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We *are* focused
on *gastroenterology*



We are gastroenterology



DEAR SHAREHOLDERS,

“Axcan's growth strategy is clearly working. Our revenue met our expectations and our net income has increased proportionally compared to the third quarter a year ago. This indicates that while we have increased the size of our sales force both in the United States and in France, we have been able, nevertheless, to absorb many of the operating expenses related to our recent acquisitions within our current infrastructure, building real value for our shareholders.”



Léon F. Gosselin
Chairman of the Board,
President and CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

OVERVIEW

Axcán is a leading specialty pharmaceutical company concentrating in the field of gastroenterology, with operations in North America and Europe. Axcán 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. Axcán's current products include ULTRASE, VIOKASE and PANZYTRAT 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 June 30, 2004, Axcán had two products pending approval, one a new formulation and the other a new dosage form for products currently marketed in the United States. An approval was received in July, 2004 for the new dosage form. Axcán also has a number of pharmaceutical projects in all phases of development including ITAX for the treatment of functional dyspepsia. Axcán reported revenue of \$62.0 million and operating income of \$19.4 million for the three-month period ended June 30, 2004. For the nine-month period ended June 30, 2004, revenue was \$182.8 million and operating income was \$56.3 million.

Much of Axcán's recent sales growth is derived from sales in the United States and from sales by its French subsidiary, following recent acquisitions. During the first quarter of fiscal 2003, Axcán acquired the worldwide rights to the PANZYTRAT enzyme product line from Abbott Laboratories ("Abbott") and the rights to DELURSAN, an ursodiol 250 mg tablet, from Aventis Pharma S.A. ("Aventis") for the French market. During the first quarter of fiscal 2004, Axcán acquired the rights to a group of products from 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 Axcán's products in the United States was \$123.8 million (67.7% of total revenue) for the nine-month period ended June 30, 2004, compared to \$82.9 million (63.6% of total revenue) for the same period of fiscal 2003.

In Canada, revenue was \$20.5 million (11.2% of total revenue) for the nine-month period ended June 30, 2004, compared to \$14.9 million (11.4% of total revenue) for the same period of fiscal 2003. In Europe, revenue was \$38.3 million (21.0% of total revenue) for the nine-month period ended June 30, 2004, compared to \$32.4 million (24.9% of total revenue) for the same period of fiscal 2003.

Axcán's revenue historically has been and continues to be principally derived from sales of pharmaceutical products, to large pharmaceutical wholesalers and large chain pharmacies. Axcán utilizes a "pull-through" marketing approach that is typical of pharmaceutical companies. Under this approach, Axcán's sales representatives demonstrate the features and benefits of its products to gastroenterologists who may write their patients prescriptions for Axcán'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 Axcán sells its products.

Axcán'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 Axcán licenses its products), research and development expenses as well as depreciation and amortization.

Axcán's annual and quarterly operating results are primarily affected by three factors: wholesaler buying patterns; the level of acceptance of Axcán's products by gastroenterologists and their patients; and the extent of Axcán'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 Axcán's operating results by shifting revenue between quarters. To maintain good relations with wholesalers, Axcán typically gives prior notice of price increases. The level of patient and physician acceptance of Axcán's products, as well as the availability of similar therapies, which may be less effective but also less expensive than some of Axcán's products, impact Axcán'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, expected cash flows used in evaluating long-lived assets for impairment, contingency provisions and other accrued charges. These estimates were made using the historical information available to management. 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. Prior to October 1, 2001, goodwill and intangible assets were amortized using the straight-line method based on their estimated useful lives from 7 to 25 years. Since October 1, 2001, the Company no longer amortizes goodwill and intangible assets with an indefinite life. 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. Intangible assets with finite life are still 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 a group of products from Aventis. The acquired products are CARAFATE and BENTYL for the U.S. market and SULCRATE, BENTYLOL and PROCTOSEDYL for the Canadian market. The \$145.0 million purchase price was paid out of Axcan's cash on hand.

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 each of these acquisition transactions acts as selling agent for the management of these products. For the nine-month period ended June 30, 2004, sales 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 nine-month period ended June 30, 2004 were \$6,928,009, the Company only included in its revenue an amount of \$4,413,531 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 period ended June 30		For the nine-month period ended June 30	
	2004 %	2003 %	2004 %	2003 %
Revenue	100.0	100.0	100.0	100.0
Cost of goods sold	22.0	25.2	23.6	24.3
Selling and administrative expenses	31.5	33.4	31.7	35.4
Research and development expenses	8.4	8.4	7.2	7.2
Depreciation and amortization	6.9	4.2	6.7	4.6
	68.8	71.2	69.2	71.5
Operating income	31.2	28.8	30.8	28.5
Financial expenses	2.7	3.8	2.8	2.0
Interest income	(0.3)	(1.1)	(0.2)	(0.8)
Loss (gain) on foreign exchange	(0.7)	(0.4)	(0.1)	2.8
Takeover-bid expenses	-	7.9	-	2.8
	1.7	10.2	2.5	4.1
Income before income taxes	29.5	18.6	28.3	24.4
Income taxes	9.2	5.1	8.9	7.7
Net income	20.3	13.5	19.4	16.7

PERIODS ENDED JUNE 30, 2004

COMPARED TO PERIODS ENDED JUNE 30, 2003

REVENUE

Revenue increased \$15.1 million (32.2%) to \$62.0 million for the third quarter ended June 30, 2004 from \$46.9 million for the corresponding quarter of the preceding fiscal year. For the nine-month period ended June 30, 2004, revenue was \$182.8 million compared to \$130.3 million for the corresponding period of the preceding fiscal year, an increase of 40.3%. This increase in revenue primarily resulted from \$29.7 million in U.S. and Canadian sales of the AVAX product line which was acquired in November 2003 and strong sales of CANASA and ULTRASE in the U.S. Revenues from sales made by the French subsidiary, following the acquisitions of DELURSAN as well as the PANZYTRAT product line also contributed to the increase.

