

**Axcan Reports Second Quarter 2004 Results - Revenue up 38.6% to \$63.2 million-net Income Rises 39.3%**

TSX SYMBOL (Toronto Stock Exchange):           AXP  
NASDAQ SYMBOL (NASDAQ National Market):       AXCA

MONT-SAINT-HILAIRE, Quebec, May 6 /CNW Telbec/ - Axcan Pharma Inc. ("Axcan" or the "Company") announced today operating results for the quarter ended March 31, 2004, the Company's second quarter of the fiscal year ending September 30, 2004. The Company reported revenue growth of 38.6% to \$63.2 million and net income of \$12.4 million, or \$0.24 per share (fully diluted), representing 39.3% growth in net income and 20% growth in diluted income per share, as compared to the second quarter of fiscal 2003 (all amounts stated in U.S. dollars).

"Based on our strong second quarter results, we believe that our solid and consistent financial performance should continue throughout the remainder of the fiscal year," stated Léon F. Gosselin, President and Chief Executive Officer of Axcan.

INTERIM FINANCIAL REPORT

This release includes, by reference, the second quarter interim financial report incorporating the financial statements in accordance with both U.S. and Canadian GAAP as well as the full Management Discussion & Analysis ("MD&A") including the reconciliation to Canadian GAAP of the U.S. GAAP presentation. The interim report, including the MD&A and financial statements, is filed with applicable U.S. and Canadian regulatory authorities.

RECENT DEVELOPMENTS

PHOTOBAR

In March 2004, the European Commission granted Axcan market authorization for use in the European Union ("EU") of PHOTOBARR (porfimer sodium), its photodynamic therapy ("PDT") for the ablation of High-Grade Dysplasia associated with Barrett's Esophagus. PHOTOBARR was also granted orphan medical product status at the time of its submission, which guarantees Axcan exclusive marketing rights for PHOTOBARR in the European Union for a ten-year period from March 2004. This represents a significant milestone for Axcan, because this is its first regulatory approval in Europe. Launch in major EU markets is expected near the end of the current fiscal year.

ITAX

In January 2004, the U.S. Food and Drug Administration ("FDA") endorsed Axcan's development proposal to immediately initiate Phase III clinical trials with ITAX (itopride hydrochloride). Axcan intends to initiate Phase III clinical studies to evaluate the efficacy of ITAX in the treatment of functional dyspepsia (also known as non ulcer dyspepsia). Axcan also plans to study ITAX as a treatment for diabetic gastroparesis. As previously announced, Axcan believes that if approved by the FDA, ITAX has the potential to become its highest selling product. Axcan expects to file a New Drug Application ("NDA") in fiscal 2005.

MESALAMINE - NEW DOSAGE

In December 2003, Axcan submitted to the FDA a supplemental NDA for a 1-gram mesalamine suppository dosage form for the treatment of ulcerative proctitis. Axcan expects approval by the end of calendar year 2004.

URSO DS- NEW FORMULATION

In September 2003, Axcan filed a supplemental NDA for a new, double-strength tablet formulation of URSO (ursodiol, URSO DS 500mg tablets). This new formulation will simplify the dosing regimen used in the treatment of Primary Biliary Cirrhosis. This new product is expected to gain approval by the FDA in the last quarter of fiscal 2004.

HELIZIDE

The Company is in the process of qualifying a manufacturer of the biscalcitrates potassium (bismuth salt) a component of Helizide combination therapy for the eradication of Helicobacter Pylori bacterium. Axcant anticipates FDA resubmission by December 2004. Assuming approval, we expect to launch the product in the second half of fiscal 2005.

Research and development

Phase III studies

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SALOFALK 750 milligram tablets

Axcant completed a Phase III trial, for the Canadian market, on the efficacy and safety of a new 750-milligram mesalamine (5-ASA) tablet for the oral treatment of ulcerative colitis. The Company filed a supplemental New Drug Submission for approval in Canada in the first quarter of fiscal 2004 and hopes to launch the product in Canada in fiscal 2005.

CANASA / SALOFALK rectal gel

Axcant is currently completing Phase III studies to confirm the efficacy and safety of a new mesalamine rectal gel in the treatment of distal ulcerative colitis. Final results will be available in the second half of fiscal 2004. Assuming the results of the Phase II studies are positive, the Company plans to submit regulatory filings for approvals in the United States and Canada and hopes to launch the rectal gel in the United States and Canada in fiscal 2005.

HEPENAX

L-Ornithine L-Aspartate salt ("LOLA"), which is known as HEPENAX, was developed by Merz Pharmaceuticals GmbH in Germany and is licensed to Axcant. The Company intends to further develop HEPENAX in North America and Europe for patients suffering from Porto-Systemic Encephalopathy ("PSE"). The Company will conduct a Phase II/III clinical development program for HEPENAX and plans to seek approval of the intravenous formulation to treat the acute symptoms of PSE. The Company intends to initiate its clinical research program in the third quarter of fiscal 2004 and complete such studies in fiscal 2005.

PHOTOFRIN

PHOTOFRIN is approved in a number of countries for the treatment of different forms of cancers. Axcant is currently investigating the use of PHOTOFRIN for the treatment of cholangiocarcinoma, a serious bile duct (liver) cancer with a high morbidity rate. The treatment under investigation combines PHOTOFRIN with PDT and the stenting of the bile ducts. The proposed Phase III study will start in the third quarter of fiscal 2004.

