month period ended December 31, 2004**	For the three-month period ended December 31, 2003	For the three-month period ended December 31, 2003
	As reported	**Pro-forma**	As reported	Pro-forma
	$	**$**	$	$
Net income	**7,754**	**6,454**	10,435	9,465
Basic income per share	**0.17**	**0.14**	0.23	0.21
Diluted income per share	**0.16**	**0.14**	0.21	0.19

In accordance with U.S. GAAP
Amounts in tables are stated in thousands of U.S. dollars, except share related data.
(unaudited)

9. Summary of Differences Between Generally Accepted Accounting Principles in the United States and in Canada

The consolidated interim financial statements have been prepared in accordance with U.S. GAAP which, in the case of the Company, conform in all materials respects with Canadian GAAP, except as set forth below:

	For the three-month period ended December 31, 2004	For the three-month period ended December 31, 2003
	$	$
Operations adjustments		
Net income in accordance with U.S. GAAP	**7,754**	10,435
Implicit interest on convertible debt	**(1,123)**	(1,026)
Stock-based compensation expense	**(1,300)**	–
Amortization of new product acquisition costs	**(14)**	(13)
Income tax impact of the above adjustments	**5**	5
Net earnings in accordance with Canadian GAAP	**5,322**	9,401
Earnings per share in accordance with Canadian GAAP		
Basic	**0.12**	0.21
Diluted	**0.11**	0.21

	December 31, 2004		September 30, 2004	
	U.S. GAAP	**Canadian GAAP**	U.S. GAAP	Canadian GAAP
	$	**$**	$	$
Balance sheet adjustments				
Current assets	**151,827**	**151,827**	139,032	139,054
Property, plant and equipment	**32,575**	**32,575**	31,252	31,265
Intangible assets	**413,007**	**425,353**	407,875	420,235
Goodwill	**27,467**	**28,862**	27,467	28,862
Deferred debt issue expenses	**3,402**	**3,402**	3,088	3,088
Deferred income tax asset	**1,129**	**1,129**	930	930
Current liabilities	**49,865**	**49,865**	51,362	51,430
Long-term debt	**127,996**	**111,406**	127,916	110,203
Deferred income tax liability	**39,732**	**40,846**	38,290	39,376
Shareholders' equity				
Equity component of convertible debt	**–**	**24,239**	–	24,239
Capital stock	**260,799**	**271,544**	260,643	267,288
Contributed surplus	**980**	**11,003**	–	–
Retained earnings	**120,116**	**100,170**	112,362	107,671
Accumulated foreign currency translation adjustments	**29,919**	**34,075**	19,071	23,227

In accordance with Canadian GAAP in thousands of U.S. dollars	**December 31, 2004** ***(unaudited)*** **$**	September 30, 2004 $
Assets		
Current assets		
Cash and cash equivalents	**41,049**	22,063
Short-term investments	**3,100**	15,922
Accounts receivable	**47,887**	46,518
Income taxes receivable	**10,426**	9,196
Inventories (Note 4)	**39,145**	37,270
Prepaid expenses and deposits	**4,398**	3,499
Future income taxes	**5,822**	4,586
Total current assets	**151,827**	139,054
Property, plant and equipment, net	**32,575**	31,265
Intangible assets, net (Note 5)	**425,353**	420,235
Goodwill, net	**28,862**	28,862
Deferred debt issue expenses, net	**3,402**	3,088
Future income taxes	**1,129**	930
	643,148	623,434
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**44,181**	47,985
Income taxes payable	**2,503**	731
Instalments on long-term debt	**1,653**	1,778
Future income taxes	**1,528**	936
Total current liabilities	**49,865**	51,430
Long-term debt	**111,406**	110,203
Future income taxes	**40,846**	39,376
	202,117	201,009
Shareholders' Equity		
Equity component of convertible debt (Note 6)	**24,239**	24,239
Capital stock	**271,544**	267,288
Contributed surplus	**11,003**	–
Retained earnings	**100,170**	107,671
Accumulated foreign currency translation adjustments	**34,075**	23,227
	441,031	422,425
	643,148	623,434

See the accompanying notes to the Consolidated Financial Statements.
These interim financial statements should be read in conjunction with the annual Consolidated Financial Statements.