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 \$1.8 million (15.3%) to \$13.6 million for the quarter ended June 30, 2004 from \$11.8 million for the corresponding quarter of the preceding fiscal year. As a percentage of revenue, cost of goods sold for the quarter ended June 30, 2004 decreased as compared to the corresponding quarter of the preceding fiscal year from 25.2% to 22.0%. For the nine-month period ended June 30, 2004, cost of goods sold was \$43.2 million (23.6% of revenue) compared to \$31.7 million (24.3% of revenue) for the corresponding period of the preceding fiscal year. These decreases in the cost of goods sold as a percentage of revenue were due to the increase in sales of products with a higher margin in the United States and an improved margin in France.

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 \$3.9 million (25.0%) to \$19.5 million for the quarter ended June 30, 2004 from \$15.6 million for the corresponding quarter of the preceding fiscal year. For the nine-month period ended June 30, 2004, selling and administrative expenses increased \$11.9 million (25.8%) to \$58.0 million from \$46.1 million for the corresponding period of the preceding fiscal year. This increase is mainly due to an increase in our sales force as a result of the recent acquisition of additional products.

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 \$1.3 million (33.3%) to \$5.2 million for the quarter ended June 30, 2004 from \$3.9 million for the corresponding quarter of the preceding fiscal year and \$3.8 million (40.9%) to \$13.1 million for the nine-month period ended June 30, 2004, from \$9.3 million for the corresponding period of the preceding fiscal year. These increases are 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 finite life. Intangible assets include trademarks, trademark licenses and manufacturing rights. Depreciation and amortization increased \$2.3 million (115.0%) to \$4.3 million for the quarter ended June 30, 2004 from \$2.0 million for the corresponding quarter of the preceding fiscal year and \$6.2 million (103.3%) to \$12.2 million for the nine-month period ended June 30, 2004 from \$6.0 million for the corresponding period 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 TAGAMET which was reclassified from intangible assets with an indefinite life to intangible assets with a finite life on October 1, 2003.

FINANCIAL EXPENSES

Financial expenses consist principally of interest and fees paid in connection with money borrowed for acquisitions. Financial expenses decreased \$0.1 million to \$1.7 million for the quarter ended June 30, 2004 from \$1.8 million for the corresponding quarter of the preceding fiscal year and increased \$2.5 million to \$5.1 million for the nine-month period ended June 30, 2004 from \$2.6 million for the corresponding period of the preceding fiscal year. This increase is mainly due to interest expense on the \$125.0 million aggregate principal amount of 4 1/4% convertible subordinated notes due 2008 which were issued on March 5, 2003.

INCOME TAXES

Income taxes amounted to \$5.7 million for the quarter ended June 30, 2004, compared to \$2.4 million for the quarter ended June 30, 2003. Income taxes amounted to \$16.3 million for the nine-month period ended June 30, 2004 compared to \$10.0 million for the corresponding period of the preceding fiscal year. The effective tax rates were 31.6% for the nine-month period ended June 30, 2004 and 31.5% for the nine-month period ended June 30, 2003.

NET INCOME

Net income was \$12.6 million or \$0.28 of basic income per share and \$0.25 of diluted income per share, for the quarter ended June 30, 2004, compared to \$6.3 million or \$0.14 of basic and 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 44.9 million for the quarter ended June 30, 2003 to 45.4 million for the quarter ended June 30, 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 45.6 million for the quarter ended June 30, 2003 to 55.3 million for the quarter ended June 30, 2004 as the convertible subordinated notes became dilutive because a trigger event occurred during the second quarter of this fiscal year as a result of the stock trading price exceeding 110% of the conversion price.

Net income was \$35.4 million or \$0.78 of basic income per share and \$0.72 of diluted income per share, for the nine-month period ended June 30, 2004, compared to \$21.8 million or \$0.49 of basic income per share and \$0.48 of diluted income per share for the corresponding period of the preceding year.

Net income (in thousands of dollars), basic income per share and diluted income per share excluding takeover-bid expenses and related income taxes for the same periods were as follows:

	For the three-month period ended June 30		For the nine-month period ended June 30	
	2004 \$	2003 \$	2004 \$	2003 \$
Net income in accordance with U.S. GAAP	12,552	6,339	35,408	21,829
Plus: Takeover-bid expenses	-	3,697	-	3,697
Less: Related income taxes	-	(1,290)	-	(1,290)
Net income excluding takeover-bid expenses and related income taxes	12,552	8,746	35,408	24,236
Income per common share excluding takeover-bid expenses and related income taxes				
Basic	0.28	0.19	0.78	0.54
Diluted	0.25	0.19	0.72	0.53

This measure of net income, basic income per share and diluted income per share excluding certain items is a non-GAAP measure that does not have a standardized meaning and, as such, is not necessarily comparable to similarly titled measures presented by other companies. This measure is provided to assist our investors in assessing Axcan's operating performance. We believe the presentation of this non-GAAP measure provides useful information because it eliminates certain expenses unrelated to our operations

and because it provides similar information for period-to-period comparisons. Investors should consider this non-GAAP measure in the context of Axcan's U.S. GAAP results of operations.

Excluding takeover-bid expenses and related income taxes, net income for the quarter ended June 30, 2004 was \$12.6 million or \$0.28 of basic income per share and \$0.25 of diluted income per share compared to \$8.7 million or \$0.19 of basic and diluted income per share for the corresponding quarter of the preceding year.

Excluding takeover-bid expenses and related income taxes, net income for the nine-month period ended June 30, 2004 was \$35.4 million or \$0.78 of basic income per share and \$0.72 of diluted income per share compared to \$24.2 million of net income or \$0.54 of basic income per share and \$0.53 of diluted income per share for the nine-month period ended June 30, 2003.