Pre-Clinical, Phase I and II studies

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NCX-1000

The FDA has accepted an Investigational NDA for NCX-1000, a patented nitric oxide derivative of ursodiol, for the treatment of portal hypertension, a late stage complication of chronic liver disease. The Phase I clinical development program, which is designed to demonstrate the tolerability and safety of NCX-1000, is almost completed. Phase II studies are planned to begin during fiscal 2005. Completion of the entire clinical program is expected to occur in calendar year 2006.

Ursodiol Disulfate

Axcant recently completed a proof of concept study in rats to evaluate the effect of ursodiol disulfate on the development of colonic tumors. Axcant intends to initiate animal toxicity studies in the third quarter of fiscal

2004, which will be followed by clinical Phase I studies.

#### NMK 150

Axcan and Nordmark GmbH, a German pharmaceutical firm, have set up a joint-venture, Norax, in order to develop NMK 150, a new high protease pancrelipase preparation. This product will be developed for the relief of pain in small duct chronic pancreatitis. It is expected that NMK 150 will enter clinical development before the end of fiscal 2004.

#### NMK 250

Norax is also developing NMK 250, a bacterial lipase intended to correct steatorrhea in patients suffering from diverse causes of pancreatic insufficiency (e.g., following surgery for cancer or due to cystic fibrosis). Norax expects to complete the formulation work before the end of fiscal 2004.

#### FDA DRAFT GUIDELINES FOR EXOCRINE PANCREATIC INSUFFICIENCY DRUG PRODUCTS

In April 2004, the FDA issued for comment, draft guidelines concerning the approval status and timelines required for regulatory submissions of all marketed exocrine pancreatic insufficiency drug products. Based on the current draft document, the FDA will allow manufacturers four years to obtain marketing approval. Axcan expects to meet all regulatory requirements and timelines, as referred to in the FDA draft guidelines, for its exocrine pancreatic insufficiency products marketed in the U.S.

#### DIGESTIVE DISEASE WEEK, MAY 15-20, 2004

On May 17, 2004, Dr. Kenneth Setchell will be presenting data from a rat model toxicity study of the sulfated version of ursodiol ("SUDCA") for treatment of colorectal polyps. On May 19, 2004, Dr. Gerald Holtmann will present data from the German Phase II study of ITAX. Also, Axcan will be sponsoring a PHOTOFRIN satellite symposium, discussing and demonstrating the treatment for High-Grade Dysplasia associated with Barrett's Esophagus.

#### CONFERENCE CALL

Axcan will host a conference call at 4:30 P.M. ET, on May 6, 2004. Interested parties may also access the conference call by way of webcast at [www.axcan.com](http://www.axcan.com). The webcast will be archived for 90 days. The telephone numbers to access the conference call are (800) 814-4859 (Canada and United States) or (416) 640-4127 (international). A replay of the call will be available until May 13, 2004. The telephone number to access the replay of the call is (416) 640-1917 code: 21043281.

#### ABOUT AXCAN PHARMA

Axcan is a leading specialty pharmaceutical company involved in the field of gastroenterology. Axcan 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".

"Safe Harbor" statement under the Private Securities Litigation Reform  
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Act of 1995.  
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To the extent any statements made in this release contain information that is not historical, these statements are essentially forward looking and are subject to risks and uncertainties, including the difficulty of

predicting FDA and other regulatory approvals, acceptance and demand for new pharmaceutical products, the impact of competitive products and pricing, new product development and launch, reliance on key strategic alliances, availability of raw materials, the regulatory environment, fluctuations in operating results and other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission and the Canadian Multijurisdictional Disclosure System.

The names ITAX, Photobarr, Salofalk, Hepenax, Urso, Photofrin and Canasa appearing in this press release are trademarks of Axcán Pharma Inc. and its subsidiaries.

Management Discussion and Analysis (MD&A), Financial Statements and Notes Attached

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; 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 and other conditions. In addition, Axcán currently has two products pending approval, one a new formulation and the other, a new dosage form for products currently marketed in the United States. 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 \$63.2 million and operating income of \$20.0 million for the three-month period ended March 31, 2004. For the six-month period ended March 31, 2004, revenue was \$120.8 million and operating income was \$37.0 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 \$81.1 million (67.2% of total revenue) for the six-month period ended March 31, 2004, compared to \$52.9 million (63.3% of total revenue) for the same period of fiscal 2003. In Canada, revenue was \$13.4 million (11.1% of total revenue) for the six-month period ended March 31, 2004, compared to \$9.7 million (11.6% of total revenue) for the same period of fiscal 2003. In Europe, revenue was \$26.1 million (21.6% of total revenue) for the six-month period ended March 31, 2004, compared to \$20.8 million (25.0% of total revenue) for the same period of fiscal 2003.

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 its products) and research and development expenses.