In accordance with Canadian. GAAP in thousands of U.S. dollars *(unaudited)*	**For the three-month period ended December 31, 2004**	For the three-month period ended December 31, 2003
	$	$
Operations		
Net earnings	**5,322**	9,401
Non-cash items		
Implicit interest on convertible debt	**1,123**	1,026
Amortization of deferred debt issue expenses	**275**	258
Other depreciation and amortization	**5,378**	3,736
Loss on disposal of assets	**–**	87
Foreign currency fluctuation	**(16)**	–
Future income taxes	**596**	1,298
Stock-based compensation expense	**1,300**	–
Changes in working capital items		
Accounts receivable	**(138)**	(8,864)
Income taxes receivable	**(682)**	(2,606)
Inventories	**(1,125)**	(8,376)
Prepaid expenses and deposits	**(722)**	(1,049)
Accounts payable and accrued liabilities	**(5,333)**	(1,386)
Income taxes payable	**2,755**	5,323
Cash flows from operating activities	**8,733**	(1,152)
Financing		
Repayment of long-term debt	**(469)**	(542)
Deferred debt issue expenses	**(589)**	–
Issue of shares	**156**	435
Cash flows from financing activities	**(902)**	(107)
Investment		
Disposal of short-term investments	**12,822**	126,360
Disposal of investments	**–**	138
Acquisition of property, plant and equipment	**(1,834)**	(2,363)
Disposal of property, plant and equipment	**–**	326
Acquisition of intangible assets	**(8)**	(145,590)
Cash flows from investment activities	**10,980**	(21,129)
Foreign exchange gain on cash held in foreign currencies	**175**	231
Net increase (decrease) in cash and cash equivalents	**18,986**	(22,157)
Cash and cash equivalents, beginning of period	**22,063**	37,886
Cash and cash equivalents, end of period	**41,049**	15,729
Additional information		
Interest received	**99**	220
Interest paid	**2,698**	2,722
Income taxes paid	**1,269**	952

See the accompanying notes to the Consolidated Financial Statements.
These interim financial statements should be read in conjunction with the annual Consolidated Financial Statements.

CANADIAN GAAP

CONSOLIDATED EARNINGS

In accordance with Canadian GAAP in thousands of U.S. dollars, except share related data *(unaudited)*	**For the three-month period ended December 31, 2004** **$**	For the three-month period ended December 31, 2003 $
Revenue	**61,583**	57,715
Cost of goods sold	**16,845**	14,572
Selling and administrative expenses	**21,992**	18,517
Research and development expenses	**6,031**	3,715
Depreciation and amortization	**5,378**	3,736
	50,246	40,540
Operating income	**11,337**	17,175
Financial expenses	**2,910**	2,707
Interest income	**(86)**	(191)
Loss (gain) on foreign currency	**(233)**	84
	2,591	2,600
Earnings before income taxes	**8,746**	14,575
Income taxes	**3,424**	5,174
Net earnings	**5,322**	9,401
Earnings per common share		
Basic	**0.12**	0.21
Diluted	**0.11**	0.21
Weighted average number of common shares		
Basic	**45,571,370**	45,019,129
Diluted	**46,379,226**	45,542,094

CONSOLIDATED RETAINED EARNINGS

In accordance with Canadian GAAP in thousands of U.S. dollars *(unaudited)*	**For the three-month period ended December 31, 2004** **$**	For the three-month period ended December 31, 2003 $
Balance, beginning of period	**107,671**	63,211
Retroactive adjustment for stock-based compensation (Note 2)	**(12,823)**	–
Net earnings	**5,322**	9,401
Balance, end of period	**100,170**	72,612

See the accompanying notes to the Consolidated Financial Statements.
These interim financial statements should be read in conjunction with the annual Consolidated Financial Statements

