



INTERIM REPORT

Consolidated Financial Statements

Fourth Quarter

September 30, 2007

AXCAN PHARMA INC.
Consolidated Balance Sheets

(in thousands of U.S. dollars, except share related data)

	September 30, 2007 (unaudited) \$	September 30, 2006 \$
Assets		
Current assets		
Cash and cash equivalents	179,672	55,830
Short-term investments, available for sale	129,958	117,151
Accounts receivable, net	36,674	30,939
Income taxes receivable	10,092	8,987
Inventories (Note 3)	26,706	37,349
Prepaid expenses and deposits	3,070	3,699
Deferred income taxes	15,955	8,423
Total current assets	402,127	262,378
Property, plant and equipment, net	31,197	28,817
Intangible assets, net (Note 4)	367,217	375,680
Goodwill, net	27,467	27,467
Deferred debt issue expenses, net	-	1,475
Deferred income taxes	4,603	-
Total assets	832,611	695,817
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	83,196	60,733
Income taxes payable	18,938	2,099
Instalments on long-term debt	527	681
Deferred income taxes	2,076	1,104
Total current liabilities	104,737	64,617
Long-term debt (Note 7)	122	125,565
Deferred income taxes	37,555	38,211
Total liabilities	142,414	228,393
Shareholders' Equity		
Capital stock (Note 7)		
Preferred shares, without par value; unlimited shares authorized: no shares issued	-	-
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: 55,359,652 issued and outstanding as at September 30, 2007 and 45,800,581 as at September 30, 2006	395,888	262,786
Retained earnings	249,371	177,906
Additional paid-in capital	9,089	4,967
Accumulated other comprehensive income	35,849	21,765
Total shareholders' equity	690,197	467,424
Total liabilities and shareholders' equity	832,611	695,817

See the accompanying notes to the Consolidated Financial Statements.

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

AXCAN PHARMA INC.
Consolidated Operations

(in thousands of U.S. dollars, except share related data)
(unaudited)

	For the three-month period ended September 30, 2007 \$	For the three-month period ended September 30, 2006 \$	For the year ended September 30, 2007 \$	For the year ended September 30, 2006 \$
Revenue	92,472	72,251	348,947	292,317
Cost of goods sold ^(a)	22,562	18,261	83,683	72,772
Selling and administrative expenses ^(a)	27,714	21,548	101,273	93,338
Research and development expenses ^(a)	7,247	15,347	28,655	39,789
Depreciation and amortization	5,839	5,922	22,494	22,823
Acquired in-process research	10,000	-	10,000	-
Partial write-down of intangible assets	-	-	-	5,800
	73,362	61,078	246,105	234,522
Operating income	19,110	11,173	102,842	57,795
Financial expenses (Note 6)	123	1,729	4,825	6,988
Interest income	(3,844)	(2,131)	(11,367)	(5,468)
Loss (gain) on foreign currency	1,314	(447)	2,352	(1,110)
	(2,407)	(849)	(4,190)	410
Income before income taxes	21,517	12,022	107,032	57,385
Income taxes	4,729	3,750	35,567	18,266
Net income	16,788	8,272	71,465	39,119
Income per common share				
Basic	0.30	0.18	1.47	0.86
Diluted	0.30	0.17	1.33	0.79
Weighted average number of common shares				
Basic	55,320,766	45,790,628	48,466,980	45,741,419
Diluted	56,122,330	55,031,340	55,724,405	55,064,496

^(a) Exclusive of depreciation and amortization

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AXCAN PHARMA INC.
Consolidated Shareholders' Equity and Comprehensive Income

(in thousands of U.S. dollars, except share related data)
(unaudited)