CANADIAN GAAP

The differences (in thousands of dollars) between U.S. and Canadian GAAP which affect net income for the periods ended June 30, 2004 and 2003 are summarized in the following table:

On March 5, 2003, the Company closed an offering of \$125,000,000

	For the three-month period ended June 30		For the nine-month period ended June 30	
	2004 \$	2003 \$	2004 \$	2003 \$
Net income in accordance with U.S. GAAP	12,522	6,339	35,408	21,829
Implicit interest on convertible debt	(1,082)	(990)	(3,131)	(1,284)
Amortization of new product acquisition costs	(14)	(14)	(40)	(40)
Income tax impact of the above adjustments	5	5	15	15
Net earnings in accordance with Canadian GAAP	11,461	5,340	32,252	20,520

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 nine-

month period ended June 30, 2004, implicit interest in the amount of \$3,131,424 was accounted for and added to the liability component.

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.

Under U.S. GAAP, acquired in-process research is included in operations as at the date of acquisition if no alternative use is established. Under Canadian GAAP, the acquired in-process research, including the new product acquisition costs, is deferred and amortized from the date of commencement of commercial production.

LIQUIDITY AND CAPITAL RESOURCES

Axcan's cash, cash equivalents and short-term investments decreased \$121.0 million to \$49.9 million at June 30, 2004 from \$170.9 million at September 30, 2003. As of June 30, 2004, working capital was \$75.0 million, compared to \$174.8 million at September 30, 2003. These decreases are mainly due to the acquisition of the rights to the AVAX product line for a total cash purchase price of \$145.0 million plus transaction expenses. Total assets increased \$53.2 million (9.8%) to \$598.5 million as of June 30, 2004 from \$545.3 million as of September 30, 2003. Shareholders' equity increased \$45.4 million (13.7%) to \$376.4 million as of June 30, 2004 from \$331.0 million as of September 30, 2003.

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, 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 and has borrowed 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 (these amounts have since been repaid).

Axcan has credit facilities totalling \$55.0 million with two Canadian chartered banks. The facilities consist of a \$15.0 million revolving operating facility renewable annually and a \$40.0 million 364-day, extendible revolving facility with a three-year term-out option maturing on October 12, 2007.

The credit facilities are secured by a first priority security interest on all present and future acquired assets of the Company and its material subsidiaries, and provide for the maintenance of certain financial ratios. Cash dividends, repurchase of shares (other than redeemable shares issued in connection with a permitted acquisition) and similar distributions to shareholders are limited to 10% of the Company's net income for the preceding fiscal year. As of June 30, 2004, Axcán was in compliance with all credit facilities' covenants.

The interest rate varies, depending on the Company's leverage between 25 basis points and 125 basis points over Canadian prime rate or U.S. base rate, and between 125 basis points and 225 basis points over the LIBOR rate or banker's acceptances. The credit facilities may be drawn in U.S. dollar or in Canadian dollar equivalent. As at June 30, 2004, there was no amount outstanding under these credit facilities.

CASH FLOWS AND FINANCIAL RESOURCES

Cash flows from operating activities decreased \$1.6 million (11.9%) from \$13.5 million of cash provided by operating activities for the three-month period ended June 30, 2003 to \$11.9 million for the three-month period ended June 30, 2004. Cash flows from financing activities for the three-month period ended June 30, 2004 were \$1.8 million and cash flows used for investment activities for the same period were \$14.2 million. For the nine-month period ended June 30, 2004 cash flows from operating activities decreased \$17.5 million (37.6%) from \$46.5 million of cash provided by operating activities for the nine-month period ended June 30, 2003 to \$29.0 million. This decrease is mainly due to the increase in accounts receivable and inventories during this year following the increase in sales and the acquisition of new products. Cash flows from financing activities for the nine-month period ended June 30, 2004 were \$3.7 million. Cash flows used by investment activities for the nine-month period ended June 30, 2004 were \$36.4 million mainly due to the net cash used for the acquisition of intangible assets with the proceeds from the disposal of short term investments.

Axcán's research and development spending totalled \$12.1 million for fiscal 2003. Axcán believes that its cash and operating cash flows will be adequate to support its existing ongoing operational requirements for at least 12 months. However, Axcán regularly

reviews product and other acquisition opportunities and may therefore require additional debt or equity financing. Axcán cannot be certain that such additional financing, if required, will be available on acceptable terms, or at all.

Axcán 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, Axcán believes that these will also significantly contribute to the increase in funds provided by operations.

EARNINGS COVERAGE

The earnings coverage ratios are the following:

Under U.S. GAAP, for the twelve months ended June 30, 2004, our interest requirements amounted to \$5.8 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 10.0 to one.

Under Canadian GAAP, for the twelve months ended June 30, 2004, our interest requirements amounted to \$10.4 million on a pro-forma basis and our earnings coverage ratio was 6.8 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 \$4.5 million as required by Canadian GAAP.

RISK FACTORS

Axcán is exposed to financial market risks, including changes in foreign currency exchange rates and interest rates. Axcán does not use derivative financial instruments for speculative or trading purposes. Axcán does not use off-balance sheet financing or similar special purpose entities. Inflation has not had a significant impact on Axcán'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 principal. 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 facilities. The credit facilities bear 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 facilities, 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, the active ingredients or products may not comply with specifications, or the prices at which Axcan purchases them may increase and 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

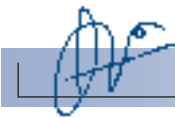
The market price of Axcan's shares is subject to volatility. Deviations in actual financial or scientific results as compared to expectations of securities analysts who follow our activities can have a significant effect on the trading price of Axcan's shares.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements, which reflect the Company's current expectations regarding future events. Forward-looking statements are often identified by words such as "anticipate", "expect", "estimate", "intend", "project", "plan" and "believe". These forward-looking statements include 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 uncertainties related to the regulatory process, the commercialization of the 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 and fluctuations in our operating results. Investors should consult the Company's ongoing quarterly filings, annual reports and 40-F filings for additional information on risks and uncertainties relating to these forward-looking statements. 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 August 5, 2004. 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,



(signed)