CONSOLIDATED CONTRIBUTED SURPLUS

In accordance with Canadian GAAP in thousands of U.S. dollars *(unaudited)*	**For the three-month period ended December 31, 2004**	For the three-month period ended December 31, 2003
	$	$
Balance, beginning of period	**–**	–
Retroactive adjustment for stock-based compensation (Note 2)	**8,723**	–
Tax benefit from exercice of stock options	**980**	–
Stock-based compensation expense	**1,300**	–
Balance, end of period	**11,003**	–

See the accompanying notes to the Consolidated Financial Statements.
These interim financial statements should be read in conjunction with the annual Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In accordance with Canadian GAAP
Amounts in tables are stated in thousands of U.S. dollars, except share related data.
(unaudited)

1. Significant Accounting Policies

The accompanying unaudited financial statements are prepared in accordance with Canadian GAAP for interim financial statements and do not include all the information required for complete financial statements. They are consistent with the policies outlined in the Company's audited financial statements for the year ended September 30, 2004 except for the change mentioned in note 2. The interim financial statements and related notes should be read in conjunction with the Company's audited financial statements for the year ended September 30, 2004. When necessary, the financial statements include amounts based on informed estimates and best judgements of management. The results of operations for the interim periods reported are not necessarily indicative of results to be expected for the year. Consolidated financial statements prepared in U.S. dollars and in accordance with U.S. GAAP are available to shareholders and filed with regulatory authorities.

2. Change in Accounting Policies

Stock-based compensation

In September and November 2003, the Accounting Board made amendments to CICA Handbook Section 3870 to require that the fair value based method be applied to awards granted to employees, which previously had not been accounted for at fair value. Thus, enterprises are required to account for the effect of such awards in their financial statements for fiscal years beginning on or after January 1, 2004. The Company adopted the fair value based method in its fiscal year 2005 with a retroactive application, without restating prior periods. As at October 1,2004, the retained earnings of the Company have been reduced by $12,823,000, the capital stock has been increased by $4,100,233 and the contributed surplus has been increased by $8,722,767. Stock-based compensation expense charged to the consolidated statement of earnings for the three-month period ended December 31, 2004 was $1,300,402.

If this change in accounting policy had been applied to the previous fiscal year, the Company's net earnings, basic earnings per share and diluted earnings per share for the three-month period ended December 31, 2003 would have been reduced on a pro-forma basis as follows:

	As reported $	Pro-forma $
Net earnings	9,401	8,431
Basic earnings per share	0.21	0.19
Diluted earnings per share	0.21	0.19

In accordance with Canadian GAAP
Amounts in tables are stated in thousands of U.S. dollars, except share related data.
(unaudited)

2. Change in Accounting Policies (continued)

The average weighted fair value of granted options was $6.98 and $5.87 for the three-month periods ended December 31, 2004 and 2003. The fair value of granted options was estimated with the Black-Scholes model of evaluation using the following assumptions:

	For the three-month period ended December 31, 2004	For the three-month period ended December 31, 2003
Expected volatility	**44%**	44%
Risk-free interest rate	**4.16%**	4.40%
Expected options life (years)	**6**	6
Expected dividend	**–**	–

3. Product Acquisition

On November 18, 2003, the Company acquired the rights to a group of products from Aventis Pharma S.A. for a cash purchase price of $145,000,000. The acquired products are CARAFATE and BENTYL for the U.S. market and SULCRATE, BENTYLOL and PROCTOSEDYL for the Canadian market. On December 3, 2002, the Company acquired the worldwide rights to PANZYTRAT enzyme product line from Abbott Laboratories.

During a transition period, the sellers may act as agents for the management of the products sales. For the three-month period ended December 31, 2004, a portion of the sales of some of these products is still managed by the sellers. Axcan includes in its revenue the net sales from such products less corresponding cost of goods sold and other seller related expenses. Consequently, although net sales of such products for the three month period ended December 31, 2004 were $854,008 ($2,892,231 in 2003), the Company only included in its revenue an amount of $336,294 ($1,748,359 in 2003) representing the net sales less cost of goods sold and other seller related expenses.