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, 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 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 six-month period ended March 31, 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 six-month period ended March 31, 2004 were \$5,315,913, the Company included in its revenue an amount of \$3,440,421 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 March 31		For the six-month period ended March 31	
2004	2003	2004	2003

	%	%	%	%
Revenue	100.0	100.0	100.0	100.0
Cost of goods sold	23.7	23.7	24.5	23.9
Selling and administrative expenses	31.7	34.8	31.8	36.6
Research and development expenses	6.3	7.1	6.6	6.4
Depreciation and amortization	6.6	4.4	6.5	4.8
	68.3	70.0	69.4	71.7
Operating income	31.7	30.0	30.6	28.3
Financial expenses	2.7	1.6	2.8	1.0
Interest income	-	(0.6)	(0.2)	(0.7)
Loss on foreign exchange	0.4	-	0.3	0.3
	3.1	1.0	2.9	0.6
Income before income taxes	28.6	29.0	27.7	27.7
Income taxes	8.9	9.4	8.8	9.1
Net income	19.7	19.6	18.9	18.6

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Periods ended March 31, 2004 compared to periods ended March 31, 2003

#### Revenue

Revenue increased \$17.6 million (38.6%) to \$63.2 million for the second quarter ended March 31, 2004 from \$45.6 million for the corresponding quarter of the preceding fiscal year. For the six-month period ended March 31, 2004, revenue was \$120.8 million compared to \$83.5 million for the corresponding period of the preceding fiscal year, an increase of 44.7%. This increase in revenue primarily resulted from \$18.9 million in U.S. and Canadian sales of the AVAX product line which was acquired in November 2003 and strong sales of 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. Axcán outsources most of its manufacturing requirements. Cost of goods sold increased \$4.2 million (38.9%) to \$15.0 million for the quarter ended March 31, 2004 from \$10.8 million for the corresponding quarter of the preceding fiscal year. As a percentage of revenue, cost of goods sold for the quarter ended March 31, 2004 remained stable as compared to the corresponding quarter of the preceding fiscal year, at 23.7%. For the six-month period ended March 31, 2004, cost of goods sold was \$29.5 million (24.5% of revenue) compared to \$19.9 million (23.9% of revenue) for the corresponding period of the preceding fiscal year. This increase was due primarily to the newly acquired products which have a slightly different margin than the products already sold by Axcán.

#### 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 \$4.1 million (25.8%) to \$20.0 million for the quarter ended March 31, 2004 from \$15.9 million for the corresponding quarter of the preceding fiscal year. For the six-month period ended March 31, 2004, selling and administrative expenses increased \$7.9 million (25.9%) to \$38.4 million from \$30.5 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 \$0.7 million (21.2%) to \$4.0 million for the quarter ended March 31, 2004 from \$3.3 million for the corresponding quarter of the preceding fiscal year and \$2.5 million (46.3%) to \$7.9 million for the six-month period ended March 31, 2004, from \$5.4 million for the corresponding period of the preceding fiscal year.

#### Depreciation and amortization

Depreciation and amortization consist principally of intangible assets with finite life. Intangible assets include trademarks, trademark licenses and manufacturing rights. Depreciation and amortization increased \$2.2 million (110.0%) to \$4.2 million for the quarter ended March 31, 2004 from \$2.0 million for the corresponding quarter of the preceding fiscal year and \$3.9 million (97.5%) to \$7.9 million for the six-month period ended March 31, 2004 from \$4.0 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 increased \$1.0 million to \$1.7 million for the quarter ended March 31, 2004 from \$0.7 million for the corresponding quarter of the preceding fiscal year and \$2.5 million to \$3.4 million for the six-month period ended March 31, 2004 from \$0.9 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 March 31, 2004, compared to \$4.3 million for the quarter ended March 31, 2003. Income taxes amounted to \$10.6 million for the six-month period ended March 31, 2004 compared to \$7.7 million for the corresponding period of the preceding fiscal year. The effective tax rates were 31.3% for the quarter ended March 31, 2004 and 32.5% for the quarter ended March 31, 2003.

#### Net income

Net income was \$12.4 million or \$0.27 of basic income per share and \$0.24 of diluted income per share, for the quarter ended March 31, 2004, compared to \$8.9 million or \$0.20 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 March 31, 2003 to 45.2 million for the quarter ended March 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 45.6 million for the quarter ended March 31, 2003 to 55.1 million for the quarter ended March 31, 2004 as the convertible subordinated notes became dilutive because a trigger event occurred during the last quarter as a result of the stock trading price exceeding 110% of the conversion price.

Net income was \$22.9 million or \$0.51 of basic income per share and \$0.48 of diluted income per share, for the six-month period ended March 31, 2004, compared to \$15.5 million or \$0.35 of basic income per share and \$0.34 of diluted income per share for the corresponding period of the preceding year.

#### Canadian GAAP

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

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	For the three-month period ended March 31		For the six-month period ended March 31	
	2004	2003	2004	2003
	\$	\$	\$	\$
Net income in accordance with U.S.GAAP	12,421	8,933	22,856	15,490
Implicit interest on convertible debt	(1,023)	(294)	(2,049)	(294)
Amortization of new products acquisition costs	(13)	(13)	(26)	(26)
Income tax impact of the above adjustments	5	5	10	10
Net earnings in accordance with Canadian GAAP	11,390	8,631	20,791	15,180

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On March 5, 2003, the Company closed an offering of \$125,000,000 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 six-month period ended March 31, 2004, implicit interest in the amount of \$2,049,057 was accrued 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 \$131.4 million to \$39.5 million at March 31, 2004 from \$170.9 million at September 30, 2003. As of March 31, 2004, working capital was \$59.3 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 \$38.1 million (7.0%) to \$583.4 million as of March 31, 2004 from \$545.3 million as of September 30, 2003. Shareholders' equity increased \$32.0 million (9.7%) to \$363.0 million as of March 31, 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 flow from operations, 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 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 March 31, 2004, Axcan 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 bankers acceptances. The credit facilities may be drawn in U.S. dollar or in Canadian dollar equivalent. As at March 31, 2004, there was no amount outstanding under these credit facilities.