Jean Vézina

Vice President, Finance and Chief Financial Officer

CONSOLIDATED BALANCE SHEETS

In thousands of U.S. dollars

	June 30, 2004 <i>(unaudited)</i> \$	September 30, 2003 \$
Assets		
Current assets		
Cash and cash equivalents	34,234	37,773
Short-term investments available for sale	15,703	133,112
Accounts receivable	31,149	19,685
Income taxes receivable	7,483	5,294
Inventories (Note 3)	33,145	20,163
Prepaid expenses and deposits	3,545	2,794
Deferred income taxes	5,521	6,214
Total current assets	130,780	225,035
Investments	407	1,002
Property, plant and equipment, net	28,666	20,331
Intangible assets, net (Note 4)	405,391	265,423
Goodwill, net	27,550	27,550
Deferred debt issue expenses, net	3,372	4,233
Deferred income taxes	2,354	1,775
Total assets	598,520	545,349
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	48,601	43,418
Income taxes payable	4,608	4,821
Instalments on long-term debt	1,820	1,528
Deferred income taxes	729	494
Total current liabilities	55,758	50,261
Long-term debt	128,284	129,474
Deferred income taxes	38,030	34,603
Total liabilities	222,072	214,338
Shareholders' Equity		
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; 45,556,032 issued as at June 30, 2004 and 45,004,320 as at September 30, 2003.	260,572	255,743
Retained earnings	99,042	63,634
Accumulated other comprehensive income	16,834	11,634
Total shareholders' equity	376,448	331,011
Total liabilities and shareholders' equity	598,520	545,349

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 STATEMENTS OF SHAREHOLDERS' EQUITY

<i>in thousands of U.S. dollars, except share related data (unaudited)</i>	For the three-month period ended June 30, 2004	For the three-month period ended June 30, 2003	For the nine-month period ended June 30, 2004	For the nine-month period ended June 30, 2003
	U . S . G A A P			
Common shares (number)				
Balance, beginning of period	45,328,102	44,880,403	45,004,320	44,863,198
Exercise of options	227,930	108,944	551,712	126,149
Balance, end of period	45,556,032	44,989,347	45,556,032	44,989,347
	\$	\$	\$	\$
Common shares				
Balance, beginning of period	258,567	254,754	255,743	254,640
Exercise of options	2,005	857	4,829	971
Balance, end of period	260,572	255,611	260,572	255,611
Retained earnings				
Balance, beginning of period	86,490	59,199	63,634	43,709
Net income	12,552	6,339	35,408	21,829
Balance, end of period	99,042	65,538	99,042	65,538
Accumulated other comprehensive income (loss)				
Balance, beginning of period	17,895	4,215	11,634	(3,562)
Foreign currency translation adjustments	(1,061)	5,333	5,200	13,110
Balance, end of period	16,834	9,548	16,834	9,548
Total shareholders' equity	376,448	330,697	376,448	330,697
Comprehensive income				
Foreign currency translation adjustments	(1,061)	5,333	5,200	13,110
Net income	12,552	6,339	35,408	21,829
Total comprehensive income	11,491	11,672	40,608	34,939

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 STATEMENTS OF CASH FLOWS

10 | U.S. GAAP

*in thousands of U.S. dollars
(unaudited)*

	For the three-month period ended June 30, 2004 \$	For the three-month period ended June 30, 2003 \$	For the nine-month period ended June 30, 2004 \$	For the nine-month period ended June 30, 2003 \$
Operations				
Net income	12,552	6,339	35,408	21,829
Non-cash items				
Non-controlling interest	-	-	-	(103)
Amortization of deferred debt issue expenses	264	257	780	386
Other depreciation and amortization	4,276	1,975	12,195	6,011
Gain on disposal of assets	(66)	-	(26)	-
Foreign currency fluctuation	624	(413)	504	(262)
Deferred income taxes	893	239	3,778	2,177
Share in net loss (income) of joint ventures	(116)	36	(56)	124
Changes in working capital items				
Accounts receivable	(1,374)	(2,262)	(12,667)	2,705
Income taxes receivable	(1,035)	(1,998)	(2,400)	(2,634)
Inventories	(5,284)	(26)	(13,457)	2,033
Prepaid expenses and deposits	(263)	(116)	(893)	(581)
Accounts payable and accrued liabilities	1,234	8,052	6,051	14,163
Income taxes payable	161	1,406	(249)	640
Cash flows from operating activities	11,866	13,489	28,968	46,488
Financing				
Long-term debt	2,212	482	2,212	125,895
Repayment of long-term debt	(2,419)	(375)	(3,369)	(1,195)
Issue of shares	2,005	857	4,829	971
Deferred debt issue expenses	-	(38)	-	(4,538)
Cash flows from financing activities	1,798	926	3,672	121,133
Investment				
Acquisition of short-term investments	(17,588)	(95,014)	(17,588)	(95,714)
Disposal of short-term investments	6,555	-	134,945	60,740
Acquisition of investments	-	(100)	-	(100)
Disposal of investments	496	347	1,735	619
Acquisition of property, plant and equipment	(4,560)	(1,224)	(11,074)	(2,236)
Disposal of property, plant and equipment	19	-	397	-
Acquisition of intangible assets	(81)	(2,003)	(145,685)	(73,938)
Disposal of intangible assets	917	-	917	205
Cash flows from investment activities	(14,242)	(97,994)	(36,353)	(110,424)
Foreign exchange gain (loss) on cash held in foreign currencies	(25)	89	174	486
Net increase (decrease) in cash and cash equivalents	(603)	(83,490)	(3,539)	57,683
Cash and cash equivalents, beginning of period	34,837	161,150	37,773	19,977
Cash and cash equivalents, end of period	34,234	77,660	34,234	77,660
Additional information				
Interest received	70	511	354	1,019
Interest paid	2,653	27	6,091	150
Income taxes paid	2,917	3,724	14,290	9,246