4. Inventories

	December 31, 2004 $	September 30, 2004 $
Raw materials and packaging material	**10,847**	10,311
Work in progress	**1,889**	1,781
Finished goods	**26,409**	25,178
	39,145	37,270

In accordance with Canadian GAAP
Amounts in tables are stated in thousands of U.S. dollars, except share related data.
(unaudited)

5. Intangible Assets

	December 31, 2004		
	Cost	**Accumulated amortization**	**Net**
	$	**$**	**$**
Trademarks, trademark licenses and manufacturing rights with a:			
Finite life	**356,249**	**34,556**	**321,693**
Indefinite life	**116,077**	**12,417**	**103,660**
	472,326	**46,973**	**425,353**

	September 30, 2004		
	Cost	Accumulated amortization	Net
	$	$	$
Trademarks, trademark licenses and manufacturing rights with a:			
Finite life	292,863	30,338	262,525
Indefinite life	170,127	12,417	157,710
	462,990	42,755	420,235

The cost of the product PANZYTRAT has been transferred from intangible assets with an indefinite life to intangible assets with a finite life following changes in the regulatory rules applicable to this product and resulting in the modification of its useful life. The net cost of this product as of October 1, 2004, which amounted to $56,817,802, is therefore amortized over a 25-year period.

6. Equity Component of Convertible Debt

The Company issued convertible subordinated notes for $125,000,000 on March 5, 2003. According to the features of this debt, an amount of $24,238,899, representing the estimated value of the right of conversion, was included in the shareholders' equity as equity component of convertible debt and an amount of $100,761,101 was included in the long-term debt as liability component of convertible debt. As of September 30, 2004, implicit interest of 9.17% and totalling $6,526,246 was accounted for and added to the liability component. For the three-month period ended December 31, 2004, implicit interest in the amount of $1,122,846 ($1,025,603 in 2003) was accounted for and added to the liability component.

In accordance with Canadian GAAP
Amounts in tables are stated in thousands of U.S. dollars, except share related data.
(unaudited)

7. Segmented Information

The Company considers that it operates in a single reportable segment, the pharmaceutical industry, since its other activities do not account for a significant portion of segment assets.

The Company operates in the following geographic areas:

	For the three-month period ended December 31, 2004	For the three-month period ended December 31, 2003
	$	$
Revenue		
Canada		
Domestic sales	**9,190**	6,552
Foreign sales	**–**	–
United States		
Domestic sales	**37,028**	37,811
Foreign sales	**1,157**	–
Europe		
Domestic sales	**11,743**	12,795
Foreign sales	**2,423**	529
Other	**42**	28
	61,583	57,715

	December 31, 2004	September 30, 2004
	$	$
Property, plant, equipment, intangible assets and goodwill		
Canada	**44,638**	44,676
United States	**130,812**	131,602
Europe	**273,040**	265,431
Other	**38,300**	38,653
	486,790	480,362

Revenue is attributed to geographic segments based on the sales country of origin.

In accordance with Canadian GAAP
Amounts in tables are stated in thousands of U.S. dollars, except share related data.
(unaudited)

8. Financial Information Included in the Consolidated Statement of Earnings

a) Financial expenses

	For the three-month period ended December 31, 2004	For the three-month period ended December 31, 2003
	$	$
Interest on long-term debt	**2,557**	2,408
Bank charges	**7**	24
Financing fees	**71**	17
Amortization of deferred debt issue expenses	**275**	258
	2,910	2,707

b) Selling and administrative expenses

Selling and administrative expenses include the followings:

	For the three-month period ended December 31, 2004	For the three-month period ended December 31, 2003
	$	$
Shipping and handling expenses	**1,004**	980
Advertising expenses	**4,625**	2,843

c) Other information

	For the three-month period ended December 31, 2004	For the three-month period ended December 31, 2003
	$	$
Rental expenses	**287**	274
Depreciation of property, plant and equipment	**1,301**	1,250
Amortization of intangible assets	**4,077**	2,486
Investment tax credits applied against research and development expenses	**535**	218