#### Cash Flows and Financial Resources

Cash flow from operating activities increased \$6.6 million (56.4%) from \$11.7 million of cash provided by operating activities for the three-month period ended March 31, 2003 to \$18.3 million for the three-month period ended March 31, 2004. This increase is mainly due to the increase in net income before depreciation and amortization during the quarter following the increase in sales and the acquisition of new products. Cash flows from financing activities for the three-month period ended March 31, 2004 were \$2.0 million and cash flows used for investment activities for the same period were \$1.0 million. For the six-month period ended March 31, 2004 cash flows from operating activities decreased \$15.9 million (48.2%) from \$33.0 million of cash provided by operating activities for the six-month period ended March 30, 2003 to \$17.1 million. This decrease is mainly due to the increase in accounts receivable and inventories during the first quarter of this year following the increase in sales and the acquisition of new products. Cash flows from financing activities for the six-month period ended March 31, 2004 were \$1.9 million. Cash flows used by investment activities for the six-month period ended March 31, 2004 were \$22.1 million mainly due to the net cash used for the acquisition of intangible assets with the proceeds from the disposal

of short term investments.

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

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 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 March 31, 2004, our interest requirements amounted to \$5.9 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 8.3 to one.

Under Canadian GAAP, for the twelve months ended March 31, 2004, our interest requirements amounted to \$10.3 million on a pro forma basis and our earnings coverage ratio was 5.9 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 \$4.4 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 US dollars. Axcan's exposure to exchange rate fluctuation is reduced because, in general, Axcan's revenues denominated in currencies other than the US 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, US 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. 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 the successful and timely completion of clinical studies, the uncertainties related to the regulatory process, commercialization of the drug or therapy after regulatory approval is received, difficulty of predicting acceptance and demand for pharmaceutical products, impact of competitive products and pricing, new product development and launch, availability of raw materials, and fluctuations in 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.

On behalf of Management

(signed)

Jean Vézina

Vice President, Finance and Chief Financial Officer

AXCAN PHARMA INC.  
Consolidated Balance Sheets

In accordance with U.S. GAAP  
(in thousands of U.S. dollars)

	March 31 2004	September 30 2003
	(unaudited)	
ASSETS	\$	\$
Current assets		
Cash and cash equivalents	34,837	37,773
Short-term investments available for sale	4,682	133,112
Accounts receivable	29,858	19,685
Income taxes receivable	6,564	5,294
Inventories (Note 3)	28,091	20,163
Prepaid expenses and deposits	3,371	2,794
Deferred income taxes	6,205	6,214
<b>Total current assets</b>	<b>113,608</b>	<b>225,035</b>
Investments	760	1,002
Property, plant and equipment, net	25,008	20,331
Intangible assets, net (Note 4)	410,520	265,423
Goodwill, net	27,550	27,550
Deferred debt issue expenses, net	3,718	4,233
Deferred income taxes	2,206	1,775
<b>Total assets</b>	<b>583,370</b>	<b>545,349</b>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	47,615	43,418
Income taxes payable	4,374	4,821
Instalments on long-term debt	1,569	1,528
Deferred income taxes	753	494
<b>Total current liabilities</b>	<b>54,311</b>	<b>50,261</b>
Long-term debt	128,790	129,474
Deferred income taxes	37,317	34,603
<b>Total liabilities</b>	<b>220,418</b>	<b>214,338</b>
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, 45,328,102 issued as at March 31, 2004 and 45,004,320 as at September 30, 2003.	258,567	255,743
Retained earnings	86,490	63,634

Accumulated other comprehensive income	17,895	11,634
Total shareholders' equity	362,952	331,011
Total liabilities and shareholders' equity	583,370	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.

AXCAN PHARMA INC.  
Consolidated Statements of Shareholders' Equity

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

	For the three-month period ended March 31		For the six-month period ended March 31	
	2004	2003	2004	2003
Common shares (Number)				
Balance, beginning of period	45,061,531	44,872,284	45,004,320	44,863,198
Exercise of options	266,571	8,119	323,782	17,205
Balance, end of period	45,328,102	44,880,403	45,328,102	44,880,403
	\$	\$	\$	\$
Common shares				
Balance, beginning of period	256,178	254,698	255,743	254,640
Exercise of options	2,389	56	2,824	114
Balance, end of period	258,567	254,754	258,567	254,754
Retained earnings				
Balance, beginning of period	74,069	50,266	63,634	43,709
Net income	12,421	8,933	22,856	15,490
Balance, end of period	86,490	59,199	86,490	59,199
Accumulated other comprehensive income (loss)				
Balance, beginning of period	20,161	605	11,634	(3,562)
Foreign currency translation adjustments	(2,266)	3,610	6,261	7,777
Balance, end of period	17,895	4,215	17,895	4,215
Total shareholders' equity	362,952	318,168	362,952	318,168

Comprehensive income				
Foreign currency translation adjustments	(2,266)	3,610	6,261	7,777
Net income	12,421	8,933	22,856	15,490
Total comprehensive income	10,155	12,543	29,117	23,267

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 Statements of Cash Flows

In accordance with U.S. GAAP  
(in thousands of U.S. dollars)  
(unaudited)