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 STATEMENTS OF OPERATIONS

	U . S . G A A P			
<i>in thousands of U.S. dollars, except share related data (unaudited)</i>				
	For the three-month period ended June 30, 2004	For the three-month period ended June 30, 2003	For the nine-month period ended June 30, 2004	For the nine-month period ended June 30, 2003
	\$	\$	\$	\$
Revenue	62,005	46,877	182,762	130,344
Cost of goods sold	13,643	11,822	43,187	31,721
Selling and administrative expenses	19,543	15,626	57,953	46,133
Research and development expenses	5,182	3,936	13,106	9,290
Depreciation and amortization	4,276	1,975	12,195	6,011
	42,644	33,359	126,441	93,155
Operating income	19,361	13,518	56,321	37,189
Financial expenses	1,694	1,769	5,081	2,620
Interest income	(160)	(514)	(406)	(1,083)
Loss (gain) on foreign currency	(459)	(168)	(111)	80
Takeover-bid expenses	-	3,697	-	3,697
	1,075	4,784	4,564	5,314
Income before income taxes	18,286	8,734	51,757	31,875
Income taxes	5,734	2,395	16,349	10,046
Net income	12,552	6,339	35,408	21,829
Income per common share				
Basic	0.28	0.14	0.78	0.49
Diluted	0.25	0.14	0.72	0.48
Weighted average number of common shares				
Basic	45,376,423	44,917,035	45,193,880	44,887,388
Diluted	55,271,713	45,597,705	51,971,458	45,574,227

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

amounts in the 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, 2003. 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, 2003. 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. Product Acquisition

On November 18, 2003, the Company acquired the rights to a group of products from Aventis 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.

During a transition period, the sellers may act as Axcan's agents for the management of sales of these products. For the nine-month period ended June 30, 2004, a portion of the sales 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 nine-month period ended June 30, 2004 were \$6,928,009 (\$10,311,585 in 2003), the Company only included in its revenue an amount of \$4,413,531 (\$6,898,669 in 2003) representing the net sales less cost of goods sold and other seller related expenses.

3. Inventories

	June 30, 2004	September 30, 2003
	\$	\$
Raw materials and packaging material	10,001	8,441
Work in progress	1,490	1,466
Finished goods	21,654	10,256
	33,145	20,163

4. Intangible Assets

	June 30, 2004		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Trademarks, trademark licenses and manufacturing rights with a:			
Finite life	275,789	26,391	249,398
Indefinite life	168,411	12,418	155,993
	444,200	38,809	405,391

amounts in the tables are stated in thousands of U.S. dollars, except share related data (unaudited)

4. Intangible Assets (continued)

	September 30, 2003		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Trademarks, trademark licenses and manufacturing rights with a:			
Finite life	111,327	19,998	91,329
Indefinite life	186,512	12,418	174,094
	297,839	32,416	265,423

The cost of the product TAGAMET 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, 2003, which amounted to \$21,852,859, is therefore amortized over a 15-year period.

5. Segmented Information

The Company considers that it operates in a single reportable field of activity, 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 June 30, 2004	For the three-month period ended June 30, 2003	For the nine-month period ended June 30, 2004	For the nine-month period ended June 30, 2003
	\$	\$	\$	\$
Revenue				
Canada				
Domestic sales	7,100	5,163	20,517	14,873
Foreign sales	-	-	-	-
United States				
Domestic sales	41,519	30,072	121,288	82,932
Foreign sales	1,137	-	2,500	-
Europe				
Domestic sales	10,147	10,716	34,669	29,127
Foreign sales	2,029	881	3,618	3,297
Other	73	45	170	115
	62,005	46,877	182,762	130,344
Operating income (loss)				
Canada	651	(1,142)	3,101	(895)
United States	18,580	11,073	52,791	28,256
Europe	481	3,891	1,551	10,786
Other	(351)	(304)	(1,122)	(958)
	19,361	13,518	56,321	37,189
Depreciation and amortization				
Canada	650	290	1,845	1,030
United States	841	944	2,786	2,835
Europe	2,493	484	6,684	1,376
Other	292	257	880	770
	4,276	1,975	12,195	6,011

amounts in the tables are stated in thousands of U.S. dollars, except share related data (unaudited)

5. Segmented Information (continued)

	June 30, 2004	September 30, 2003
	\$	\$
Property, plant, equipment, intangible assets and goodwill		
Canada	40,085	14,622
United States	130,635	133,695
Europe	264,893	138,113
Other	25,994	26,874
	461,607	313,304

6. Financial Information Included in the Consolidated Statement of Operations
a) Financial expenses

	For the three-month period ended June 30, 2004	For the three-month period ended June 30, 2003	For the nine-month period ended June 30, 2004	For the nine-month period ended June 30, 2003
	\$	\$	\$	\$
Interest on long-term debt	1,390	1,490	4,119	2,163
Bank charges	31	22	109	71
Financing fees	9	—	73	—
Amortization of deferred debt issue expenses	264	257	780	386
	1,694	1,769	5,081	2,620

b) Other information

	For the three-month period ended June 30, 2004	For the three-month period ended June 30, 2003	For the nine-month period ended June 30, 2004	For the nine-month period ended June 30, 2003
	\$	\$	\$	\$
Non-controlling interest	—	—	—	(103)
Rental expenses	274	307	822	921
Depreciation of property, plant and equipment	873	703	2,912	2,400
Amortization of intangible assets	3,403	1,272	9,283	3,611
Share in net loss (income) of joint ventures	(116)	36	(56)	124

c) 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 June 30, 2004	For the three-month period ended June 30, 2003	For the nine-month period ended June 30, 2004	For the nine-month period ended June 30, 2003
	\$	\$	\$	\$
Net income				
Basic	12,552	6,339	35,408	21,829
Financial expenses relating to the convertible subordinated notes	1,084	—	2,157	—
Net income on a diluted basis	13,636	6,339	37,565	21,829

amounts in the tables are stated in thousands of U.S. dollars, except share related data (unaudited)

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

c) Income per common share (continued)

	For the three-month period ended June 30, 2004	For the three-month period ended June 30, 2003	For the nine-month period ended June 30, 2004	For the nine-month period ended June 30, 2003
Weighted average number of common shares outstanding	45,376,423	44,917,035	45,193,880	44,887,388
Effect of dilutive stock options	971,177	445,237	849,883	448,602
Effect of dilutive balance of purchase price	-	235,433	-	238,237
Effect of dilutive convertible subordinated notes	8,924,113	-	5,927,695	-
Adjusted weighted average number of common shares outstanding	55,271,713	45,597,705	51,971,458	45,574,227
Number of common shares outstanding as at July 31, 2004	45,561,736			

Options to purchase 258,500 and 1,223,550 common shares were outstanding as at June 30, 2004 and 2003 respectively but were not included in the computation of diluted income per share for the nine-month periods ended June 30, 2004 and 2003 respectively 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 notes are convertible 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. Since this trigger event occurred during the second and the third quarter of the current fiscal year, the 8,924,113, common shares are included in the weighted average number of common shares outstanding for these periods. 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.