In accordance with Canadian GAAP
Amounts in tables are stated in thousands of U.S. dollars, except share related data.
(unaudited)

8. Financial Information Included in the Consolidated Statement of Earnings (continued)

d) Earnings per common share

The following table reconciles the denominators of the basic and diluted earnings per common share computations:

	For the three-month period ended December 31, 2004	For the three-month period ended December 31, 2003
Weighted average number of common shares		
Weighted average number of common shares outstanding	**45,571,370**	45,019,129
Effect of dilutive stock options	**807,856**	522,965
Adjusted weighted average number of common shares outstanding	**46,379,226**	45,542,094
Number of common shares outstanding at the end of the period	**45,581,050**	45,061,531

Number of common shares outstanding as at January 31, 2005 **45,592,365**

Options to purchase 283 000 and 698,550 common shares were outstanding as at December 31, 2004 and 2003 respectively but were not included in the computation of diluted earnings per share because the exercise price of the options was greater than the average market price of the common shares. As of December 31, 2004 and 2003, the convertible debt had no effect on the diluted earnings per share.

The $125,000,000 subordinated notes are convertible into 8,924,113 common shares. The noteholders may convert their notes during any quarterly conversion period if the closing price per share for at least 20 consecutive trading days during the 30 consecutive trading-day period ending on the first day of the conversion period exceeds 110% of the conversion price in effect on that thirtieth trading day. The noteholders may also convert their notes during the five business-day period following any 10 consecutive trading-day period in which the daily average of the trading prices for the notes was less than 95% of the average conversion value for the notes during that period. Finally, the notesholders may also convert their notes upon the occurrence of specified corporate transactions or, if the company has called the notes for redemption. On or after April 20, 2006, the Company may at its option, redeem the notes, in whole or in part at redemption prices varying from 101.70% to 100.85% of the principal amount plus any accrued and unpaid interest to the redemption date. The notes also include provisions for the redemption of all the notes for cash at the option of the Company following some changes in tax treatment.

e) Employee benefit plan

A subsidiary of the Company has a defined contribution plan (“The Plan”) for its U.S. employees. Participation is available to substantially all U.S. employees. Employees may contribute up to 15% of their gross pay and up to limits set by the U.S. Internal Revenue Service. For the three-month period ended December 31, 2004, the Company made matching contributions to the Plan totalling $122,183 ($61,778 in 2003).

Corporate information

Axcan is a leading specialty pharmaceutical company focused in the field of gastroenterology. The Company markets a broad line of prescription products sold for the treatment of symptoms in a number of gastrointestinal diseases and disorders such as Inflammatory Bowel Disease, Irritable Bowel Syndrome, cholestatic liver diseases, and complications related to Cystic Fibrosis. Axcan's products are marketed by its own sales force in North America and Europe. Today, the Company counts more than 450 employees worldwide.

Headquartered in Mont-St-Hilaire, Quebec, Canada, Axcan's common shares are traded on the Toronto Stock Exchange under the symbol "AXP" and on the NASDAQ National Market under the symbol "AXCA".

Corporate Office

Axcan Pharma Inc.
597 Laurier Blvd.
Mont-Saint-Hilaire, Quebec
Canada J3H 6C4
Telephone: (450) 467-5138 or 1 (800) 565-3255
Fax: (450) 464-9979
www.axcan.com

Investor Relations

Julie M. Thibodeau
Manager, Investor Relations
Telephone: (450) 467-5138 ext. 2062 or 1 (800) 565-3255
E-mail: jthibodeau@axcan.com

Transfer Agent and Registrar

Computershare Trust Company of Canada
1500 University Street, Suite 700
Montreal, Quebec
Canada H3A 3S8
Telephone: 1 (800) 332-0095
www.computershare.com

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Gastroenterology The medical specialty concerned with the function and disorders of the gastrointestinal tract and other associated organs, including the intestines, liver, pancreas and stomach.

AXCAN PHARMA

We are gastroenterology