	For the three-month period ended March 31		For the six-month period ended March 31	
	2004	2003	2004	2003
Operations				
Net income	\$ 12,421	\$ 8,933	\$ 22,856	\$ 15,490
Non-cash items				
Non-controlling interest	-	(49)	-	(103)
Amortization of deferred debt issue expenses	258	104	516	129
Other depreciation and amortization	4,196	1,998	7,919	4,036
Loss (gain) on disposal of property, plant and equipment	(47)	-	40	-
Foreign currency fluctuation	(120)	156	(120)	151
Deferred income taxes	1,582	(529)	2,885	1,938
Share in net loss of joint ventures	60	33	60	88
Changes in working capital items:				
Accounts receivable	(2,429)	(3,140)	(11,293)	4,967
Income taxes receivable	1,241	21	(1,365)	(636)
Inventories	203	1,077	(8,173)	2,059
Prepaid expenses and deposits	419	978	(630)	(465)
Accounts payable and accrued liabilities	6,203	2,324	4,817	6,111
Income taxes payable	(5,733)	(200)	(410)	(766)
Cash flows from operating activities	18,254	11,706	17,102	32,999
Financing				
Long-term debt	-	125,277	-	125,413
Repayment of long-term debt	(408)	(488)	(950)	(820)

Issue of shares	2,389	56	2,824	114
Deferred debt issue expenses	-	(4,500)	-	(4,500)
Cash flows from financing activities	1,981	120,345	1,874	120,207
Investment				
Acquisition of short-term investments	-	(700)	-	(700)
Disposal of short-term investments	2,030	5,992	128,390	60,740
Disposal of investments	1,101	143	1,239	272
Acquisition of property, plant and equipment	(4,151)	(721)	(6,514)	(1,012)
Disposal of property, plant and equipment	52	-	378	-
Acquisition of intangible assets	(14)	-	(145,604)	(71,935)
Disposal of intangible assets	-	205	-	205
Cash flows from investment activities	(982)	4,919	(22,111)	(12,430)
Foreign exchange gain (loss) on cash held in foreign currencies	(32)	149	199	397
Net increase (decrease) in cash and cash equivalents	19,221	137,119	(2,936)	141,173
Cash and cash equivalents, beginning of period	15,616	24,031	37,773	19,977
Cash and cash equivalents, end of period	34,837	161,150	34,837	161,150
Additional information				
Interest received	64	252	284	508
Interest paid	72	37	3,438	123
Income taxes paid	10,421	3,147	11,373	5,522

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 Statements of Operations

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

	For the three-month period ended March 31	For the six-month period ended March 31
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	2004	2003	2004	2003
	\$	\$	\$	\$
REVENUE	63,192	45,621	120,757	83,467
Cost of goods sold	14,972	10,830	29,544	19,899
Selling and administrative expenses	20,043	15,877	38,410	30,507
Research and development expenses	3,991	3,252	7,924	5,354
Depreciation and amortization	4,196	1,998	7,919	4,036
	43,202	31,957	83,797	59,796
Operating income	19,990	13,664	36,960	23,671
Financial expenses	1,706	705	3,387	851
Interest income	(55)	(286)	(246)	(569)
Loss on foreign currency	264	19	348	248
	1,915	438	3,489	530
Income before income taxes	18,075	13,226	33,471	23,141
Income taxes	5,654	4,293	10,615	7,651
NET INCOME	12,421	8,933	22,856	15,490
Income per common share				
Basic	0.27	0.20	0.51	0.35
Diluted	0.24	0.20	0.48	0.34
Weighted average number of common shares				
Basic	45,188,011	44,878,289	45,105,013	44,872,564
Diluted	55,124,302	45,553,550	50,316,477	45,560,678

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.  
Notes to Consolidated Financial Statements

In accordance with U.S. GAAP  
(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 six-month period ended March, 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 six-month period ended March 31, 2004 were \$5,315,913 (\$6,108,286 in 2003), the Company only included in its revenue an amount of \$3,440,421 (\$4,038,102 in 2003) representing the net sales less cost of goods sold and other seller related expenses.

## 3. Inventories

	March 31 2004	September 30 2003
	\$	\$
Raw materials and packaging material	8,600	8,441
Work in progress	1,738	1,466
Finished goods	17,753	10,256
	<u>28,091</u>	<u>20,163</u>

## 4. Intangible assets

	March 31, 2004		
	Accumulated Cost amortization		Net
	\$	\$	\$
Trademarks, trademark licenses and manufacturing rights with a:			
Finite life	279,632	25,890	253,742
Indefinite life	169,196	12,418	156,778

	448,828	38,308	410,520
September 30, 2003			
	Accumulated Cost 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 March 31		For the six-month period ended March 31	
	2004	2003	2004	2003
	\$	\$	\$	\$
Revenue				
Canada				
Domestic sales	6,865	4,833	13,417	9,710
Foreign sales	-	-	-	-
United States				
Domestic sales	41,958	27,650	79,769	52,860
Foreign sales	1,363	-	1,363	-
Europe				
Domestic sales	11,877	11,836	24,522	18,411
Foreign sales	1,060	1,279	1,589	2,416
Other	69	23	97	70
	63,192	45,621	120,757	83,467
Operating income (loss)				
Canada	161	(1,385)	2,450	247
United States	20,915	10,140	34,211	17,183

Europe	(680)	5,243	1,070	6,895
Other	(406)	(334)	(771)	(654)
	19,990	13,664	36,960	23,671

Depreciation and amortization				
Canada	471	379	1,195	740
United States	909	943	1,945	1,891
Europe	2,522	441	4,191	892
Other	294	235	588	513
	4,196	1,998	7,919	4,036