7. 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 June 30, 2004	For the three-month period ended June 30, 2003	For the nine-month period ended June 30, 2004	For the nine-month period ended June 30, 2003
Fair value per option	\$7.84	\$5.07	\$6.74	\$5.29
Assumptions used in Black-Scholes option pricing model				
Expected volatility	44%	45%	44%	45%
Risk-free interest rate	3.96%	4.23%	4.18%	4.39%
Expected option life (years)	6	6	6	6
Expected dividend	-	-	-	-

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

	For the three-month period ended June 30, 2004	For the three-month period ended June 30, 2004	For the three-month period ended June 30, 2003	For the three-month period ended June 30, 2003
	As reported	Pro-forma	As reported	Pro-forma
Net income	\$ 12,552	\$ 11,456	\$ 6,339	\$ 5,548
Basic income per share	0.28	0.25	0.14	0.12
Diluted income per share	0.25	0.23	0.14	0.12

amounts in the tables are stated in thousands of U.S. dollars, except share related data (unaudited)

7. Stock Options (continued)

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

	For the nine-month period ended June 30, 2004	For the nine-month period ended June 30, 2004	For the nine-month period ended June 30, 2003	For the nine-month period ended June 30, 2003
	As reported	Pro-forma	As reported	Pro-forma
Net income	\$ 35,408	\$ 32,198	\$ 21,829	\$ 19,416
Basic income per share	0.78	0.71	0.49	0.43
Diluted income per share	0.72	0.66	0.48	0.43

8. 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:

Operations adjustments:

	For the three-month period ended June 30, 2004	For the three-month period ended June 30, 2003	For the nine-month period ended June 30, 2004	For the nine-month period ended June 30, 2003
	\$	\$	\$	\$
Net income in accordance with U.S. GAAP	12,552	6,339	35,408	21,829
Implicit interest on convertible debt	(1,082)	(990)	(3,131)	(1,284)
Amortization of new product acquisition costs	(14)	(14)	(40)	(40)
Income tax impact of the above adjustments	5	5	15	15
Net earnings in accordance with Canadian GAAP	11,461	5,340	32,252	20,520
Earnings per share in accordance with Canadian GAAP				
Basic	0.25	0.12	0.71	0.46
Diluted	0.25	0.12	0.70	0.45

Balance sheet adjustments:

	June 30, 2004		September 30, 2003	
	U.S. GAAP	Canadian GAAP	U.S. GAAP	Canadian GAAP
	\$	\$	\$	\$
Current assets	130,780	130,910	225,035	225,203
Investments	407	143	1,002	775
Property, plant and equipment	28,666	28,678	20,331	20,351
Intangible assets	405,391	417,765	265,423	277,837
Goodwill	27,550	29,342	27,550	29,342
Deferred debt issue expenses	3,372	3,403	4,233	4,233
Deferred income tax asset	2,354	2,354	1,775	1,775
Current liabilities	55,758	56,064	50,261	50,634
Long-term debt	128,284	109,468	129,474	107,527
Deferred income tax liability	38,030	39,154	34,603	35,742
Shareholders' equity				
Equity component of convertible debt	-	24,239	-	24,239
Capital stock	260,572	267,217	255,743	262,388
Retained earnings	99,042	95,463	63,634	63,211
Accumulated other comprehensive income	16,834	20,990	11,634	15,775

in thousands of U.S. dollars

	June 30, 2004 (unaudited) \$	September 30, 2003 \$
Assets		
Current assets		
Cash and cash equivalents	34,353	37,886
Short-term investments	15,703	133,112
Accounts receivable	31,122	19,665
Income taxes receivable	7,483	5,315
Inventories (Note 3)	33,145	20,163
Prepaid expenses and deposits	3,583	2,848
Future income taxes	5,521	6,214
Total current assets	130,910	225,203
Investments	143	775
Property, plant and equipment, net	28,678	20,351
Intangible assets, net (Note 4)	417,765	277,837
Goodwill, net	29,342	29,342
Deferred debt issue expenses, net	3,403	4,233
Future income taxes	2,354	1,775
	612,595	559,516
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	48,907	43,791
Income taxes payable	4,608	4,821
Instalments on long-term debt	1,820	1,528
Future income taxes	729	494
Total current liabilities	56,064	50,634
Long-term debt	109,468	107,527
Future income taxes	39,154	35,742
	204,686	193,903
Shareholders' Equity		
Equity component of convertible debt (Note 5)	24,239	24,239
Capital stock	267,217	262,388
Retained earnings	95,463	63,211
Accumulated foreign currency translation adjustments	20,990	15,775
	407,909	365,613
	612,595	559,516