	For the three-month period ended September 30, 2007	For the three-month period ended September 30, 2006	For the year ended September 30, 2007	For the year ended September 30, 2006
Common shares (number)				
Balance, beginning of period	55,296,354	45,780,290	45,800,581	45,682,175
Shares issued on conversion of subordinated notes (Note 7)	-	-	8,924,080	-
Shares issued pursuant to the stock incentive plans for cash	63,298	20,291	634,991	118,406
Balance, end of period	55,359,652	45,800,581	55,359,652	45,800,581
	\$	\$	\$	\$
Common shares				
Balance, beginning of period	394,726	262,594	262,786	261,714
Shares issued on conversion of subordinated notes (Note 7)	-	-	125,000	-
Stock-based compensation on exercised options	410	-	845	-
Shares issued pursuant to the stock incentive plans for cash	752	192	7,257	1,072
Balance, end of period	395,888	262,786	395,888	262,786
Retained earnings				
Balance, beginning of period	232,583	169,634	177,906	138,787
Net income	16,788	8,272	71,465	39,119
Balance, end of period	249,371	177,906	249,371	177,906
Additional paid-in capital				
Balance, beginning of period	8,208	4,128	4,967	1,329
Stock-based compensation expense	1,086	812	4,548	3,554
Stock-based compensation on exercised options	(410)	-	(845)	-
Income tax deductions on stock options exercise	205	27	419	84
Balance, end of period	9,089	4,967	9,089	4,967
Accumulated other comprehensive income				
Balance, beginning of period	29,504	22,576	21,765	15,774
Foreign currency translation adjustments	6,345	(811)	14,084	5,991
Balance, end of period	35,849	21,765	35,849	21,765
Total shareholders' equity	690,197	467,424	690,197	467,424
Comprehensive income				
Foreign currency translation adjustments	6,345	(811)	14,084	5,991
Net income	16,788	8,272	71,465	39,119
Total comprehensive income	23,133	7,461	85,549	45,110

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AXCAN PHARMA INC.
Consolidated Cash Flows

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

	For the three-month period ended September 30, 2007 \$	For the three-month period ended September 30, 2006 \$	For the year ended September 30, 2007 \$	For the year ended September 30, 2006 \$
Operating activities				
Net income	16,788	8,272	71,465	39,119
Non-cash items				
Non-cash financial expenses	49	281	1,475	1,117
Other depreciation and amortization	5,839	5,922	22,494	22,823
Partial write-down of intangible assets	-	-	-	5,800
Stock-based compensation expense	1,086	812	4,548	3,554
Loss on disposal and write-down of assets	-	1,064	3,875	1,064
Foreign currency fluctuations	1,620	(954)	1,763	(739)
Deferred income taxes	828	551	(11,696)	516
Changes in working capital items				
Accounts receivable	8,834	(1,351)	(4,047)	7,338
Income taxes receivable	(5,207)	991	(492)	(260)
Inventories	4,403	4,051	11,658	(402)
Prepaid expenses and deposits	359	667	770	(1,812)
Accounts payable and accrued liabilities	7,691	6,068	17,712	7,263
Income taxes payable	(998)	(3,918)	16,577	(1,047)
Cash flows from operating activities	41,292	22,456	136,102	84,334
Investing activities				
Acquisition of short-term investments	(123,758)	(68,046)	(148,929)	(117,151)
Disposal of short-term investments	-	10,622	136,122	17,619
Acquisition of property, plant and equipment	(1,440)	(2,269)	(6,789)	(4,038)
Disposal of property, plant and equipment	-	-	219	-
Acquisition of intangible assets	(4)	(40)	(38)	(4,569)
Cash flows from investing activities	(125,202)	(59,733)	(19,415)	(108,139)
Financing activities				
Long-term debt	-	634	-	634
Repayment of long-term debt	(183)	(1,193)	(704)	(2,322)
Issue of shares	752	192	7,257	1,072
Cash flows from financing activities	569	(367)	6,553	(616)
Foreign exchange gain (loss) on cash held in foreign currencies	371	(27)	602	282
Net increase (decrease) in cash and cash equivalents	(82,970)	(37,671)	123,842	(24,139)
Cash and cash equivalents, beginning of period	262,642	93,501	55,830	79,969
Cash and cash equivalents, end of period	179,672	55,830	179,672	55,830
Additional information				
Interest received	1,733	1,290	7,036	4,562
Interest paid	1	24	5,627	5,416
Income taxes paid	8,839	6,766	29,404	19,568

See the accompanying notes to the Consolidated Financial Statements.
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AXCAN PHARMA INC.