		March 31 2004	September 30 2003
		\$	\$
Property, plant, equipment, intangible assets and goodwill			
Canada		36,642	14,622
United States		131,790	133,695
Europe		268,360	138,113
Other		26,286	26,874
		463,078	313,304

6. Financial information included in the consolidated statement of operations

a) Financial expenses

	For the three-month period ended March 31		For the six-month period ended March 31	
	2004	2003	2004	2003
	\$	\$	\$	\$
Interest on long-term debt	1,347	581	2,729	673
Bank charges	54	20	78	49
Financing fees	47	-	64	-
Amortization of deferred debt issue expenses	258	104	516	129
	1,706	705	3,387	851

b) Other information

	For the three-month period	For the six-month period
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	ended March 31		ended March 31	
	2004	2003	2004	2003
	\$	\$	\$	\$
Non-controlling interest	-	(49)	-	(103)
Rental expenses	274	307	548	614
Depreciation of property, plant and equipment	789	843	2,039	1,697
Amortization of intangible assets	3,407	1,155	5,880	2,339
Share in net loss of joint ventures	60	33	60	88

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 March 31		For the six-month period ended March 31	
	2004	2003	2004	2003
	\$	\$	\$	\$
Net income				
Basic	12,421	8,933	22,856	15,490
Interests on convertible subordinated notes	1,071	-	1,071	-
Net income on a diluted basis	13,492	8,933	23,927	15,490

	For the three-month period ended March 31		For the six-month period ended March 31	
	2004	2003	2004	2003
Weighted average number of common shares outstanding	45,188,011	44,878,289	45,105,013	44,872,564
Effect of dilutive stock options	1,012,178	433,130	773,790	448,306
Effect of dilutive purchase price	-	242,131	-	239,808
Effect of dilutive convertible subordinated notes	8,924,113	-	4,437,674	-
Adjusted weighted average number of common shares outstanding	55,124,302	45,553,550	50,316,477	45,560,678

Number of common shares  
outstanding as at  
April 30, 2004

45,332,742

Options to purchase 404,950 and 1,242,600 common shares were outstanding as at March 31, 2004 and 2003 respectively but were not included in the computation of diluted income per share for the six-month periods ended March 31, 2004 and 2003 respectively because the exercise price of the options was greater than the average market price of the common shares.

#### 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 March 31		For the six-month period ended March 31	
	2004	2003	2004	2003
Fair value per option	\$8.71	\$5.48	\$6.34	\$5.17
Assumptions used in Black-Scholes option pricing model				
Expected volatility	44%	45%	44%	45%
Risk-free interest rate	3.67%	4.50%	4.28%	4.46%
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 March 31			
	2004		2003	
	As reported	Pro-forma	As reported	Pro-forma
	\$	\$	\$	\$
Net income	12,421	11,282	8,933	8,090
Basic income per share	0.27	0.25	0.20	0.18
Diluted income per share	0.24	0.22	0.20	0.18

	For the six-month period ended March 31			
	2004		2003	
	As reported	Pro-forma	As reported	Pro-forma
	\$	\$	\$	\$
Net income	22,856	20,747	15,490	13,868
Basic income per share	0.51	0.46	0.35	0.31
Diluted income per share	0.48	0.43	0.34	0.30

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:

	For the three-month period ended March 31		For the six-month period ended March 31	
	2004	2003	2004	2003
Operations adjustments:	\$	\$	\$	\$
Net income in accordance with U.S. GAAP	12,421	8,933	22,856	15,490
Implicit interest on convertible debt	(1,023)	(294)	(2,049)	(294)
Amortization of new product acquisition costs	(13)	(13)	(26)	(26)
Income tax impact of the above adjustments	5	5	10	10
Net earnings in accordance with Canadian GAAP	11,390	8,631	20,791	15,180

Earnings per share in accordance with Canadian GAAP				
Basic	0.25	0.19	0.46	0.34
Diluted	0.24	0.19	0.45	0.33

	March 31, 2004		September 30, 2003	
	U.S. GAAP	Canadian GAAP	U.S. GAAP	Canadian GAAP
Balance sheet adjustments:	\$	\$	\$	\$
Current assets	113,608	113,654	225,035	225,203
Investments	760	471	1,002	775
Property, plant and equipment	25,008	25,025	20,331	20,351
Intangible assets	410,520	422,908	265,423	277,837
Goodwill	27,550	29,342	27,550	29,342
Deferred debt issue expenses	3,718	3,718	4,233	4,233
Deferred income tax asset	2,206	2,239	1,775	1,775
Current liabilities	54,311	54,515	50,261	50,634
Long-term debt	128,790	108,893	129,474	107,527
Deferred income tax liability	37,317	38,446	34,603	35,742
Shareholders' equity				
Equity component of convertible debt	-	24,239	-	24,239
Capital stock	258,567	265,212	255,743	262,388
Retained earnings	86,490	84,002	63,634	63,211

Accumulated foreign currency translation adjustments	17,895	22,050	11,634	15,775
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AXCAN PHARMA INC.  
Consolidated Balance Sheets