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 CASH FLOWS

18

Canadian GAAP

*in thousands of U.S. dollars
(unaudited)*

	For the three-month period ended June 30, 2004 \$	For the three-month period ended June 30, 2003 \$	For the nine-month period ended June 30, 2004 \$	For the nine-month period ended June 30, 2003 \$
Operations				
Net earnings	11,461	5,340	32,252	20,520
Non-cash items				
Implicit interest on convertible debt	1,082	990	3,132	1,284
Non-controlling interest	-	-	-	(103)
Amortization of deferred debt issue expenses	264	257	780	386
Other depreciation and amortization	4,292	1,992	12,241	6,059
Gain on disposal of assets	(71)	-	(31)	-
Foreign currency fluctuation	624	(413)	504	(262)
Future income taxes	888	234	3,763	2,162
Changes in working capital items				
Accounts receivable	(1,515)	(2,209)	(12,696)	2,843
Income taxes receivable	(1,035)	(1,999)	(2,379)	(2,627)
Inventories	(5,284)	(26)	(13,457)	2,039
Prepaid expenses and deposits	(265)	(152)	(877)	(615)
Accounts payable and accrued liabilities	1,336	8,139	5,984	14,234
Income taxes payable	161	1,406	(249)	640
Cash flows from operating activities	11,938	13,559	28,967	46,560
Financing				
Long-term debt	2,212	482	2,212	101,656
Repayment of long-term debt	(2,419)	(375)	(3,369)	(1,195)
Equity component of convertible debt	-	-	-	24,239
Issue of shares	2,005	857	4,829	971
Deferred debt issue expenses	-	(38)	-	(4,538)
Cash flows from financing activities	1,798	926	3,672	121,133
Investment				
Acquisition of short-term investments	(17,588)	(95,014)	(17,588)	(95,714)
Disposal of short-term investments	6,555	-	134,945	60,740
Acquisition of investments	-	(100)	-	(100)
Disposal of investments	496	324	1,735	596
Acquisition of property, plant and equipment	(4,562)	(1,224)	(11,076)	(2,236)
Disposal of property, plant and equipment	26	-	404	-
Acquisition of intangible assets	(81)	(2,003)	(145,685)	(73,938)
Disposal of intangible assets	917	-	917	205
Cash flows from investment activities	(14,237)	(98,017)	(36,348)	(110,447)
Foreign exchange gain (loss) on cash held in foreign currencies	(23)	89	176	486
Net increase (decrease) in cash and cash equivalents	(524)	(83,443)	(3,533)	57,732
Cash and cash equivalents, beginning of period	34,877	161,180	37,886	20,005
Cash and cash equivalents, end of period	34,353	77,737	34,353	77,737
Additional information				
Interest received	73	511	357	1,019
Interest paid	2,653	27	6,091	150
Income taxes paid	2,917	3,724	14,290	9,246

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 EARNINGS

			Canadian GAAP	
<i>in thousands of U.S. dollars, except share related data (unaudited)</i>				
	For the three-month period ended June 30, 2004	For the three-month period ended June 30, 2003	For the nine-month period ended June 30, 2004	For the nine-month period ended June 30, 2003
	\$	\$	\$	\$
Revenue	61,931	46,908	182,859	130,830
Cost of goods sold	13,643	11,828	43,187	31,736
Selling and administrative expenses	19,418	15,625	57,956	46,552
Research and development expenses	4,907	3,602	12,553	8,542
Depreciation and amortization	4,292	1,992	12,241	6,059
	42,260	33,047	125,937	92,889
Operating income	19,671	13,861	56,922	37,941
Financial expenses	2,776	2,770	8,219	3,922
Interest income	(159)	(514)	(408)	(1,083)
Loss (gain) on foreign currency	(456)	(168)	(108)	80
Takeover-bid expenses	-	3,697	-	3,697
	2,161	5,785	7,703	6,616
Earnings before income taxes	17,510	8,076	49,219	31,325
Income taxes	6,049	2,736	16,967	10,805
Net earnings	11,461	5,340	32,252	20,520
Earnings per common share				
Basic	0.25	0.12	0.71	0.46
Diluted	0.25	0.12	0.70	0.45
Weighted average number of common shares				
Basic	45,376,423	44,917,035	45,193,880	44,887,388
Diluted	55,271,713	45,597,705	51,971,458	45,574,227

CONSOLIDATED RETAINED EARNINGS

			Canadian GAAP	
<i>in thousands of U.S. dollars (unaudited)</i>				
	For the three-month period ended June 30, 2004	For the three-month period ended June 30, 2003	For the nine-month period ended June 30, 2004	For the nine-month period ended June 30, 2003
	\$	\$	\$	\$
Balance, beginning of period	84,002	49,774	63,211	34,594
Net earnings	11,461	5,340	32,252	20,520
Balance, end of period	95,463	55,114	95,463	55,114

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

amounts in the 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, 2003. 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, 2003. 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. Product Acquisition

On November 18, 2003, the Company acquired the rights to a group of products from Aventis 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.

During a transition period, the sellers may act as Axcac's agents for the management of sales of these products. For the nine-month period ended June 30, 2004, a portion of the sales of these products is still managed by the sellers. Axcac 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 nine-month period ended June 30, 2004 were \$6,928,009 (\$10,311,585 in 2003), the Company only included in its revenue an amount of \$4,413,531 (\$6,898,669 in 2003) representing the net sales less cost of goods sold and other seller related expenses.

3. Inventories

	June 30, 2004	September 30, 2003
	\$	\$
Raw materials and packaging material	10,001	8,441
Work in progress	1,490	1,466
Finished goods	21,654	10,256
	33,145	20,163

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4. Intangible Assets

	June 30, 2004		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Trademarks, trademark licenses and manufacturing rights with a:			
Finite life	288,623	26,846	261,777
Indefinite life	168,406	12,418	155,988
	457,029	39,264	417,765

	September 30, 2003		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Trademarks, trademark licenses and manufacturing rights with a:			
Finite life	124,157	20,414	103,743
Indefinite life	186,512	12,418	174,094
	310,669	32,832	277,837

The cost of the product TAGAMET 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, 2003, which amounted to \$21,852,859, is therefore amortized over a 15-year period.