Notes to 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, 2006. 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, 2006. When necessary, the financial statements include amounts based on informed estimates and best judgments of management. The results of operations for the interim periods reported are not necessarily indicative of results to be expected for the year.

2. Acquisition of product

During the fourth quarter of fiscal 2007, the Company entered into an exclusive license and development agreement with Cellerix SL ("Cellerix") of Spain, for the North American (United States, Canada and Mexico) rights to Cx401, a biological product in development for the treatment of perianal fistulas. Cx401 uses non-embryonic stem-cells to treat perianal fistulas in Crohn's and non-Crohn's Disease patients. Under the terms of the agreement, as at September 30, 2007, the Company recorded a \$10,000,000 upfront payment payable to Cellerix, and will make regulatory milestone payments that could total up to \$30,000,000. As this product had not reached technological feasibility, it was considered to be acquired in-process research and was expensed in the fourth quarter of the year ended September 30, 2007, the period of acquisition.

3. Inventories

	September 30, 2007	September 30, 2006
	\$	\$
Raw materials and packaging material	9,451	15,979
Work in progress	1,998	1,413
Finished goods	15,257	19,957
	26,706	37,349

4. Intangible Assets

	September 30, 2007		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Trademarks, trademark licenses and manufacturing rights with a:			
Finite life	353,619	77,923	275,696
Indefinite life	103,896	12,375	91,521
	457,515	90,298	367,217
	September 30, 2006		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Trademarks, trademark licenses and manufacturing rights with a:			
Finite life	347,117	59,404	287,713
Indefinite life	100,342	12,375	87,967
	447,459	71,779	375,680

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Notes to Consolidated Financial Statements

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5. Segmented Information

The Company operates in a single reportable segment, the pharmaceutical industry.

The Company operates in the following geographic areas:

	For the three-month period ended September 30, 2007	For the three-month period ended September 30, 2006	For the year ended September 30, 2007	For the year ended September 30, 2006
	\$	\$	\$	\$
Revenue				
Canada				
Domestic sales	8,271	8,866	37,950	37,956
Foreign sales	-	-	-	-
United States				
Domestic sales	71,856	48,885	250,774	195,954
Foreign sales	970	996	3,958	5,801
Europe				
Domestic sales	9,494	10,989	45,859	43,374
Foreign sales	1,781	2,251	10,011	8,702
Other	100	264	395	530
	92,472	72,251	348,947	292,317

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

	September 30, 2007	September 30, 2006
	\$	\$
Property, plant, equipment, intangible assets and goodwill		
Canada	33,048	36,409
United States	124,382	125,084
Europe	238,933	239,323
Other	29,518	31,148
	425,881	431,964

6. Financial Information Included in the Consolidated Operations

a) Financial expenses

	For the three-month period ended September 30, 2007	For the three-month period ended September 30, 2006	For the year ended September 30, 2007	For the year ended September 30, 2006
	\$	\$	\$	\$
Interest on long-term debt (Note 7)	8	1,358	2,870	5,416
Bank charges	7	30	182	154
Financing fees	59	60	298	301
Amortization of deferred debt issue expenses (Note 7)	49	281	1,475	1,117
	123	1,729	4,825	6,988

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Notes to Consolidated Financial Statements