In accordance with Canadian GAAP (in thousands of U.S. dollars)				
		March	September	
		31	30	
		2004	2003	
ASSETS	(unaudited)			\$
		\$		\$
Current assets				
Cash and cash equivalents	34,877		37,886	
Short-term investments	4,682		133,112	
Accounts receivable	29,828		19,665	
Income taxes receivable	6,564		5,315	
Inventories (Note 3)	28,091		20,163	
Prepaid expenses and deposits	3,407		2,848	
Future income taxes	6,205		6,214	
Total current assets	113,654		225,203	
Investments	471		775	
Property, plant and equipment, net	25,025		20,351	
Intangible assets, net (Note 4)	422,908		277,837	
Goodwill, net	29,342		29,342	
Deferred debt issue expenses, net	3,718		4,233	
Future income taxes	2,239		1,775	
	597,357		559,516	
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	47,819		43,791	
Income taxes payable	4,374		4,821	
Instalments on long-term debt	1,569		1,528	
Future income taxes	753		494	
Total current liabilities	54,515		50,634	
Long-term debt	108,893		107,527	
Future income taxes	38,446		35,742	
	201,854		193,903	
SHAREHOLDERS' EQUITY				
Equity component of convertible debt (Note 5)	24,239		24,239	
Capital stock	265,212		262,388	
Retained earnings	84,002		63,211	
Accumulated foreign currency translation adjustments	22,050		15,775	
	395,503		365,613	

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 Cash Flows

In accordance with Canadian GAAP  
(in thousands of U.S. dollars)  
(unaudited)

	For the three-month period ended March 31		For the six-month period ended March 31	
	2004	2003	2004	2003
	\$	\$	\$	\$
Operations				
Net earnings	11,390	8,631	20,791	15,180
Non-cash items				
Implicit interest on convertible debt	1,024	294	2,050	294
Non-controlling interest	-	(49)	-	(103)
Amortization of deferred debt issue expenses	258	104	516	129
Other depreciation and amortization	4,213	2,013	7,949	4,067
Loss (gain) on disposal of property, plant and equipment (47)	-	-	40	-
Foreign currency fluctuation (120)	(120)	156	(120)	151
Future income taxes	1,577	(534)	2,875	1,928
Changes in working capital items:				
Accounts receivable	(2,317)	(3,148)	(11,181)	5,052
Income taxes receivable	1,262	29	(1,344)	(628)
Inventories	203	1,077	(8,173)	2,065
Prepaid expenses and deposits	437	978	(612)	(463)
Accounts payable and accrued liabilities	6,034	2,361	4,648	6,095
Income taxes payable	(5,733)	(210)	(410)	(766)
Cash flows from operating activities	18,181	11,702	17,029	33,001
Financing				
Long-term debt	-	101,038	-	101,174
Repayment of long-term debt	(408)	(488)	(950)	(820)
Equity component of convertible debt	-	24,239	-	24,239
Issue of shares	2,389	56	2,824	114
Deferred debt issue expenses	-	(4,500)	-	(4,500)
Cash flows from financing activities	1,981	120,345	1,874	120,207

Investment				
Acquisition of short-term investments	-	(700)	-	(700)
Disposal of short-term investments	2,030	5,992	128,390	60,740
Disposal of investments	1,101	143	1,239	272
Acquisition of property, plant and equipment	(4,151)	(721)	(6,514)	(1,012)
Disposal of property, plant and equipment	52	-	378	-
Acquisition of intangible assets	(14)	-	(145,604)	(71,935)
Disposal of intangible assets	-	205	-	205
<hr/>				
Cash flows from investment activities	(982)	4,919	(22,111)	(12,430)
<hr/>				
Foreign exchange gain (loss) on cash held in foreign currencies	(32)	149	199	397
<hr/>				
Net increase (decrease) in cash and cash equivalents	19,148	137,115	(3,009)	141,175
Cash and cash equivalents, beginning of period	15,729	24,065	37,886	20,005
<hr/>				
Cash and cash equivalents, end of period	34,877	161,180	34,877	161,180
<hr/>				
Additional information				
Interest received	64	252	284	508
Interest paid	72	37	3,438	123
Income taxes paid	10,421	3,147	11,373	5,522

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 Earnings

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

	For the three-month period ended March 31		For the six-month period ended March 31	
	2004	2003	2004	2003
	\$	\$	\$	\$
REVENUE	63,213	45,892	120,928	83,922

Cost of goods sold	14,972	10,833	29,544	19,908
Selling and administrative expenses	20,021	16,140	38,538	30,927
Research and development expenses	3,931	3,078	7,646	4,940
Depreciation and amortization	4,213	2,013	7,949	4,067
	43,137	32,064	83,677	59,842
Operating income	20,076	13,828	37,251	24,080
Financial expenses	2,736	1,001	5,443	1,173
Interest income	(58)	(286)	(249)	(569)
Loss on foreign currency	264	19	348	227
	2,942	734	5,542	831
Earnings before income taxes	17,134	13,094	31,709	23,249
Income taxes	5,744	4,463	10,918	8,069
NET EARNINGS	11,390	8,631	20,791	15,180
Earnings per common share				
Basic	0.25	0.19	0.46	0.34
Diluted	0.24	0.19	0.45	0.33
Weighted average number of common shares				
Basic	45,188,011	44,878,289	45,105,013	44,872,564
Diluted	55,124,302	45,553,550	50,316,477	45,560,678

AXCAN PHARMA INC.  
Consolidated Retained Earnings

	For the three-month period ended March 31		For the six-month period ended March 31	
	2004	2003	2004	2003
	\$	\$	\$	\$
Balance, beginning of period	72,612	41,143	63,211	34,594
Net earnings	11,390	8,631	20,791	15,180
Balance, end of period	84,002	49,774	84,002	49,774

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.  
Notes to Consolidated Financial Statements

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In accordance with Canadian GAAP  
(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 Axcn's agents for the management of sales of these products. For the six-month period ended March 31, 2004, a portion of the sales of these products is still managed by the sellers. Axcn 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 six-month period ended March 31, 2004 were \$5,315,913 (\$6,108,286 in 2003), the Company only included in its revenue an amount of \$3,440,421 (\$4,038,102 in 2003) representing the net sales less cost of goods sold and other seller related expenses.