5. 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, 2003, implicit interest of 9.17% and totalling \$2,292,478 was accounted for and added to the liability component. For the nine-month period ended June 30, 2004, implicit interest in the amount of \$3,131,424 (\$1,284,298 in 2003) was accounted for and added to the liability component.

amounts in the tables are stated in thousands of U.S. dollars, except share related data (unaudited)

6. Segmented Information

The Company considers that it operates in a single reportable field of activity, 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 June 30, 2004	For the three-month period ended June 30, 2003	For the nine-month period ended June 30, 2004	For the nine-month period ended June 30, 2003
	\$	\$	\$	\$
Revenue				
Canada				
Domestic sales	7,100	5,163	20,517	14,873
Foreign sales	-	-	-	-
United States				
Domestic sales	41,519	30,072	121,288	82,932
Foreign sales	1,137	-	2,500	-
Europe				
Domestic sales	10,073	10,747	34,766	29,613
Foreign sales	2,029	881	3,618	3,297
Other	73	45	170	115
	61,931	46,908	182,859	130,830
Operating income (loss)				
Canada	903	(796)	3,745	(131)
United States	18,566	11,059	52,751	28,216
Europe	553	3,902	1,548	10,814
Other	(351)	(304)	(1,122)	(958)
	19,671	13,861	56,922	37,941
Depreciation and amortization				
Canada	650	290	1,845	1,030
United States	855	958	2,826	2,875
Europe	2,495	487	6,690	1,384
Other	292	257	880	770
	4,292	1,992	12,241	6,059
			June 30, 2004	September 30, 2003
			\$	\$
Property, plant, equipment, intangible assets and goodwill				
Canada			44,360	19,311
United States			131,009	133,695
Europe			265,303	138,530
Other			35,113	35,994
			475,785	327,530

amounts in the tables are stated in thousands of U.S. dollars, except share related data (unaudited)

7. Financial Information Included in the Consolidated Statement of Earnings

a) Financial expenses

	For the three-month period ended June 30, 2004	For the three-month period ended June 30, 2003	For the nine-month period ended June 30, 2004	For the nine-month period ended June 30, 2003
	\$	\$	\$	\$
Interest on long-term debt	2,472	2,489	7,250	3,456
Bank charges	31	24	116	80
Financing fees	9	—	73	—
Amortization of deferred debt issue expenses	264	257	780	386
	2,776	2,770	8,219	3,922

b) Other information

	For the three-month period ended June 30, 2004	For the three-month period ended June 30, 2003	For the nine-month period ended June 30, 2004	For the nine-month period ended June 30, 2003
	\$	\$	\$	\$
Non-controlling interest	—	—	—	(103)
Rental expenses	274	307	822	921
Depreciation of property, plant and equipment	875	704	2,918	2,406
Amortization of intangible assets	3,417	1,288	9,323	3,653
Investment tax credits applied against research and development expenses	322	346	644	764

c) Earnings per common share

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

	For the three-month period ended June 30, 2004	For the three-month period ended June 30, 2003	For the nine-month period ended June 30, 2004	For the nine-month period ended June 30, 2003
	\$	\$	\$	\$
Net earnings				
Basic	11,461	5,340	32,252	20,520
Financial expenses relating to the convertible subordinated notes	2,135	—	4,210	—
Net earnings on a diluted basis	13,596	5,340	36,462	20,520
Weighted average number of common shares outstanding	45,376,423	44,917,035	45,193,880	44,887,388
Effect of dilutive stock options	971,177	445,237	849,883	448,602
Effect of dilutive equity component of purchase price	—	235,433	—	238,237
Effect of dilutive convertible subordinated notes	8,924,113	—	5,927,695	—
Adjusted weighted average number of common shares outstanding	55,271,713	45,597,705	51,971,458	45,574,227
Number of common shares outstanding at the end of the period			45,556,032	44,989,347
Number of common shares outstanding as at July 31, 2004			45,561,736	

amounts in the tables are stated in thousands of U.S. dollars, except share related data (unaudited)

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

c) Earnings per common share (continued)

Options to purchase 258,500 and 1,223,550 common shares were outstanding as at June 30, 2004 and 2003 respectively but were not included in the computation of diluted income per share for the nine-month periods ended June 30, 2004 and 2003 respectively 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 notes are convertible 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. Since this trigger event occurred during the second and the third quarter of the current fiscal year, the 8,924,113, common shares are included in the weighted average number of common shares outstanding for these periods. 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.

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 June 30, 2004	For the three-month period ended June 30, 2003	For the nine-month period ended June 30, 2004	For the nine-month period ended June 30, 2003
Fair value per option	\$7.84	\$5.07	\$6.74	\$5.29
Assumptions used in Black-Scholes option pricing model				
Expected volatility	44%	45%	44%	45%
Risk-free interest rate	3.96%	4.23%	4.18%	4.39%
Expected option life (years)	6	6	6	6
Expected dividend	-	-	-	-

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

	For the three-month period ended June 30, 2004	For the three-month period ended June 30, 2004	For the three-month period ended June 30, 2003	For the three-month period ended June 30, 2003
	As reported	Pro-forma	As reported	Pro-forma
Net earnings	\$ 11,461	\$ 10,365	\$ 5,340	\$ 4,549
Basic earnings per share	0.25	0.23	0.12	0.10
Diluted earnings per share	0.25	0.23	0.12	0.10

	For the nine-month period ended June 30, 2004	For the nine-month period ended June 30, 2004	For the nine-month period ended June 30, 2003	For the nine-month period ended June 30, 2003
	As reported	Pro-forma	As reported	Pro-forma
Net earnings	\$ 32,252	\$ 29,042	\$ 20,520	\$ 18,107
Basic earnings per share	0.71	0.64	0.46	0.40
Diluted earnings per share	0.70	0.64	0.45	0.40

CORPORATE INFORMATION

Axcan Pharma is a leading specialty pharmaceutical company involved 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. Its common shares are listed on the Toronto Stock Exchange under the symbol "AXP" and on the Nasdaq National Market under the symbol "AXCA".

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Gastroenterology

THE MEDICAL SPECIALTY CONCERNED WITH THE FUNCTION
AND DISORDERS OF THE GASTROINTESTINAL TRACT
INCLUDING THE INTESTINES, LIVER, PANCREAS,
STOMACH, AND OTHER ASSOCIATED ORGANS.



We are gastroenterology