(amounts in the tables are stated in thousands of U.S. dollars, except share related data)
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6. Financial Information Included in the Consolidated Operations (continued)

b) Other information

	For the three-month period ended September 30, 2007	For the three-month period ended September 30, 2006	For the year ended September 30, 2007	For the year ended September 30, 2006
	\$	\$	\$	\$
Rental expenses	665	547	2,336	1,989
Advertising expenses	4,933	3,052	13,557	11,488
Depreciation of property, plant and equipment	1,482	1,630	5,356	5,901
Amortization of intangible assets	4,357	4,292	17,138	16,922
Stock-based compensation expense	1,086	812	4,548	3,554

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 September 30, 2007	For the three-month period ended September 30, 2006	For the year ended September 30, 2007	For the year ended September 30, 2006
	\$	\$	\$	\$
Net income available to common shareholders				
Basic	16,788	8,272	71,465	39,119
Interest and amortization of deferred debt issue expenses relating to the convertible subordinated notes, net of income taxes	-	1,076	2,793	4,328
Net income available to common shareholders on a diluted basis	16,788	9,348	74,258	43,447

	For the three-month period ended September 30, 2007	For the three-month period ended September 30, 2006	For the year ended September 30, 2007	For the year ended September 30, 2006
Weighted average number of common shares				
Weighted average number of common shares outstanding	55,320,766	45,790,628	48,466,980	45,741,419
Effect of dilutive stock options and relevant shares issuable under stock incentive plans	801,564	316,599	607,127	398,964
Effect of dilutive convertible subordinated notes	-	8,924,113	6,650,298	8,924,113
Adjusted weighted average number of common shares outstanding	56,122,330	55,031,340	55,724,405	55,064,496
Number of common shares outstanding as at November 27, 2007	55,374,561			

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Notes to Consolidated Financial Statements

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

c) Income per common share (continued)

Options to purchase 481,475 and 1,155,744 common shares were outstanding as at September 30, 2007 and 2006 respectively but were not included in the computation of diluted income per share for the years ended September 30, 2007 and 2006, as the exercise price of the options was greater than the average market price of the common shares.

d) 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 or up to limits set by the U.S. Internal Revenue Service. The Company may make matching contributions of a discretionary percentage. During the year ended September 30, 2007, the Board of Directors approved, and the Company charged to operations, contributions to the Plan totalling \$454,015 (\$385,018 in 2006).

7. Conversion of the Convertible Subordinated Notes

During the third quarter of fiscal 2007, the Company called for redemption all of its \$125,000,000 4.25% Convertible Subordinated Notes (the "Notes"), and the holders of all of the Notes exercised their right to convert their Notes, in lieu of redemption, by June 28, 2007. The Company completed the conversion of the Notes by issuing an aggregate of 8,924,080 common shares and paying \$613 in lieu of fractional shares. Long-term debt was consequently reduced by \$125,000,000 and capital stock increased by the same amount. As a result of the conversion, financial expenses for the year were reduced by \$2,525,158 in interest on long-term debt and increased by \$376,677 in amortization of deferred debt issue expenses compared to fiscal 2006.

The Notes were convertible into 8,924,113 common shares. The holders could have converted 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 exceeded 110% of the conversion price in effect on that thirtieth trading day. The holders could also have converted 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 holders could also have converted their Notes upon the occurrence of specified corporate transactions, or if the Company had called the Notes for redemption. From April 20, 2006, the Company had the right, at its option, to 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.

8. Stock incentive plans

The weighted average estimated fair value of granted stock options for the periods ended September 30, 2007 and 2006 using the Black-Scholes option pricing model was as follows:

	For the three-month period ended September 30, 2007	For the three-month period ended September 30, 2006	For the year ended September 30, 2007	For the year ended September 30, 2006
Weighted average fair value of options	\$7.12	-	\$5.89	\$6.41
Assumptions used				
Expected term of options (years)	4.5	-	4.5	5.8
Expected stock price volatility	35%	-	38%	42%
Risk-free interest rate	4.29%	-	4.36%	4.28%
Expected dividend	-	-	-	-