3. Inventories

	March 31 2004	September 30 2003
	\$	\$
Raw materials and packaging material	8,600	8,441
Work in progress	1,738	1,466
Finished goods	17,753	10,256
	<hr/> 28,091	<hr/> 20,163

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4. Intangible assets

March 31, 2004

	Accumulated		Net
	Cost	amortization	
	\$	\$	\$
Trademarks, trademark licenses and manufacturing rights with a:			
Finite life	292,462	26,332	266,130
Indefinite life	169,196	12,418	156,778
	461,658	38,750	422,908

September 30, 2003

	Accumulated		Net
	Cost	amortization	
	\$	\$	\$
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 six-month period ended March 31, 2004, implicit interest in the amount of \$2,049,057 was accounted for and added to the liability component.

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 March 31		For the six-month period ended March 31	
	2004	2003	2004	2003
	\$	\$	\$	\$
Revenue				
Canada				
Domestic sales	6,865	4,833	13,417	9,710
Foreign sales	-	-	-	-
United States				
Domestic sales	41,958	27,650	79,769	52,860
Foreign sales	1,363	-	1,363	-
Europe				
Domestic sales	11,898	12,107	24,693	18,866
Foreign sales	1,060	1,279	1,589	2,416
Other	69	23	97	70
	63,213	45,892	120,928	83,922
Operating income (loss)				
Canada	335	(1,210)	2,842	665
United States	20,902	10,127	34,185	17,157
Europe	(755)	5,245	995	6,912
Other	(406)	(334)	(771)	(654)
	20,076	13,828	37,251	24,080
Depreciation and amortization				
Canada	471	379	1,195	740
United States	922	956	1,971	1,917
Europe	2,526	443	4,195	897
Other	294	235	588	513
	4,213	2,013	7,949	4,067
Property, plant, equipment, intangible assets and goodwill			March 31 2004	September 30 2003
Canada			40,920	19,311
United States			132,193	133,695
Europe			268,775	138,530
Other			35,387	35,994
			477,275	327,530

7. Financial information included in the consolidated statement of earnings

a) Financial expenses

	For the three-month period ended March 31		For the six-month period ended March 31	
	2004	2003	2004	2003
	\$	\$	\$	\$
Interest on long-term debt	2,370	875	4,778	988
Bank charges	61	22	85	56
Financing fees	47	-	64	-
Amortization of deferred debt issue expenses	258	104	516	129
	2,736	1,001	5,443	1,173

b) Other information

	For the three-month period ended March 31		For the six-month period ended March 31	
	2004	2003	2004	2003
	\$	\$	\$	\$
Non-controlling interest	-	(49)	-	(103)
Rental expenses	274	307	548	614
Depreciation of property, plant and equipment	793	845	2,043	1,702
Amortization of intangible assets	3,420	1,168	5,906	2,365
Investment tax credits applied against research and development expenses	104	175	322	418

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 March 31		For the six-month period ended March 31	
	2004	2003	2004	2003
	\$	\$	\$	\$
Net earnings				
Basic	11,390	8,631	20,791	15,180
Interests on convertible subordinated notes	2,024	-	2,024	-
Net earnings on a diluted basis	13,414	8,631	22,815	15,180

	For the three-month period ended March 31		For the six-month period ended March 31	
	2004	2003	2004	2003
Weighted average number of common shares outstanding	45,188,011	44,878,289	45,105,013	44,872,564
Effect of dilutive stock options	1,012,178	433,130	773,790	448,306
Effect of dilutive purchase price	-	242,131	-	239,808
Effect of dilutive convertible subordinated notes	8,924,113	-	4,437,674	-
Adjusted weighted average number of common shares outstanding	55,124,302	45,553,550	50,316,477	45,560,678
Number of common shares outstanding at the end of the period			45,328,102	44,880,403
Number of common shares outstanding as at April 30, 2004			45,332,742	

Options to purchase 404,950 and 1,242,600 common shares were outstanding as at March 31, 2004 and 2003 respectively but were not included in the computation of diluted earnings per share for the six-month periods ended March 31, 2004 and 2003 respectively because the exercise price of the options was greater than the average market price of the common shares.

#### 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 March 31		For the six-month period ended March 31	
	2004	2003	2004	2003
Fair value per option	\$8.71	\$5.48	\$6.34	\$5.17
Assumptions used in Black-Scholes option pricing model				
Expected volatility	44%	45%	44%	45%
Risk-free interest rate	3.67%	4.50%	4.28%	4.46%
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 March 31

	2004		2003	
	As reported	Pro-forma	As reported	Pro-forma
	\$	\$	\$	\$
Net earnings	11,390	10,251	8,631	7,788
Basic earnings per share	0.25	0.23	0.19	0.17
Diluted earnings per share	0.24	0.22	0.19	0.17

For the six-month period  
ended March 31

	2004		2003	
	As reported	Pro-forma	As reported	Pro-forma
	\$	\$	\$	\$
Net earnings	20,791	18,682	15,180	13,558
Basic earnings per share	0.46	0.41	0.34	0.30
Diluted earnings per share	0.45	0.41	0.33	0.30

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